

NATIONAL PENSION SYSTEM TRUST
NPS Trust - A/c Max Life Pension Fund Management Ltd. - NPS TRUST - A/C
Scheme Tax Saver - Tier 2

Schedules forming part of the Balance Sheet (Unaudited) as at September 30, 2022 and the Revenue Account (Unaudited) for the period ended September 30, 2022

Significant Accounting Policies and Notes to the Financial Statements

A. Background

1. Max Life Pension Fund Management Ltd., (MLPFM) a Company incorporated under the Companies Act, 2013, and a subsidiary of Max Life Insurance Company Limited (MLIC) was appointed as a pension Fund Manager (PFM) by the National Pension System Trust (NPS Trust) for the management of Pension Fund and for this purpose it has entered into Investment Management Agreements (IMA). As per unbundled architecture of the NPS Trust, the main responsibility of the PFM is to manage funds in accordance with the laid down guidelines and declare NAV. As per the architecture, Protean eGovernance Infrastructure Ltd, Karvy Computershare Private Limited and Computer Age Management Services Limited being the Central Recordkeeping Agencies (CRAs) provides consolidated data to PFM for allotment/redemption of units and Axis Bank Ltd., being the Trustee Bank, provides/ receive funds on consolidated basis in respect of such allotment/ redemption.
2. CRA's responsibilities includes:
 - a. Recordkeeping, Administration and Customer service functions for NPS subscribers,
 - b. Providing Unique Permanent Retirement Account Number (PRAN) to each subscriber,
 - c. Maintaining database of all PRANs issued and recording transactions relating to each subscriber's PRAN,
 - d. PRAN Transaction Statement,
 - e. An operational interface between PFRDA and other NPS intermediaries such as Pension Funds, Annuity Service Providers, Trustee Bank etc.
 - f. CRAs are responsible to resolve all queries pertaining to investors. CRAs informs about the subscription and redemption to Pension Fund Managers (PFM) and also instruct Trustee Bank to credit PFM's pool account maintained with them.
3. NPS Trust has designated Deutsche Bank AG as the custodian, who is responsible for safe custody of securities and settlement of trades.
4. CRISIL has been designated as valuation service provider, who is responsible for providing rates for valuation, which is used by PFM for valuation of investments.
5. The Trustee bank provides subscription funds on a consolidated basis for all the schemes managed by PFM and credits the same to a control account maintained by the PFM, wherefrom the funds are transferred by the PFM to the respective schemes. The PFM record receipt of funds in the respective schemes only.
6. The fees payable to CRAs as per the architecture is charged to the investors by redemption of units as claimed by CRAs.

B. Scheme particulars

1. **Investment objective:** The investment objective of the scheme is to optimise returns.
2. **Commencement:** The Scheme commenced operations on September 12,2022.

C. Significant Accounting Policies

1. **Basis of preparation of Financial Statements:** The financial statements have been prepared pursuant to the PFRDA (Preparation of Financial Statements and Auditor's Report of the Schemes under National Pension System) Guidelines- 2012.
2. **Basis of Accounting:** The Scheme maintains books of account on an accrual basis under the historical cost convention, as modified for investments, which are 'marked-to-market'.

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3. Investments transactions

- a. Purchase and Sale of investments are recorded on the date of the transaction.
- b. Rights/ Bonus entitlements, if any, are accounted on ex-rights/ex-bonus date of the principal stock exchange.
- c. In determining the holding cost of investments and the gain or loss on sale of investments, the “weighted average cost” method is followed.
- d. The cost of Investments acquired excludes transaction charges and brokerage (which is borne by the PFM).

4. Valuation of investments:

Investments are valued using the price determined in the following manner:

a. Equity:

- **Traded:** When a security is traded on National Stock Exchange (NSE) on a valuation day, the last quoted closing price at which it was traded on the NSE. When on a valuation day, a security has not been traded on NSE, the value at which it is traded on BSE is used.
- **Non-traded:** When a security is not traded on any stock exchange on a particular valuation day, the last quoted closing price at which it was traded on the selected stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than 30 days prior to valuation date.

1. Right entitlement:

- **Traded:** Right entitlement is valued at the closing market price on the valuation date.
- **Non-traded:** Right entitlement is valued at the difference of the Ex-right price and the offer price multiplied by the ratio of Right Entitlement.

2. Valuation of Warrants -

- **Traded:** In case the warrants are traded separately they would be valued as per the valuation guidelines applicable to equity shares.
- **Non-traded:** If not traded, warrants can be valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant.

3. Valuation of Convertible Debentures

- **Traded Securities:** In case the convertible debentures qualify as traded then they would be valued as per the valuation guidelines applicable to equity shares and valued at cum-interest trade price.
- **Thinly Traded / Non-Traded / Unlisted Securities:**

Non-Convertible and Convertible components would be valued separately.

- (i) Non-Convertible component would be valued on the basis of norms governing the valuation of Non-Convertible Debentures and Bonds.
- (ii) Convertible component would be valued at the value of the equity share which would be obtained on conversion. Valuation guidelines related to equity shares would be applicable for the valuation of underlying equity shares.

Schedules forming part of the Balance Sheet (Unaudited) as at September 30, 2022 and the Revenue Account (Unaudited) for the period ended September 30, 2022

b. Debentures, corporate bonds, commercial papers and certificate of deposits:

Valuation of Corporate Bonds, Commercial Papers, Certificate of Deposits (up to 0 days)

Following waterfall mechanism is used for deriving yields of the securities

- Same ISINs LTY traded on NSE/BSE. NSE trades are given preference over BSE trades.
- Primary trade of the same ISIN
- Trades of same issuer with similar maturity
- Trades of similar issuers with similar maturity
- Benchmark movement (with previous day's spread)
- Polling shall be done at each stage to find outlier and to find the goodness of trade

Valuation of securities having Call and/or Put options:

- Callable Bonds with single/daily/multiple call options will be valued at lowest value basis.
- Puttable Bonds with single/daily/multiple put options will be valued at highest value basis.
- The securities with both Call & Put options on the same day would be deemed to mature on the Call/Put day and will be valued accordingly.

Valuation of perpetual Bonds:

- For perpetual bonds with single/multiple call options, the price for all option dates till the maturity date will be computed and the lowest price will be used for valuing the bonds.
- For perpetual bank bond, as per methodology of Crisil, as applicable for valuation for all other investor class, the first Call date of the bond shall be considered as deemed date of maturity for the valuation purpose.
- All non-investment grade debt securities except with default rating (other than government securities) and securities where the credit rating agencies have suspended the ratings but are performing assets as per PFRDA guidelines (as per revised PFRDA valuation guidelines, 2019) shall be valued at a discount of 25% of the face value. All non-investment grade debt securities (other than government securities) not covered above shall be valued at indicative haircut matrix or price provided by the valuation agency. In case the security is traded where the haircut has been applied, lower of the haircut matrix based price and trade price shall be considered. Valuation agency may provide scrip level valuation for below investment grade bonds post 15 days. For the initial 15 days, a haircut matrix will be applied.
- For zero coupon bonds and interest on maturity bonds, cashflow at the maturity is discounted with the security yield.
- MCLR linked and bank base rate linked bonds are valued till the next reset date if there is an exit clause for the issuer and the holder of the bond at the next reset date.
- All non-investment grade debt securities except with default rating (other than government securities) and securities where the credit rating agencies have suspended the ratings but are performing assets as per PFRDA guidelines (as per revised PFRDA valuation guidelines, 2019) shall be valued at a discount of 25% of the face value. All non-investment grade debt securities (other than government securities) not covered above shall be valued at indicative haircut matrix or price provided by the valuation agency. In case the security is traded where the haircut has been applied, lower of the haircut matrix based price and trade price shall be considered. Valuation agency may provide scrip level valuation for below investment grade bonds post 15 days. For the initial 15 days, a haircut matrix will be applied.

c. Central and State Government Securities:

Valuation of Treasury bills, State development loan and Government Securities (up to 0 days)

- Following waterfall mechanism is used for deriving yields of the securities

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- LTY reported on CCIL and RBI reported deals with respective bid-ask is checked. Preference is given to CCIL trades over RBI.
- Benchmark movement (with previous day's spread)
- Outlier trade based on the yield movement of the trade, over and above the yield movement of the matrix/benchmark, if more than 5 bp, shall be polled for feedback from market participants

d. Mutual fund units: Mutual fund units are valued at the latest available/previous day's NAV from AMFI website.

5. Income Recognition

1. Interest on interest bearing and other fixed income investments is recognised on a day to day basis as it is earned. On purchase of such investments, interest paid for the period from the last interest due date up to the date of purchase is not treated as a cost of purchase but is treated as interest recoverable. Similarly, interest received at the time of sale for the period from the last interest due date up to the date of sale is not treated as part of sale value but is treated as interest recovered.
 2. Dividend income is accrued on the "ex-dividend" date.
 3. Profit/Loss on sale of investments is accounted on the date of transaction on which the contract for sale is entered into, except for redemption of investments in Mutual Fund schemes, wherein the profit/loss on sale are recorded on the next business day after receipt of the confirmation.
 4. Appreciation/Depreciation, as the case may be, in the value of the investments at the year-end have been computed for the Scheme, whereby the aggregate market value of all investments taken together is compared with aggregate cost of acquisition. The change in net appreciation/depreciation is recognised in Revenue Account. The change in net appreciation/depreciation, if any, is transferred to/from the
 5. "Unrealised Appreciation Account" shown as part of Reserves and Surplus.
6. **Computation of Net Asset Value (NAV):** The NAV of the units is determined by dividing the net assets, including investments recognised and valued as per the accounting policies, by the number of outstanding units on the valuation date.
7. **Unit Premium Reserve:** Difference between the issue/redemption price and face value of units is credited/debited to Unit Premium Reserve.
8. **Income Taxes:** No Provision for Income tax has been made since the income of the Scheme is exempt under Section 10(44) of the Income tax Act, 1961.

D. Investment Management Fees: The Scheme has paid/provided for investment management fees to PFM for managing the Scheme at an annual rate of 0.09% p.a. on the daily scheme assets managed by PFM as per the Investment Management Agreements (IMA) signed with NPS Trust, the details of which are as under:

| Management Fees % p.a. | | | Management Fees (₹) |
|------------------------|-------------------|-------------------|---------------------|
| Apr '22 – Sep '22 | Apr '21 – Sep '21 | Apr '22 – Sep '22 | Apr '21 – Sep '21 |
| 0.00% | NA | 0 | NA |

* including GST

E. Net Asset Value:

| Current Year (₹) | Previous Year(₹) |
|--|--|
| As on 30 th September, 2022 | As on 30 th September, 2021 |
| 10.0136 | NA |

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F. Other disclosures:

| Particulars | Oct 1 '21 – Mar 31'22 | Oct 1 '20 – Mar 31'21 |
|--|--------------------------|--------------------------|
| Contingent liabilities | Nil | Nil |
| Non performing investments- Carrying value | Nil | Nil |
| Non performing investments- Market value | Nil | Nil |
| NPA Provision | Nil | Nil |
| Brokerage, custodial fees and other charges to entities where PFM or its subsidiaries or its major shareholders have substantial interest. | Nil | Nil |

G. Major Industry group within the Asset class >5%

| Industry | Market Value of Investment & % as on 30 Sep 2022 (₹) | | Market Value of Investment & % as on 30 Sep 2021 (₹) | |
|---|---|--------|---|----|
| | Market Value | % | Market Value | % |
| Equity Instruments | - | - | NA | NA |
| Debt Instruments | - | - | NA | NA |
| Mutual Fund Investments | | | | |
| Units of Mutual Funds- Overnight Scheme | 4,002 | 99.92% | NA | NA |

H. Investment in Group Concerns of PFM: NA

I. Previous year's figures:

NA – Company commenced operations in FY 22-23

Signatures to Schedules forming part of the Balance Sheet (Unaudited) and Revenue Account (Unaudited).

For Max Life Pension Fund Management Ltd

Suresh Bhagavatula
Chief Financial Officer

Ranbheer Dhariwal
Chief Executive Officer

Date: Oct 14, 2022
Place: Gurugram

Date: Oct 14, 2022
Place: Gurugram