

Punjab Pension Fund - Investment Account

Financial Statements For the year ended
30 June 2011



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

Telephone + 92 (42) 3585 0471-76
Fax + 92 (42) 3585 0477
Internet www.kpmg.com.pk

Independent Auditors' Report to the Management Committee

We have audited the annexed statement of assets and liabilities of **Punjab Pension Fund – Investment Account** (“the Fund”) as at 30 June 2011 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 2011 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 13 JAN 2012

Lahore


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

Punjab Pension Fund - Investment Account
 Statement of Assets and Liabilities
 As at 30 June 2011

	Note	2011 Rupees	2010 Rupees
Assets			
Investments	4	9,942,212,532	8,786,209,583
Prepayments		10,388	4,448
Accrued interest	5	404,296,172	243,771,529
Cash and cash equivalents	6	3,008,235,762	3,020,591,114
Total assets		13,354,754,854	12,050,576,674
Liability			
Brokerage payable		71,025	81,935
Total liability		71,025	81,935
Contingencies and commitments	7	-	-
Net assets		13,354,683,829	12,050,494,739
Represented by:			
Accumulated Pension Fund		13,354,683,829	12,050,494,739

The annexed notes 1 to 11 form an integral part of these financial statements.

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 General Manager



 Private Member



 Chairman

Punjab Pension Fund - Investment Account

Income Statement

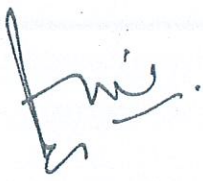
For the year ended 30 June 2011

	2011 Rupees	2010 Rupees
Income		
Income from Term Deposit Receipts and Saving account	437,903,823	872,566,164
Income from Pakistan Investment Bonds	729,395,917	367,982,144
Income from Term Finance Certificates	52,320,054	1,747,692
Income from Market Treasury Bills	409,572,563	190,213,674
Capital gain	275,231	697,504
	1,629,467,588	1,433,207,178
Expenditure		
Brokerage expenses	166,566	74,957
Custody charges	39,060	3,552
Bank charges	14,935	-
Fund's operational expenses	16,186,890	25,567,552
	16,407,451	25,646,061
Net income for the year	1,613,060,137	1,407,561,117

The annexed notes 1 to 11 form an integral part of these financial statements.

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Lahore



General Manager



Private Member



Chairman

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Punjab Pension Fund - Investment Account
 Statement of Comprehensive Income
 For the year ended 30 June 2011

	2011 Rupees	2010 Rupees
Net income for the year	1,613,060,137	1,407,561,117
Net unrealized diminution in fair value of available - for - sale investments	(308,871,047)	(43,677,039)
Total comprehensive income for the year	<u>1,304,189,090</u>	<u>1,363,884,078</u>

The annexed notes 1 to 11 form an integral part of these financial statements.

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General Manager



Private Member



Chairman

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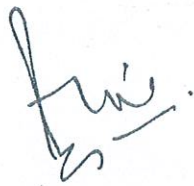
13 JAN 2012

Punjab Pension Fund - Investment Account
 Statement of Movement in Accumulated Pension Fund
 As at 30 June 2011

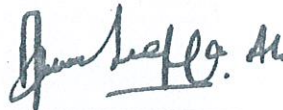
	2011 Rupees	2010 Rupees
Balance at the beginning of the year	12,050,494,739	6,486,610,661
Amount received from the Reserve Pension Fund	-	6,000,000,000
Total comprehensive income for the year		
Net income for the period	1,613,060,137	1,407,561,117
Net unrealized diminution in fair value of available - for - sale investments	(308,871,047)	(43,677,039)
	1,304,189,090	1,363,884,078
Profit transferred to Reserve Pension Fund	-	(1,800,000,000)
Balance at the end of the year	13,354,683,829	12,050,494,739

The annexed notes 1 to 11 form an integral part of these financial statements.

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General Manager



Private Member



Chairman

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Punjab Pension Fund - Investment Account

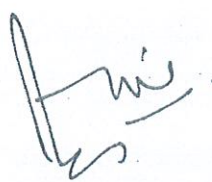
Cash Flow Statement

For the year ended 30 June 2011

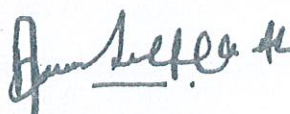
	2011 Rupees	2010 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Net income for the year	1,613,060,137	1,407,561,117
Adjustments for non cash and other items:		
Discount on Pakistan Investment Bonds	(8,279,672)	(3,097,006)
Discount on Market Treasury Bills	(21,502,246)	(19,977,553)
(Discount) / Premium on Term Finance Certificates	(1,150,063)	23,528
	1,582,128,156	1,384,510,086
(Increase) / decrease in assets:		
Investments	(1,433,942,015)	(8,806,835,591)
Receivable from the Government of the Punjab	-	3,000,000,000
Bank deposits	-	3,439,233,000
Prepayments	(5,940)	(4,448)
Accrued interest	(160,524,643)	(243,771,529)
	(1,594,472,598)	(2,611,378,568)
Increase / (decrease) in liability:		
Brokerage payable	(10,910)	81,935
Cash (used in) / generated from operating activities	(12,355,352)	(1,226,786,547)
CASH FLOW FROM FINANCING ACTIVITIES		
Amount received from the Reserve Pension Fund	-	6,000,000,000
Profit transferred to Reserve Pension Fund	-	(1,800,000,000)
Cash generated from financing activities	-	4,200,000,000
Net increase in cash and cash equivalents during the year	(12,355,352)	2,973,213,453
Cash and cash equivalents at the beginning of the year	3,020,591,114	47,377,661
Cash and cash equivalents at the end of the year	3,008,235,762	3,020,591,114

The annexed notes 1 to 11 form an integral part of these financial statements.


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General Manager



Private Member



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13 JAN 2012

Punjab Pension Fund- Investment Account

Notes to the Financial Statements

For the year ended 30 June 2011

1 Status and nature of the business

The Punjab Pension Fund (the Fund) has been established under the Punjab Pension Fund Act 2007 (the Act) 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.

The Fund invests in a diversified portfolio of government securities, debt securities, shares, unit trusts, mutual funds and bank deposits.

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.

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 effects 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.

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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 January 2011. However, these are not relevant to the Fund except in few cases these may require additional disclosures.

- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures
- IAS 24 Related Party Disclosures
- Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements
- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes

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.

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.

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.

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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.

As allowed under SECP 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.

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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 cash in hand and 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

	Note	Carrying value		Fair value	
		2011 Rupees	2010 Rupees	2011 Rupees	2010 Rupees
Pakistan Investment Bonds	4.1	8,552,654,739	5,512,150,268	8,189,937,742	5,472,318,631
Market Treasury Bills	4.2	1,254,497,246	3,144,920,929	1,254,032,300	3,144,671,275
Term Finance Certificates	4.3	487,608,633	172,815,425	498,242,490	169,219,677
		10,294,760,618	8,829,886,622	9,942,212,532	8,786,209,583
Fair value adjustment		(352,548,086)	(43,677,039)		
		<u>9,942,212,532</u>	<u>8,786,209,583</u>		

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4.1 Pakistan Investment Bonds

Issue date	Tenor - Years	Face value			Balance as at 30 June 2011				Fair value as percentage of net assets	Fair value as percentage of total investments
		As at 1 July 2010	Purchase during the year	Sales / Matured during the year	As at 30 June 2011	Carrying value	Fair value	Appreciation / (Diminution)		
		Rupees								
30-Aug-08	10 - Years	500,000,000	-	-	500,000,000	484,574,757	455,164,369	(29,410,388)	3.41	4.58
3-Sep-09	10 - Years	3,050,000,000	-	-	3,050,000,000	2,980,679,139	2,789,936,895	(190,742,244)	20.89	28.06
22-Jul-10	10 - Years	-	2,300,000,000	-	2,300,000,000	2,059,184,100	2,059,676,177	492,077	15.42	20.72
31-Oct-06	15 - Years	68,000,000	-	-	68,000,000	56,545,710	53,039,250	(3,506,460)	0.40	0.53
30-Aug-08	15 - Years	950,000,000	450,000,000	-	1,400,000,000	1,338,246,979	1,266,949,046	(71,297,933)	9.49	12.74
30-Aug-08	20 - Years	525,000,000	375,000,000	-	900,000,000	864,883,534	826,775,377	(38,108,157)	6.19	8.32
31-Oct-06	20 - Years	25,000,000	-	-	25,000,000	20,954,421	19,224,391	(1,730,030)	0.14	0.19
20-Jan-04	20 - Years	5,000,000	-	-	5,000,000	4,109,577	3,793,421	(316,156)	0.03	0.04
30-Aug-08	30 - Years	525,000,000	225,000,000	-	750,000,000	743,476,522	715,378,816	(28,097,706)	5.36	7.20
		5,648,000,000	3,350,000,000	-	8,998,000,000	8,552,654,739	8,189,937,742	(362,716,997)		

4.2 Market Treasury Bills

8-Apr-10	3 months	62,500,000	-	-	62,500,000	-	-	-	-	-
13-Aug-09	1 Year	375,000,000	-	-	375,000,000	-	-	-	-	-
3-Jun-10	3 months	225,000,000	-	-	225,000,000	-	-	-	-	-
14-Jan-10	6 months	989,000,000	-	-	989,000,000	-	-	-	-	-
17-Jun-10	3 months	1,225,000,000	-	-	1,225,000,000	-	-	-	-	-
22-Apr-10	3 months	211,000,000	-	-	211,000,000	-	-	-	-	-
16-Jul-09	1 Year	100,000,000	-	-	100,000,000	-	-	-	-	-
30-Jul-09	1 Year	-	1,500,000,000	-	1,500,000,000	-	-	-	-	-
27-Aug-09	1 Year	-	456,000,000	-	456,000,000	-	-	-	-	-
11-Mar-10	6 Months	-	150,000,000	-	150,000,000	-	-	-	-	-
8-Apr-10	1 Year	-	615,000,000	-	615,000,000	-	-	-	-	-
20-May-10	3 Months	-	75,000,000	-	75,000,000	-	-	-	-	-
3-Jun-10	6 Months	-	30,000,000	-	30,000,000	-	-	-	-	-
17-Jun-10	1 Year	-	470,000,000	-	470,000,000	-	-	-	-	-
29-Jul-10	3 Months	-	1,000,000,000	-	1,000,000,000	-	-	-	-	-
29-Jul-10	6 Months	-	600,000,000	-	600,000,000	-	-	-	-	-

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Issue date	Tenor - Years	Face value			Balance as at 30 June 2011			Fair value as percentage of net assets	Fair value as percentage of total investments
		As at 1 July 2010	Purchase during the year	Sales / Matured during the year	As at 30 June 2011	Carrying value	Fair value		
26-Aug-10	3 Months	-	1,130,000,000	1,130,000,000	-	-	-	-	
9-Sep-10	3 Months	-	1,730,000,000	1,730,000,000	-	-	-	-	
23-Sep-10	3 Months	-	180,000,000	180,000,000	-	-	-	-	
7-Oct-10	3 Months	-	2,000,000,000	2,000,000,000	-	-	-	-	
16-Nov-10	3 Months	-	600,000,000	600,000,000	-	-	-	-	
18-Dec-10	3 Months	-	3,000,000,000	3,000,000,000	-	-	-	-	
13-Jan-11	3 Months	-	1,210,000,000	1,210,000,000	-	-	-	-	
27-Jan-11	3 Months	-	700,000,000	700,000,000	-	-	-	-	
10-Feb-11	3 Months	-	850,000,000	850,000,000	-	-	-	-	
10-Mar-11	3 Months	-	1,425,000,000	1,425,000,000	-	-	-	-	
24-Mar-11	3 Months	-	955,000,000	955,000,000	-	-	-	-	
7-Apr-11	3 Months	-	500,000,000	500,000,000	-	-	-	-	
7-Apr-11	6 Months	-	500,000,000	500,000,000	-	-	-	-	
21-Apr-11	6 Months	-	750,000,000	750,000,000	-	-	-	-	
5-May-11	3 Months	-	450,000,000	-	450,000,000	445,733,888	445,608,900	(124,988)	
5-May-11	6 Months	-	450,000,000	-	450,000,000	430,362,799	430,029,000	(333,799)	
2-Jun-11	3 Months	-	400,000,000	400,000,000	-	-	-	-	
2-Jun-11	6 Months	-	400,000,000	-	400,000,000	378,400,559	378,394,400	(6,159)	
		3,187,500,000	22,126,000,000	24,013,500,000	1,300,000,000	1,254,497,246	1,254,032,300	(464,946)	

4.3 Term Finance Certificates

Name of issuer	Issue Date	Number of Certificates			Balance as at 30 June 2011			Fair value as percentage of net assets	Fair value as percentage of total investments
		As at 1 July 2010	Purchase during the year	Sales during the year	As at 30 June 2011	Carrying value	Fair value		
United Bank Limited	14-Feb-08	-	5,000	-	5,000	23,350,273	24,649,061	1,298,788	0.18
Engro Perpetual I	18-Mar-08	15,000	25,000	-	40,000	179,176,983	188,000,000	8,823,017	1.41
Engro Perpetual II	18-Mar-08	-	6,800	-	6,800	29,950,759	34,481,168	4,530,409	0.26
Bank Alhabib Limited III	15-Jun-09	20,000	-	-	20,000	105,130,618	101,112,261	(4,018,357)	0.76
Bank Alhabib Limited IV	30-Jun-11	-	30,000	-	30,000	150,000,000	150,000,000	-	1.12
		35,000	66,800	-	101,800	487,608,633	498,242,490	10,633,857	
Grand Total						10,294,760,618	9,942,212,532	(352,548,086)	

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	Note	2011 Rupees	2010 Rupees
5	Accrued interest		
	Accrued interest on:		
	Term Deposit Receipts	1,691,781	15,606,164
	Pakistan Investment Bonds	389,482,614	224,454,556
	Term Finance Certificates	13,121,777	3,710,809
		<u>404,296,172</u>	<u>243,771,529</u>

6 Cash and cash equivalents

	Cash at bank		
	Saving account	6.1	8,235,762
	Term deposit receipts	6.2	3,000,000,000
			<u>3,008,235,762</u>
			<u>3,020,591,114</u>

6.1 This carries interest @ of 12.60% (2010: 11.5%) per annum.

6.2 These represent Term Deposit Receipts placed with commercial banks at rates ranging from 13.70% to 13.75% (2010: 12.25%) per annum.

7 Contingencies and commitments

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

8 Financial instruments

The Fund 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 Fund's risk management framework. The Management Committee is also responsible for developing and monitoring the Fund's risk management policies.

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

The Fund's risk management policies are established to identify and analyze the risks faced by the Fund 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 Fund's activities.

8.1 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 Fund, resulting in a financial loss to the Fund. 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 13,355 million (2010: Rs 12,050 million) financial assets which are subject to credit risk amount to Rs 3,521 million (2010: Rs 3,209 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:

	2011	2010
	Statement of assets and liabilities	Statement of assets and liabilities
	Rupees	Rupees
Bank balances	8,235,762	20,591,114
Investments	498,242,490	169,219,677
Term Deposit Receipts	3,000,000,000	3,000,000,000
Mark-up receivable	14,813,558	19,316,973
	<u>3,521,291,810</u>	<u>3,209,127,764</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 9,833 million (2010: 8,841 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 Fund's total credit exposure. Around 73.6 % (2010: 73.4%) of the Fund'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.

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

	2011		2010	
	Rupees	Percentage	Rupees	Percentage
Commercial banks	3,009,927,543	85%	3,036,197,278	95%
Miscellaneous	511,364,267	15%	172,930,486	5%
	<u>3,521,291,810</u>	<u>100%</u>	<u>3,209,127,764</u>	<u>100%</u>

Settlement risk

The Fund'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 Fund 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.

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8.2 Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund'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 Fund 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 2011 :

	Carrying amount	Six months or less	Six to twelve months	One to two years	Two to five years
	Rupees				
Brokerage payable	71,025	71,025	-	-	-
2011	71,025	71,025	-	-	-

The following are the contractual maturities of financial liabilities as on 30 June 2010 :

	Carrying amount	Six months or less	Six to twelve months	One to two years	Two to five years
	Rupees				
Brokerage payable	81,935	81,935	-	-	-
2010	81,935	81,935	-	-	-

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

The Fund is exposed to interest rate risk only.

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8.3.1 *Interest rate risk*

8.3.1.1 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 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.

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

Financial Assets

	2011	2010	2011	2010
	Effective rate (in Percentage)		Fair value Rupees	
<u>Fixed rate instruments</u>				
Market Treasury Bills	13.74 to 14.16	12.33 to 12.67	1,254,032,300	3,144,671,275
Pakistan Investment Bonds	13.06 to 14.58	13.06 to 13.75	8,189,937,742	5,472,318,631
Term Finance Certificates	15.0 to 19.22	15.50	251,112,261	102,291,102
Term Deposit Receipts	13.70 to 13.75	12.25	3,000,000,000	3,000,000,000
Bank balances	12.6	11.5	8,235,762	20,591,114
			<u>12,703,318,065</u>	<u>11,739,872,122</u>

Variable rate instruments

	KIBOR + 0.85			
Term Finance Certificates	to KIBOR + 1.7	KIBOR + 1.7	247,130,229	66,928,575

Fair value sensitivity analysis for fixed rate instruments

The Fund 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 bp	
	Increase	Decrease
	Rupees	
As at 30 June 2011		
Cash flow sensitivity-Variable rate financial asset	2,471,302	(2,471,302)
As at 30 June 2010		
Cash flow sensitivity-Variable rate financial asset	669,286	(669,286)

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 Fund.

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9 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 Fund in the normal course of business carries out transactions with a related party. Amounts due from related parties are shown under accrued interest and cash and cash equivalents. Details of transactions with related parties are as follows:

Transactions with The Bank of Punjab

	2011	2010
	----- Rupees -----	
Investments in Term Deposit Receipts	12,950,000,000	54,008,113,835
Maturities in Term Deposit Receipts	13,450,000,000	54,447,346,835
Accrued interest on Term Deposit Receipts	938,356	15,606,164
Cash at bank	8,235,762	20,591,114
Income from Term Deposit Receipts and Saving Account	437,150,398	872,566,164

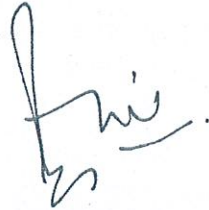
10 Date of authorization for issue

The financial statements were authorized for issue on 13 JAN 2012 by the Management Committee of the Fund.

11 General

Figures have been rounded off to the nearest rupee.

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Lahore

General Manager



Private Member



Chairman

Punjab Pension Fund – Expense Account

Financial Statements For the year ended
30 June 2011



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

Telephone + 92 (42) 3585 0471-76
Fax + 92 (42) 3585 0477
Internet www.kpmg.com.pk

Independent Auditors' Report to the Management Committee

We have audited the annexed statement of assets and liabilities of **Punjab Pension Fund – Expense Account** (“the Fund”) as at 30 June 2011 and the related income and expenditure account 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 2011 and its net surplus 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 13 JAN 2012

Lahore


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

Punj. Pension Fund - Expense Account

Statement of Assets and Liabilities

As at 30 June 2011

	Note	2011 Rupees	2010 Rupees
Operating fixed assets	4	291,558	364,016
Current assets			
Prepaid rent		217,800	217,800
Cash and cash equivalents	5	2,163,719	2,559,393
		2,381,519	2,777,193
Current liability			
Accrued expenses		1,427,233	376,483
Net working capital		954,286	2,400,710
Contingencies and commitments	6	-	-
Net assets		1,245,844	2,764,726
Represented by:			
Net surplus		1,245,844	2,764,726

The annexed notes 1 to 11 form an integral part of these financial statements.


ਕਰਮਚਾਰੀ



 General Manager



 Private Member



 Chairman

Lahore

13 JAN 2012

Punjab Pension Fund - Expense Account

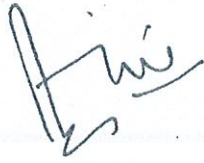
Income and Expenditure Account

For the year ended 30 June 2011

	Note	2011 Rupees	2010 Rupees
Reimbursement of operating expenses		16,186,890	25,567,552
Income on saving account		590,819	631,199
Other income		2,499	-
		<u>16,780,208</u>	<u>26,198,751</u>
Operating expenses	7	18,299,090	16,508,573
Net (deficit) / surplus for the year		<u>(1,518,882)</u>	<u>9,690,178</u>
Accumulated surplus / (deficit) brought forward	8	<u>2,764,726</u>	<u>(6,925,452)</u>
Net surplus carried forward		<u><u>1,245,844</u></u>	<u><u>2,764,726</u></u>

The annexed notes 1 to 11 form an integral part of these financial statements.

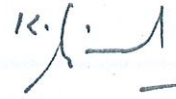
2011/12



General Manager



Private Member



Chairman

Lahore

13 JAN 2012

Punjab Pension Fund - Expense Account

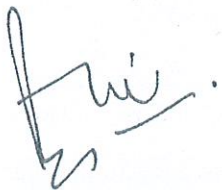
Cash Flow Statement

For the year ended 30 June 2011

	2011 Rupees	2010 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Net (deficit) / surplus for the year	(1,518,882)	9,690,178
Adjustments for non cash and other items:		
Depreciation	163,158	107,518
	<u>(1,355,724)</u>	<u>9,797,696</u>
(Increase) / decrease in current assets		
Prepaid rent	-	(217,800)
Increase / (decrease) in current liabilities		
Payable to Government of the Punjab	-	(7,020,302)
Accrued expenses	1,050,750	376,483
	<u>(304,974)</u>	<u>2,936,077</u>
Cash generated from operating activities		
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed assets additions	(90,700)	(376,684)
	<u>(90,700)</u>	<u>(376,684)</u>
Cash used in investing activities		
Net (decrease) / increase in cash and cash equivalents during the year	(395,674)	2,559,393
Cash and cash equivalents at the beginning of the year	2,559,393	-
	<u>2,163,719</u>	<u>2,559,393</u>
Cash and cash equivalents at the end of the year		

The annexed notes 1 to 11 form an integral part of these financial statements.

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Lahore

General Manager



Private Member



Chairman

13 JAN 2012

Punjab Pension Fund- Expense Account

Notes to the Financial Statements

For the year ended 30 June 2011

1 Status and nature of the business

The Punjab Pension Fund (the Fund) has been established under the Punjab Pension Fund Act 2007 (the Act). The Government of the Punjab has notified the Punjab Pension Fund Rules 2007 (the Rules) under section 24 of the Act.

The Fund acts as a management company and is responsible for investing the funds in profitable avenues to generate revenue for discharge of pension liabilities of the Government of the Punjab.

Expenses incurred on operations of the Fund, including expenses relating to functioning of the Management Committee, are paid out of the Fund.

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.

The accounting policies and methods of computation adopted in the preparation of the financial statements are the same as those applied in preparation of preceding annual financial statements for the year ended 30 June 2010.

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 year in which the estimate is revised if the revision effects only that year, or in the year of revision and future years if the revision affects both current and future years. The areas where various assumptions and estimates are significant to Fund's financial statements or where judgments were exercised in application of accounting policies are as follows:

- a) Accrued liabilities
- b) Useful life of depreciable assets.

3 Summary of significant accounting policies

3.1 Basis of preparation

The financial statements have been prepared under the historical cost convention.

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 January 2011. However, these are not relevant to the Fund except in few cases these may require additional disclosures.

- Improvements to IFRSs 2010 – IFRS 7 Financial Instruments: Disclosures
- IAS 24 Related Party Disclosures
- Prepayments of a Minimum Funding Requirement
- Improvements to IFRSs 2010 – IAS 1 Presentation of Financial Statements
- Improvements to IFRSs 2010 – IFRIC 13 Customer Loyalty Programmes

3.3 Fixed assets and depreciation

These are stated at cost less accumulated depreciation. Depreciation is charged to income by applying the straight line method so as to write off the operating fixed assets over their expected useful life at the rates given in note 4. Depreciation is charged from the month of acquisition while no depreciation is charged in the month of disposal or deletion of asset. Normal repairs and maintenance are charged to income as and when incurred.

Profit and loss on disposal of fixed assets represented by the difference between the sale proceeds and the carrying amount of the assets is included in income statement.

3.4 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.

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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 year in which it arises.
- (v) 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 on the statement of assets and liabilities if the Fund has a legal enforceable right to setoff 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 out flow 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 statement of assets and liabilities date and are adjusted to reflect the current best estimates.

3.8 Revenue Recognition

Profit on bank deposits is recognized on accrual basis.

3.9 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.

3.10 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of assets and liabilities at cost.

3.11 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.

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4 Operating fixed assets - tangible

30 June 2011

Particulars	C O S T		D E P R E C I A T I O N			Written Down Value as at 30 June 2011		
	As at 01 July 2010	Additions/ (Disposal)	As at 30 June 2011	Rate %	As at 01 July 2010		Charge for the year	As at 30 June 2011
Furniture and fittings	15,700	27,200	42,900	20	4,761	3,900	8,661	34,239
Office equipment	371,194	-	371,194	33.33	124,330	123,720	248,050	123,144
Motor vehicles	130,058	63,500	193,558	20	23,845	35,538	59,383	134,175
	<u>516,952</u>	<u>90,700</u>	<u>607,652</u>		<u>152,936</u>	<u>163,158</u>	<u>316,094</u>	<u>291,558</u>

30 June 2010

Particulars	C O S T		D E P R E C I A T I O N			Written Down Value as at 30 June 2010		
	As at 01 July 2009	Additions/ (Disposal)	As at 30 June 2010	Rate %	As at 01 July 2009		Charge for the year	As at 30 June 2010
Furniture and fittings	10,000	5,700	15,700	20	2,000	2,761	4,761	10,939
Office equipment	130,268	240,926	371,194	33.33	43,418	80,912	124,330	246,864
Motor vehicles	-	130,058	130,058	20	-	23,845	23,845	106,213
	<u>140,268</u>	<u>376,684</u>	<u>516,952</u>		<u>45,418</u>	<u>107,518</u>	<u>152,936</u>	<u>364,016</u>

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	Note	2011	2010
		----- Rupees -----	
5	Cash and cash equivalents		
	Cash in hand	22,410	24,000
	Bank balance	2,141,309	2,535,393
	5.1	<u>2,163,719</u>	<u>2,559,393</u>

5.1 This carries mark up @ of 12.60% (2010: @ 11.50%) per annum.

6 Contingencies and commitments

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

7 Operating expenses

Salaries and wages	14,321,595	12,774,755
Rent	1,306,800	1,227,600
Utilities	439,070	413,561
Repair and maintenance	275,750	102,793
Vehicle running expenses	422,777	469,912
Traveling, lodging and boarding	110,668	391,159
Fee and subscription	30,000	40,000
Printing and stationery	254,432	119,099
Courier and postage	19,089	15,000
Legal and Professional	80,000	-
Office and other expenses	277,398	223,401
Depreciation	163,158	107,518
Auditors remuneration	440,000	475,000
Advertisement	38,181	-
Training and Development	16,000	-
Bank charges	1,157	1,580
Miscellaneous	103,015	147,195
	<u>18,299,090</u>	<u>16,508,573</u>

8 Accumulated surplus / (deficit) brought forward

The deficit brought forward in respect of operational expenses relates to prior year which has been reimbursed from Punjab Pension Fund - Investment Account ('the Fund').

9 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 Fund in the normal course of business carries out transactions with a related party. Amounts due from related parties are shown under cash and cash equivalents. Details of transactions with related parties are as follows:

Transactions with The Bank of Punjab:	2011	2010
----- Rupees -----		
Income on saving account	590,819	631,199
Bank Balance	2,141,309	2,535,393

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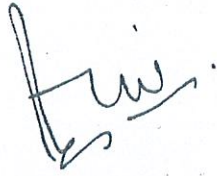
10 Date of authorization for issue

The financial statements were authorized for issue on 13 JAN 2012 by the Management Committee of the Fund.

11 General


Figures have been rounded off to the nearest rupee.

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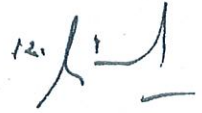


Lahore:

General Manager



Private Member



Chairman