

Materiality

Background

Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP) requires the Board of Directors of a listed company to define the level of materiality. Laraib being a subsidiary of a listed company (Hubco) has adopted this policy for good governance.

Purpose

The purpose of this policy is to provide guidance to the Board, Management and Staff on the assessment of materiality in financial matters and safeguard integrity in financial reporting. This also helps in recognizing and managing risk.

Policy

The Board recognizes that materiality in a particular circumstance is a matter of informed judgment. However, in order to provide some guidance, the following factors should be considered material with relation to LARAIB, its Directors, Management, Staff, suppliers and customers. The following guiding factors must be considered individually and jointly.

Any transaction, relationship or event that is considered material based on these factors is to be reported to the Chief Financial Officer (CFO), who will then evaluate and place it before the Board Audit Committee (BAC).

Guiding Factors

Guiding factors include both qualitative and quantitative aspects which are:

1. Qualitative Factors

Material qualitative factors for Laraib to be considered include:

- The diversity of the Company's businesses, its customer and supplier base.
- Nature of ownership structure and financing arrangements.
- Any relationship or group of relationships involving a director, manager or staff member which exist, either individually or cumulatively are:
 - i. Strategic to the Company or to the related entity or individual
 - ii. Professional advisors of the Company
 - iii. An entity or business with which the Company trades
 - iv. An entity or business with which the Company competes
 - v. Any other transaction or relationship, which is unusual in the normal course of business.
- Recognize uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future event.

Materiality

- The nature, size, relevance and understandability of the information and its completeness.
- Use of benchmarks for determining the materiality for the financial statements as a whole with consideration of relative volatility.

2. Quantitative Factors

Materiality to be determined with respect to the lowest of the following quantitative factors:

Materiality Threshold

0.4% of Net Assets
0.5% of issued Capital
0.40% of Turnover

In order to determine, whether the misstatements are clearly trivial or not, they must be compared individually or collectively amongst the lowest threshold of materiality as mentioned above.

Reference amount for Net Assets & Issued Capital using June 30, 2013 figures and Turnover based on Average Energy and Reference Tariff as per PPA are shown in table below:

	Rs. in million
% of Net Assets	19
% of Issued Capital	23
% of Turnover	16