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INDEPENDENT AUDITORS' REPORT

To the members of State Life Insurance Corporation of Pakistan

Report on the Audit of the Unconsolidated Financial Statements

Opinion

We have audited the annexed unconsolidated financial statements of **State Life Insurance Corporation of Pakistan (the Corporation)**, which comprise the unconsolidated statement of financial position as at December 31, 2020, and the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, the unconsolidated statement of financial position, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of Corporation's affairs as at December 31, 2020 and of the profit, total comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial statements* section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to note 22.1.13 to the unconsolidated financial statements that describes the chargeability of sales tax on premium by provincial revenue authorities.

Our opinion is not modified in respect of the above matter.

Information Other than the Unconsolidated Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the unconsolidated financial statements and our auditor's report thereon.

Our opinion on the unconsolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the unconsolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the unconsolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Unconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the unconsolidated financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Insurance Ordinance, 2000 and Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of unconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the unconsolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Unconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the unconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these unconsolidated financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the unconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher

than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the unconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the unconsolidated financial statements, including the disclosures, and whether the unconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

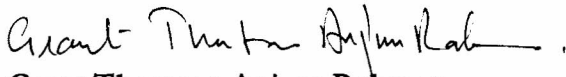
Based on our audit, we further report that in our opinion:

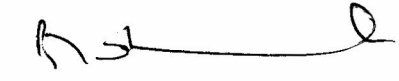
- a) proper books of account have been kept by the Corporation as required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017);
- b) the unconsolidated statement of financial position, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XIX of 2017), and are in agreement with the books of account;
- c) the apportionment of assets, liabilities, revenue and expenses between two or more funds has been performed in accordance with the advice of the appointed actuary;
- d) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Corporation's business; and
- e) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Corporation and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Grant Thornton Anjum Rahman
Chartered Accountants

BDO Ebrahim & Co
Chartered Accountants

The engagement partners on the audit resulting in this independent auditors' report are Muhammad Khalid Aziz and Zulfiqar Ali Causer on behalf of Grant Thornton Anjum Rahman and BDO Ebrahim & Co. respectively.


Grant Thornton Anjum Rahman
Chartered Accountants


BDO Ebrahim & Co
Chartered Accountants

Karachi
Date: April 30, 2021

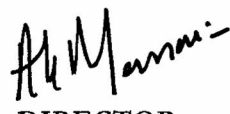
STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020


		2020	2019
	Note	------(Rupees in '000)-----	
ASSETS			
Property and equipment	4	850,816	920,235
Investment properties	5	3,638,142	3,375,167
Investments in subsidiaries	6	323,618	318,901
Investments			
Equity securities	7	92,918,024	91,592,105
Mutual funds	8	8,686,126	7,987,521
Government securities	9	821,691,138	674,943,342
Debt securities	10	3,654,344	3,042,398
Loans secured against life insurance policies		129,180,723	111,873,885
Insurance / reinsurance receivables	11	32,574,359	26,301,325
Loans and other receivables	12	49,925,310	42,681,211
Taxation - payments less provision		3,693,190	3,875,690
Prepayments	13	62,120	64,539
Cash & bank	14	56,184,733	91,859,786
TOTAL ASSETS		1,203,382,643	1,058,836,105
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES ATTRIBUTABLE TO CORPORATION'S EQUITY HOLDERS			
Ordinary share capital	15	4,600,000	4,300,000
Ledger account C & D		3,943,311	2,207,145
Reserves	16	304,725	7,043
Unappropriated profit		1,460,496	1,284,882
Capital contributed to statutory fund		-	(650,000)
TOTAL EQUITY		10,308,532	7,149,070
LIABILITIES			
Insurance liabilities	17	1,157,476,582	1,016,711,293
Retirement benefit obligations	18	2,095,926	4,722,072
Deferred capital grant		36,957	44,714
Deferred taxation	19	1,610,642	636,015
Premium received in advance		8,644,311	10,632,410
Insurance / reinsurance payables	20	566,647	480,184
Other creditors and accruals	21	22,643,046	18,460,347
TOTAL LIABILITIES		1,193,074,111	1,051,687,035
TOTAL EQUITY AND LIABILITIES		1,203,382,643	1,058,836,105
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes from 1 to 47 form an integral part of these unconsolidated financial statements.


CHAIRMAN
Shoaib Javed Hussain


DIRECTOR
Ghiasuddin Ahmed


DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020 ------(Rupees in '000)-----	2019
Premium revenue		119,414,632	112,776,755
Premium ceded to reinsurers		(380,092)	(204,433)
Net premium revenue	23	119,034,540	112,572,322
Investment income	24	87,207,086	73,184,367
Net realised fair value gain/(loss) on financial assets	25	207,639	(12,682)
Net fair value gain on financial assets at fair value through profit and loss	26	614,755	3,615,064
Net rental income	27	559,518	568,240
Other income	28	17,009,232	18,446,796
		105,598,230	95,801,785
Net income		224,632,770	208,374,107
Insurance benefits		64,886,618	57,143,001
Recoveries from reinsurers		(211,907)	(106,879)
Claim related expense		13,715	12,642
Net Insurance Benefits	29	64,688,426	57,048,764
Net Change in Insurance Liabilities (other than outstanding claims)		129,039,485	121,475,500
Acquisition expenses	31	16,596,807	16,502,433
Marketing and administration expenses	32	7,953,025	9,968,182
Other expenses	33	428,417	582,382
Total expenses		154,017,734	148,528,497
Profit before tax		5,926,610	2,796,846
Income tax expense	34	(1,720,268)	(812,543)
Profit for the year		4,206,342	1,984,303
Other comprehensive income		-	-
Total comprehensive income for the year		4,206,342	1,984,303
Earning (after tax) per share - Rupees	35	97.78	51.61

The annexed notes from 1 to 47 form an integral part of these unconsolidated financial statements.


CHAIRMAN

Shoaib Javed Hussain


DIRECTOR

Ghiasuddin Ahmed


DIRECTOR

Abdul Qadir Memon


CHIEF FINANCIAL OFFICER

Muhammad Rashid


STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020


	Attributable to equity holders of the Corporation					Total
	Share capital	Capital contributed to Statutory Fund	Revenue reserves General reserves	Ledger Account C & D [Refer Note]	Unappropriated profit	
	-----Rupees in '000-----					
Balance as at January 1, 2019	3,500,000	(100,000)	507,043	1,257,718	713,615	5,878,376
Dividend paid for the year December 31, 2018	-	-	-	-	(713,609)	(713,609)
Total comprehensive income for the year	-	-	-	-	1,984,303	1,984,303
Surplus for the year retained in statutory funds-net of tax	-	-	-	949,427	(949,427)	-
Capital contributed to statutory fund	-	(650,000)	-	-	650,000	-
Capital received from statutory fund	-	100,000	-	-	(100,000)	-
Transfer for the issuance of share capital	800,000	-	(500,000)	-	(300,000)	-
Balance as at December 31, 2019	4,300,000	(650,000)	7,043	2,207,145	1,284,882	7,149,070
Dividend paid for the year December 31, 2019	-	-	-	-	(1,046,880)	(1,046,880)
Total comprehensive income for the year	-	-	-	-	4,206,342	4,206,342
Surplus for the year retained in statutory funds-net of tax	-	-	-	1,736,166	(1,736,166)	-
Capital contributed to statutory fund	-	-	-	-	-	-
Capital received from statutory fund	-	650,000	-	-	(650,000)	-
Transfer to General reserve	-	-	497,682	-	(497,682)	-
Transfer for the issuance of share capital	300,000	-	(200,000)	-	(100,000)	-
Balance as at December 31, 2020	4,600,000	-	304,725	3,943,311	1,460,496	10,308,532


Note: This includes balances maintained in accordance with the requirements of Section 35 of the Insurance Ordinance, 2000 read with Rule 14 of the Insurance Rules, 2017 (previously the SEC Insurance Rules, 2002) to meet solvency margins, which are mandatorily maintained for the carrying on of the life insurance business.

The annexed notes from 1 to 47 form an integral part of these unconsolidated financial statements.


CHAIRMAN
Shoaib Javed Hussain


DIRECTOR
Ghiasuddin Ahmad

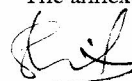
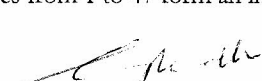
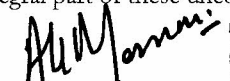
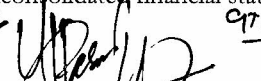

DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UNCONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020	2019
		------(Rupees in '000)-----	
Operating Cash flows			
(a) Underwriting activities			
Insurance premiums received		100,820,347	117,673,310
Reinsurance premiums paid		(293,629)	(299,764)
Claims paid		(23,128,233)	(31,216,236)
Surrenders paid		(30,046,296)	(27,153,375)
Reinsurance and other recoveries received		158,402	207,466
Commissions paid		(12,299,413)	(14,839,294)
Other underwriting payments, if any		(4,749,131)	(3,541,499)
Net cash flow from underwriting activities		30,462,047	40,830,608
(b) Other operating activities			
Income tax paid		(563,140)	(566,807)
General management expense paid		(6,439,122)	(10,707,640)
Other operating receipts		284,198	(644,511)
Loans secured against life insurance policies - advanced		(5,847,788)	(25,749,990)
Loans secured against life insurance policies - repayments received		12,998,612	9,474,058
Net cash flow used in other operating activities		432,760	(28,194,890)
Total cash flow from all operating activities		30,894,807	12,635,718
Investment activities			
Profit / return received		69,015,765	72,654,495
Dividends received		4,572,291	5,245,226
Rentals received		1,050,715	1,748,301
Payment for investments		(245,604,897)	(191,668,167)
Proceeds from disposal of investments		106,611,187	153,701,945
Fixed capital expenditure		(364,221)	(411,290)
Proceeds from sale of property and equipment		-	758
Total cash flow (used in)/generated from investing activities		(64,719,160)	41,271,268
Financing activities			
Dividends paid		(1,046,880)	(713,609)
Total cash flow used in financing activities		(1,046,880)	(713,609)
Net cash flow (used in)/generated from all activities		(34,871,233)	53,193,377
Cash and cash equivalents at beginning of year		80,810,075	27,616,698
Cash and cash equivalents at end of year	14.1	45,938,842	80,810,075
Reconciliation to Profit and Loss Account			
Operating cash flows		30,894,807	12,635,718
Depreciation expense		(115,193)	(122,985)
Investment income		105,598,230	95,801,787
Amortization/capitalization		561,435	419,224
Non Cash Adjustments (APL)		(14,045,545)	(3,393,075)
Increase in assets other than cash		22,049,696	24,627,882
Decrease in liabilities other than running finance		(11,372,965)	(5,695,601)
Allocation of surplus		-	(100,000)
Other adjustments		(324,638)	(713,147)
Net change in insurance liabilities (other than outstanding claims)		(129,039,485)	(121,475,500)
Profit for the year		4,206,342	1,984,303

The annexed notes from 1 to 47 form an integral part of these unconsolidated financial statements.

 CHAIRMAN
 DIRECTOR
 DIRECTOR
 CHIEF FINANCIAL OFFICER
Shoaib Javed Hussain **Ghiasuddin Ahmed** **Abdul Qadir** **Muhammad Rashid**

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1 LEGAL STATUS AND NATURE OF BUSINESS

- 1.1** State Life Insurance Corporation of Pakistan (the Corporation) was incorporated in Pakistan on November 01, 1972 under the Life Insurance Nationalization Order, 1972 (LINO). The Corporation's principal office is located at State Life Building No. 9, Dr. Ziauddin Ahmad Road, Karachi. It operates in Pakistan through 33 zones for individual life business, 4 zones for group life business and in the gulf countries {comprising United Arab Emirates (UAE) and Kuwait} through zonal office located at Dubai (UAE).
- 1.2** The Corporation is engaged in the life insurance business, health, accident insurance business and takaful business.
- 1.3** The Corporation was issued the certificate of authorization for commencement of Window Takaful Operation under rule 6 of the Takaful rules, 2012 by Securities Exchange Commission of Pakistan vide letter no. 0097, dated September 22, 2016. For the purpose of carrying on the takaful business, the Corporation has formed an Individual Family Participant Takaful Fund (IFPTF) on August 18, 2017 under the Waqf deed and cede Rupees 1 million to the IFPTF. The Waqf deed governs the relationship of Corporation and participants for management of takaful operations. Subsequently to the year end, the Corporation launched the Window Takaful Operations from February 2021.
- 1.4** The Presidential Order dated April 06, 2016 in respect of State Life (Re-organization and Conversion) Ordinance, 2016 was issued by Government of Pakistan Ministry of Law and Justice to provide for the re-organization and conversion of the State Life Insurance Corporation of Pakistan into a Public Limited Company. After the commencement of this Ordinance, the Federal Government established a Company namely, State Life Insurance Company Limited under the repealed Companies Ordinance, 1984 (XLVII of 1984) with the objective of taking over the business, functions, contracts, policies, proceedings, undertakings, assets, liabilities etc of the Corporation on fulfillment of the statutory requirements. The National Assembly converted the said Ordinance into Bill for the conversion of State Life Insurance Corporation of Pakistan to State Life Insurance Company Limited and sent the Bill to Senate for approval and the Senate, instead of passing the Bill, proposed few amendments in the Bill. For the consideration of the proposed amendments the matter was moved to National Assembly Standing Committee on Commerce. Subsequently, Ministry of Commerce vide letter No.1(7)/2013-SLIC-INS dated 10-09-2020 informed that the Senate of Pakistan passed the Bill with certain amendments. The amended Bill, as passed by the Senate, was forwarded to the National Assembly as per Article 70(2) of the Constitution of Pakistan. The National Assembly did not pass the amended Bill within 90 days, therefore, request was made to the Ministry of Parliamentary Affairs to place the same before the Joint Session of the Parliament for consideration. However, Bill was not passed by the Joint Session due to dissolution of Assembly at that day. Hence, in terms of Article 76(3) of the Constitution of Pakistan said Bill has been lapsed, despite the fact that it had been passed by the Senate. After detailed deliberation on the issue between Privatization Commission and Ministry of Commerce, it was agreed that view/comments/input from SLIC may first be obtained in the matter, and the matter is still pending in MoC.
- 1.5** The Corporation maintains a shareholders' fund and five statutory funds, separately in respect of its each class of life insurance business. The details relating to each fund has been described in note 3.4.

2 BASIS OF PREPARATION

These unconsolidated financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan (SECP) through the Insurance Rules, 2017 vide its S.R.O. 89(1) / 2017 dated 09 February 2017.

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2.1 Statement of compliance

These unconsolidated financial statements have been prepared in accordance with the approved accounting and reporting standards as applicable in Pakistan. The approved accounting and reporting standards comprise of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017 and provisions of and directives issued under the Companies Act, 2017 and Insurance Ordinance, 2000, Insurance Rules, 2017, Insurance Accounting Regulations, 2017 and the Takaful Rules, 2012. In case requirements differ, the provisions or directives of the Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and the Takaful Rules, 2012, shall prevail.

2.2 Basis of measurement

These unconsolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies mentioned below (refer note 3).

2.3 Functional and presentation currency

These unconsolidated financial statements have been presented in Pakistani Rupee, which is the Corporation's functional and presentation currency. Amounts have been rounded off to the nearest thousand, unless otherwise stated.

2.4 Standards, amendments and interpretations to the published standards that are relevant to the Corporation and adopted in the current year

The Corporation has adopted the following new standards, amendments to published standards and interpretations of IFRSs which became effective during the current year.

Standard or Interpretation	Effective Date (Annual period beginning on or after)
IFRS 3 'Definition of a business' Amendment to IFRS 3	January 1, 2020
IAS 1/IAS 8 'Definition of Material' (Amendments to IAS 1 and IAS 8)	January 1, 2020
IFRS 7, IFRS 9, and IAS 39 - Interest Rate Benchmark Reform	January 1, 2020
Various Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020

Adoption of the above standard have no significant effect on the amounts for the year ended December 31, 2020.

Amendment to IFRS 4 'Insurance Contracts' - Applying IFRS 9 'Financial Instruments' with IFRS 4 addresses issue arising from the different effective dates of IFRS 9 and the forthcoming new standard IFRS 17 'Insurance Contracts'. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 01 July 2018 onwards to remove from profit and loss account the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied.

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2.5 Standards, amendments to published standards and interpretations that are effective but not relevant

The other new standards, amendments to published standards and interpretations that are mandatory for the financial year beginning on January 01, 2020 are considered not to be relevant or to have any significant effect on the Corporation's financial reporting and operations and are therefore not presented here.

2.6 Standards, interpretations and amendments to published accounting and reporting standards that are relevant but not yet effective and nor early adopted by the Corporation

The following new standards, amendments to published standards and interpretations would be effective from the dates mentioned below against the respective standard or interpretation.

Standard or Interpretation	Effective Date (Annual period beginning on or after)
IFRS 9 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)	January 1, 2022
IFRS 16 - Covid-19 Related rent concessions (Amendments to IFRS 16)	June 1, 2020
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	January 1, 2022
IAS 16 - Proceeds before Intended Use (Amendments to IAS 16)	January 1, 2022
IAS 41 - Taxation in Fair Value Measurements (Amendment to IAS 41)	January 1, 2022
Updating a Reference to the Conceptual Framework (Amendments to IFRS 3)	January 1, 2022

The management of the Corporation is in the process of assessing the impact of these Standards, amendments and interpretations to the published standards on the unconsolidated financial statements of the Corporation.

2.7 Standards, amendments and interpretations to the published standards that are not yet notified by the Securities and Exchange Commission of Pakistan (SECP)

Following new standards have been issued by the International Accounting Standards Board (IASB) which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard or Interpretation	IASB effective date (Annual periods beginning on or after)
IFRS 1 First Time Adoption of International Financial Reporting Standards	July 01, 2009
IFRS 17 Insurance Contract (Amendment to Insurance Contract)	January 1, 2023

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE UNCONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

2.8 Critical accounting estimates and judgments

The preparation of these unconsolidated financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Significant areas where assumptions, estimates and judgments were exercised in application of accounting policies relate to:

a) Classification of investments

In investments classified as "amortized cost", the Corporation has included financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Corporation evaluates its intention and ability to hold such investments to maturity.

b) Provision for outstanding claims (including IBNR)

The Corporation records claims based on the sum assured or other basis set by the Corporation. However, settlement of all the claims is made based on the nature of insured event.

Provision of claims incurred but not reported (IBNR) is made on the basis of actuarial valuation. Actuarial valuation is made on the basis of past trend and pattern of reporting of claims. Actual amount of IBNR may materially differ from the actuarial estimates.

c) Provision for taxation

In making estimates for taxation currently payable by the Corporation, management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

d) Impairment of other assets, including premium due but unpaid

The Corporation also considers the need for impairment provision against other assets, including premium due but unpaid and provision required there-against. While assessing such a requirement, various factors including delinquency in the account and financial position of the policyholders are considered.

e) Fixed assets, investment properties, depreciation and amortisation

In making estimates of depreciation / amortisation, management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Corporation. The method applied is reviewed at each financial year end and if there is a change in expected pattern of consumption of future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimate in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each reporting date.

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The Corporation also reviews value of the assets for possible impairment on an annual basis. Any change in estimates in future years might affect the carrying amounts of respective items of fixed assets with a corresponding effect on the depreciation / amortization charge and impairment.

f) Staff retirement benefits

Staff retirement benefits are provided as per actuarial valuation or following the actuarial advice which is based upon certain assumptions.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and methods of computation adopted in the preparation of these unconsolidated financial statement are same as those applied in the preparation of the annual unconsolidated financial statements of the Corporation for the year ended December 31, 2019.

3.1 Property and equipment

These are stated at cost less accumulated depreciation and impairment losses, if any.

Subsequent costs

Subsequent costs are included in the assets carrying amount or recognized as separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to statement of comprehensive income currently.

Depreciation

Depreciation is calculated on straight-line method to write off the cost of assets over their expected useful lives at the rates specified in note 4 to the financial statements, after taking into account residual values, if any. The useful lives, residual values and depreciation methods are reviewed and adjusted, if appropriate, at each reporting date. Depreciation on fixed assets is charged on a proportionate basis.

Gain and losses on disposal

An item of fixed asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal of fixed assets are included in current year's income and expenses respectively.

Capital work in progress

Capital work in progress is stated at cost less impairment, if any and consist of expenditure incurred and advances made in respect of fixed assets in the course of their acquisition, erection, construction and installation. The assets are transferred to relevant category of fixed asset when they are available for use.

3.2 Investment properties

Investment properties are accounted for under the cost model in accordance with International Accounting Standard 40, 'Investment Property' and S.R.O. 938 (1)/2002 dated December 12, 2002 issued by the SECP.

These are carried at cost less accumulated depreciation and impairment losses, if any. Subsequent expenditure, depreciation and gains or losses on disposal are accounted for in the same manner as of operating fixed assets.

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3.3 Other assets

Stock of stationery, printed material and maintenance store in hand for investment properties etc. are valued at lower of cost or net realizable value. Cost is determined on 'first in first out' basis.

3.4 Funds

The Corporation maintains a shareholders' fund and five statutory funds, separately in respect of its each class of life insurance business, namely:

- Pakistan Life Fund (ordinary life);
- Overseas Life Fund (ordinary life);
- Pension Fund;
- Health Insurance Fund; and
- Family Takaful Fund.

Assets, liabilities, revenues and expenses are referable to respective statutory funds or allocated to shareholders' fund.

Expenses of principal office are distributed among all funds on fair and equitable basis.

a) Pakistan Life Fund (ordinary life)

Pakistan Life Fund comprises individual life business and group life business carried out in Pakistan as well as individual life Rupee business conducted outside Pakistan. Policyholders' liabilities as shown in the Pakistan Life Fund are based on an actuarial valuation conducted by the Appointed Actuary as at the reporting date.

Within the Pakistan Life Fund, business can be further classified as individual life conventional business, BANCA business, group insurance business and a small amount of annuity business. Most of the policies contain Discretionary Participation Feature (DPF).

b) Overseas Life Fund (ordinary life)

The Overseas Life Fund entirely consists of individual life conventional business carried out at UAE, Kingdom of Saudi Arabia and Kuwait through zonal office located in Dubai (UAE). Policyholders' liabilities as shown in the Overseas Life Fund are based on an actuarial valuation conducted by the Appointed Actuary as at the reporting date.

Exchange gains and losses on translation of currencies of Overseas Life Fund and Pakistan Life Fund (Rupee business) are taken to revenue account through statement of investment income. Most of the new business written under the Overseas Life Fund contains a Discretionary Participation Feature (DPF).

c) Pension Fund

The Pension Fund consists of funds on account of group pension deposit administration contracts. Policyholders' liabilities as shown in the pension fund are based on an actuarial valuation conducted by the Appointed Actuary as at the reporting date.

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d) Accidental and Health Insurance Fund

The corporation is implementing mega health insurance programs, i.e. Federal Sehat Sahulat Program and KP Sehat Sahulat Program. These programs covered the 80 million population of Pakistan across 90+ districts to provide them with health insurance coverage through a vast network of 450+ panel hospitals. The Federal Sehat Sahulat Program, with expansion to target more than 68 districts across Pakistan, is covering around 10 million families (i.e. 50 million individuals). The growth in the scheme has a massive impact on the quality of health care available to the poor. The scheme is providing the secondary coverage of Rs. 60,000/- and Rs. 300,000/- under tertiary coverage per annum. The beneficiaries are also paid additional benefits such as cash payments of transportation and funeral charges. Besides pure BISP data, the entire FATA, FR Region, Tharparkar and AJK regions have been covered under this scheme. The coverage was further extended to all the disabled person and registered transgender community of Pakistan. Plans are underway to expand the scheme to cover 100% population of GB, Islamabad and Punjab. The KP Sehat Card Plus Program has covered the entire population of Khyber Pakhtunkhwa, where more than 7 million families would be covered. This scheme has a worth of around 87+ billion in the next five years. The scheme provides inpatient hospitalization secondary coverage of Rs. 40,000/- per member and Rs. 400,000/- under tertiary coverage per annum. State Life being a public sector organization would strive to extend its services to manage social health programs most efficiently and economically.

e) Family Takaful Fund

The Corporation on receipt of license to start Window Takaful Operations, established a statutory fund namely 'Family Takaful Fund' to offer Family Takaful Contracts. Family Takaful Contract is an arrangement which rests on key Shariah principles of mutual cooperation, solidarity and well-being of a community, and is based on the principles of Wakala Waqf Model. Under a Takaful arrangement, individuals come together and contribute towards the common objective of protecting each other against financial losses by sharing the risk on the basis of mutual assistance.

The obligation of Waqf for Waqf participants' liabilities is limited to the amount available in the Waqf fund. In case there is a deficit in the Waqf Fund, the Window Takaful Operator shall grant an interest free loan (Qard-e-Hasna) to make good the deficit. The loan shall be repayable from the future surpluses generated in the Waqf Fund, without any excess of the actual amount given to it. Repayment of Qard-e-Hasna shall receive priority over surplus distribution to Participants from the Waqf Fund.

The takaful operations under the 'Family Takaful Fund' are expected to start from the next year as disclosed in note 1.3 to these financial statements.

3.5 Insurance contracts - classification

The Corporation maintains five statutory funds which are as follows:

- Pakistan Life Fund
- Overseas Life Fund
- Pension Fund
- Accidental and Health Insurance Fund
- Family Takaful Fund

Within the Pakistan Life Fund the business can be further classified as individual life conventional business, group insurance business and a small amount of annuity business.

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Most of the new individual life conventional policies written by the Corporation contain a Discretionary Participation Feature (DPF). DPF indicates policies in which the investor receives an additional payment, the amount or timing of which is contractually at the discretion of the issuer.

The Overseas Life Fund entirely consists of individual life conventional business. Most of the new business written under the overseas life fund contains a DPF.

The Pension Fund consists of funds administered under Group Pension Deposit Administration contracts.

The Accident and Health Insurance Fund consists of Group Health and Accident Insurance Contracts.

Family Takaful Fund is not operational at the reporting date. Management intends to commence operations of Family Takaful Fund in the ensuing year.

Considering all the five statutory funds together, the bulk of Corporation business consists of individual life conventional policies. Most of the remaining business consists of group life insurance business. Group Health is a relatively new venture of the Corporation which started in 2012 and has yet to register any significant growth. The Corporation also offers some supplementary benefits attached in the form of riders to the individual life policies and the group life contracts. Each of these classes of business are described in greater detail below.

Contract details and measurement

The insurance contracts offered by the Corporation are described below:

3.5.1 Individual life policies

Individual life conventional products

These are long term contracts with either level or single premiums. These plans generally provide for some death benefit on death during the currency of the policy and a survival benefit either on the happening of certain contingencies or on the maturity of the policy. The premiums are payable only in the life time of the policyholder. In case of term insurance products there is no survival benefit.

Universal life policies

Under these plans a certain amount is set aside from the premium for expenses and meeting the mortality cost and the remainder of the premium is invested to earn some investment return. Investment return is allocated to these products on an annual basis keeping in view the investment earnings of the Pakistan Life Fund.

Term insurance policies

A few products of the Corporation are term insurance plans providing benefits only in case of death. Under these policies no benefit is due if the policy holder survives the duration of the policy. The Corporation sells both level term insurances and decreasing term insurances also known as mortgage protection plans.

Annuities

The Corporation also has a small number of individual and group life-annuities on its books. Under these contracts a periodic income benefit is payable to the insured life for as long as annuitant is alive. Besides, the Corporation offers annuity-certain plans under which periodic income benefit is payable for a stipulated period and is not dependent on the life of the policyholder.

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Supplementary riders

The Corporation offers various types of supplementary riders. Some of these riders offer additional life coverage, in some cases they offer accidental death and disability benefits. The benefits can take various forms such as lump sum payment or an income benefit or waiver of premiums due under the host policy contract.

Insured event

Under the individual life insurance policies in most cases the insured event is either death or survival until the maturity date of the policy, except in case of term insurance where there is no maturity benefit. Under the annuity policies the Corporation is exposed to the risk of longevity. In this case the insured event is survival of the life insured for a long duration, exceeding the period normally expected under standard mortality tables.

In case of supplementary rider the insured event is either death or just accidental death or disability whether accidental or natural or both.

Distribution channel

The individual life business of the Corporation is sold through its dedicated sales force which is present all over the country. This field force is organised under a three tier system consisting of sales representatives, sales officers and sales managers. Each sales sector headed by a sector head is further grouped over 1000 area offices, more than 1,200 area offices, 33 zones and 7 regional offices in addition to one zone for the Gulf Region. The Gulf zone has its own marketing team of sector heads, area managers and sales force.

The individual life policy holders of the Corporation come from all strata of society, with greater representation of the rural areas due to wider outreach of its field force. New policyholders have an average age of around 34 years.

3.5.2 Group life policies

Basic coverage

The group life policies are generally one year renewable term insurance contracts. In most cases they provide group coverage to the employees of an employer. Some times the coverage is tied up with loans extended by the employer for house building or purchase of motor vehicles or other household items. In some cases group policies are issued to lending agencies such as banks to provide group coverage to their borrowers. There are also a small number of group endowment policies which provide benefits identical to individual life policies but under the umbrella of a group contract.

Supplementary coverage

In many cases the group policies also provide supplementary coverage which may include accidental or natural disability benefits and additional accidental death benefit. These riders also take the form of one year renewable term insurance policies.

Insured event

Under the group life insurance policies in most cases the insured event is death due to any cause. In case of supplementary coverage the insured event can include accidental death or disability or natural disability.

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Distribution channel

The group insurance business is sold through four group and pension zones of the Corporation. Each zone has its own marketing force consisting of sector heads who are full time salaried employees of the Corporation, however, some of the group business is also procured through individual life field force of the Corporation.

Most of the lives covered under the group insurance consist of industrial and office workers, civil servants and employees of corporations, banks, other financial institutions, army, navy etc.

3.6 Policyholders' liabilities

Policyholders' liabilities are stated at a value determined by the appointed actuary through an actuarial valuation carried out as at each reporting date. In determining the value, both acquired policy values (which forms the bulk of policyholders' liabilities) as well as estimated values which will be payable against risks which the Corporation underwrites are taken into account. The basis used are applied consistently from year to year.

The basic liability consists of the estimated actuarial liability against each contract, which is in force. Following elements are added to this amount:

- a) any reserve required for premiums;
- b) reserve for incurred but not reported (IBNR) claims;
- c) reserve for income benefit in course of payment; and
- d) reserve for potential losses on a policy to policy basis.

3.7 Re-insurance contracts held

The Corporation has re-insurance arrangements with Swiss Re. The net retention limit of the Corporation for individual life is Rs. 5 million (2019: Rs. 5 million) per policy and for group life is Rs. 5 million (2019: Rs. 5 million) per person of risk. Re-insurance premium is recorded as an expense evenly over the period of the re-insurance contract and is off-set against the premium income of the respective year.

The claim recoveries arising out of re-insurance contracts are off-set against the claims expenses of respective year.

3.8 Claims

The liability in respect of outstanding claims represents the ascertained value of claims incurred and reported before the end of the accounting year. Incurred but not reported (IBNR) cases are provided on the basis of actuarial advice and included in the policyholders' liabilities.

On May 19, 2014, Securities and Exchange Commission of Pakistan (SECP) has issued Circular No. 11 of 2014 in which they have prohibited all life insurers from writing back the unclaimed insurance benefit amount in any circumstances. The unclaimed insurance benefits are the amount which have become payable in accordance with the terms and conditions of an insurance policy but have not been claimed by the policyholders or their beneficiaries. Such unclaimed amounts include unclaimed maturity benefits, long outstanding claims and un-intimated or unclaimed death or disability claims. The Corporation has a practice of writing back claims which are outstanding for more than three years from the date from which the claims become payable and an equivalent amount has been placed in 'reserve for unpaid insurance benefits' within the policyholders' liabilities. The Corporation has received letter dated May 22, 2015 from SECP clarifying that the practice to retain the unclaimed insurance benefits in its actuarial reserve is in compliance with the clause 3 of the aforementioned Circular.

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3.9 Amount due to other insurers / reinsurers

Liabilities for other insurers / reinsurers are carried at cost which is the fair value of consideration to be paid in future for services.

3.10 Premiums due but unpaid

Premiums due but unpaid are recognised at cost, which is the fair value of consideration to be received less provision for impairment, if any.

3.11 Amount due from other insurers / reinsurers

Amount due from other insurers / reinsurers are carried at cost less provision for impairment, if any.

3.12 Acquisition costs

These are costs incurred in acquiring and maintaining insurance policies and include without limitation all forms of remuneration paid to insurance agents and certain field force staff.

3.13 Expenses of management

Expenses of management represent directly attributable expenses and indirect expenses allocated to statutory funds.

3.14 Staff retirement benefits

a) Provident fund

The Corporation operates a defined contribution plan, a recognized contributory provident fund scheme for all its eligible employees. For employees who have opted for the gratuity scheme, monthly contributions at the rate of 8.33% of their basic salaries are made to the fund by the Corporation. However, in respect of employees who have opted for the pension scheme, no contribution is made by the Corporation to the provident fund.

b) Gratuity fund

Officers

The Corporation maintains a funded defined benefit plan for those officers who opted for gratuity rules. On retirement, resignation, termination or on death they will be paid last month's drawn salary for each completed year of service. Liability for the fund is based on the advice of appointed actuary.

Staff

The Corporation maintains a unfunded defined benefit plan for those staff who opted for gratuity rules. On retirement, resignation, termination or on death they will be paid last month's drawn salary for each completed year of service. Liability for the fund is based on the advice of appointed actuary.

Previously, the Corporation maintained a defined contribution plan in respect of all those officers of the Corporation who initially opted for the unfunded gratuity scheme. At the end of each month, starting from the effective date of admission of a member to the fund, the Corporation used to make a contribution equal to 8.33% of the member's basic salary. However, pursuant to decision of the Board of Directors taken in their 241st meeting held on October 20, 2015, the gratuity scheme of the officers of the Corporation has been revamped from defined contribution plan to defined benefit plan.

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c) Pension fund

The Corporation operates a defined benefit plan, a funded pension scheme for its employees opting for the pension scheme established in 1984 and payments are made annually to the extent allowed under the Income Tax Rules, 2002 to meet the obligations there-under on the basis of actuarial valuation. From a previous year pursuant to the order of Honorable Supreme Court of Pakistan, the Corporation has restored its pension scheme, as aforesaid, that was in effect before December 31, 1999. Liability for the fund is based on the advice of appointed actuary.

d) Compensated absences

From the year 2002, the un-availed earned leave balance of officers is encashed to the extent of two third of the leave balance with simultaneously proceeding on leave for one third leave balances, minimum for twelve days. A policy is already in force for the staff on similar lines. For officers leaves upto 60 days can be carried forward upto the date of retirement and can be encashed at retirement. Similarly, in respect of staff leaves upto 180 days can be carried forward upto the date of retirement and can be encashed at retirement.

The liability in respect of compensated absences as at December 31, 2020 amounting to Rs.1,613 million (2019: Rs. 1,542 million) has been provided in these unconsolidated financial statements based on actuarial valuation.

e) Post retirement medical benefits

The Corporation provides medical facilities to its retired officers and their spouses in accordance with the service regulations. As at December 31, 2020, liability for post retirement medical benefit as computed by the appointed actuary is estimated at Rs. 2,792 million (2019: Rs. 2,446 million) and the same has been provided in these unconsolidated financial statements.

3.15 Loans secured against life insurance policies

Cash loans

Loans in cash against the security of life insurance policies may be extended to the policyholders to the extent of 80% of surrender value of the respective policy, provided the policy has been in force for at least two years.

Automatic non-forfeiture provisions

- (a) Automatic Premium Loans secured against surrender value of the policy may be extended to the extent of the surrender value of the respective policy, provided the policyholder has exercised Automated Premium Loan option.
- (b) An advance equal to one year premium may be allowed to the policyholder only once, if the policyholder has exercised Auto Paid-up option provided the respective policy has been in force for at least two years.

3.16 Revenue recognition

Premium

(a) Individual life policies

The initial premium is recognized when the policy is issued after receipt of that premium. Subsequent premiums falling due under the policy are recognized if received before expiry of the grace period, or if advanced by the Corporation under the Automatic Non-Forfeiture provisions. However, premiums due in the month of December but not received by 31st December are recognized if the grace period is to expire after the next 1st January.

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(b) Group life policies

The premium on group life policies is recognized on a proportionate basis.

Rental income on investment properties

Rental income is recognized on an accrual basis except where dues are more than six months old in which case income is recognized on a receipt basis, except for the cases that are under litigation.

Investment income

Income on government securities, term finance certificates and other fixed income securities is recognized on an accrual basis for the number of days these are held taking into account effective yield on the instruments.

Dividend income is recognized when the Corporation's right to receive dividend is established. Income on debentures is recognized at the prescribed rates, except where recovery is considered doubtful in which case the income is recognized on a receipt basis.

Capital gain / loss arising on sale of listed securities is recognized on settlement date.

Income on future transactions is taken to income as the difference between ready market purchase price and future sale at settlement of future transactions. Income on reverse repurchase transactions is taken to income at the date of settlement.

Deferred capital grant

Grants received for capital expenditure is credited to "Deferred liabilities". Amount equal to the depreciation charged during the year as per rate applicable to the respective assets is transferred to other income. Grants received in cash for revenue expenditure are treated as income on the basis of expenditure incurred.

Others

All other income are recognised on accrual basis.

3.17 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with prevailing laws (Fourth Schedule to the Income Tax Ordinance, 2001) for taxation of income. All sources of income of the Corporation are taxed as one basket income using prevailing tax rate expected to apply to the profit for the year, if enacted. The charge for the current tax also includes adjustments, where considered necessary, to the provision for tax made in previous years arising from assessments finalized during the current year for such years.

Deferred

Deferred taxation is accounted for using the balance sheet liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization on settlement of the carrying amount of assets and liabilities using the tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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3.18 Bad and doubtful debts

Known bad debts are written off and impairment loss is recognized for debts / receivables considered doubtful.

3.19 Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

3.20 Impairment of non financial assets

The carrying amounts of non financial assets are assessed at each reporting date to ascertain whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense, for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

3.21 Related party transactions and transfer pricing

Transactions and contracts with the related parties are carried out at arm's length price determined in accordance with comparable uncontrolled price method.

3.22 Cash and cash equivalents

These include cash and bank balances and deposits maturing within twelve months.

3.23 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

3.24 Earnings per share

The Corporation presents basic and diluted Earnings Per Share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is calculated if there is any potential dilutive effect on the Corporation's reported net profits.

3.25 Segment reporting

Operating segment is a distinguishable component of the Corporation that is engaged in providing services that are subject to risks and returns that are different from those of other operating segments. The Corporation accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the Insurance Regulations, 2017.

The Corporation's business segments are currently reported five statutory funds, separately in respect of each class of life insurance business.

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3.26 Foreign currency translations

Foreign currency transactions during the year are recorded at the exchange rate approximating those ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange which approximates those prevailing on the reporting date. Gains and losses on translations are taken to income currently. Non monetary items that are major in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

3.27 Leases

The Corporation recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is depreciated on a straight-line method over the lease term as this method most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Corporation is reasonably certain to exercise that option. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, if there is a change in the Corporation's estimate of the amount expected to be payable under a residual value guarantee, or if the Corporation changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Corporation has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component and not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight-line basis over the lease term.

3.28 Financial instruments

Financial assets and financial liabilities are recognised when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are recognised initially at cost including associated transaction costs which is the fair value of the consideration given.

The financial assets and financial liabilities are measured subsequently as described below:

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Financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

- Loans and receivables;
- Held to maturity; and
- Fair value through profit or loss financial assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are carried at amortized cost.

Held to maturity

These include held to maturity investments that are financial assets with fixed or determinable payments and fixed maturity and the Corporation has a positive intent and ability to hold these investments till maturity. After initial recognition, these are carried at amortized cost.

Fair value through profit or loss

These are investment are initially recognised at cost being the fair value the of consideration given and its related transaction cost are charged to profit and loss account. These investment are subsequently measured at their market value with any gain or loss in statement of comprehensive income.

Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognized.

Derecognition

Financial assets are derecognized at the time when the Corporation loses control of the contractual rights that comprise the financial assets. Financial liabilities are derecognized at the time when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled, or expired. Any gains or losses on derecognition of financial assets and financial liabilities are taken to the statement of comprehensive income immediately.

Off setting

Financial assets and liabilities are off set and the amount is reported in the statement of financial position if the Corporation has a legal right to set-off the transactions and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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Fair / market value measurements

For investments in Government securities, fair / market value is determined by reference to quotations obtained from Reuters page (PKRV) / (PKISRV) where applicable. For investments in quoted marketable securities, other than Term Finance Certificates / Corporate Sukuks, fair / market value is determined by reference to Stock Exchange quoted market price at the close of business on reporting date. The fair market value of Term Finance Certificates / Corporate Sukuks and investment in Mutual Fund is as per the rates issued by the Mutual Funds Association of Pakistan (MUFAP).

Financial liabilities

For the purpose of subsequent measurement, financial liabilities are measured at amortised cost using effective interest method, which approximates to its cost except for policyholders' liabilities and liability for claims incurred but not reported (IBNR) which are measured on the basis of actuarial valuations.

3.29 Investment in subsidiaries

Investment in subsidiaries has been carried at cost less provision for impairment (if any).

3.30 Investment in associates

Investment in associates has been carried at cost less provision for impairment (if any).

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
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Note	2020	2019
	----- Rupees in 000 -----	
4.1	850,816	920,235

4 PROPERTY AND EQUIPMENT

Operating assets

4.1 Operating assets

Description	Cost				Depreciation				Written down value as at 31 December	Depreciation Rate (%)		
	As at 1 January	Additions/ (disposals)	Adjustment	Transfer from Investment Property	As at 31 December	As at 1 January	For the year	Adjustment			Transfer from Investment Property	As at 31 December
----- Rupees in '000 -----												
Building, roads and structure	627,488	3,744 (748)	-	-	630,484	143,310	6,440	(900)	-	148,850	481,634	1
Electric installation and fittings	478,789	8,622	-	-	487,411	440,241	18,116	(5,114)	-	453,243	34,168	10
Furniture and fixture	565,050	25,291 (43)	-	761	591,059	352,212	35,367	8,627	337	396,543	194,516	10
Office equipment	203,697	7,416 (90)	-	-	211,023	142,500	14,972	341	-	157,813	53,210	10 to 30
Computer installations- basic	834,575	14,387 (47)	25	-	848,940	746,281	33,641	1,657	-	781,579	67,361	30
Computer installations- peripherals	82,488	3,164	(25)	-	85,627	73,754	5,394	(1,467)	-	77,681	7,946	30
Vehicles	199,688	291 (1,645)	-	-	198,334	173,242	14,911	(1,800)	-	186,353	11,981	20
	2,991,775	60,342	-	761	3,052,878	2,071,540	128,841	1,344	337	2,202,062	850,816	

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2019

Description	Cost			Depreciation			As at 31 December	Transfer from Investment Property	As at 31 December	Written down value as at 31 December	Depreciation Rate (%)	
	As at 1 January	Additions/ (disposals)	Adjustment	For the year / (disposals)	Adjustment	For the year / (disposals)						As at 31 December
	Rupees in '000											
Building, roads and structure	538,269	-	-	89,219	627,488	120,390	892	-	22,028	143,310	484,178	1
Electric installation and fittings	410,712	-	-	68,077	478,789	361,170	6,808	-	72,263	440,241	38,548	10
Furniture and fixture	530,919	35,281 (1,150)	-	-	565,050	324,831	26,855	1,581	-	353,267 (1,055)	212,838	10
Office equipment	193,729	11,100 (1,132)	-	-	203,697	129,182	13,705	432	-	143,319 (819)	61,197	10 to 30
Computer installations- basic	794,932	40,276 (633)	-	-	834,575	710,976	34,691	1,082	-	746,749 (468)	88,294	30
Computer installations- peripherals	77,356	5,248 (116)	-	-	82,488	67,797	6,019	-	-	73,816 (62)	8,734	30
Vehicles	210,135	903 (11,350)	-	-	199,688	160,283	23,369	678	-	184,330 (11,088)	26,446	20
	2,756,052	92,808 (14,381)	-	157,296	2,991,775	1,874,629	112,339	3,773	94,291	2,085,032 (13,492)	920,235	

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4.2 Detail of disposal of property and equipment

Disposal of tangible assets during the year 2020 having net book value exceeding Rs. 50,000

Description of Asset	Cost	Net book value	Sale proceed	Gain	Mode of disposal	Particulars of buyers	
						Name of buyer	Relationship
Building, roads and structure	2,542	2,516	2,542		26 by Tender	NICL (Insurance Claim)	External independent party

4.3 Assets with zero value

Description of Assets	2020		2019	
	Cost -----(Rupees in '000)----	Number of items --in '000--	Cost -----(Rupees in '000)----	Number of items --in '000--
Furniture and fixtures	28,023	44	24,130	43
Office equipment	16,382	128	15,048	122
Computer installation - basic	361,678	69	363,933	55
Computer installation - peripheral	16,398	31	16,398	31
Vehicles	71,628	92	52,105	66

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5 INVESTMENT PROPERTIES

Investment properties
Less: Provision for impairment in value
Capital work in progress

	2020	2019
	Rupees in '000	
	1,749,139	1,773,618
	(895)	(895)
	1,748,244	1,772,723
	1,889,898	1,602,444
	3,638,142	3,375,167

Note
5.1
5.4
5.8

5.1 Investment Properties

	2020									
	Cost			Depreciation			Written down			
	As at 1 January	Additions/ (Disposals)	Transfer to Property and Equipment	As at 31 December	As at 1 January	For the year	Transfer to Property and Equipment	As at 31 December/ (Disposal)	value as at December 31, 2020	Depreciation Rate
	Rupees in '000									
Freehold land	274,616	-	-	274,616	-	-	-	-	274,616	-
Leasehold land	332,697	-	-	332,697	113,353	3,864	-	117,217	215,480	1 to 5
Leasehold improvements	20,040	-	(761)	19,279	11,064	260	(337)	10,987	8,292	5
Building, roads and structure	1,503,200	8,851 (1,793)	-	1,510,258	341,174	15,027	-	356,201	1,154,057	1
Electric installation and fittings	1,146,981	5,002	-	1,151,983	1,038,325	16,964	-	1,055,289	96,694	10
	3,277,534	12,060	(761)	3,288,833	1,503,916	36,115	(337)	1,539,694	1,749,139	
	2019									
	Cost			Depreciation			Written down			
	As at 1 January	Additions/ (Disposals)	Transfer to Property and Equipment	As at 31 December	As at 1 January	For the year	Transfer to Property and Equipment	As at 31 December/ (Disposal)	value as at December 31, 2019	Depreciation Rate
	Rupees in '000									
Freehold land	274,616	-	-	274,616	-	-	-	-	274,616	-
Leasehold land	332,697	-	-	332,697	109,489	3,864	-	113,353	219,344	1 to 5
Leasehold improvements	17,431	2,609	-	20,040	10,462	602	-	11,064	8,976	5
Building, roads and structure	1,552,627	39,792	(89,219)	1,503,200	342,088	21,114	(22,028)	341,174	1,162,026	1
Electric installation and fittings	1,181,928	33,286 (156)	(68,077)	1,146,981	1,066,073	44,515	(72,263)	1,038,325	108,656	10
	3,359,299	75,531	(157,296)	3,277,534	1,528,112	70,095	(94,291)	1,503,916	1,773,618	

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- 5.2 The market value of the investment properties, owned by the Corporation as determined by the independent valuers, amounted to Rs. 59,666 million (2019: Rs. 50,459 million). The forced sale value of the investment properties, owned by the Corporation as determined by the independent valuers as at December 31, 2020, amounted to Rs. 57,876 million (2019: Rs. 48,945 million).
- 5.3 The above includes, title deeds of 61 land/buildings, that were taken over by the Corporation under the Life Insurance (Nationalization) Order, 1972 (LINO) dated November 01, 1972 and have been transferred in the name of the Corporation. The title deeds 12 buildings / plots (2019: 12 buildings / plots) are still in the name of defunct insurance companies that were merged in the Corporation as per the LINO order.
- 5.4 There are properties costing Rs. 2,250 million (2019: Rs. 2,250 million) having written down value of Rs. 0.895 million (2019: Rs. 0.895 million) to which the Corporation's title is disputed. Against this, a provision of Rs. 0.895 million (2019: Rs. 0.895 million) exists.
- 5.5 The Corporation has a plot at Rawalpindi costing Rs. 0.581 million (2019: Rs. 0.581 million) for which execution of title deed is pending due to dispute with the Cantonment Board, Rawalpindi.
- 5.6 The Corporation has a plot at Mirpur (Azad Kashmir) costing Rs. 1.192 million (2019: Rs. 1.192 million) for which execution of title deed remain pending.
- 5.7 The investment properties also include Rs. 23 million (2019: Rs. 23 million) paid by the Corporation to the People Media Foundation (PMF) for acquisition of ground floor measuring 13,000 sq. ft. in PMF Complex (Press Club Building) at G-8, Markaz, Islamabad. The Corporation has taken over the possession of ground floor in July 1996, under an irrevocable General Power of Attorney, as the construction of building was incomplete. The management of the Corporation is of the opinion that under irrevocable General Power of Attorney, the Corporation is in a position to freely transfer the title of said property in its own name.

5.8 Capital work in progress

Opening balance	2020	2019
Additions	1,602,444	1,359,628
Closing balance	287,454	242,816
	1,889,898	1,602,444

Note ----- Rupees in '000 -----

5.8.1

5.8.1 This mainly represents the amount incurred in respect of Islamabad and Rahim Yar Khan projects.

6 INVESTMENTS IN SUBSIDIARIES

Alpha Insurance Company Limited*

Alpha Insurance Company Limited*	2020	2019
	298,918	298,918

State Life (Lakic Road)

State Life (Lakic Road)	2020	2019
	12,910	12,910

Properties (Private) Limited**

Properties (Private) Limited**	2020	2019
	(12,910)	(12,910)

Less provision for impairment

Less provision for impairment	2020	2019
	26,182	26,182

State Life (Abdullah Haroon Road)

State Life (Abdullah Haroon Road)	2020	2019
	(1,482)	(6,199)

Properties (Private) Limited**

Properties (Private) Limited**	2020	2019
	323,618	318,901

Less provision for impairment

Less provision for impairment	2020	2019
	(1,482)	(6,199)

	323,618	318,901
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6.1 Investment in Subsidiaries

2020	2019	Number of shares	Face value Rs.	Company Name	Note	2020	2019
						Rupees in '000	
47,574,843	47,574,843		10	Alpha Insurance Company Limited Equity held 95.15% (2019:95.15%)		298,918	298,918
414,916	414,916		10	State Life (Lakie Road) Properties (Pvt) Limited		12,910	12,910
				Equity held 100% (2019:100%)			
779,500	779,500		10	State Life (Abdullah Haroon Road) Properties (Pvt) Limited		26,182	26,182
				Equity held 100% (2019:100%)		338,010	338,010

6.2 The Corporation's interests in its subsidiaries were as follows:

Name	Country of Incorporation	Assets	Liabilities	Revenues	Profit / (Loss)	% of interest held
		Rupees in '000				
Alpha Insurance Company Limited*	Pakistan	1,082,927	382,809	70,318	2,971	95.15%
State Life (Lakie Road) Properties (Private) Limited**	Pakistan	3,111	5,392	121	(223)	100%
State Life (Abdullah Haroon Road) Properties (Private) Limited**	Pakistan	25,801	1,100	-	871	100%
Total at the end of 2020		1,111,839	389,301	70,439	3,619	
Name	Country of Incorporation	Assets	Liabilities	Revenues	Profit / (Loss)	% of interest held
		Rupees in '000				
Alpha Insurance Company Limited*	Pakistan	1,111,974	406,448	60,196	3,596	95.15%
State Life (Lakie Road) Properties (Private) Limited**	Pakistan	3,163	5,284	121	(289)	100%
State Life (Abdullah Haroon Road) Properties (Private) Limited**	Pakistan	23,205	1,100	6,000	4,886	100%
Total at the end of 2019		1,138,342	412,832	66,317	8,193	

The Board of Directors in their meeting held on March 25, 2015 decided to liquidate State Life (Abdullah Haroon Road) Properties (Private) Limited. The Board of Directors in their 240th meeting held on August 11, 2015 approved the above said transaction and authorized certain persons to appear in all matters concerning purchase and transfer of property. As of the reporting date, the transaction is in the process of being executed.

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7 INVESTMENTS IN EQUITY SECURITIES

	Note	2020			2019		
		Cost	Impairment / provision	Carrying value	Cost	Impairment / provision	Carrying value
FAIR VALUE THROUGH PROFIT AND LOSS							
----- Rupees in '000 -----							
Related parties							
Listed shares		3,517,424	-	18,192,482	3,439,097	-	18,307,249
Unlisted shares		5,000	-	5,000	5,000	-	5,000
Others							
Listed shares	7.1	26,072,745	-	74,659,605	24,798,121	-	73,221,583
Unlisted shares	7.2	275,897	(217,553)	58,344	275,897	(218,575)	57,322
Unlisted preference shares		3,743	(1,150)	2,593	3,743	(2,792)	951
		<u>29,874,809</u>	<u>(218,703)</u>	<u>92,918,024</u>	<u>28,521,858</u>	<u>(221,367)</u>	<u>91,592,105</u>

7.1 This includes 653,995 shares (2019: 653,995) owned by Corporation in National Bank of Pakistan on behalf of Life Insurance Corporation of India (LIC) which has a carrying value of Rs. 28.10 millions (2019: Rs. 28.320 millions).

7.2 Name of the chief executives of companies which forms majority portion of total investment in unlisted equities has been given below :

Company	Chief Executive	Shareholding	No of Shares	Carrying Value in Rupees
Peoples Steels Mills Limited	Dr. Munir Ahmed	N/A	1,998,967	12,681,714
Al Baraka	Ahmed Shuja	1.10%	4,941,176	46,857,758
Arabian Sea Country Club Limited	Arif Ali Khan	N/A	500,000	351,049
State Bank of Pakistan	Raza Baqir	N/A	29,458	3,221,374
Pakistan Emerging Ventures limited	Tameez Ul Haq	3.33%	12,500,000	232,030

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9 INVESTMENTS IN GOVERNMENT SECURITIES

Maturity Year	2020			2019		
	Effective Yield (%)	Amortized Cost	Principal Payment	Carrying Value	Effective Yield (%)	Carrying Value
						Rupees in '000
HELD TO MATURITY						
<u>Pakistan Investment Bond</u>						
3 year Pakistan Investment Bonds	2021 - 2022	147,001,163	151,908,000	147,001,163	11.45% - 14.25%	109,230,108
5 year Pakistan Investment Bonds	2021 - 2024	127,195,587	129,300,000	127,195,587	6.5% - 12.7%	117,957,286
10 year Pakistan Investment Bonds	2021 - 2029	390,955,891	387,152,600	390,955,891	7.5% - 14.29%	349,281,303
15 year Pakistan Investment Bonds	2021 - 2035	50,886,975	49,370,000	50,886,975	8.05% - 15.38%	11,787,581
20 year Pakistan Investment Bonds	2024 - 2039	60,206,205	59,461,000	60,206,205	8.05% - 15.70%	28,397,607
30 year Pakistan Investment Bonds	2036 - 2038	37,680,832	40,050,000	37,680,832	11.52% - 16.22%	37,628,226
Sukuk Bonds (Takaful)		40,000	-	40,000		-
Islamic Republic of Pakistan Bond		7,724,485	-	7,724,485		6,743,095
<u>Treasury Bills</u>						
1 year Pakistan Treasury Bills	2020	-	-	-	14.17%	13,918,136
		821,691,138	817,241,600	821,691,138		674,943,342

9.1 Government securities include Rs. 485 million (2019: Rs. 410 million) placed with the State Bank of Pakistan, in accordance with Section 29 of the Insurance Ordinance, 2000.

9.2 Market value of government securities carried at amortized cost amounted to Rs. 842,952 million (2019: Rs. 655,375 million).

10 INVESTMENT IN DEBT SECURITIES

Note	2020			2019		
	Cost	Impairment / provision for the year	Carrying value	Cost	Impairment / provision for the year	Carrying value
						Rupees in '000
HELD TO MATURITY - OTHERS						
10.1 Debentures	7,573	(7,573)	-	7,573	(7,573)	3,042,398
Foreign fixed income securities	3,654,344	-	3,654,344	3,042,398	-	3,042,398
	3,661,917	(7,573)	3,654,344	3,049,971	(7,573)	3,042,398

10.1 Debentures include an amount of Rs. 7.573 million (2019: Rs. 7.573 million) pertaining to those companies which are in liquidation process since 1974. Further, a court case is in process against the Colony Textile Mills Limited against debenture loan amounting to Rs. 0.678 million (2019: Rs. 0.678 million). The Corporation had made full provision against these debentures.

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		2020	2019
		----- Rupees in '000 -----	
11	INSURANCE / REINSURANCE RECEIVABLES		
	<i>Unsecured and considered good</i>		
	Due from insurance contract holders	32,151,773	25,932,244
	Less: provision for impairment of receivables from Insurance contract holders	-	-
	Due from other insurers / reinsurers	422,586	369,081
	Less: provision for impairment of due from other insurers / reinsurers	-	-
		32,574,359	26,301,325
12	LOANS AND OTHER RECEIVABLES		
	Accrued investment income	46,598,010	38,712,693
	Loans to agents	78,493	81,604
	Loans to employees	949,821	953,037
	Advance to contractors & security deposit	464,561	355,831
	Other receivables	1,388,425	2,578,046
	Deposit against bank guarantee	446,000	-
		49,925,310	42,681,211
12.1	This represent interest free loans provided to employees repayable within 12 months.		
	Note	2020	2019
		----- Rupees in '000 -----	
13	PREPAYMENTS		
	Prepaid miscellaneous expenses	46,692	60,118
	Prepaid rent	15,428	4,421
		62,120	64,539
14	CASH AND BANK		
	Cash and cash equivalent		
	- Cash in hand	12,838	16,173
	- Cash in transit	190,000	252,822
	Cash and bank		
	- Current account	14,693,173	15,901,274
	- Saving account	31,042,831	64,639,806
	- Fixed deposits maturing after 12 months	10,245,891	11,049,711
		56,184,733	91,859,786
14.1	Cash and cash equivalent include the following for the purposes of the statement of cash flows:		
	Cash and cash equivalent		
	- Cash in hand	12,838	16,173
	- Cash in transit	190,000	252,822
	Cash and bank		
	- Current account	14,693,173	15,901,274
	- Saving account	31,042,831	64,639,806
	Cash and cash equivalent	45,938,842	80,810,075
14.2	These carry mark-up ranging from 6.46% to 12.66% (2019: 8% to 12.55%) per annum.		

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15 ORDINARY SHARE CAPITAL		2020	2019
		----- Rupees in '000 -----	
15.1	AUTHORIZED CAPITAL		
		<u>2020</u>	<u>2019</u>
		<u>Number of shares</u>	
		<u>50,000,000</u>	<u>50,000,000</u>
	Ordinary shares of Rs. 100 each	<u>5,000,000</u>	<u>5,000,000</u>
15.2	Issued, subscribed and paid up share capital		
		<u>2020</u>	<u>2019</u>
		<u>Number of shares</u>	
		<u>43,000,000</u>	<u>35,000,000</u>
	Ordinary shares of Rs. 100 each	<u>4,300,000</u>	<u>3,500,000</u>
	Issued during the year	<u>300,000</u>	<u>800,000</u>
		<u>4,600,000</u>	<u>4,300,000</u>
15.3	During the year, the Corporation issued share capital amounting to Rs. 300 Million with the approval of Finance Division wing of Government of Pakistan with the letters dated December 30, 2020.		
16	RESERVES	2020	2019
		----- Rupees in '000 -----	
	Revenue reserves		
	General reserve	<u>304,725</u>	<u>7,043</u>
17	INSURANCE LIABILITIES		
	Reported outstanding claims (including claims in payment)	17.1	34,878,925
	Incurring but not reported claims (IBNR)	17.2	4,081,391
	Liabilities under individual conventional insurance contracts	17.3	1,116,847,629
	Liabilities under group insurance contracts (other than investment linked)	17.4	1,462,422
	Other insurance liabilities (premium deficiency reserve)	17.5	206,215
		<u>1,157,476,582</u>	<u>1,016,711,293</u>
17.1	Reported outstanding claims (including claims in payment)		
	Gross of Reinsurance	34,878,925	23,091,997
	Payable within one year	-	61,124
	Payable over a period of time exceeding one year	<u>34,878,925</u>	<u>23,153,121</u>
	Recoverable from Reinsurance		
	Receivable within one year	-	-
	Receivable over a period of time exceeding one year	-	-
	Net reported outstanding claims	<u>34,878,925</u>	<u>23,153,121</u>

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	2020	2019
	----- Rupees in '000 -----	
17.2 Incurred but not reported claims (IBNR)		
Gross of reinsurance	4,081,391	3,965,610
Reinsurance recoveries	-	-
Net of reinsurance	<u>4,081,391</u>	<u>3,965,610</u>
17.3 Liabilities under individual conventional insurance contracts		
Gross of reinsurance	1,117,793,101	988,649,770
Reinsurance credit	(945,472)	(889,671)
Net of reinsurance	<u>1,116,847,629</u>	<u>987,760,099</u>
17.4 Liabilities under group insurance contracts (other than investment linked)		
Gross of reinsurance	1,462,422	1,603,253
Reinsurance credit	-	-
Net of reinsurance	<u>1,462,422</u>	<u>1,603,253</u>
17.5 Other insurance liabilities (premium deficiency reserve)		
Gross of reinsurance	206,215	229,210
Reinsurance recoveries	-	-
Net of reinsurance	<u>206,215</u>	<u>229,210</u>
18 RETIREMENT BENEFIT OBLIGATIONS		
Post retirement benefit	18.1 482,926	3,180,072
Accumulated Compensation Absences	18.2 1,613,000	1,542,000
	<u>2,095,926</u>	<u>4,722,072</u>

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	2020	2019		
	----- Rupees in '000 -----			
18.2 Accumulated Compensation Absences Movement in Payable				
Opening Balance	1,542,000	1,491,000		
Addition / (Reversal) during the year	71,000	51,000		
Closing balance of compensated absences	<u>1,613,000</u>	<u>1,542,000</u>		
19 DEFERRED TAXATION				
Deffered tax credit arising in respect of On retained balance on Ledger Account D	<u>1,610,642</u>	<u>636,015</u>		
	Balance as at January 01, 2020 Recognised in the statement of profit and loss Recognised in other comprehensive income Balance as at December 31, 2020 ----- Rupees in '000 -----			
Deffered credit arising in respect of: - on retained balance on Ledger Account D	<u>636,015</u>	<u>974,627</u>	-	<u>1,610,642</u>
	Balance as at January 01, 2019 Recognised in the statement of profit and loss Recognised in other comprehensive income Balance as at December 31, 2019 ----- Rupees in '000 -----			
Deffered credit arising in respect of: - on retained balance on Ledger Account D	<u>472,871</u>	<u>163,144</u>	-	<u>636,015</u>
20 INSURANCE / REINSURANCE PAYABLES	2020	2019		
	----- Rupees in '000 -----			
Due to other insurers / reinsurers	<u>566,647</u>	<u>480,184</u>		
21 OTHER CREDITORS AND ACCRUALS				
Agents commission payable	3,550,301	4,002,039		
Accrued expenses	9,936,450	5,835,026		
Other liabilities	9,156,295	8,623,282		
	<u>22,643,046</u>	<u>18,460,347</u>		

22 CONTINGENCIES AND COMMITMENTS

22.1 Contingencies

22.1.1 The Corporation has filed appeals on different issues in the Honorable High Court of Sindh contesting the decision of the ATIR for the income years 1992-1993 to 2002-2003 mainly relating to turnover tax and excess perquisites. In addition, the issue of tax rate was raised for the income years 1992-93 to 1996-97. The Inland Revenue Department added back the excess perquisites to the taxable income and tax liability was enhanced accordingly. Further, Inland Revenue Department re-opened these assessments and rectified to invoke provisions of turnover tax on the ground that the tax paid under Fourth Schedule of the Income Tax Ordinance, 2001 is less than turnover tax and hence, should be paid accordingly. The Corporation then filed aforesaid appeals on the ground that the Fourth Schedule of the Income Tax Ordinance, 2001 restricts taxable income to that portion of actuarial surplus which is attributed to the shareholders fund by the appointed Actuary.

All the appeals are pending before Honorable High Court of Sindh, Karachi and management of the Corporation and its tax advisor are confident that ultimate outcome of these matters will be in favour of the Corporation and accordingly, no provision is required in these financial statements on account of these matters.

22.1.2 In the year 2010, the Inland Revenue Department served legal notices to the Corporation, requiring it to explain why the withholding tax under section 151(1)(d) of the Income Tax Ordinance, 2001 has not been deducted on payments made to the policyholders on the maturity. Those notices were related to tax years 2008 and 2009.

According to those notices, the Inland Revenue Department were of opinion that Corporation was required to withhold Income Tax on maturity claims by virtue of the said section. The Department considered that the total amount of a matured policy given to the policy holder consist of bonuses and the sum assured. The bonuses are given to the policy holder on the basis the amount of premium received during the whole term of the policy which is a form of interest or profit on debt. Hence, the Corporation u/s 151 (1)(d) is liable for deducting withholding tax at the rate 10% on the amount of bonuses paid to policyholder on maturity. Therefore, the Inland Revenue Department raised demands of Rs. 710.12 million and Rs. 738.51 million as withholding tax for tax year 2008 and 2009 respectively. The Corporation had filed appeals before CIR(A) on the grounds that policy contract as a debt instrument lacks legal sanctity and the definition of debt is being misinterpreted by the tax authorities.

CIR(A) decided the subject appeals in favor of Corporation vide order No. 27 & 28 dated September 29, 2011 on the grounds that the provisions of section 151(1)(d) of the Income Tax Ordinance, 2001 are not attracted to the payments made by way of bonus on the maturity of the policies as the same can not be construed to be interest or profit on debt.

The demand raised by the Department has not been enforced after above judgment of CIR(A), therefore, no payment was made against the demand. Inland Revenue Department filed appeals before the ATIR against the above orders of CIR(A) which were dismissed by learned ATIR vide order No. 506-07/KB/2012 on April 17, 2014.

Inland Revenue Department has filed appeals before High Court of Sindh, Karachi against the orders of ATIR. Management of the Corporation and its tax advisor are confident that ultimate outcome of this matter will be in favor of the Corporation and accordingly, no provision is required in these financial statements on account of this matter.

22.1.3 Inland Revenue Department served a legal notice u/s 122 (5A) on apportionment of expenses under section 67 of the Income Tax Ordinance, 2001 to the dividend income for tax year 2004. The said notice was replied by Corporation but not agreed by the concerned ACIR. Subsequently amended assessment order was passed u/s 122 (5A) which resulted in tax demand of Rs. 164.88 million. The Corporation was not in agreement with said order and preferred appeal before CIR(A). Said appeal was not upheld at this forum. Next appeal was filed before ATIR. Meanwhile the Department adjusted demand amount from the pending refunds for tax year 2010.

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Appellate Tribunal Inland Revenue (ATIR) decided the above appeal in favor of Corporation vide order No/ 925/KB/2010 dated July 24, 2012; wherein the addition made u/s 67 has been deleted.

The said issue has already been decided by the Honorable High Court of Sindh, Karachi in an other appeal on the issue reported as Commissioner (Legal) Inland Revenue v/s EIU General Insurance Ltd 2011-PTD-2042.

Inland Revenue Department has passed an order u/s 124 of the Income Tax Ordinance, 2001 to give effect to the appeal Ref. Document # 11/54 dated June 24, 2014 and also issued refund of Rs. 153.75 million to the Corporation. The Corporation had adjusted Rs. 8.80 million against demand for Tax year 2014. The refund amounting to Rs. 2.33 million is still pending with the Department. In the year 2013, the Inland Revenue Department filed appeal in the Honorable High Court of Sindh against the decision of ATIR which was dismissed by the High Court of Sindh, Karachi vide order dated August 30, 2016. Inland Revenue Department has filed civil appeal before Honorable Supreme Court of Pakistan against the judgement of Honorable High Court of Sindh, Karachi which is pending adjudication.

- 22.1.4 In the year 2013, Inland Revenue Department issued similar notices to Corporation regarding withholding of tax on maturity proceeds of insurance policies as described in note 22.1.2. These notices were related to Tax Year 2010 to Tax Year 2012 stating that the Department holds a similar stance as described in the said note. Reply was filed by the Corporation through authorized representative which was not accepted by the Department and order u/s 161 and 205 of the Income Tax Ordinance was passed, resulting in total demand of Rs. 1,577.46 million (Rs. 1,249.14 million as withholding tax and Rs. 328.32 million as default surcharge).

The entire principal demand of Rs. 1,249.14 million was paid under protest and without prejudice to its legal right to appeal. The Corporation filed appeals before CIR(A) which was not upheld. The Corporation then filed appeal before ATIR against the above order which has been decided in favour of Corporation vide consolidated order dated February 21, 2017.

Further, LTU, Karachi had also issued notice u/s 161/205 of the Income Tax Ordinance, 2001 similar to the notices issued in the previous years to invoke the section 151 (1)(d) of the Ordinance to recover withholding tax from the Corporation on the amount of bonus paid to the policyholders on the maturity of the policies during the tax year 2013. Reply was filed through tax consultant which was not agreed by Department and order u/s 161/205 was passed and tax demand amounting to Rs. 609.23 million including default surcharge of Rs. 99.11 million was raised which was discharged without prejudice to legal rights to appeal. Appeal was filed before CIR(A) against said order which was upheld vide order # 34 dated March 30, 2015.

Inland Revenue Department has issued refund amounting to Rs. 500 million from appeal effect of Tax Year 2013 in July, 2015. Further, IR Department has adjusted outstanding demand for tax year 2009, 2010 and 2011 at Rs. 10.8 million, 12.58 million and Rs. 56.37 million respectively against pending appeal effect of tax year 2013. As at December 31 2020, appeal effect amounting to Rs. 29.48 million is still pending with the Inland Revenue Department. Inland Revenue Department has filed an appeal before ATIR against the said order of the CIR(A) which is pending till to date.

The management and legal counsel are optimistic that ultimate outcome of the cases shall be decided in favor of the Corporation as ATIR has decided the appeals related to similar issue in previous years in favour of the Corporation.

- 22.1.5 While assessing the income and tax liability thereon for assessment years 2000-01, 2001-02 and 2002-03, Income Tax Department, AJK disallowed excess perquisites u/s 24(i) of the Income Tax Ordinance, 1979 (repealed) as inadmissible business expense of Corporation. Disallowance of said expense increased taxable income for all the three years and tax liability was worked out accordingly which resulted in additional tax demand. The aggregate additional tax demand involved due to addition of excess perquisites to Corporation's taxable income was Rs. 12.67 million (Assessment year 2000-01 to 2002-03 Rs. 1.46 million, Rs. 9.04 million, Rs. 2.17 million respectively).

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In addition, Corporation's assessments were also made at higher tax rate of 43% for assessment year 2000-01 and 2001-02 and at 45% for 2002-03 instead at the rate 5% being entire dividend income. These assessments at higher rates also multiplied Corporation's tax liability for each assessment year.

Being aggrieved, Corporation preferred appeal before CIR(A), Mirpur-AJK against the alleged assessment orders. Corporation's appeals before CIR(A), Mirpur-AJK were not upheld. Thereafter, Corporation had challenged the orders of CIR(A) before Appellate Tribunal Inland Revenue, Mirpur-AJK. The learned ATIR upheld all the appeals of the Corporation vide order # ITAT/969-73 dated August 20, 2009.

Income Tax Department, AJK had filed reference against the order of ATIR-AJK before Honorable High Court of AJK. At present, Departmental references are still pending before High Court of Mirpur, Azad Jammu and Kashmir.

- 22.1.6 Assessment of the Corporation for assessment years 2000-01 and 2001-02 were finalized at tax liability of Rs. 141.06 million and Rs. 216.83 million respectively. Subsequently, above assessments were revised vide orders passed u/s 221 of the Income Tax Ordinance, 2001 on the grounds that surcharge at the rate 5% as per Part III of First Schedule of the repealed Ordinance was not levied on the tax worked out u/s 80-D of the repealed Ordinance. Accordingly, surcharge amounting to Rs. 7.05 million and Rs. 10.84 million was levied for assessment years 2000-01 and 2001-02 respectively. Corporation, being aggrieved filed appeals before CIR-A against above impugned departmental orders on the grounds that surcharge at the rate 5% was not leviable in the instant case as tax has been worked out u/s 80-D of the repealed Ordinance. However, CIR-A decided the appeals against Corporation. Thereafter, Corporation filed appeals before ATIR against above judgement of CIR-A which were also decided against Corporation. Subsequently, Corporation filed reference applications before Honorable Sindh High Court, Karachi which has been decided in favor of Corporation. Inland Revenue Department has filed civil appeals before Honorable Supreme Court of Pakistan which are pending adjudication.
- 22.1.7 Inland Revenue Department initiated monitoring of withholding of taxes from Tax Years 2009 to 2013 vide notices issued u/s 161/205 of the Income Tax Ordinance, 2001.
- Based on the reply submitted by Corporation, IR Department passed orders u/s 161/205 of the Ordinance whereby tax demand amounting to Rs. 494.16 million was raised for above Tax Years (Tax Year 2009: Rs. 48.08 million, Tax Year 2010: Rs. 57.43 million, Tax Year 2011: Rs. 53.44 million, Tax Year 2012: Rs. 258.18 million and Tax Year 2013: Rs. 77.03 million). Without prejudice to the legal rights to appeal, Corporation paid above demand under protest.
- Being aggrieved, Corporation filed appeals against above departmental orders before Commissioner Inland Revenue - Appeals. CIR(A) has vacated the orders passed by DCIR and directed the concerned DCIR to re-visit the case.
- On the directive of CIR(A), DCIR issued notices afresh for above Tax Years. Corporation referred those notices to its tax consultant for compliance. On the basis of reply submitted by Corporation through consultant, DCIR passed revised orders for Tax Years 2009 to 2013 whereby tax demand of Rs. 403.18 million was created (Tax Year 2009: Rs. 58.88 million, Tax Year 2010: Rs. 70.01 million, Tax Year 2011: Rs. 64.09 million, Tax Year 2012: Rs. 100.38 million and Tax Year 2013: Rs. 109.82 million). Corporation filed appeals against aforesaid orders before CIR(A). Tax demand on account of alleged short deduction on salary and incorrect CPRs and penalty / default surcharge has either been deleted or set-aside by CIR(A). Corporation's appeals are pending before Appellate Tribunal Inland Revenue in respect of above Tax Years.
- Further, Inland Revenue Department issued show cause notices for monitoring of withholding taxes on similar lines for Tax Year 2014 and 2015. On the basis of reply submitted by Corporation, Inland Revenue Department passed orders whereby tax demand amounting to Rs. 449.94 million and Rs. 572.14 million was raised for the Tax Year 2014 and 2015 respectively. Above orders were subsequently rectified and revised tax demand of Rs. 212.86 million and Rs. 166.42 million was determined for Tax Year 2014 and 2015 respectively.
- Without prejudice to the legal right to appeal, Corporation has offered adjustment of tax demand for Tax Year 2014 from available refunds and tax demand for Tax Year 2015 was paid in cash.

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Being aggrieved from the order of DCIR for tax year 2014 and 2015, Corporation has filed an appeal before CIR(A) on alleged non-provision of tax payment challans and levy of default surcharge and Penalty on account of absence of mens rea and also because of availability of significant tax refunds due to the Corporation during the default period. CIR(A) has set-aside the orders and directed taxation officer to revisit the issue and levy default surcharge and penalty. Corporation had challenged tax recovery of Rs. 71.31 million and Rs. 11.35 million on arbitrary basis for alleged non provision of tax payment challans in respect of tax year 2014 and 2015 respectively. CIR(A) has remanded back the issue for adjudication being rectificatory matter. We have written to the taxation officer to pass appeal effect orders and evidence of tax refunds were also provided, however, appeal effect orders are not yet passed.

- 22.1.8 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated January 02, 2017 to Corporation for tax year 2016 whereby certain issues regarding deduction claimed on account of provision for impairment in the value of investment properties, deduction claimed on account of gratuity and pension, deduction claimed on account of provision for impairment in shares, rationale for deduction of investment property related expenses, foreign tax credit u/s 103 of the Ordinance claimed in the annual tax return, taxation of dividend income as single basket income, etc. were confronted. Corporation has engaged tax consultant for responding said notice.

Subsequent to the reply filed by Corporation through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated March 06, 2017 u/s 122 (5A) of the Income Tax Ordinance, 2001 whereby demand of Rs. 23.78 million was raised u/s 137 of the Income Tax Ordinance.

Since, Corporation has pending refunds towards Inland Revenue Department, therefore; without prejudice to the legal right to appeal; Corporation through its tax consultant in said case has requested to adjust the above demand against pending refunds.

Corporation filed appeal against the impugned order before CIR(A). Issue related to subjecting dividend income to normal tax rate is decided in favor of Corporation whereas issues related to deduction claimed on account of real estate expenses, provision for impairment in value of shares and value of investment properties and provision for diminution in value of investment are decided against Corporation. Further, issue of refund adjustment amounting to Rs. 220 million against pending appeal effect of tax year 2003 were remanded back to concerned ACIR. Inland Revenue Department as well as Corporation filed appeals before ATIR against order of CIR(A) which are pending till to date. No date for the next hearing has been fixed till date.

- 22.1.9 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated March 13, 2017 to Corporation for tax year 2015 whereby almost similar issues as stated in note 22.1.8 were raised. Subsequent to the reply filed by Corporation through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated April 13, 2017 u/s 122 (5A) of the Income Tax Ordinance, 2001 whereby demand of Rs. 163.5 million was raised u/s 137 of the Income Tax Ordinance. In said order, ACIR has incorrectly adjusted Rs. 446.61 million against demand raised u/s 161 / 205 of the Ordinance which was actually duly discharged by Corporation by making cash payment.

Corporation, not in agreement with above order, filed application for rectification u/s 221 dated April 24, 2017 through tax consultant which was rejected by concerned ACIR vide letter dated April 28, 2017. Our tax consultant vide letter dated May 05, 2017 again requested for rectification of order. DCIR passed rectified order vide letter DC # 03/117 dated December 21, 2017 whereby refund of Rs. 316.74 million is determined as refundable to Corporation.

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Corporation filed appeal against the impugned order before CIR(A). Issues related to subjecting dividend income to normal tax rate and disallowance on account of exchange loss related to foreign currency balances are decided in favor of Corporation whereas issues related to deduction claimed on account of real estate expenses, provision for impairment in value of shares and provision for bad debts are decided against Corporation. Further, issue of alleged tax adjustment of Rs. 446.61 million was remanded back to taxation officer. Inland Revenue Department as well as Corporation filed appeals before ATIR against order of CIR(A) which are pending till to date. No date for the next hearing has been fixed till date.

- 22.1.10 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated December 31, 2014 to Corporation for tax year 2012 whereby certain issues regarding reconciliation of commission expense between cash flow statement and monthly withholding tax statements, short withholding of tax under various provisions of the Ordinance, taxation of dividend income as single basket income, provision for IBNR, etc. were confronted. Tax consultant responded said notice on behalf of Corporation. Additional information/explanation were also called vide letters dated February 24, 2015, September 22, 2015 and January 25, 2017. Subsequent to the reply filed by tax consultant ACIR proceeded to amend an assessment and passed an amended assessment order dated February 02, 2017 u/s122 (5A) of the Income Tax Ordinance, 2001 whereby outstanding refund for same year was utilized to adjust the demand of Rs. 39.35 million. After adjustment, balance refunds stands at Rs. 93.32 million.

Corporation has filed appeal against the impugned order before CIR(A). Issue of subjecting dividend income to normal tax rate, foreign tax credit claimed u/s 103, disallowance of provision for IBNR and disallowance of amount pertaining to investment arrangement between Corporation and Bureau of Emigration and Overseas Employment has been decided by CIR(A) in favor of Corporation vide order dated May 22, 2017. However, CIR(A) has decided the issue relating to disallowance of provision for impairment in value of shares against the Corporation. Further, issues of alleged non-deduction of tax on commission payments, payment for goods and prizes were remanded back to concerned taxation officer. Inland Revenue Department as well as Corporation has filed cross appeal before Appellate Tribunal Inland Revenue against above order of CIR(A) which is still pending till to date. No date for the next hearing has been fixed till date.

- 22.1.11 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi also issued notices u/s 122 of the Ordinance to Corporation related to tax years 2011, 2013 and 2014. Vide Said notices, ACIR confronted almost similar issues as stated at note 22.1.8 and 22.1.9. Corporation engaged A.F. Ferguson & Co. for responding these notices. Subsequently, ACIR passed amended orders whereby demand of Rs. 520.63 million was raised (Tax Year 2011: Rs. 56.37 million, Tax Year 2013 Rs. 107.12 million and Tax Year 2014: Rs. 357.14 million). Inland Revenue Department adjusted the demand related to tax year 2011 from pending appeal effect related to tax year 2013. Further, demand related to tax years 2013 and 2014 was adjusted by Inland Revenue Department from pending refund related to tax year 2015. Corporation, being aggrieved from above orders of ACIR, filed appeals before CIR(A). Issues related to subjecting dividend income to normal tax rate, addition on account of inter-office rent expense, provision for diminution in value of investments and tax on Bureau Fund has been decided in favor of Corporation by CIR(A). However, issues related to deduction claimed on account of real estate expenses and provision for bad and doubtful debts are decided against SLIC. Further, issues of interest free loans to employees, alleged short withholding of tax on advertisement and training expenses and reduction in tax liability due to reduction in taxable surplus for tax years 2012 and 2013 were remanded back to concerned ACIR for re-adjudication. Inland Revenue Department as well as Corporation filed appeals before ATIR against the orders of CIR(A). Further, on the directives of CIR(A), ACIR issued notice dated April 17, 2020 in respect of remand back issues in respect of tax year 2014. Corporation has duly submitted relevant information along with supporting documents to the ACIR. The ACIR has not yet passed an order in respect of the same.

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22.1.12 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi served notice u/s 122 of the Income Tax Ordinance, 2001 dated January 10, 2018 to Corporation for tax year 2017. Vide Said notice, ACIR confronted issues like investment arrangement between Corporation and Bureau of Emigration and Overseas Employment, deduction claimed on account of provision for diminution in value of investments, provision for impairment in the value of investment properties, provision for impairment in the value of shares, loans/ advances to employees and agents, short withholding of tax under various provisions of the Ordinance. Corporation engaged A.F. Ferguson & Co. for responding the notice.

Subsequently, ACIR passed amended order whereby demand of Rs. 480.25 million was raised. Corporation, being aggrieved from above amended order, file appeal before CIR(A). Further, Corporation, through its tax consultant, also file application for stay of tax demand vide letter dated April 05, 2018 along with application for out of turn hearing vide letter dated March 28, 2018 before CIR(A). Hearing before CIR(A) was held on April 26, 2018. CIR(A) vide order No. 6 dated May 03, 2018 decided issues which involves major tax impact at Rs. 357.1 million like tax on Bureau Fund, disallowance on account of inter-company rent expenses in favour of Corporation. However, issue of disallowance on account of real estate expenses and provision against other receivables are decided against Corporation. Further, issues of interest free loans to employees, alleged short withholding on training expenses and adjustment of tax liability against pending appeal effect for tax year 2010 were remanded back to concerned ACIR. Inland Revenue Department as well as Corporation filed appeals before ATIR against order of CIR(A) which are pending till to date. No date for the next hearing has been fixed till date.

22.1.13 According to the Sindh Sales Tax Act 2011, sales tax is payable on premium of life and health insurance policies written in the province of Sindh. The Punjab and Baluchistan Revenue Authorities have also introduced sales tax on life and health insurance premium effective from November 01, 2018 and July 03, 2015 respectively.

This being a collective issue of the industry, the Insurance Association of Pakistan (IAP) has actively taken up the matter with the provincial revenue authorities for the exemption on sales tax. The industry's main contention is that life insurance is not a service, but in fact, in sum and substance, a contingent contract under which payment is made on occurrence of an event, specified in the terms of contract or policy, and thus is a financial arrangement. Superior courts in foreign jurisdiction have held that insurance is not a service.

Subsequently, life insurance companies collectively filed Constitutional Petitions (CPs) before Lahore High Court (LHC) and Sindh High Court (SHC) against levy of sales tax on life and health insurance in Punjab and Sindh respectively that are pending adjudication. As far as Baluchistan Revenue Authority (BRA) is concerned, no notice or communication has been received by the Corporation in this respect and hence, no petitions were filed before any court. The Hon'ble JJIC in its order dated October 03, 2019 has restrained PRA from taking any coercive measures against applicants.

The Corporation has filed another petition at Hon'ble JJIC against impugned show cause notice. The Hon'ble LHC, in its order dated January 21, 2020, has directed that no final order shall be passed in pursuance of the impugned show cause by Punjab Revenue Authority (PRA) until the next due date of hearing. With effect from April 2, 2020 until June 30, 2020 PRA, through its notification No. SO (TAX) 1-110 / 2020 (COVID 19), reduced the Provincial Sales Tax (PST) rate from 16% to 0% without input tax adjustment for life and health insurance.

The Hon'ble SHC, in its interim order dated December 02, 2019, directed that the request of the petitioners, seeking exemption in terms of Section 10 of the Sindh Sales Tax Act, 2011, be considered by the Sindh Revenue Board (SRB), in accordance with the law.

Sindh Revenue Board (SRB) vide notification No.3-4/13/2020 dated June 22, 2020, has exempted life insurance from levy of service tax up to June 30, 2020 subject to the condition that person providing insurance services commences e-depositing the amount of Sindh sales tax due on such services from July, 2020 onwards. The exemption to health insurance has been extended by the SRB up to June 30, 2021.

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Provincial Revenue Authorities invited LAP and insurance industry to hold a dialogue for amicable settlement of the matter. However, due to Covid-19 situation and consequential lockdown, consensus is not yet reached among stakeholders.

In view of the opinion of legal advisor the Corporation has calculated estimated aggregated amount of sales tax liability amounting to Rs. 939.85 million (December 31, 2019: 835.43 million), which is calculated based on risk premium and excluding the investment amount allocated to policies. Advisor is also of the view that Corporation has a reasonably strong case on the merits in the constitution petitions.

- 22.1.14 Additional Commissioner Inland Revenue, Audit Range B, Zone-III, LTU Karachi served notice u/s 122(9) of the Ordinance dated November 26, 2019 to Corporation in respect of tax year 2019. Vide above notice, ACIR confronted certain issues like deduction claimed on account of unrealized loss on investment, investment in value, investment related expenses, advances to employees at interest rate lower than benchmark rate and adjustment of tax liability against outstanding appeal effect of prior year.

Based on the reply filed by Corporation through tax consultant, ACIR passed amended order u/s 122(5A) of the Ordinance dated March 13, 2020 and raised demand of Rs. 164.68 million.

Since Corporation has pending refunds/appeal effects towards Inland Revenue Department, therefore Corporation through its authorized representative filed application for stay of demand. Further, being aggrieved from above amended order, Corporation also filed appeal before CIR-A. CIR(A) has passed order dated April 20, 2020 wherein issue related to deduction claimed on account of impairment in value of investment has been decided in favor of Corporation. However, issue of disallowance on account of real estate expenses has been decided against Corporation. Further, matters related to unrealized loss on financial assets, loans/advances to employees, adjustment of tax liability against prior year appeal effect has been remanded back to concerned ACIR for re-adjudication. Inland Revenue Department as well as Corporation filed appeals before ATIR against order of CIR(A) which are pending till to date. No date for the next hearing has been fixed till date.

- 22.1.15 Additional Commissioner Inland Revenue, Audit Range B, Zone-III, LTU Karachi served notice u/s 122(9) of the Ordinance dated April 29, 2020 to Corporation in respect of tax year 2018. Vide above notice, ACIR confronted certain issues like deduction claimed on account of unrealized loss on financial assets and investment property related expenses, advances to employees at interest rate lower than benchmark rate and difference between profit as per financial statements and as per tax return.

Based on the information/explanation submitted by Corporation to tax authorities against above notice, ACIR passed an amended assessment order u/s 122 (5A) whereby tax refundable position of is determined Rs. 1,007.84 million instead of Rs.1,176.06 million for tax year 2018.

Corporation has filed appeal before CIR(A) against above assessment order which is not yet fixed for hearing.

- 22.1.16 The return of income for tax year 2020 was submitted declaring total income of Rs. 2,234.29 million with tax chargeable of Rs. 621.47 million. The said return was deemed assessment order in terms of section 120(1) of the Ordinance. A notice dated December 10, 2020 for amendment of deemed assessment order was issued by Additional Commissioner Inland Revenue to Corporation u/s 122 (9) of the Ordinance against which information/explanation has been submitted to tax authorities. However, amended assessment order is not yet passed by the ACIR.

22.1 Commitments

The Corporation is committed in respect of capital expenditure contract aggregating to Rs. 100 million (2019: Rs. Rs. 388 million). There were no other commitments as at the reporting date.

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	Note	2020 ----- Rupees in '000 -----	2019
23	NET PREMIUM REVENUE		
	Gross Premiums		
	Regular premium individual policies		
	First year	14,059,221	12,907,165
	Second year renewal	9,348,287	12,948,715
	Subsequent year renewal	83,894,776	78,336,965
	Group policies with cash values	45,312	45,125
	Group policies without cash values	21,813,492	14,312,581
	Less: experience premium refund	(9,746,456)	(5,773,796)
	Total Gross Premiums	119,414,632	112,776,755
	Less: Reinsurance Premiums Ceded		
	On individual life first year business	(40,314)	(31,002)
	On individual life second year business	(28,012)	(33,704)
	On individual life renewal business	(178,430)	(164,873)
	On group policies	(149,962)	(83,927)
	-Less: Reinsurance commission on risk premium	16,626	109,073
		380,092	204,433
	Net Premiums revenue	119,034,540	112,572,322
24	INVESTMENT INCOME		
	Income from equity securities		
	<i>Fair value through profit or loss</i>		
	- Dividend income	4,721,727	5,387,958
	Income from government and debt securities		
	<i>Held to maturity</i>		
	- Return on government and debt securities	82,485,359	67,796,409
		87,207,086	73,184,367
25	NET REALISED FAIR VALUE GAIN/(LOSS) ON FINANCIAL ASSETS		
	Fair value through profit or loss		
	Realised gain / (loss) on equity securities	207,639	(12,682)
26	NET FAIR VALUE GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS		
	Net unrealised gain on investments at fair value through profit and loss	670,560	3,771,586
	Reversal/(Impairment) in value	5,738	(64,751)
	Reversal / expense related to the appreciation on shares held by LIC	222	(28,318)
	Investment related expenses	(61,765)	(63,453)
		614,755	3,615,064

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	Note	2020	2019
		----- Rupees in '000 -----	
27 NET RENTAL INCOME			
Rental income		1,060,590	1,040,199
Less: Expenses of investment property		(501,072)	(471,959)
		<u>559,518</u>	<u>568,240</u>
28 OTHER INCOME			
Return on bank balances		1,970,015	2,467,456
Gain on sale of property and equipment		19	7,421
Return on loans to employees		52,504	53,506
Return on loans to policyholders		14,045,562	13,356,925
Exchange gain on revaluation		738,689	2,293,266
Miscellaneous income		202,443	268,222
		<u>17,009,232</u>	<u>18,446,796</u>
29 NET INSURANCE BENEFITS			
Gross Claims			
Claims under individual policies			
- by death		8,340,396	7,143,526
- by insured event other than death		372,682	397,113
- by maturity		16,693,302	15,652,310
- by surrender		30,046,297	27,153,375
- annuity payments		11,297	16,752
Total gross individual policy claims		<u>55,463,974</u>	<u>50,363,076</u>
Claims under group policies			
- by death		3,094,936	3,136,887
- by insured event other than death		6,326,503	3,640,133
- by maturity		-	1,225
- by surrender		658	889
- annuity payments		547	791
Total gross group policy claims		<u>9,422,644</u>	<u>6,779,925</u>
Total gross claims		<u>64,886,618</u>	<u>57,143,001</u>
Less: Reinsurance Recoveries			
-on individual life claims		(73,703)	(74,363)
-on group life claims		(138,204)	(32,516)
		<u>(211,907)</u>	<u>(106,879)</u>
Claim related expenses		13,715	12,642
Net insurance benefit expense		<u>64,688,426</u>	<u>57,048,764</u>

29.1 There are various cases pertaining to policyholders in relation to individual and group insurance policies, claiming amount due as per policy amounting to Rs. 552.41 million (December 31, 2019: 485.86 million) but the Corporation is of the view that such claims are not valid based on the criteria provided in the policy issued. In total there are 749 cases out of which 29 cases are in the Supreme Court of Pakistan, 309 cases are pending in different High Courts of Pakistan and remaining in the lower courts.

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29.2 Claim Development

Accident years	2016	2017	2018	2019	2020
Estimate of ultimate claims cost: -	----- Rupees in '000 -----				
At the end of accident year	2,929,240	3,151,939	3,183,132	3,983,390	6,826,968
One year later	4,279,282	4,699,001	4,730,194	5,791,503	-
Two years later	4,464,341	4,941,658	4,853,501	-	-
Three years later	4,533,698	4,976,747	-	-	-
Four years later	4,549,465	-	-	-	-
Current estimate of cumulative claims	4,549,465	4,976,747	4,853,501	5,791,503	6,826,968
Cumulative payments	(4,466,696)	(5,388,510)	(5,998,685)	(6,963,095)	(7,058,046)
	82,769	(411,763)	(1,145,184)	(1,171,592)	(231,078)
Claim prior to 2016					4,977,480
Liability recognized in the statement of financial position					<u>4,746,402</u>

30 UNCLAIMED INSURANCE BENEFIT

Circular 11 of 2014 dated May 19, 2014 issued by the Securities and Exchange Commission of Pakistan (SECP) has established requirement for all insurers to disclose age wise break up of unclaimed insurance benefits in accordance with format prescribed in the annexure to the said circular.

The unclaimed benefits are described in the circular as the amounts which have become payable in accordance with the terms and conditions of an insurance policy but have not been claimed by the policyholders or their beneficiaries. Such unclaimed amounts may fall into the following categories:

Description	Total Amount	1-6 Months	7-12 Months	13-24 Months	25-36 Months	Beyond 36 Months
	----- Rupees in '000 -----					
Unclaimed maturity benefits	8,068,045	3,121,744	1,337,222	1,787,715	1,821,364	-
Unclaimed death benefits	6,998,979	3,262,464	700,445	1,298,315	1,737,755	-
Unclaimed disability benefits	2,755,059	2,187,911	177,712	138,816	250,620	-
Claims not encashed	-	-	-	-	-	-
Other unclaimed benefits	17,049,257	4,583,873	4,452,978	4,907,875	3,104,531	-
	<u>34,871,340</u>	<u>13,155,992</u>	<u>6,668,357</u>	<u>8,132,721</u>	<u>6,914,270</u>	<u>-</u>

31 ACQUISITION EXPENSES	Note	2020	2019
		----- Rupees in '000 -----	
Remuneration to insurance intermediaries on individual policies:			
- commission to agent on first year premiums		7,045,281	6,437,356
- commission to agent on second year premiums		1,288,341	1,957,677
- commission to agent on subsequent renewal premiums		3,116,500	2,931,108
- other benefits to insurance intermediaries		392,909	1,628,849
- branch overhead	31.1	<u>3,009,559</u>	<u>2,292,097</u>
balance c/f		<u>14,852,590</u>	<u>15,247,087</u>

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	Note	2020 ----- Rupees in '000 -----	2019 -----
<i>balance b/f</i>		14,852,590	15,247,087
Remuneration to insurance intermediaries on group policies:			
- commission		3,708	5,464
- other benefits to insurance intermediaries		936	480
		<u>4,644</u>	<u>5,944</u>
Other acquisition costs:			
- Stamp duty		1,638,921	1,153,995
- Initial medical fees		100,652	95,407
		<u>1,739,573</u>	<u>1,249,402</u>
		<u>16,596,807</u>	<u>16,502,433</u>
31.1 Branch overhead			
Employee benefit cost		2,598,761	1,845,388
Traveling expense		243,428	289,504
Printing & stationary		9,907	9,397
Postage & telephone		26,266	21,314
Electricity, gas and water		19,735	24,534
Rent		74,118	70,918
Prize & awards		14,100	14,896
Conference & meetings		19,659	11,700
Repair & maintenance		3,585	4,446
		<u>3,009,559</u>	<u>2,292,097</u>
32 MARKETING AND ADMINISTRATION EXPENSES			
Employee benefit cost	32.1	6,299,934	8,044,673
Travelling expenses		271,173	314,270
Advertisements and sales promotion		11,504	110,949
Printing and stationery		110,476	189,747
Depreciation		114,990	122,985
Rent, rates and taxes		115,078	111,471
Legal and professional charges - business related		522,490	523,285
Electricity, gas and water		217,735	228,625
Office repairs and maintenance		36,983	49,826
Bank charges		34,286	38,955
Postages, telegrams and telephone		119,728	118,763
Appointed Actuary fees		572	572
Training expense		48,076	64,061
Annual Supervision fees SECP		50,000	50,000
		<u>7,953,025</u>	<u>9,968,182</u>
32.1 Employee benefit cost			
Salaries, allowances and other benefits		8,406,571	6,170,601
Charges for post employment benefit		(2,106,637)	1,874,072
		<u>6,299,934</u>	<u>8,044,673</u>

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33	OTHER EXPENSES	Note	2020 ----- Rupees in '000 -----	2019
	Auditors' remuneration	33.1	9,301	8,091
	Revenue stamps		56,677	40,163
	Conference and meetings		34,105	50,674
	Insurance charges		174,831	364,473
	Office maintenance		88,393	69,789
	Entertainment		16,333	19,104
	Other expenses		48,777	30,088
			<u>428,417</u>	<u>582,382</u>
33.1	Auditors' remuneration			
	Business within Pakistan			
	Annual audit and half yearly review fee			
	BDO Ebrahim & Co.		2,484	2,484
	Grant Thornton Anjum Rahman		2,961	2,484
			<u>5,445</u>	<u>4,968</u>
	BDO Ebrahim & Co.		650	650
	Grant Thornton Anjum Rahman		900	650
			<u>1,550</u>	<u>1,300</u>
	Business Outside Pakistan			
	Audit fee			
	Nabeel Al-Saie Public Accountants		2,306	1,823
	Out of pocket expenses		-	-
			<u>2,306</u>	<u>1,823</u>
			<u>9,301</u>	<u>8,091</u>
34	INCOME TAX EXPENSE			
	For the year			
	Current		745,133	648,996
	Deferred		974,627	163,144
			<u>1,719,760</u>	<u>812,140</u>
	For the prior year			
	Current		508	403
	Total income tax charge for the year		<u>1,720,268</u>	<u>812,543</u>

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	Note	2020 ----- Rupees in '000 -----	2019
34.1 Relationship between tax expense and accounting profit			
Profit before tax		5,926,610	2,796,846
Tax at the applicable rate @ 29% (2019: 29%)		1,718,717	811,085
Reconciliation:			
Tax on surplus for the year retained in statutory funds		-	-
Tax charge on change in policyholders liabilities on restatement		-	-
Education cess for the year		1,043	1,055
Super tax for the year		-	-
Change in tax rate		-	-
Recognition of prior year provision		508	403
Tax expense for the year		<u>1,720,268</u>	<u>812,543</u>
35 Earning (after tax) per share - Rupees			
Profit (after tax) for the year		<u>4,206,342</u>	<u>1,984,303</u>
Weighted average number of ordinary shares outstanding as at year end		<u>43,016</u>	<u>38,449</u>
		<u>----- Rupees -----</u>	
Earnings per share		<u>97.78</u>	<u>51.61</u>

The Corporation has not issued any instrument which would dilute its basic earnings per share when exercised. Therefore, there is no dilutive effect on earnings per share.

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36 REMUNERATION OF DIRECTORS AND EXECUTIVES

	Chairman		Directors		Executives	
	2020	2019	2020	2019	2020	2019
	-----Rs in '000-----					
Fees	-	-	-	-	-	-
Managerial remuneration	-	880	3,807	6,645	329,254	259,410
House rent allowance	-	423	1,715	2,810	146,422	115,398
Utilities	-	300	1,408	2,117	113,924	89,765
Special allowance	-	-	-	-	-	-
Medical	-	-	-	-	-	-
Car allowance	-	-	-	-	-	-
Others	-	1,615	3,156	9,695	59,285	113,213
Reimbursements	-	-	-	-	-	-
Retirement benefits	-	-	-	-	-	-
Staff provident fund	-	-	-	-	-	-
	-	3,218	10,086	21,267	648,885	577,786
Number of persons	-	1	3	4	239	189

36.1 In addition to the above, Chairman, Directors and Executives are also entitled to the Corporation maintained vehicles and mobile phone facility.

36.2 Fee paid to Non-Executive Directors during the year amounted to Rs. 2.96 Million (2019: Rs. 0.912 Million).

36.3 Chairman has taken charge as an additional duty as appointed by the ministry.

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37 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The Corporation has related party relationships with provident fund, pension fund scheme, gratuity fund, state owned profit oriented entities and its key management personnel.

Accrual of liability in respect of the funds are made annually. Remuneration to key management personnel are determined in accordance with the terms of their employment / appointment. Certain key management personnel are also provided with free use of the Corporation maintained vehicles and post retirement benefits in accordance with their entitlement under the terms of their employment.

The related parties also comprise subsidiaries, directors, key management personnel and employees' benefits funds. The Corporation in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties, amounts due from chairman and executives directors are disclosed in the relevant notes.

Terms and conditions of transactions with related parties

Transactions with related parties are made at arms length prices. There have been no guarantees provided or received for any related party receivables or payables.

Other material transactions and balances with related parties are given below:

	Note	2020	2019
----- Rupees in '000 -----			
Aggregate			
Profit oriented state-controlled entities			
common ownership			
Investment in shares - State Bank of Pakistan		3,221	3,221
PIBs deposited with State Bank of Pakistan		485,000	410,000
Subsidiaries			
Rental income received - Alpha Insurance Company Limited (95.15% holding)		3,976	4,168
Staff retirement fund			
Contribution to provident fund		3,152	5,114
Contribution to pension fund		534,231	485,862
Contribution to funded gratuity		3,056	4,791
Expense charged for pension fund		1,056,614	1,028,889
Transactions with associated companies			
Dividend received during the year			
Pakistan Reinsurance Company Limited		146,464	146,464
Balances with related parties - common directorship			
Investment in units:			
NIT Islamic Equity Fund		200,000	200,000
Balances with related parties			
Retirement benefit obligation		2,095,926	4,722,072

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Balances with related parties - common directorship	2020	2019
	----- Rupees in '000 -----	
Investment in shares:		
Fauji Fertilizer Company Limited	<u>12,677,508</u>	<u>11,772,827</u>
Sui Southern Gas Company Limited	<u>838,591</u>	<u>1,242,870</u>
Sui Northern Gas Pipelines Company Limited	<u>1,220,801</u>	<u>2,093,391</u>
Alpha Insurance Company Limited	<u>298,818</u>	<u>298,818</u>
Pakistan Cables Limited	<u>337,448</u>	<u>326,474</u>
Security Papers Limited	<u>889,034</u>	<u>575,077</u>
Shahtaj Sugar Mills Limited	<u>48,417</u>	<u>65,767</u>
Pak Data Communication Limited	<u>99,106</u>	<u>36,272</u>
Premier Insurance Company Limited	<u>26,552</u>	<u>32,300</u>
Pakistan Reinsurance Company Limited	<u>2,015,350</u>	<u>2,153,759</u>
Arabian Sea Country Club Limited	<u>5,000</u>	<u>5,000</u>
PICIC Insurance Limited	<u>6,234</u>	<u>4,013</u>
Nina Industries Limited	<u>4,500</u>	<u>4,500</u>
Mirpurkhas Sugar Mills Ltd.	<u>28,942</u>	<u>-</u>
State Life Abdullah Haroon Road Property (Private) Limited (Subsidiary Company) (100% holding)	<u>26,182</u>	<u>26,182</u>
State Life Lackie Road Property (Private) Limited (Subsidiary Company) (100% holding)	<u>12,910</u>	<u>12,910</u>

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38 SEGMENTAL INFORMATION

38.1 Revenue account by statutory fund

	Statutory Funds				Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	Accidental and Health Insurance Fund		Family Takaful
----- Rs in '000 -----						
For the year ended December 31, 2020						
Income						
Premium less reinsurances	108,808,617	2,205,268	45,312	7,975,343	-	119,034,540
Rental income from investment property	559,518	-	-	-	-	559,518
Net investment income	101,194,724	1,745,990	45,780	1,607,865	11,170	104,605,529
Total net income	210,562,859	3,951,258	91,092	9,583,208	11,170	224,199,587
Insurance benefits and expenditure						
Insurance benefits, including bonuses, net of reinsurance recoveries	56,084,643	2,301,149	20,717	6,281,917	-	64,688,426
Management expenses less recoveries	23,799,535	478,295	227	664,262	30,549	24,972,868
Total insurance benefits and expenditure	79,884,178	2,779,444	20,944	6,946,179	30,549	89,661,294
Excess/(Shortfall) of income over insurance benefits and expenditures	130,678,681	1,171,814	70,148	2,637,029	(19,379)	134,538,293
Net change in insurance liabilities (other than outstanding claims)	(122,724,172)	(977,049)	46,478	(23,483)	-	(123,678,226)
Surplus/(deficit) before tax	7,954,509	194,765	116,626	2,613,546	(19,379)	10,860,067
Movement in policyholders' liabilities	122,724,172	977,049	(46,478)	23,483	-	123,678,226
Transfers to and from shareholders' fund						
- Surplus appropriated to shareholders' fund	(2,125,598)	(12,417)	-	-	-	(2,138,015)
- Capital returned to shareholders' fund	-	(650,000)	-	-	-	(650,000)
- Capital contributions from shareholders' fund	-	-	-	-	-	-
Net transfer to/from shareholders' fund	-	-	-	-	-	-
Balance of statutory fund at beginning of the year	970,544,036	22,784,918	365,980	2,647,353	59,043	996,401,330
Balance of statutory fund at end of the year	1,099,097,119	23,294,315	436,128	5,284,382	39,664	1,128,151,608

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Revenue account by statutory fund	Statutory Funds				Aggregate
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	Accidental and Health Insurance Fund	
For the year ended December 31, 2019					
	Rs in '000				
Income					
Premium less reinsurances	105,485,958	2,235,824	45,125	4,805,415	112,572,322
Rental income from investment property	568,240	-	-	-	568,240
Net investment income	90,679,467	3,409,597	40,950	726,924	94,870,697
Total net income	196,733,665	5,645,421	86,075	5,532,339	208,011,259
Insurance benefits and expenditure					
Insurance benefits, including bonuses, net of reinsurance recoveries	51,470,221	1,960,000	34,049	3,584,494	57,048,764
Management expenses less recoveries	25,796,244	469,945	374	754,186	27,046,252
Total insurance benefits and expenditure	77,266,465	2,429,945	34,423	4,338,680	84,095,016
Excess/(Shortfall) of income over insurance benefits and expenditures	119,467,200	3,215,476	51,652	1,193,659	123,916,243
Net change in insurance liabilities (other than outstanding claims)	(114,542,550)	(2,766,522)	8,086	(29,075)	(117,330,061)
Surplus/(deficit) before tax	4,924,650	448,954	59,738	1,164,584	6,586,182
Movement in policyholders' liabilities	114,542,550	2,766,522	(8,086)	29,075	117,330,061
Transfers to and from shareholders' fund					
- Surplus appropriated to shareholders' fund	(1,861,077)	(17,098)	-	-	(1,878,175)
- Capital returned to shareholders' fund	-	650,000	-	(100,000)	550,000
- Capital contributions from shareholders' fund	-	-	-	-	-
Net transfer to/from shareholders' fund					
Balance of statutory fund at beginning of the year	852,937,913	18,936,540	314,328	1,553,694	873,813,262
Balance of statutory fund at end of the year	970,544,036	22,784,918	365,980	2,647,353	996,401,330

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38.2 Segmental results by line of business

Income	Statutory Funds				Aggregate
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	Accidental and Health Insurance Fund	
	Rs in '000				
Gross premium					
- First year	13,837,942	221,279	-	-	14,059,221
- Second year	9,157,923	190,364	-	-	9,348,287
- Subsequent year renewal	82,069,311	1,825,465	-	-	83,894,776
Group policies with cash value	-	-	45,312	-	45,312
Group policies without cash value	4,333,980	-	-	17,479,512	21,813,492
Less experience premium refund	(242,287)	-	-	(9,504,169)	(9,746,456)
Total gross premiums	109,156,869	2,237,108	45,312	7,975,343	119,414,632
Less: reinsurance premiums ceded					
On individual life first year business	(37,252)	(3,062)	-	-	(40,314)
On individual life second year business	(28,012)	-	-	-	(28,012)
On individual life renewal business	(135,079)	(43,351)	-	-	(178,430)
On group policies	(149,962)	-	-	-	(149,962)
Less : Reinsurance commission on risk premium	2,053	14,573	-	-	16,626
	(348,252)	(31,840)	-	-	(380,092)
Net Premiums	108,808,617	2,205,268	45,312	7,975,343	119,034,540
Rental income from investment property	559,518	-	-	-	559,518
Net investment income	101,194,724	1,745,990	45,780	1,607,865	104,605,529
Total net income	210,562,859	3,951,258	91,092	9,583,208	224,199,587
Insurance benefits and expenditures					
Claims, including bonuses, net of reinsurance recoveries	56,084,643	2,301,149	20,717	6,281,917	64,688,426
Management expenses less recoveries	23,799,535	478,295	227	664,262	24,972,868
Total insurance benefits and expenditures	79,884,178	2,779,444	20,944	6,946,179	89,661,294
Excess/(Shortfall) of income over insurance benefits	130,678,681	1,171,814	70,148	2,637,029	134,538,293
Add : Policyholder liabilities at the beginning of year	934,618,503	18,611,913	177,692	51,518	953,459,626
Less : Policyholder liabilities at the end of year	(4,057,342,675)	(19,588,962)	(131,214)	(75,001)	(1,077,137,852)
Surplus/(deficit) before tax	7,954,509	194,765	116,626	2,613,546	10,860,067

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Segmental results by line of business	Statutory Funds				Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	Accidental and Health Insurance Fund		Family Takaful Fund
Income						
Gross premium						
- First year	12,724,862	182,303	-	-	-	12,907,165
- Second year	12,603,005	345,710	-	-	-	12,948,715
- Subsequent year renewal	76,587,370	1,749,595	-	-	-	78,336,965
Group policies with cash value	-	-	45,125	-	-	45,125
Group policies without cash value	4,599,291	-	-	9,713,290	-	14,312,581
Less experience premium refund	(865,921)	-	-	(4,907,875)	-	(5,773,796)
Total gross premiums	105,648,607	2,277,608	45,125	4,805,415	-	112,776,755
Less: reinsurance premiums ceded						
On individual life first year business	(29,116)	(1,886)	-	-	-	(31,002)
On individual life second year business	(33,704)	-	-	-	-	(33,704)
On individual life renewal business	(121,313)	(43,560)	-	-	-	(164,873)
On group policies	(83,927)	-	-	-	-	(83,927)
Less: Reinsurance commission on risk premium	105,411	3,662	-	-	-	109,073
	(162,649)	(41,784)	-	-	-	(204,433)
Net Premiums	105,485,958	2,235,824	45,125	4,805,415	-	112,572,322
Rental income from investment property	568,240	-	-	-	-	568,240
Net investment income	90,679,467	3,409,597	40,950	726,924	13,759	94,870,697
Total net income	196,733,665	5,645,421	86,075	5,532,339	13,759	208,011,259
Insurance benefits and expenditures						
Claims, including bonuses, net of reinsurance recoveries	51,470,221	1,960,000	34,049	3,584,494	-	57,048,764
Management expenses less recoveries	25,796,244	469,945	374	754,186	25,503	27,046,252
Total insurance benefits and expenditures	77,266,465	2,429,945	34,423	4,338,680	25,503	84,095,016
Excess/shortfall of income over insurance benefits	119,467,200	3,215,476	51,652	1,193,659	(11,744)	123,916,243
Add: Policyholder liabilities at the beginning of year	820,075,953	15,845,391	185,778	22,443	-	836,129,565
Less: Policyholder liabilities at the end of year	(934,618,503)	(18,611,913)	(177,692)	(51,518)	-	(953,459,626)
Surplus/(deficit) before tax	4,924,650	448,954	59,738	1,164,584	(11,744)	6,586,182

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38.3 Segment Statement of financial position

	2020		2019	
	Statutory Funds	Shareholders Fund	Statutory Funds	Shareholders Fund
Assets				
Property and equipment	850,816	-	920,235	-
Investment property	3,638,142	-	3,375,167	-
Investments in subsidiaries	323,618	-	318,901	-
Investments	922,804,838	4,144,794	774,615,824	2,949,542
Loans secured against life insurance policies	129,180,723	-	111,873,885	-
Insurance / reinsurance receivables	32,574,359	-	26,301,325	-
Other loans and receivables	46,540,646	2,231,378	42,646,817	34,394
Taxation - payments less provision	3,693,190	-	3,875,690	-
Prepayments	62,120	-	64,539	-
Cash & Bank	56,184,666	67	91,859,724	62
Total assets	1,195,853,118	6,376,239	1,055,852,107	2,983,998
Liabilities				
Insurance liabilities net of reinsurance recoveries	1,157,476,582	-	1,016,711,293	-
Retirement benefit obligations	2,095,926	-	4,722,072	-
Deferred capital grant	36,957	-	44,714	-
Premium received in advance	8,644,311	-	10,632,410	-
Insurance / reinsurance payables	566,647	-	480,184	-
Deferred tax	(2)	1,610,644	-	636,015
Other creditors and accruals	21,489,760	-	18,460,347	-
Total Liabilities	1,190,310,181	1,610,644	1,051,051,020	636,015

39 MOVEMENT IN INVESTMENTS

	2020		2019	
	Held to Maturity	Fair value through profit and loss	Total	
At beginning of previous year	677,985,740	99,579,626	777,565,366	
Additions	244,727,405	1,448,819	246,176,224	
Disposals (sale and redemptions)	(105,870,207)	(95,868)	(105,966,075)	
Amortization of premium	8,502,544	-	8,502,544	
Reversal during the year	-	1,020	1,020	
Unrealised fair value gain	-	670,553	670,553	
	825,345,482	101,604,150	926,949,632	

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40 MANAGEMENT OF INSURANCE RISK AND FINANCIAL RISK

40.1 Insurance risk

40.1.1 Insurance contracts - classification

The Corporation maintains five statutory funds which are as follows:

- Pakistan Life Fund
- Overseas Life Fund
- Pension Fund
- Accidental and Health Insurance Fund
- Family Takaful Fund (Not operational)

Within the Pakistan Life Fund the business can be further classified as individual life conventional business, group insurance business and a small amount of annuity business.

Most of the new individual life conventional policies written by the Corporation contain a Discretionary Participation Feature (DPF).

The Overseas Life Fund entirely consists of individual life conventional business. Most of the new business written under the overseas life fund contains a DPF.

The Pension Fund consists of funds administered under Group Pension Deposit Administration contracts.

The Accident and Health Insurance Fund consists of Group Health and Accident Insurance Contracts.

Family Takaful Fund is not operational at the reporting date. Management intends to commence operations of Family Takaful Fund in the ensuing year.

Considering all the five statutory funds together, the bulk of Corporation business consists of individual life conventional policies. Most of the remaining business consists of group life insurance business. Group Health is a relatively new venture of the Corporation which started in 2012 and has yet to register any significant growth. The Corporation also offers some supplementary benefits attached in the form of riders to the individual life policies and the group life contracts. Each of these classes of business are described in greater detail below.

40.1.2 Contract details and measurement

The insurance contracts offered by the Corporation are described below:

40.1.2.1 Individual life policies

Individual life conventional products

These are long term contracts with either level or single premiums. These plans generally provide death benefit on death during the tenure of the policy and a survival benefit either on the happening of certain contingencies or on the maturity of the policy. The premiums are payable only in the life time of the policyholder. In case of term insurance products there is no survival benefit.

Universal life policies

Under these plans a certain amount is set aside from the premium for expenses and meeting the mortality cost and the remainder of the premium is invested to earn some investment return. Investment return is allocated to these products on an annual basis keeping in view the investment earnings of the Pakistan Life Fund.

Term insurance policies

A few products of the Corporation are term insurance plans providing benefits only in case of death. Under these policies no benefit is due if the policy holder survives the duration of the policy. The Corporation sells both level term insurances and decreasing term insurances also known as mortgage protection plans.

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Annuities

The Corporation also has a small number of individual and group life-annuities on its books. Under these contracts a periodic income benefit is payable to the insured life for as long as annuitant is alive. Besides, the Corporation offers annuity-certain plans under which periodic income benefit is payable for a stipulated period and is not dependent on the life of the policyholder.

Supplementary riders

The Corporation offers various types of supplementary riders. Some of these riders offer additional life coverage, in some cases they offer accidental death and disability benefits. The benefits can take various forms such as lump sum payment or an income benefit or waiver of premiums due under the host policy contract.

Insured event

Under the individual life insurance policies in most cases the insured event is either death or survival until the maturity date of the policy, except in case of term insurance where there is no maturity benefit. Under the annuity policies the Corporation is exposed to the risk of longevity. In this case the insured event is survival of the life insured for a long duration, exceeding the period normally expected under standard mortality tables.

In case of supplementary rider the insured event is either death or just accidental death or disability whether accidental or natural or both.

Distribution channel

The individual life business of the Corporation is sold through its dedicated sales force which is present all over the country. This field force is organised under a three tier system consisting of sales representatives, sales officers and sales managers. Each sales sector headed by a sector head is further grouped over 1243 area offices, more than 166 sector offices, 33 zones and 7 regional offices in addition to one zone for the Gulf Region. The Gulf zone has its own marketing team of sector heads, area managers and sales force.

The individual life policy holders of the Corporation come from all strata of society, with greater representation of the rural areas due to wider outreach of its field force. New policyholders have an average age of around 34 years.

40.1.2.2 Group life policies

Basic coverage

The group life policies are generally one year renewable term insurance contracts. In most cases they provide group coverage to the employees of an employer. Some times the coverage is tied up with loans extended by the employer for house building or purchase of motor vehicles or other household items. In some cases group policies are issued to lending agencies such as banks to provide group coverage to their borrowers. There are also a small number of group endowment policies which provide benefits identical to individual life policies but under the umbrella of a group contract.

Supplementary coverage

In many cases the group policies also provide supplementary coverage which may include accidental or natural disability benefits and additional accidental death benefit. These riders also take the form of one year renewable term insurance policies.

Insured event

Under the group life insurance policies in most cases the insured event is death due to any cause. In case of supplementary coverage the insured event can include accidental death or disability or natural disability.

Distribution channel

The group insurance business is sold through four group and pension zones of the Corporation. Each zone has its own marketing force consisting of sector heads who are full time salaried employees of the Corporation, however, some of the group business is also procured through individual life field force of the Corporation.

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Most of the lives covered under the group insurance consist of industrial and office workers, civil servants and employees of Corporations, banks, other financial institutions, armed forces etc.

40.1.2.3 Pension business

The pension portfolio of the Corporation consists of group deposit administration pension contracts. These are long-term contracts providing pension benefits to the employees of the policyholder. Under these contracts, the Corporation does not retain any insurance risk apart from a nominal investment return guarantee. The services offered by the Corporation include benefit administration, funding advice and investment of the funds.

These contracts do not transfer any significant insurance risk from the policyholders to the Corporation. These are therefore by nature similar to investment contracts.

The distribution channel employed for the pension business is the same as for the group insurance business.

The target market for this business is also similar to the target market for group insurance business.

40.1.2.4 Group Health Business

In 2012, the Corporation entered the Health Insurance Market by signing an agreement with the Benazir Income Support Programme (BISP) authorities for providing Health Insurance to the beneficiaries enrolled under BISP Waseela-e-Sehat Programme. This contract terminated on June 30, 2015. However, settlement of the Equalisation Reserve Fund (ERF) balance is still pending. Consequently, a provision for this has been kept in the Actuarial Reserves.

In the year 2015, the Corporation entered into two other agreements, namely Prime Minister's National Health Insurance Scheme (PMNHIS) and KPK Micro Health Insurance Scheme. However, no health cards were issued under either scheme in 2015. Therefore, no specific liability was kept for these contracts.

Insured event

The PMNHIS and the KPK schemes are aimed at providing the underprivileged sector of the society the access to health care to cope with a variety of health shocks. The schemes provide in-patient health insurance facilities to enrolled families, subject to Rupee limits prescribed under the respective agreements.

40.1.3 Reserving method

40.1.3.1 Individual life policies

The Corporation values its individual life policy liabilities by a modified net level premium method. Under this method the Corporation's future obligations in respect of guaranteed sums assured and declared bonuses are discounted using a conservative interest basis. The policy liabilities are calculated by deducting from this amount the discounted value of future net premiums receivable under the valued policies, using a conservative basis for calculating the net premiums.

40.1.3.2 Universal life policies

For universal life policies the amount of reserve is equal to the actual accumulated value of the portion of premiums invested in the Pakistan Life Fund after accounting for the investment return allocated to these policies.

40.1.3.3 Group life policies

Group life business consists of short duration one year renewable term insurance policies. Besides, it contains a two year life insurance scheme for emigrants. It is the Corporation's policy to record only the earned premium in the revenue account. The Corporation holds reserve for claims incurred but not reported up to the valuation date and provision for experience refunds where applicable.

The Corporation also holds a premium deficiency reserve for this block of business. This reserve is calculated on the basis of the unearned premium reserve. The amount of this reserve reflects the view of the Appointed Actuary regarding the eventual loss ratio expected under group insurance contracts.

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40.1.3.4 Supplementary riders

For the supplementary riders attached to individual life policies the Corporation holds a reserve equal to one full year's premium due under these policies. On the other hand, the supplementary riders attached to the group life policies are valued in the same way as the group life policies themselves.

40.1.3.5 Pension plans

The Corporation holds a reserve equal to the market value of the assets backing the pension business statutory fund. Classification of the Government bonds held by this statutory fund as Held to Maturity means that they are valued on an IRR basis, which is currently less than their market value.

40.1.4 Reserves for outstanding claims

The Corporation holds a reserve for all claims which have been reported but are still outstanding at the reporting date. Another estimated reserve is kept within the actuarial liability for claims which have been incurred but have not yet been reported. The pattern of time lag in reporting of claims observed in previous years is used as a means of estimating as accurately as possible the liability expected to arise from the incurred but not reported claims using the chain ladder method of estimation.

40.1.5 Liability adequacy test

The adequacy of liability held by the Corporation has been tested using an alternative reserving method based upon realistic estimates of future mortality, expenses, lapses and investment return. Based on the results of this test the Appointed Actuary considers that the liability being kept by the Corporation is adequate.

40.1.6 Reinsurance contracts held

The Corporation reinsures its Pakistan business under a surplus treaty arrangement. Under this arrangement any insurance risk on a particular life which exceeds the retention is automatically ceded to the reinsurer. The retention level is fixed by the Corporation at a level which it considers optimum and safe.

There is a similar surplus treaty arrangement for reinsurance of the Corporation's Gulf business. The retention level of the Gulf business is fixed by the Corporation which it deems to be safe for that business.

Under both these treaties the re-insurer is not under an obligation to reinsure certain high sum assured cases which exceed the obligatory limit of the reinsurer as specified in the respective treaty. Such cases are reinsured by the Corporation on a facultative basis.

The reinsurers of the Corporation are highly rated companies with a sound credit record.

Primarily, reinsurance assets are amounts due from reinsurers with respect to recoveries under claims and profit commission. Reinsurance recoveries are measured according to the terms and conditions of the reinsurance contracts.

Reinsurance liabilities consist of amounts due to reinsurers on account of reinsurance premiums due which are measured according to the terms of the arrangements.

The Corporation assesses impairment on its reinsurance assets on a regular basis to identify any losses in recoveries. As of now, the Corporation's all reinsurance assets are due from re-insurers with a credit rating of "A or above". The reinsurers maintain a sound credit history and hence no impairment provision is required.

40.1.7 Accounting estimates and judgments and process used for deciding assumptions

40.1.7.1 Mortality and disability

Due to nature of its business the Corporation is exposed to the risk of mortality. The reserving basis utilizes a conservative estimate of mortality. The Corporation carries out a continuous mortality investigation of its individual life and group life business to assess the actual level of mortality experienced by it. The result of this study utilized to ascertain the safety margin built into its reserving basis and the mortality level to be utilized for testing the adequacy of its liability.

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The Corporation also has a small exposure to disability risk covered by some of its supplementary contracts. The Corporation constantly monitors its disability experience and an investigation is carried out whenever it assesses that there is an adequate data for arriving at credible results.

40.1.7.2 Investment income

Due to the long term nature of its individual life policies the Corporation is exposed to the risk of adverse fluctuations in interest rates. In particular a long term declining trend in the interest rates can produce a financial strain for the Corporation. To some extent this risk is mitigated by the Corporation's policy to match the duration of its assets with the duration of its liabilities, whenever this is possible. The reserving basis employed by the Corporation for valuing its liabilities contains adequate safeguards to counter any residual interest rate risk.

The past trend in returns available on Government bonds and the relationship of these returns to other financial variables such as inflation rate and short term interest rates is constantly analysed to form an opinion regarding the investment returns expected to be earned in the future on a medium term and long term basis. These estimates are utilized in testing the adequacy of liabilities on a realistic basis.

40.1.7.3 Expenses

The Corporation is also exposed to the risk of management expenses being beyond the permissible limits or increase in expenses at a pace faster than expected. The Corporation carries out an annual expense analysis to keep track of its expenses. The result of this study is utilized in the estimation of liability under realistic assumptions to ensure the adequacy of the reserves being held.

40.1.8 Frequency and severity of claims

40.1.8.1 Frequency

Since the Corporation covers a large number of lives from diverse backgrounds, which are geographically spread all over the country, the frequency of claims is normally expected to remain relatively stable over time due to the law of large numbers. However, the frequency can be affected in case there is a variation in the mortality rates experienced by the group of lives insured by the Corporation. An unusual catastrophic event such as a disease epidemic, flash floods or a major earthquake can produce a sudden spike in the frequency.

40.1.8.2 Severity

To some extent the Corporation is protected from isolated large claims because the liability for any claim exceeding its retention level is automatically passed on to the reinsurer under the existing treaty arrangements. However, there is also the risk of a large number of small claims occurring due to a catastrophic event. Exposure to catastrophic events is also dependent upon the concentration of risk.

The Corporation is represented by 33 zones which are spread out all over the country. However, as the population of the country is concentrated more in the Punjab and Sindh provinces, the business distribution of the Corporation naturally reflects the same pattern. Nearly 87 % of the Corporation's business emanates from these two provinces.

In addition, there is also some concentration of risk due to the nature of group business. These policies are typically issued to an employer for coverage of all the persons in their employment. Normally, the employees of an employer are distributed over one or more establishments maintained by the employer's business. This produces local concentration of risk wherever such establishments happen to exist. Furthermore, a large number of such establishments can exist in a small geographical area such as an industrial zone or the business district of a major city.

40.1.9 Sources of uncertainty in estimation of future benefit payments and premium receipts

There are many theoretical reasons giving rise to uncertainty in estimation of future benefit payments and premium receipts.

Generally, mortality rates for a large segment of the population are quite stable from year to year but mortality is dependent upon a number of factors. Unhygienic living conditions, inadequate health care facilities, prevalence of general stress in society or emergence of epidemic disease are some socio-

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economic reasons which may give rise to an adverse trend in mortality rates.

Life insurance also serves as a channel for savings. However, in times of economic recession the savings rate can fall. This can reflect upon the Corporation in the form of lower new business growth and higher lapse rates of existing policies.

40.1.10 Management of insurance risk

The insurance law has laid down some minimum criteria for insurance risk management, which is mandatory for all insurers. This includes guidance regarding minimum capital requirement for insurers, requirement to submit a financial condition report on an annual basis, minimum reserving basis for the financial condition report, minimum solvency requirements and requirement to match the currency of assets and liabilities. Also the law lays down certain restrictions on the assets that may be counted as admissible assets, prescribes guidelines for valuation of assets and liabilities, prescribes reinsurance arrangements and prescribes guidelines for investment of funds.

The Corporation's strategy for management of insurance risk meets the minimum standards laid down by the law in addition to certain other practices which are specified by the Corporation.

40.1.10.1 Financial risk

a) Interest risk

The Corporation values its liabilities at the rate of 3.75% per annum, which is a requirement prescribed by the SECP. However, the actual return earned by the Corporation is much more than this. This large gap between the valuation discount rate and the market rate ensures that there is an adequate margin for the Corporation to absorb any impact of adverse fluctuation in the interest rates.

As a further security mechanism all the guaranteed liabilities of the Corporation are fully backed by the combined value of cash in hand, Government bonds and policy loans. The first two of these asset classes are by definition risk free. Also the policy loans are fully backed by the cash values of the underlying policies. Hence this asset class also does not carry any default risk.

The practice of valuing the assets Held to Maturity by the IRR method precludes any possibility of sudden changes in the investment return for which credit is taken in the accounts. This stability in the returns add another layer of security against interest risk.

b) Expense risk

Expense risk is the risk that the actual expenses of the Corporation will exceed the expense margins built in the premium rates. To cover this risk, a specific provision is kept in the actuarial reserves.

c) Mortality risk

The mortality used in the reserving basis is the mortality prescribed by the SECP, which is the SLIC 2001-2005 table. Due to advancement in health care technology the current mortality levels are lower than the mortality rates of this table. Hence, the reserving basis has adequate margins for absorbing the impact of adverse fluctuation in mortality.

d) Surrenders risk

The reserving basis used by the Corporation does not assume any surrenders. However, the Corporation ensures that the reserves kept by it for each policy are more than its surrender value. This ensures that the Corporation does not suffer any adverse impact in case any policies are surrendered.

e) Inflation risk

To a certain extent some inflation risk is already built into the reserving basis, since the average premium size and the average sum assured per policy tends to increase in line with inflation. Also at each actuarial valuation date the Appointed Actuary reviews the special provisions required to be kept as described under the heading Expense risk, keeping in view the expense level of the Corporation on the valuation date. This provides a mechanism of adjusting for any unanticipated movements in the inflation rate.

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f) Catastrophe risk

The business of the Corporation is spread all over the country. However the insurance penetration rate in the country is still very low. This means that for any localized segment of the population only a small proportion of the people would be covered under life insurance. The proportion covered by the Corporation's policies is expected to be even smaller. As a result any localized catastrophic event is not expected to have any significant impact on the Corporation.

The situation is a bit different on the group insurance side where there is a higher concentration of risk because by its very nature this business often covers a large number of persons located within a restricted geographical area, such as a building or a factory premises.

This risk is mitigated to an extent due to the presence of reinsurance cover for the individual and group policies. In addition the premium rates of the Corporation are designed to adequately cater for this risk. Premium deficiency reserve held by the Corporation for its group business provides an extra layer of security against this risk.

g) Currency risk

The Corporation deals in only one currency within Pakistan. Hence, this risk is non-existent for the Pakistan Life Fund.

In case of the Gulf business the Corporation writes business in UAE Dirhams and US Dollars. The exchange rate parity between these two currencies is relatively stable. Also, there is a high degree of matching between the assets and liabilities in these two currencies.

The effect of fluctuation of currency risk upto 10% on the net assets to the revenue account will be as follows:

	UAE Dirhams	US Dollars
December 31, 2020		
10% increase	662,531	1,664,787
10% decrease	(662,531)	(1,664,787)
December 31, 2019		
10% increase	625,718	1,581,939
10% decrease	(625,718)	(1,581,939)

40.1.10.2 Credit risk and asset risk

Management of credit risk and asset risk deals with risks emanating from the assets side of the statement of financial position. Management of this risk has already been adequately explained under the heading "Financial risk management objectives and policies". Hence, no further explanation is deemed to be necessary.

40.1.10.3 Operational risk or pricing risk

The Corporation utilizes industry recognized underwriting practices to ensure that only standard risks are written on standard rates. Any sub standard risks identified during the underwriting process are charged suitable extra premiums. This ensures fair and equitable treatment between various risk categories and helps in keeping its standard rates competitive by the insurance industry standards.

This practice also protects the Corporation against the risk of large number of sub-standard impaired lives accumulating on its policy portfolio, since extra premium automatically charged to commensurates with such risk.

For lives which are otherwise uninsurable, the Corporation offers a special product line known as the non-declature scheme. Individuals who are unable to obtain insurance cover due to their poor state of health can choose to obtain cover under this scheme, which by passes normal underwriting in return for a suitable extra premium and waiting period.

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40.1.11 Sensitivity analysis

Mortality rates and the discounting factor are the two most significant variables which can have an impact on the policyholder liabilities. The Corporation has tested the sensitivity of its liabilities to both these variables which is as follows:

<i>Variable</i>	<i>Quantum of Change</i>	<i>% change in liability</i>
Increase in mortality	10%	0.10%
Decrease in mortality	10%	-0.10%
Increase in discount rate	0.5% addition in rate	-3.94%
Decrease in discount rate	0.5% reduction in rate	4.15%

According to the Life Insurance (Nationalization) Order, 1972, any increase or decrease in the actuarial surplus is shared by the policyholders and the Government as the sole shareholder in the ratio of 97.5% and 2.5% respectively.

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40.2 Financial risk

The Corporation is exposed to variety of financial risks: market risk (comprising interest rate risk, currency risk, and other price risk), credit risk and liquidity risk in relation to the financial statements on its statement of financial position. The Corporation's risk management program is geared to ensure the survival of the Corporation as a going concern in the face of all sources of significant identifiable financial risks. It focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation's financial performance.

The Board of Directors has the overall responsibility for establishment and oversight of the Corporation's risk management framework and is responsible for developing risk management policies and its monitoring.

40.2.1 Interest rate risk

2020

	Interest / Markup bearing		Non-interest / Non-markup bearing		Total	
	Maturity upto one year	Maturity after year	Sub total	Maturity upto one year		Maturity after year
	(Rupees in '000)					
Financial Assets						
Investments						
Equity securities	-	-	-	92,918,024	-	92,918,024
Government securities	201,152,699	620,538,439	821,691,138	-	-	821,691,138
Debt securities	-	3,654,344	3,654,344	-	-	3,654,344
Mutual funds	-	-	-	8,686,126	-	8,686,126
Loans secured against life insurance policies	14,617,187	114,563,536	129,180,723	-	-	129,180,723
Insurance / reinsurance receivables						
	-	-	-	32,151,774	422,585	32,574,359
Loans and other receivables	-	-	-	48,772,024	-	48,772,024
Cash & bank	31,042,831	10,245,891	41,288,722	14,896,011	-	56,184,733
As at December 31, 2020	246,812,717	749,002,210	995,814,927	197,423,959	422,585	1,193,661,471

Note

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2020

	Interest / Markup bearing		Non-interest / Non-markup bearing			Total
	Maturity upto one year	Maturity after year	Sub total	Maturity upto one year	Maturity after year	
(Rupees in '000)						
17	-	-	-	34,878,925	1,123,202,531	1,158,081,456
20	-	-	-	8,644,311	-	8,644,311
21	-	-	-	-	566,647	566,647
As at December 31, 2019	-	-	-	21,489,457	-	21,489,457
Off Balance Sheet Financial Instrument	-	-	-	65,012,693	1,123,769,178	1,188,781,871
As at December 31, 2020	246,812,717	749,002,210	995,814,927	132,411,266	(1,123,346,593)	(990,935,327)

Note

Financial Liabilities

- Insurance liabilities 17
Premium received in advance
Insurance / reinsurance payables 20
Other creditors and accruals 21
As at December 31, 2019

Off Balance Sheet Financial Instrument

As at December 31, 2020

2019

	Interest / Markup bearing		Non-interest / Non-markup bearing			Total
	Maturity upto one year	Maturity after year	Sub total	Maturity upto one year	Maturity after year	
(Rupees in '000)						
7	-	-	-	91,592,105	-	91,592,105
9	86,794,551	588,148,791	674,943,342	-	-	674,943,342
10	-	3,042,398	3,042,398	-	-	3,042,398
8	-	-	-	7,987,521	-	7,987,521
Loans secured against life insurance policies	12,617,280	99,256,605	111,873,885	-	-	111,873,885
Insurance / reinsurance receivables	-	-	-	25,932,244	369,081	26,301,325
Loans and other receivables	-	-	-	42,681,211	-	42,681,211
Cash & bank	64,639,806	11,049,711	75,689,517	16,170,269	-	16,170,269
As at December 31, 2019	164,051,637	701,497,505	865,549,142	184,363,350	369,081	184,732,431
						1,050,281,573

Note

Financial Assets

- Investments
Equity securities 7
Government securities 9
Debt securities 10
Mutual funds 8
Loans secured against life insurance policies
Insurance / reinsurance receivables 11
Loans and other receivables 12
Cash & bank 14
As at December 31, 2019

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2019

	Interest / Markup bearing		Non-interest / Non-markup bearing			Total
	Maturity upto one year	Maturity after year	Sub total	Maturity upto one year	Maturity after year	
(Rupees in '000)						
Financial Liabilities						
17 Insurance liabilities	-	-	-	23,153,121	993,558,172	1,016,711,293
Premium received in advance	-	-	-	10,632,410	-	10,632,410
20 Insurance / reinsurance payables	-	-	-	-	480,184	480,184
21 Other creditors and accruals	-	-	-	18,460,347	-	18,460,347
As at December 31, 2019	-	-	-	52,245,878	994,038,356	1,046,284,234
Off Balance Sheet Financial Instrument						
As at December 31, 2019	164,051,637	701,497,505	865,549,142	132,117,472	(993,669,275)	3,997,339

40.2.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements of prices of financial instruments and securities. Such price movements can arise due to variation of market interest rates, currency exchange rates, industry profitability and other economic factors.

The Corporation's investments are primarily in long term Government bonds. In addition, the Corporation also has a significant exposure to the equity market and invests some funds in corporate term finance certificates. Funds awaiting long term investment are kept in short duration fixed deposits with banks.

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40.2.3 Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate risk since it issues insurance policies which are long term in nature. These policies are essentially backed by long term Government bonds and cash at bank.

It is the policy of the Corporation to match the average duration of its investments in Government bonds with the average duration of its policyholders liabilities as much as possible but this is not always possible due to market limitations. This is because sufficient quantities of the Government bonds of longer duration are not available in the market. As a result some mismatch in the average duration of the Corporation's liabilities and assets is possible.

Interest rate risk exposures from options and guarantees embedded in insurance liabilities

The Corporation's deposit administration pension contracts have certain guarantees that transfer interest rate risk to the Corporation. These guarantees include a minimum guaranteed investment return of 0.375% per month on the pension funds being managed by the Corporation. The pension liabilities of the Corporation are a very insignificant proportion of overall liabilities of the Corporation and historically investment return earned on the assets backing these liabilities has never been below the amount of the guaranteed return.

40.2.4 Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. This risk arises if there is a currency mismatch between the assets and liabilities.

All assets and liabilities of the Corporation within Pakistan are in Pakistan rupees. This business is therefore not exposed to any currency risk.

The Corporation's Overseas Life Fund undertakes business in US Dollars and UAE Dirhams. It is policy of the Corporation to ensure the maximum possible currency matching between its assets and liabilities in each currency. Historically, UAE Dirham has remained pegged to US Dollar, hence any inadvertent mismatch between these two currencies is not expected to entail any significant currency risk.

Carrying amounts of the Corporation's foreign currency denominated assets, liabilities and reserves are as follows:

	2020		2019	
	UAE Dirhams '000	US Dollars	UAE Dirhams '000	US Dollars
Assets	213,293	129,824	161,012	121,655
Liabilities	61,037	25,667	12,585	19,494
Reserves	152,256	104,157	148,427	102,161

40.2.5 Other price risk

Other price risk is the risk that equity prices can fluctuate due to speculative investment activity, variations in the profit outlook of industries, interest rates prevailing in the market and general market sentiment, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Corporation's investment in listed securities are exposed to market price risk arising from uncertainties about the future value of investment securities. The Corporation limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity. In addition, the Corporation actively monitors the key factors that affect stock market.

40.2.6 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the Corporation. The key areas of exposure to credit risk for the Corporation are in relation to its investment portfolio, reinsurance program and to a lesser extent amounts due from policyholders and intermediaries.

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The Corporation has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Corporation only transacts with entities that are rated the equivalent to investment grade and above.

This information is supplied by independent rating agencies where available and if not available the Corporation uses other publicly available financial information and its own trading records to rate its major policyholders and reinsurers. The Corporation's exposure and credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. The Corporation extends policy loans to its policyholders. These loans are entirely backed by the cash values of their policies.

The Corporation does not have any significant credit risk exposure to any single counterparty or any group of counterparties. Concentration of credit did not exceed 5% of gross monetary assets at any time during the year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings. The Corporation does not invest in derivative financial instruments.

The carrying amount of financial assets represents the maximum credit exposure, as specified below:

	Note	2020 ----- Rupees in '000 -----	2019
Bank deposits		55,981,895	91,590,791
Loans		130,209,037	112,908,526
Investments		926,949,632	777,565,366
Insurance / reinsurance receivables	11	32,574,359	26,301,325
Other receivables		46,833,149	41,290,739
Total		<u>1,192,548,072</u>	<u>1,049,656,747</u>

The age analysis of insurance/reinsurance receivable:

Up to 1 year	<u>32,151,773</u>	<u>25,932,244</u>
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Subsequent years premium falling due under the policy are recognized if received before expiry of the grace period, or if advanced by the corporation under the Automatic Non-forfeiture provisions. However, premiums due in the month of December but not received are recognized if the grace period is to expire after the next 1st January. Hence the age of outstanding premium is always less than one year.

The credit quality of the Corporation's bank balances can be assessed with reference to external credit ratings as follows:

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Bank name	Long term	Short term	Rating Agency	2020	2019
				-Rupees in '000-	
Allied Bank Limited	AAA	A1+	PACRA	1,382	1,382
Bank Al Falah Limited	AA+	A1+	PACRA	1,783,772	941,282
Dubai Islamic Bank	AA	A1+	JCR-VIS	100,925	129,363
First Women Bank Limited	A-	A2	PACRA	6,502	7,252
Habib Bank Limited	AAA	A1+	JCR-VIS	16,233,469	52,998,732
MCB Bank Limited	AAA	A1+	PACRA	-	14
National Bank of Pakistan	AAA	A1+	PACRA	80,246	40,870
Barclays Banks	-	-	-	20,845	-
NIB Bank Limited	AAA	A1+	PACRA	11,689	6,084
The Bank of Punjab	AA	A1+	PACRA	25	25
Samba Bank Limited	AA-	-	PACRA	5,404	11,064
Silk Bank Limited	A	A-2	JCR-VIS	9,928	10,176
Sind Bank Limited	A	A1+	JCR-VIS	1	1
Soneri Bank Limited	AA-	A1+	PACRA	54,789	1
Standard Chartered Bank Limited	AAA	A1+	PACRA	150	100
Summit Bank Limited	-	-	-	47,950	13,242
United Bank Limited	AAA	A1+	JCR-VIS	32,856,045	37,254,806
Habib Metropolitan Bank	AA+	A1+	PACRA	2	
Julius Bar Bank	AA3	-	MOODY	3,418,774	33,965
Al Ahli Bank Kuwait	A+	-	FITCH	1,255,654	139,026
Emirates NBD	A+	F1	FITCH	358	980
Bank of Singapore	-	-	-	93,985	2,426
				<u>55,981,895</u>	<u>91,590,791</u>

The credit quality of amount due from other insurers and reinsurers can be assessed with reference to external credit ratings as follows:

	2020	2019
	----- Rupees in '000 -----	
Amount due from other insurers / reinsurers		
A or above	<u>422,586</u>	<u>369,081</u>

40.2.7 Liquidity risk

Liquidity risk is the risk that the Corporation cannot meet its obligations associated with financial liabilities as they fall due.

The Corporation has adopted an appropriate liquidity risk management framework for the management of the Corporation's liquidity requirements. The Corporation manages liquidity risk by maintaining banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The Corporation is exposed to liquidity risk arising from clients on its insurance and investment contracts. The Corporation maintains adequate liquid reserves to meet any eventuality arising from a catastrophe.

Liquidity management ensures that the Corporation has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities. In practice, most of the Corporation's assets are marketable securities which could be converted into cash when required.

40.2.8 The fair values of all major financial assets are estimated to be not significantly different from their carrying values except for the following:

	2020	
	Carrying value	Fair value
	----- Rupees in '000 -----	
Government securities	<u>821,691,138</u>	<u>842,952,048</u>

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	2019	
	Carrying value	Fair value
	----- Rupees in '000 -----	
Government securities	674,943,342	655,375,066

41 CAPITAL RISK MANAGEMENT

The Corporation manages its capital to ensure that it remains financially solvent while maintaining adequate financial strength to sustain business growth. It also complies with the minimum capital requirements of the SECP. The capital structure of the Corporation consists of equity attributable to the Government which is the sole shareholder of the Corporation and accumulated surplus.

There were no changes made to the objectives, policies and processes for managing capital.

Further details are given in the table below:

	2020	2019
	----- Rupees in '000 -----	
Accumulated surplus	1,460,496	1,284,882
Ledger account C & D	3,943,311	2,207,145
General reserve	304,725	7,043
Capital contributed to statutory fund	-	(650,000)
Issued, subscribed and paid-up capital	4,600,000	4,300,000
Shareholders' equity	<u>10,308,532</u>	<u>7,149,070</u>

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42 FAIR VALUE OF FINANCIAL INSTRUMENTS

42.1 Carrying amount versus fair value

The following table compares the carrying amounts and fair values of the Corporation's financial assets and financial liabilities as at December 31, 2020.

The Corporation considers that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value:

	As at December 31, 2020		As at December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
-----Rupees in '000-----				
Financial Assets				
- Cash and bank deposits	56,184,733	56,184,733	91,859,786	91,859,786
- Loans secured against life insurance policies	129,180,723	129,180,723	111,873,885	111,873,885
- loan to agents	78,493	78,493	81,604	81,604

Investments

Fair value through Profit and loss

Listed equity securities and mutual fund units	99,523,806	99,523,806	97,597,791	97,597,791
Unlisted equity securities and mutual fund units	2,080,343	2,080,343	1,981,835	1,981,835
Held to maturity				
Government securities	821,691,138	842,952,048	674,943,342	655,375,066
Holding in subsidiary companies	323,618	323,618	318,901	318,901
Other fixed income securities	3,654,344	4,348,878	3,042,398	3,042,398
	927,273,249	949,228,693	777,884,267	758,315,991
- Other receivable- excluding taxation	79,407,508	79,407,508	67,592,064	67,592,064

Financial Liabilities

- Balance of statutory funds- including policyholders' liabilities	1,157,476,582	1,157,476,582	1,016,711,293	1,016,711,293
- Creditors and accruals	21,489,760	21,489,760	18,460,347	18,460,347
- Premium received in advance	8,644,311	8,644,311	10,632,410	10,632,410
- Insurance / reinsurance payables	566,647	566,647	480,184	480,184

42.2 FAIR VALUE HIERARCHY

The level in the fair value hierarchy within which the asset or liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Assets and liabilities are classified in their entirety into only one of the three levels.

The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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The table below analyses assets measured at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

	As at December 31, 2020	Level 1	Level 2	Level 3
-----Rupees in '000-----				
Financial Assets at carrying value				
<i>Investments at carrying value Fair value through Profit and loss</i>				
Listed equity securities and mutual fund units	99,523,806	99,523,806	-	-
Unlisted equity securities and mutual fund units	2,080,343	-	2,080,343	-
Holding in subsidiary companies	323,618	-	323,618	-
	101,927,767	99,523,806	2,403,961	-

	As at December 31, 2019	Level 1	Level 2	Level 3
-----Rupees in '000-----				
Financial Assets at carrying value				
<i>Investments at carrying value Fair value through Profit and loss</i>				
Listed equity securities and mutual fund units	97,597,791	97,597,791	-	-
Unlisted equity securities and mutual fund units	1,981,835	-	1,981,835	-
Holding in subsidiary companies	318,901	-	318,901	-
	99,898,527	97,597,791	2,300,736	-

Carrying values of all other financial assets and liabilities approximate their fair value.

42.3 Transfers during the period

During the year to December 31, 2020:

- There were no transfers between Level 1 and Level 2 fair value measurements.
- There were no transfers into or out of Level 3 fair value measurements.

42.4 Valuation techniques

Fair value of investments is determined as follows:

- Fair value of listed equity securities is determined on the basis of closing market prices quoted on the respective stock exchange.
- Unlisted equity securities are carried at cost.
- Investments in subsidiary companies are being carried at cost.

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43 SUBSEQUENT EVENTS

a) The Board of Directors of the Corporation in their meeting held on April 29, 2021 declared dividend of Rs. 1,460.496 million.

These unconsolidated financial statements for the year ended December 31, 2020 do not include the effect of these appropriations and these will be accounted in the unconsolidated financial statements for the year ending December 31, 2021.

44 NUMBER OF EMPLOYEES

2020 2019

The details of number of employees are as follows:

Permanent employees as at year end	3,831	3,954
Area managers	1,242	1,329
	<u>5,073</u>	<u>5,283</u>
Average number of employees during the year	<u>5,178</u>	<u>5,202</u>

45 CORRESPONDING FIGURES

Previous year figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the unconsolidated condensed interim financial statements. For better presentation, reclassification made in the unconsolidated financial statements were as follows:

<u>Reclassification from</u>	<u>Reclassification to</u>	<u>Rupees '000</u>
Statement of comprehensive income		
<u>Other Expenses</u>	<u>Marketing And Administration Expenses</u>	
Training expense	Training expense	64,061

46 DATE OF AUTHORISATION FOR ISSUE

These unconsolidated financial statements were authorised for issue by the Board of Directors of the Corporation on ~~30 APR 2021~~.

47 GENERAL

Figures in these unconsolidated financial statements have been rounded off to nearest thousand of rupees. In narrative notes, certain figures have been rounded off to million of rupees.

ATK, m


CHAIRMAN

Jansab Javed Hussain


DIRECTOR

Ghiasuddin Ahmed


DIRECTOR

Abdul Qadir Memon


CHIEF FINANCIAL OFFICER

Muhammad Rashid

Statement of Directors

Form LN

(As per the requirement of Section 46(6) and Section 52(2) (C)
of the Insurance Ordinance, 2000)

Section 46 (6)

- a. In our opinion the annual audited financial statements of State Life Insurance Corporation of Pakistan for the year ended December 31, 2020, set out in the forms attached to the statement have been drawn up in accordance with the Insurance Ordinance, 2000 and any rules made thereunder;
- b. State Life Insurance Corporation of Pakistan has at all times in the year complied with the provisions of the Insurance Ordinance and the rules made thereunder relating to paid-up-capital, solvency and re-insurance arrangements; and
- c. As at December 31, 2020, State Life Insurance Corporation of Pakistan continues to be in compliance with the provisions of the Insurance Ordinance and the rules made thereunder relating to paid-up-capital, solvency and reinsurance arrangements.

Section 52 (2) (C)

In our opinion, each statutory fund of the State Life Insurance Corporation of Pakistan complies with the solvency requirements of the Insurance Ordinance, 2000, and the Insurance Rules, 2017.

Dated: April 30, 2021



CHAIRMAN

Shaib Javed Hussain




DIRECTOR

Ghousuddin Ahmed



DIRECTOR

Abdul Qadir Memon



CHIEF FINANCIAL OFFICER

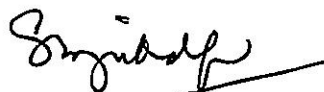
Muhammad Rashid

Statement by the Appointed Actuary

required under Section 52(2) (a) & (b) of the Insurance Ordinance, 2000

In my opinion,

- a. The policyholders liabilities / technical liabilities included in the balance sheet of State Life Insurance Corporation of Pakistan as at December 31, 2020 have been determined in accordance with the provisions of the Insurance Ordinance, 2000; and
- b. Each statutory fund of State Life Insurance Corporation of Pakistan complies with the solvency requirements of the Insurance Ordinance, 2000.



(Shujaat Siddiqui)

Appointed Actuary of the Corporation
MA, FIA, FPSA

Dated: April 30, 2021