

LIC Pension Fund Limited
SCHEME 04: NPS TRUST A/C LIC PENSION FUND SCHEME-CORPORATE CG

Note 8: Background

LIC Pension Fund Limited ('the Company') is appointed as a Pension Fund Manager ('PFM') by the National Pension System Trust ('NPS') for the management of Pension Schemes under the National Pension System. Accordingly, the Company has entered into an Investment Management Agreement ('IMA') with NPS. The Pension Fund Regulatory and Development Authority ('PFRDA') guidelines require each PFM to manage subscribers' funds made available to it by the Trustee bank. However the responsibility of maintaining individual subscribers records is not with PFM and same is managed by the Central Record Keeping Agency (CRA). The CRA does not furnish any subscribers level data to the PFM and provides only consolidated subscribers data of cash inflow for units to be allotted and number of units to be redeemed to PFM. The PFM makes investments as per the requirements of IMA and the scheme wise flow of funds from CRA.

The Central Government has introduced the National Pension System (NPS) with effect from January 01, 2004 (except for armed forces). Pension Fund Regulatory and Development Authority (PFRDA), NPS for Organized Sector has bifurcated a new scheme known as Corporate CG from the existing Central Govt. from 1.11.2012.

Note 9: Notes to Financial Statements

1) Significant Accounting Policies

(a) Basis of accounting

The financial statements have been prepared to comply with the PFRDA (Preparation of financial statements and Auditor's report of Schemes under National Pension System) Guidelines – 2012, Accounting Standards notified under the Companies Act, 1956 to the extent made applicable by PFRDA (Preparation of financial statements and Auditor's report of Schemes under National Pension System) Guidelines – 2012 and generally accepted accounting principles. These financial statements have been prepared on an accrual basis, except custodian fees which is accounted on monthly basis on receipt of the bill from Custodian.

Books of account of Schemes are maintained on an accrual basis except custodian fees which is accounted on monthly basis on receipt of the bill from Custodian.

(b) Investments

Transactions for purchase or sale of:

- i) Investments in Equity shares, Fixed Deposits and Mutual Funds units are recognized as of the trade date.

- ii) Investments in Government securities and Non Convertible Bonds/Debentures are recognized as of the settlement date.

In determining the holding cost of investments and the gains or loss on sale of investments, the "weighted average cost" method is followed. The cost of investments acquired or

purchased includes applicable taxes and stamp charges but exclude brokerage and other transactional charges. In respect of privately placed debt instruments any front-end discounts offered are reduced from the cost of the investment. Investments are reconciled with the custodian records on monthly basis.

(c) Investment Valuation

The below mentioned valuation of investment is carried out by Stock Holding Corporation of India, the Custodian of NPS Trust as per the tripartite agreement between NPS Trust, LIC Pension Fund Limited and Stock Holding Corporation of India Ltd.

The following valuation norms are as prescribed by PFRDA (Preparation of Financial Statements and Auditor's Report of schemes under National Pension System) Guidelines 2012.

Securities traded at a stock exchange:

- i. The securities shall be valued at the daily close price on the stock exchange.
- ii. Debt securities (other than government securities) are valued at the last quoted closing price on the principal exchange on which the security is traded.
- iii. Money market instruments like treasury bills, commercial paper and certificate of deposit are valued at amortised cost.
- iv. Government securities and unlisted debt securities are valued at yield to maturity based on the methodology provided by CRISIL/ICRA.
- v. Investments in mutual fund schemes are valued based on the latest available net asset value of the respective schemes.

Securities not traded at a stock exchange:

Non-traded / thinly traded / privately placed equity securities including those not traded within thirty days and non-traded / thinly traded / privately placed debt securities including those not traded within fifteen days shall be valued "in-good faith" on the basis of following valuation methods approved by the Authority/Trust:

- i. Equity instruments shall generally be valued on the basis of capitalization of earnings solely or in combination with the net asset value, using for the purposes of capitalization, the price or earning ratios of comparable traded securities and with an appropriate discount for lower liquidity.
- ii. Debt securities are valued at yield to maturity based on the methodology provided by CRISIL/ICRA.

(d) **Bonus Shares**

Bonus shares are recognized only when the original shares on which the bonus entitlement accrues are traded on the stock exchange on an ex-bonus basis.

(e) **Right Shares**

Rights entitlements are recognized only when the original shares on which the right entitlement accrues are traded on the stock exchange on an ex-rights basis.

(f) **Interest Income**

In respect of all interest-bearing investments, income is accrued on a daily basis. Interest paid for the period from the last interest date up to the date of purchase is not treated as a cost of purchase but debited to Interest Recoverable Account. Similarly interest received at the time of sale for the period from the last interest date up to the date of sale is not treated as an addition to sale value but is credited to Interest Recoverable Account.

(g) **Dividend Income**

Dividend income is recognized on Ex-dividend date.

(h) **Expenses**

All allowable expenses and incomes accrued up to the valuation date are considered for computation of asset value/NAV. Major Expenses like management fees are accrued on a daily basis except custodian charges which is accounted on monthly basis on receipt of the bill from Custodian.

(i) **Taxes**

All taxes which are leviable and actually paid are charged to the NAV of the Fund and are borne by the Subscriber. Any subsequent refund on this account, if any, is added to the scheme/fund as income.

(j) **Unit Capital**

Unit Capital is tallied with CRA records on daily basis.

2) As per the unbundled architecture of National Pension Scheme, unit allocations and redemptions are accounted by PFM on the basis of consolidated data received from the Central Record Keeping Agency.

3) **Non-Performing Assets:**

There are no Non Performing Assets as on March 31, 2013.

4) **Investment Management Fees:**

Management Fees is paid at the rate prescribed in the investment management agreement entered between National Pension System Trust and LIC Pension Fund Limited.

5) Details of Custodian Fees paid or payable to Stock Holding Corporation of India Limited (A Company in which sponsor of LIC Pension Fund Limited has substantial interest)

Name of Sponsor of LIC PFL	Name of the company in which sponsor has substantial interest	No of shares held	% of Share Holding	Amount Paid/ Payable (Rs.)
LIC of India	Stock Holding Corporation of India Ltd.	31,50,000.00	14.97 %	20,781.26

6) Aggregate Value of purchase and sales of investment as a % of average daily net assets value:

Aggregate Value of purchase and sales of investment during the year(except liquid funds) (Rs.)	3,253,997,389.60
Average daily net assets value (Rs.)	858,758,925.00
%	378.91 %

7) Total Value of investment falling under each major industry group (which constitute not less than 5% of total investment related to that classification).

Equity Group:

Industry Group	Amount of Investment (Rs.)	% of total investment related to that classification
Manufacture of food products	4,564,245.00	6.85 %
Manufacture of pharmaceuticals, medicinal chemical and botanical products	9,799,525.00	14.72 %
Other manufacturing	3,525,500.00	5.29 %
Manufacture of other non-metallic mineral products	14,248,597.50	21.40 %
Manufacture of textiles	11,329,159.10	17.01 %
Financial service activities, except insurance and pension funding	4,987,433.00	7.49 %
Manufacture of machinery and equipment n.e.c.	11,110,770.00	16.69 %
Total amount invested in Equity Shares as on March 31, 2013	66,588,234.60	

Corporate Bonds & Debentures

Industry Group	Amount of Investment (Rs.)	% of total investment related to that classification
Manufacture of rubber and plastics products	15,720,600.00	9.01 %
Warehousing and support activities for transportation	10,858,040.00	6.22 %
Financial service activities, except insurance and pension funding	127,029,953.00	72.79 %
Electricity, gas, steam and air conditioning supply	20,900,700.00	11.98 %
Total amount invested in Corporate Bonds & Debentures as on March 31, 2013	174,509,293.00	

8) Aggregate value of Non Traded investment at the end of the year:

Non Convertible Bond & Debentures:

Aggregate value of Non traded Investment (Rs.)	% to Net Assets Value as on 31.3.2013
113,092,423.00	24.32 %

9) Previous year amounts have been regrouped wherever necessary.