

**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 DECEMBER 2024**

4. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information and methods of computation adopted in the preparation of these unconsolidated financial statements are same as those applied in the preparation of the annual unconsolidated financial statements of the Corporation for the year ended 31 December 2024.

4.1 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.

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 5 to the unconsolidated 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 additions and disposals is charged from the date when the asset becomes available for use to the date of disposal.

Derecognition

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognized.

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.

4.2 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 12 December 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.

4.3 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.

4.4 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;
- Accidental and 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.

4.6 Re-insurance contracts held

4.6.1 Conventional

Reinsurance liabilities represent balances due to reinsurance companies. Balances payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for outstanding claims or settled claims associated with the reinsurance policies and are in accordance with the related reinsurance contract.

4.6.2 Retakaful Contribution

Retakaful contribution is recorded at the time the retakaful is ceded. Retakaful liabilities represent balances due to retakaful companies. Amounts payable are calculated in a manner consistent with the associated retakaful treaties.

4.6.3 Retakaful Expenses

Retakaful expenses are recognized through liability.

Retakaful assets represent balances due from retakaful operator. Recoverable amounts are estimated in a manner consistent with the associated retakaful treaties.

Retakaful assets are offset against related Retakaful liabilities under the circumstances only that there is a clear legal right of off-set of the amounts. Income or expenses from retakaful contract are not offset against expenses or income from related Retakaful contracts as required by the Insurance Ordinance, 2000. Retakaful assets and liabilities are derecognized when the contractual rights are extinguished or expired.

4.7 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.

4.8 Amount due to other insurers / reinsurers / takaful / retakaful

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

4.9 Premium due but unpaid

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

4.10 Amount due from other insurers / reinsurers / takaful / retakaful

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

4.11 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.

4.12 Expenses of management

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

4.13 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

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.

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 31 December 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 up to 60 days can be carried forward up to the date of retirement and can be encashed at retirement. Similarly, in respect of staff leaves up to 180 days can be carried forward up to the date of retirement and can be encashed at retirement.

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 31 December 2024, liability for post-retirement medical benefits as computed by the appointed actuary is estimated at Rs. 4,178 million (2023: Rs. 3,500 million) and the same has been provided in these unconsolidated financial statements.

4.14 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.

4.15 Revenue recognition

4.15.1 Premium

- First year individual life 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 Premium Loan (APL).
- Single premiums are recognized once the related policies are issued against the receipt of premium. Premiums for group life, accident & health and overseas group life and health business are recognized when due.
- The Corporation continues to provide the cover even if the premium is received after the grace period.

4.15.2 Reinsurance Commission

Commission from reinsurers is recognized as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates. Commission, if any, under the terms of reinsurance arrangements is recognized when the Corporation's right to receive the same is established.

4.15.3 Individual Life Family Takaful

First year, renewal and single contributions are recognized once the related policies are issued / renewed against receipt of contribution.

4.15.4 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.

4.16 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.

Regular way purchases and sales of investments that require delivery within the time frame established by regulation or market convention are recognized at the settlement date. Settlement date is the date on which an asset is delivered to or by the Corporation.

4.17 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.

4.18 Others

All other incomes are recognized on accrual basis.

4.19 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 recognized 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.

4.20.1 Bad and doubtful debts

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

4.20.2 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.

4.21 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 recognized, 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).

4.22 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.

4.23 Cash and cash equivalents

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

4.24 Dividend and appropriation of reserve

Dividend and appropriation to reserve except appropriations required by the law or determined by the appointed actuary or allowed by the Insurance Ordinance 2000, are recognized in the year in which these are approved.

4.25 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.

4.26 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 currently reports five statutory funds, separately in respect of each class of life insurance business.

4.27 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.

4.28 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 amortized 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 statement of comprehensive income 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 recognized as an expense on a straight-line basis over the lease term.

4.29 Financial instruments

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

Financial assets

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

- Other loans and receivables;
- Held to maturity; and
- Fair value through profit or loss.

Other loans and receivables

Other 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 recognized at cost being the fair value the of consideration given and its related transaction cost are charged to statement of comprehensive income. These investments 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.

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 Sukus, 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 Sukus 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 amortized 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.

4.30 Investments in associates and subsidiaries

Associates are all entities over which the Corporation has significant influence but no control. Investment in associates that is held through investment-linked insurance funds is measured at fair value through profit or loss. Subsidiary is an entity over which the Corporation has control. Investment in subsidiaries is carried at cost less accumulated impairment losses, if any.

4.31 Takaful Operator's Fee

The shareholders of the Corporation manage the Window Takaful operations for the participants. Accordingly, the Corporation is entitled to Takaful Operator's Fee for the management of Window Takaful Operations under the Waqf Fund, to meet its general and administrative expenses. The Takaful Operator's fee, termed Wakala Fee, is recognized upfront.