



Notes to the Financial Statements

for the year ended December 31, 2012

1 STATUS AND NATURE OF BUSINESS

- 1.1 State Life Insurance Corporation of Pakistan (the Corporation) was incorporated in Pakistan on November 1, 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 26 zones for individual life business, 4 zones for group life business and in the gulf countries (comprising United Arab Emirates (UAE), Kingdom of Saudi Arabia and Kuwait) through zonal office located at Dubai (UAE).
- 1.2 The Corporation is engaged in the life insurance business and health and accident insurance business.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the format prescribed under Securities and Exchange Commission (Insurance) Rules, 2002 (Vide SRO 938 (1)/2002 dated December 12, 2002).

2.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002 shall prevail.

The Securities and Exchange Commission of Pakistan (SECP) has allowed insurance companies to defer the application of International Accounting Standard - 39 (IAS 39) 'Financial Instruments: Recognition and Measurement' in respect of "available-for-sale" investments. Accordingly, the requirements of IAS 39, to the extent allowed by SECP, have not been considered in the preparation of these financial statements.

2.1.2 Implications of revised IFRS 2 - Share-based payment on Benazir Employees' Stock Option Scheme (BESOS)

On August 14, 2009, the Government of Pakistan (GoP) launched Benazir Employees' Stock Option Scheme ("the Scheme") for employees of certain State Owned Enterprises (SOEs) and Non-State Owned Enterprises, where GoP holds significant investments (Non-SOEs). The Scheme is applicable to permanent and contractual employees who were in employment of these entities including the Corporation on the date of launch of the Scheme, subject to completion of five years vesting period by all contractual employees and by permanent employees in certain instances.

The Scheme provides for a cash payment to employees on retirement or termination based on the price of shares of respective entities. To administer this scheme, GoP has transferred 12% of its investment in such SOEs and Non-SOEs to a Trust Fund, established under a Trust Deed, created for the purpose by each of such entities. The eligible employees are entitled to be allotted units by each Trust Fund in proportion to their respective length of service and on retirement or termination, such employees would be entitled to receive such amounts from Trust Funds in exchange for the surrendered units, as would be determined based on market price for listed entities or breakup value for non-listed entities. The shares relating to the surrendered units would be transferred back to GoP.



The Scheme also provides that 50% of dividend related to shares transferred to the respective Trust Fund would be distributed amongst the unit-holder employees. The balance 50% dividend would be transferred by the respective Trust Fund to the Central Revolving Fund, managed by the Privatization Commission of Pakistan for payment to employees against surrendered units. The deficit, if any, in Trust Funds to meet the re-purchase commitment would be met by GoP.

The Scheme, developed in compliance with the stated GoP policy of empowerment of employees of State Owned Enterprises, needs to be accounted for by the covered entities, including the Corporation, under the provisions of amended International Financial Reporting Standard-2, "Share-based Payments" (IFRS 2). However, keeping in view the difficulties that may be faced by the entities covered under the Scheme, the SECP, on receiving representations from some of entities covered under the Scheme and after having consulted the Institute of Chartered Accountants of Pakistan, has granted exemption vide SRO 587(I)/2011 dated June 07, 2011 to such entities including the Corporation from the application of IFRS 2 to the Scheme.

Had the exemption not been granted, Staff costs of the Corporation for the year would have been higher by Rs. 132 million, profit after taxation would have been lower by Rs. 132 million, earnings per share would have been lower by Rs. 12, accumulated surplus would have been lower by Rs. 132 million and reserves would have been higher by Rs. 132 million.

2.2 Initial application of a standard, amendment or an interpretation to an existing standard and forthcoming requirements

2.2.1 Initial application of a standard or an interpretation

The following standards, amendments and interpretations of approved standards became effective during the year. Adoption of these revised standards did not have any material effect on the financial performance or position of the Corporation other than enhanced disclosures in certain cases:

- IFRS 7 "Financial Instruments: Disclosures"
- IFRS 8 "Operating Segments"
- IAS 12 "Deferred Tax: Investment Property"
- IAS 29 "Financial Reporting in Hyperinflationary Economies"
- IAS 33 "Earnings Per Share"
- IFRIC 4 "Determining whether an Arrangement contains a Lease"
- IFRIC12 "Service Concession Agreements"

The application of above standards, interpretations has no material effect on financial statements of the Corporation other than enhanced disclosures.

2.2.2 The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after the dates specified below:

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard.



IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications.

IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 01, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.

Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 01, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met.

The management of the Corporation expects that the adoption of the above revisions and amendments of the standards will not materially affects the Corporation’s financial statements in the period of initial application other than the amendments to IAS-19 ‘Employee Benefits’.

IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses and past service cost to be recognized immediately in other comprehensive income and profit or loss respectively; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

The adoption of the aforesaid amendment in IAS-19 ‘Employee Benefits’ will result in change in the Corporation’s accounting policy related to recognition of actuarial gains and losses and past service cost pertaining to staff gratuity, employees’ pension fund and post retirement medical benefits. As at December 31, 2012 the unrecognized actuarial loss (net) is Rs. 2,436.272 million and un-recognized past service cost is Rs. 820.717 million.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Corporation’s financial statements for the year ended December 31, 2012:

3.1 Basis of measurement

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies mentioned below.



The financial statements have been prepared following the accrual basis of accounting except for cash flow information.

3.2 Use of critical accounting estimates and judgments

The preparation of 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 and estimates were exercised in application of accounting policies relate to:

a) Classification of investments

In investments classified as "held-to-maturity", 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.

The investments which are not classified as held to maturity are classified as available for sale.

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) Reinsurance recoveries against outstanding claims

Re-insurance recoveries against outstanding claims are accounted for on the basis of estimates of recoverable amounts which can vary upon eventual realization.

d) Provision for income taxes

In making estimates for income taxes 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.

e) Impairment - available-for-sale financial assets

The Corporation determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Corporation evaluates among other factors, normal volatility in prices. In addition, impairment may be appropriate when there is an evidence of deterioration in financial health of the invested industry, sector performance, changes in technology and operational and financial cash flows. The Corporation tests impairment on an aggregated portfolio basis.



f) 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.

g) 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 financial year end.

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.

h) Staff retirement benefits

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

3.3 Funds

The Corporation maintains a shareholders' fund and four 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; and
- Health Insurance Fund

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

Apportionment of assets, liabilities, revenues and expenses, wherever required, between funds are made on a fair and equitable basis as considered appropriate by the Appointed Actuary.

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, individual universal life business, group insurance business and a small amount of annuity business. Most of the policies contains Discretionary Participation Feature (DPF).



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 Features (DPF).

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.

Health Insurance Fund

The health insurance fund is established for the commencement of project of Health Insurance Scheme for Benazir Income Support Program (BISP). The Purpose of this fund is to initiate health insurance coverage for the recipients of BISP. The BISP scheme provides health insurance facilities up to Rs. 25,000 per family enrolled under BISP Waseela-e-Sehat Programme. The Corporation may undertake other health insurance policies in future.

3.4 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.

3.5 Reinsurance

The Corporation has re-insurance arrangements with Swiss Re. The net retention limit of the Corporation for individual life is Rs. 5 million (2011: Rs. 5 million) per policy and for group life Rs. 2 million (2011: Rs. 2 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.

3.6 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.



3.7 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.

3.8 Premiums due but unpaid

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

3.9 Amount due from other insurers/reinsurers

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

3.10 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.

3.11 Expenses of management

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

3.12 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 established a defined contribution plan, an approved gratuity fund w.e.f. January 01, 2000 in respect of all those officers of the Corporation who initially opted for unfunded gratuity scheme before that date. 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.

Staff

The Corporation also maintains an unfunded defined benefit plan for those staff members who opted for gratuity rules. On retirement, resignation, termination or on death they will be paid one month's pay 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 the previous year pursuant to the order of Honourable Supreme Court of Pakistan, the Corporation has restored its pension scheme, as aforesaid, that was in effect before December 31, 1999 (also refer note 5.5). 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, 2012 amounting to Rs. 590.959 million (2011: Rs. 547.698 million) has been provided in these 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, 2012, liability for post retirement medical benefit as computed by the Appointed Actuary is estimated at Rs. 863.057 million (2011: Rs. 798.236 million) and the same has been provided in these financial statements.

3.13 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.

3.14 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.

3.15 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:

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
- available-for-sale 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.

Available for sale

Available for sale financial instruments are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables (b) held to maturity investments. Investments intended to be held for indefinite period of time, which may be sold on response to needs for liquidity or changes in equity prices, are classified as 'available for sale'. The equity securities are stated at lower of cost or market value (market value being taken at lower if the fall is other than temporary) on aggregate portfolio basis. The fixed income securities and debt securities are stated at cost less redemption. Impairment loss is recognized if the fall is other than temporary, if any.

SECP vide letter No. DH/F&A/17-C/2011 dated May 12, 2011 allowed the Corporation to continue its practice of computing and recording impairment on its available for sale equity securities on aggregate portfolio basis.

The investments in subsidiary companies/ entities have been classified as available for sale investments and are stated at cost. Provision is made for diminution, other than temporary, in the value of investment.

As per regulation 4(3) of the Securities and Exchange Commission (Insurance) Rules, 2002 issued by the Securities and Exchange Commission of Pakistan, where the insurer controls other entities as a result of investments made through statutory funds, consolidated published financial statements in respect of such entities are not required to be prepared. Accordingly, the Corporation has not prepared consolidated financial statements with reference to investments made in subsidiaries.

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 recognised.

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 profit and loss account immediately.



Off setting

Financial assets and liabilities are off set and the amount is reported in the balance sheet 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.

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.

3.16 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.

3.17 Fixed assets - tangible

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

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 15 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 balance sheet date.

Depreciation on fixed assets is charged on a proportionate basis.

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 income currently.

An item of fixed asset is derecognised 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 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.

3.18 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.

(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.



Investments 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.

Others

All other incomes are recognised on accrual basis.

3.19 Taxation

Current

Current taxation is based on the provisions of the Fourth Schedule to the Income Tax Ordinance, 2001.

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.

3.20 Bad and doubtful debts

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

3.21 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.

3.22 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).

**3.23 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.

3.24 Cash and cash equivalents

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

3.25 Dividend distributions and appropriations

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

The Board of Directors of the Corporation in their meeting held on 01.12.2014 declared dividend of Rs. 808.902 million (2011: Rs. 520.223 million) which includes dividend pertaining to shareholders covered under the BESOS Trust amounting to Rs. 97.068 million (2011: Rs. 62.427 million), which would be recorded during the year ending December 31, 2013. However, as per directive received from Ministry of Commerce, the Corporation would retain share of dividend pertaining to Government of Pakistan to meet the capital requirements as stated in note 28.

3.26 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.

3.27 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 SEC (Insurance) Rules, 2002.

The Corporation's business segments are currently reported as shareholders' fund and four statutory funds, separately in respect of each class of life insurance business.

3.28 Foreign currency transactions

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.

3.29 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Corporation's functional (except for overseas business) and presentation currency.

3.30 Level of precision

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



4 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

		(Rupees in '000)	
2012	2011	2012	2011
Number of shares			
<u>11,000,000</u>	<u>11,000,000</u>	<u>1,100,000</u>	<u>1,100,000</u>
Ordinary shares of Rs. 100 each			

5 STAFF RETIREMENT BENEFITS

		(Rupees in '000)	
		Aggregate	
		2012	2011
Defined benefit plans			
Pakistan Life Fund			
	Note		
- Staff gratuity scheme - unfunded	5.1	82,843	102,974
- Post retirement medical benefits - unfunded	5.1	863,057	798,236
- Compensated absences	5.2	590,959	547,698
		<u>1,536,859</u>	<u>1,448,908</u>
Overseas life fund			
- Staff gratuity		14,428	17,443
		<u>1,551,287</u>	<u>1,466,351</u>

5.1 Reconciliation of payable to defined benefit plans and other benefits

(Rupees in '000)							
	Note staff gratuity	Unfunded pension fund		Employees' medical benefits		Post retirement medical benefits	
		2012	2011	2012	2011	2012	2011
Present value of defined benefit obligations	5.1.2	76,281	66,405	10,443,788	7,014,726	1,006,332	629,868
Fair value of plan assets	5.1.3	-	-	(6,895,855)	(5,689,738)	-	-
Net actuarial gains / (losses) not recognised		6,562	36,569	(2,299,559)	1,820	(143,275)	168,368
Unrecognised past service cost		-	-	(820,717)	(957,503)	-	-
Net payable recognised as at the year-end	5.1.1	<u>82,843</u>	<u>102,974</u>	<u>427,657*</u>	<u>369,305*</u>	<u>863,057</u>	<u>798,236</u>

*The balance is classified as current liabilities under the head "others" as it represents the balance payable to the fund as at year end.

5.1.1 Movement in balance payable

(Rupees in '000)							
	Note staff gratuity	Unfunded pension fund		Employees' medical benefits		Post retirement medical benefits	
		2012	2011	2012	2011	2012	2011
Opening balance of payable /(receivable)		102,974	98,399	369,305	(88,133)	798,236	727,478
Expense recognised	5.1.5	5,183	15,369	536,125	512,677	88,817	92,586
Contributions made during the year		-	-	(38,839)	-	-	-
Benefits paid		(25,314)	(10,794)	(438,934)	(55,239)	(23,996)	(21,828)
Closing balance of payable		<u>82,843</u>	<u>102,974</u>	<u>427,657</u>	<u>369,305</u>	<u>863,057</u>	<u>798,236</u>



5.1.2 Reconciliation of the present value of the defined benefit obligation

(Rupees in '000)

Note staff gratuity	Unfunded pension fund		Employees'		Post retirement medical benefits	
	2012	2011	2012	2011	2012	2011
Present value of obligation as at 01 January	66,405	90,166	7,014,726	4,545,556	629,868	583,820
Current service cost	1,909	2,497	224,092	206,496	19,125	18,350
Interest cost	8,264	12,872	904,044	912,630	80,230	82,764
Benefit paid	(25,314)	(10,794)	(438,934)	(325,922)	(23,996)	(21,828)
Past service cost- vested	-	-	-	723,930	-	-
Past service cost- non vested	-	-	-	1,094,288	-	-
Actuarial losses / (gains)	25,017	(28,336)	2,739,860	(142,252)	301,105	(33,238)
Present value of the defined benefit obligation	76,281	66,405	10,443,788	7,014,726	1,006,332	629,868

(Rupees in '000)

Employees' pension fund

2012 2011

5.1.3 Changes in fair values of plan assets

Net assets as at January 01,	5,689,738	4,222,228
Expected return on plan assets	728,797	697,196
Assets transferred from provident fund and gratuity fund	-	769,968
Contributions made directly by the Corporation	38,839	55,239
Benefits paid	-	(325,922)
Actuarial gains	438,481	271,029
Net assets as at December 31,	<u>6,895,855</u>	<u>5,689,738</u>

5.1.4 Actual return on plan assets

Employees' pension fund

2012 2011

Actual return on plan assets	<u>1,167,278</u>	<u>968,225</u>
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5.1.5 Charge for defined benefit plans

The following amounts have been charged in respect of defined benefit plans and other benefits:

(Rupees in '000)

staff gratuity	Unfunded pension fund		Employees'		Post retirement medical benefits	
	2012	2011	2012	2011	2012	2011
Current service cost	1,909	2,497	224,092	206,496	19,125	18,350
Interest cost	8,264	12,872	904,044	912,630	80,230	82,764
Expected return on plan assets	-	-	(728,797)	(697,196)	-	-
Reversal of financial charges	-	-	-	-	-	-
Past service cost vested	-	-	-	47,346	-	-
Amortisation of past service cost	-	-	136,786	136,786	-	-
Charge recognised via pension fund and gratuity fund	-	-	-	(93,385)	-	-
Actuarial gain recognised	(4,990)	-	-	-	(10,538)	(8,528)
	<u>5,183</u>	<u>15,369</u>	<u>536,125</u>	<u>512,677</u>	<u>88,817</u>	<u>92,586</u>



5.2 Movement in compensated absences payable

	(Rupees in '000)	
	Compensated absences	
	2012	2011
Balance as at the beginning of year	547,698	584,124
Provision during the year	228,459	119,741
Payments made during the year	(185,198)	(156,167)
Balance as at the end of year	<u>590,959</u>	<u>547,698</u>

5.3 Principal actuarial assumptions

The latest actuarial valuations of the employees' pension fund, unfunded staff gratuity and post retirement medical benefits were carried out as at December 31, 2012 by the appointed actuary. The principal actuarial assumptions used are as follows:

	(Rupees in '000)					
	Unfunded pension fund		Employees'		Post retirement medical benefits	
	2012 (%)	2011 (%)	2012 (%)	2011 (%)	2012 (%)	2011 (%)
Discount rate	12	13	12	13	12	13
Expected rate of return on plan assets	-	-	12	13	-	-
Long term salary increase rate (staff only)	10.5	12	10.5	11	10.5	12
Future increase in frozen pension						
Future increase in pension (after retirement)	-	-	8	9	-	-
Pre-retirement mortality			SLIC(2001-05)	LIC(1975-79)Ult	SLIC(2001-05)	LIC(1975-79)Ult
Post-retirement mortality			PA(90)+1M/F	PA(90)+1M/F	PA(90)+1M/F	PA(90)+1M/F

The expected return on plan assets is based on the market expectations and depends on the asset portfolio of the Corporation, at the beginning of the year, for returns over the entire life of related obligation.