



### 13.4.1 Ordinary shares and stocks

#### Pakistan Life Fund

(Rupees in '000

	2011		2010	
	Number of shares	Book value	Number of shares	Book value
<b>De-listed companies</b>				
Adamjee Industries Limited	174,597	2,001	174,597	2,001
Adamjee Paper Product Limited	120,242	1,045	120,242	1,045
Akbar Textile Mills Limited	39,900	383	39,900	383
Akber Cotton Mills Limited	31,360	314	31,360	314
Allied Textile Mills Limited	72,634	792	72,634	792
Arag Industries Limited	23,963	118	23,963	118
Automotive Equipment Limited	7,800	92	7,800	92
Baluchistan Foundry Limited	84,520	421	84,520	421
Baluchistan Textile Mills Limited	27,420	267	27,420	267
Bankers Equity Limited	538,995	15,415	538,995	15,415
Bawany Industries Limited	73,774	1,415	73,774	1,415
Chemical Limited	19,544	195	19,544	195
Chemphar Limited	100	1	100	1
Dost Muhammad Textile Mills Limited	14,150	225	14,150	225
Elmac Engineering Limited	100	1	100	1
Fullbrite Mills Limited	100	1	100	1
Ghafar Textile Mills Limited	1,000	10	1,000	10
Gillanders Limited	10,000	100	10,000	100
Grace Industries Limited	50	1	50	1
H.Sheikh M.H Limited	46,100	460	46,100	460
Karachi Road Transport Corporation	6,800	-	6,800	-
Karachi Pipes Limited	20,800	416	20,800	416
Khairpur Textile Mills Limited	6,900	104	6,900	104
Kohinoor Cotton Mills Limited	33,468	324	33,468	324
Madina Textile Mills Limited	40,900	204	40,900	204
Mohib Textile Mills Limited	375,847	13,530	375,847	13,530
Northern Foundries Limited	95,050	1,001	95,050	1,001
Nowshera Engineering Limited	22,125	222	22,125	222
Ocean Industries Limited	2,000	-	2,000	-
Pak Chrome Limited	25,477	552	25,477	552
Pak Paper Corporation Limited	245,644	2,441	245,644	2,441
R C D Ball Bearing Limited	58,031	371	58,031	371
Refrigerator Manufacturing Limited	192,546	1,712	192,546	1,712
Sunshine Cloth Limited	103,200	1,578	103,200	1,578
Sun Publication Limited	2,042	-	2,042	-
Synthetic Chemical Limited	81,500	793	81,500	793
Universal Furnace Oil	29,818	294	-	-
		46,799		46,505
<b>Un-listed companies / institutions</b>				
Arabian Sea Country Club Limited	500,000	5,000	500,000	5,000
Baluchistan Fisheries Limited	20,000	200	20,000	200
Bank of Kashmir	10	-	10	-
Burma Soap Limited	2,000	20	2,000	20
Industrial Development Bank of Pakistan	78,337	8,298	78,337	8,298
Innovative Housing Finance Limited	12,673	14,800	12,673	14,800
Mercantile Enterprises Limited	100	1	100	1
Mercantile Fiber Limited	10,200	99	10,200	99
National Construction Limited	1	-	1	-
Pak Emerging Venture Limited	12,500,000	51,415	12,500,000	51,415
People Steel Mills Limited	1,998,967	19,990	1,998,967	19,990
Schon Refinery Limited	1,456,500	29,130	1,456,500	29,130
State Bank of Pakistan	29,458	3,221	29,458	3,221
Sukkar Commercial Limited	1,200	12	1,200	12
		132,186		132,186

66 annual report 2011


13.4.2 Open end mutual funds

	(Rupees in '000)			
	2011		2010	
	Number of units	Book value	Number of units	Book value
<b>Pakistan Life Fund</b>				
<b>Unlisted</b>				
NIT Equity Market Opportunity Fund	13,269,295	1,012,500	13,773,842	1,125,000
	<u>13,269,295</u>	<u>1,012,500</u>	<u>13,773,842</u>	<u>1,125,000</u>

### 13.5 Holding in subsidiary companies

	% of Holding	Number of shares	Net assets value	(Rupees in '000)	
				2011 cost	2010 cost
Alpha Insurance Company Limited*	92.01%	27,934,843	348,185	102,518	102,518
State Life (Lakie Road) Properties (Private) Limited**	100%	414,916	(10)	12,909	11,242
State Life (Abdullah Haroon Road) Properties (Private) Limited**	100%	779,500	2,676	26,182	23,388
			<u>350,851</u>	<u>141,609</u>	<u>137,148</u>

\* Net assets value is as of December 31, 2011

\*\* Net assets value is as of June 30, 2011

The investments in State Life (Lackie Road) Properties (Private) Limited and State Life (Abdullah Haroon Road) Properties (Private) Limited have been carried at cost amounting to Rs. 12.909 million (2010: Rs. 11.242 million) and Rs. 26.182 million (2010: Rs. 23.388 million) respectively. These are wholly owned subsidiaries of the Corporation. As per the latest audited financial statements of these invested companies, the net assets value is Rs. -0.010 million (2010: Rs. 0.367 million) and Rs. 2.676 million (2010: Rs. 2.756 million) respectively. No provision for Rs. 36.425 million (Rs. 31.507 million) being the difference of carrying value of the investments and net assets value of the subsidiaries has been made in the financial statements, as management is of view that after taking into account the revalued amount of properties of the subsidiaries that has been carried out by an independent surveyor, net asset value of the subsidiaries are higher than the carrying amount.

During the year, the Corporation subscribed the right issue offer by the State Life (Lackie Road) Properties (Private) Limited and State Life (Abdullah Haroon Road) Properties (Private) Limited amounting to Rs. 1.668 million (166,760 shares) and Rs. 2.795 million (279,500 shares) respectively.

13.6 The Corporation has made provision for impairment, on certain equity securities, where the investee companies were transferred to the default counter in Karachi Stock Exchange (Guarantee) Limited.



### 13.7 Provision for diminution in value

(Rupees in '000)

	Statutory Funds			Aggregate		
	Shareholders' Fund	Pakistan Life fund	Overseas Life Fund	Pension Fund	2011	2010
Other fixed income securities	-	(57,573)	-	-	(57,573)	(7,573)
Listed equities (default counter)	-	(64,318)	-	-	(64,318)	(64,721)
Unlisted/delisted equities	-	(157,526)	-	-	(157,526)	(157,152) </td
	-	(279,417)	-	-	(279,417)	(229,446)

### 13.8 Debentures

Debentures include an amount of Rs. 6.894 million (2010: Rs. 6.894 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 (2010: Rs. 0.678 million). The Corporation had made full provision against these debentures.

### 13.9 Investments by classification

(Rupees in '000)

	Aggregate	
	2011	2010
<b>Held-to-maturity</b>		
Government securities	194,451,365	164,137,999
Other fixed income securities	3,070,803	3,243,081
	197,522,168	167,381,080
<b>Available-for-sale</b>		
Other fixed income securities	838,873	830,549
Listed equity securities and mutual fund units	24,071,092	23,115,973
Unlisted equity securities and mutual fund units	1,191,485	1,303,691
	26,101,450	25,250,213
Holding in subsidiary companies	141,609	137,148
Impairment in the value of equity securities and fixed interest securities	(279,417)	(229,446)
Total Investments - net of provision	223,485,810	192,538,995

## 14 SUNDRY RECEIVABLES

(Rupees in '000)

	Aggregate	
	2011	2010
Receivable from pension fund	-88,133	
Other receivables	471,330	289,663
Provision against other receivables	(256,226)	(127,524)
	215,104	162,139
	215,104	250,272



(Rupees in '000)

	COST		DEPRECIATION / IMPAIRMENT				As at December 31, 2011	Written down value as at December 31, 2011	Depreciation Rate (%)																																																																																																														
	As at January 01, 2011	As at December 31, 2011	As at January 01, 2011	Adjustments	Charge for the year Additions/ (Disposals)																																																																																																																		
Furniture and fixtures	245,413	34,442	272,637	164,792	(6,810)	11,861	169,843	102,794	10			(7,218)								Office equipment	96,034	9,745	104,250	7漫,097	(1,252)	3,684	73,529	30,721	10 to 30			(1,529)								Computer installations - basic	349,143	39,388	388,143	265,387	(30)	41,794	307,151	80,992	30			(388)								Computer installations - peripherals	41,672	5,904	47,499	35,019	(77)	3,415	38,357	9,142	30			(77)								Vehicles	89,828	9,473	96,597	66,378	(2,619)	6,288	70,047	26,550	20			(2,704)									822,090	98,952	909,126	602,673	-	67,042	658,927	250,199				(11,916)			(10,788)				
Furniture and fixtures	245,413	34,442	272,637	164,792	(6,810)	11,861	169,843	102,794	10																																																																																																														
		(7,218)																																																																																																																					
Office equipment	96,034	9,745	104,250	7漫,097	(1,252)	3,684	73,529	30,721	10 to 30																																																																																																														
		(1,529)																																																																																																																					
Computer installations - basic	349,143	39,388	388,143	265,387	(30)	41,794	307,151	80,992	30																																																																																																														
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Computer installations - peripherals	41,672	5,904	47,499	35,019	(77)	3,415	38,357	9,142	30																																																																																																														
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Vehicles	89,828	9,473	96,597	66,378	(2,619)	6,288	70,047	26,550	20																																																																																																														
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		(11,916)			(10,788)																																																																																																																		

(Rupees in '000)

	COST		DEPRECIATION / IMPAIRMENT				As       2. As at December 31, 2010	Written down value as at December 31, 2010	Depreciation Rate (%)
	As at January 01, 2010	Additions/ (Disposals)	As at December 31, 2010	As at January 01, 2010	Adjustments	Charge for the year Additions/ (Disposals)			
Furniture and fixtures	220,840	25,158	245,413	155,214	(422)	10,000	164,792	80,621	10
		(585)							
Office equipment	84,929	12,783	96,034	68,387	(101)	2,811	71,097	24,937	10 to 30
		(1,678)							
Computer installations - basic	296,327	54,335	349,143	235,783	(1,470)	31,074	265,387	83,756	30
		(1,519)							
Computer installations - peripherals	38,416	3,256	41,672	33,186	(872)	2,705	35,019	6,653	30
		-							
Vehicles	78,798	warta,903	89,828	68,571	(5,978)	3,785	66,378	23,450	20
		(6,873)							
	719,310	113,435	822,090	561,141	-	50,375	602,673	219,417	
		(10,655)			(8,843)				



## 15.1 Fixed Assets

(Rupees in '000)

	Share	Statutory Funds			Aggregate	
	Holder's Fund	Pakistan Life Fund	Overseas Life Fund	Pension Fund	2011	2010
<b>Furniture and fixtures</b>						
Cost	-	263,013	9,624	-	272,637	245,413
Accumulated depreciation	-	(164,619)	(5,224)	-	(169,843)	(164,792)
Book value	-	98,394	4,400	-	102,794	80,621
<b>Office equipment</b>						
Cost	-	102,234	2,016	-	104,250	96,034
Accumulated depreciation	-	(72,198)	(1,331)	-	(73,529)	(71,097)
Book value	-	30,036	685	-	30,721	24,937
<b>Computer installations - basic</b>						
Cost	-	382,589	5,554	-	388,143	349,143
Accumulated depreciation	-	(302,944)	(4,207)	-	(307,151)	(265,387)
Book value	-	79,645	1,347	-	80,992	83,756
<b>Computer installations - peripheral</b>						
Cost	-	47,499	-	-	47,499	41,672
Accumulated depreciation	-	(38,357)	-	-	(38,357)	(35,019)
Book value	-	9,142	-	-	9,142	6,653
<b>Vehicles</b>						
Cost	-	92,400	4,197	-	96,597	89,828
Accumulated depreciation	-	(67,969)	(2,078)	-	(70,047)	(66,378)
Book value	-	24,431	2,119	-	26,550	23,450
<b>Grand Total</b>						
Cost	-	887,735	21,391	-	909,126	822,090
Accumulated depreciation	-	(646,087)	(12,840)	-	(658,927)	(602,673)
Book value	-	241,648	8,551	-	250,199	219,417

## 16 TAXATION

(Rupees in '000)

	2011	2010
Current	265,358	204,000
<b>16.1 Relationship between tax expense and accounting profit</b>		
Profit before tax	785,581	610,878
Tax at the applicable rate at 35% (2010: 35%)	275,391	213,807
Tax effect of capital gain being exempt	(146)	(3,661)
Tax effect of dividend income being taxable at lower rate	(8,904)	(6,096)
Others	(983)	(50)
Tax expense for the year	265,358	204,000



16.2 There were no taxable or deductible temporary differences attributable to Shareholder's Fund. Therefore, no provision for deferred tax has been recognised.

## 17 EARNINGS PER SHARE - BASIC AND DILUTED

		2011	2010
Profit after tax	Rupees in '000'	520,223	406,878
Weighted average number of ordinary shares	Numbers	11,000,000	11,000,000
Earnings per share - basic and diluted	Rupees	47.29	36.99

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.

## 18 REMUNERATION OF CHAIRMAN AND EXECUTIVE DIRECTORS

(Rupees in '000)

	Chairman		Executive Directors		Total	
	2011	2010	2011	2010	2011	2010
Managerial remuneration	2,880	2,880	3,434	1,812	6,314	4,692
House rent	1,260	1,260	1,536	1,204	2,796	2,464
Utilities	300	261	836	1,290	1,136	1,551
Other perquisites	72	376	6,089	3,487	6,161	3,863
	4,512	4,777	11,895	7,793	16,407	12,570
Number of persons	1	1	4	4	5	5

In addition to the above, the chairman and executive directors are also entitled to Corporation maintained vehicles and mobile phone facility.

## 19 CASH AND CASH EQUIVALENTS

For the purpose of cash flow statement cash and cash equivalents balances include the following:

(Rupees in '000)

	Share		Statutory Funds		Aggregate	
	Holder's Fund	Pakistan Life Fund	Overseas Life Fund	Pension Fund	2011	2010
- Cash in hand	-	6,474	-	-	6,474	4,699
- Cash in transit	-	196,607	-	-	196,607	80,153
- Cash at bank in:						
- Current accounts	-	3,714,291	393,568	3,737	4,111,596	3,832,168
- PLS accounts	-	351,661	61,462	-	413,123	250,117
Deposits maturing within 12 months	74,594	24,255,703	291,907	-	24,622,204	20,357,410
	74,594	28,524,736	746,937	3,737	29,350,004	24,524,547

## 20 RENTAL INCOME FROM INVESTMENT PROPERTIES

(Rupees in '000)

	Statutory Funds			Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	2011	2010
Rent received	741,868	-	-	741,868	704,818
Increase in accrued rental income	-	-	-	-	14,391
Less: Investment property related expenses	(428,184)	-	-	(428,184)	(380,535)
Net rental income from investment property	313,684	-	-	313,684	338,674



## 21 MOVEMENT IN EQUITY OF STATUTORY FUND

### 21.1 Policyholders' liability

(Rupees in '000)

	Statutory Funds			Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	2011	2010
Balance as at the beginning of year	222,856,034	5,023,215	153,406	228,032,655	197,038,990
Increase during the year	36,507,958	628,873	662	37,137,493	30,993,665
Balance at the end of year	259,363,992	5,652,088	154,068	265,170,148	228,032,655
<b>21.2 Retained earnings attributable to policyholders (Ledger Account A)</b>					
Balance at the beginning of year	2,289,714	83,008	16,152	2,388,874	2,406,295
Surplus allocated in respect of the year	25,300,355	464,839	22,443	25,787,637	19,487,864
Bonuses allocated during the year	(24,500,086)	(266,982)	-	(24,767,068)	(19,505,285)
Balance at the end of year	3,089,983	280,865	38,595	3,409,443	2,388,874
<b>21.3 Retained earnings on par business attributable to shareholders (Undistributable - Ledger Account B)</b>					
Balance at beginning of the year	-	-	-	-	-
Surplus allocated in respect of the year	648,727	11,919	-	660,646	499,350
Transfer to distributable profits	(648,727)	(11,919)	-	(660,646)	(499,350)
Balance at the end of year	-	-	-	-	-
<b>21.4 Retained earnings on par business attributable to shareholders (Distributable-Ledger Account C)</b>					
Balance as at beginning of the year	-	-	-	-	-
Transfer from undistributable profit	648,727	11,919	-	660,646	499,350
Surplus appropriated to shareholders' fund	(648,727)	(11,919)	-	(660,646)	(499,350)
Balance at end of the year	-	-	-	-	-
<b>22 POLICYHOLDERS' LIABILITIES</b>					
Gross of Reinsurance					
Actuarial liability relating to future events	255,864,181	5,883,512	154,068	261,901,761	226,421,564
Provision for outstanding reported claims payable over a period exceeding 12 months	1,760,090	896	-	1,760,986	1,646,674
Provision for incurred but not reported (IBNR) claims	2,782,366	17,438	-	2,799,804	2,235,320
	260,406,637	5,901,846	154,068	266,462,551	230,303,558
Net of Reinsurance					
Actuarial liability relating to future events	254,821,536	5,633,754	154,068	260,609,358	224,150,661
Provision for outstanding reported claims payable over a period exceeding 12 months	1,760,090	896	-	1,760,986	1,646,674
Provision for incurred but not reported (IBNR) claims	2,782,366	17,438	-	2,799,804	2,235,320
	259,363,992	5,652,088	154,068	265,170,148	228,032,655



## 23 BRANCH OVERHEADS

(Rupees in '000)

	Statutory Funds			Aggregate	
	Pakistan Life Fund	Overseas Life Fund	Pension Fund	2011	2010
Traveling expenses	547,487	5,123	-	552,610	385,306
Balance as at beginning of the year	395,248	215	-	395,463	285,684
Printing and stationeries	9,034	86	-	9,120	7,043
Medical expenses	30,672	1,351	-	32,023	25,374
Gratuity contribution	11,635	-	-	11,635	9,961
Group insurance contribution	14,345	-	-	14,345	1,751
Postage and telegram	24,817	672	-	25,489	22,905
Utilities	12,690	-	-	12,690	10,112
Rent	21,732	8,522	-	30,254	25,263
Prize and awards	12,124	465	-	12,589	13,712
Conference and meetings	29,297	838	-	30,135	24,935
Repairs and maintenance	2,222	-	-	2,222	1,683
Incentive bonuses	322,635	6,274	-	328,909	268,761
Persistency bonuses	20,835	-	-	20,835	17,403
Others	-	-	-	-	617
Overriding commission of area manager	-	30,285	-	30,285	28,005
	<u>1,454,773</u>	<u>53,831</u>	<u>-</u>	<u>1,508,604</u>	<u>1,128,515</u>

## 24 AUDITORS' REMUNERATION

(Rupees in '000)

	Aggregate	
	2011	2010
<b>Audit Fee</b>		
<b>Business within Pakistan</b>		
Riaz Ahmad & Company	900	900
Anjum Asim Shahid Rahman	900	900
	<u>1,800</u>	<u>1,800</u>
<b>Out of Pocket Expenses</b>		
Riaz Ahmad & Company	500	500
Anjum Asim Shahid Rahman	500	500
	<u>1,000</u>	<u>1,000</u>
	<u>2,800</u>	<u>2,800</u>
<b>Business Outside Pakistan</b>		
<b>Audit Fee</b>		
Sajjad Hyder & Company	938	607
<b>Out of Pocket Expenses</b>	234	156
	<u>1,172</u>	<u>763</u>
	<u>3,972</u>	<u>3,563</u>



## 25 INVESTMENT INCOME - Others

An amount of Rs. 252.133 million (2010: Rs. 97.533 million) appearing under Overseas Life Fund represents the resultant effect of translation of income, expenses, assets and liabilities of overseas operations business to Pak Rupees.

## 26 PROVISION FOR IMPAIRMENT IN SHARES AND FIXED INCOME SECURITIES

This includes provision against investments in shares of certain companies in default counter and unlisted companies and provision against investments in Certificate Of Investments (COIs) of First Dawood Investment Bank Limited.

## 27 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

### 27.1 Financial risk management, objectives and policies

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 balance sheet. 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.

Management 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.

### 27.2 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.

#### 27.2.1 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 Government bonds of longer durations 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 pensions 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.



### 27.2.2 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 and liabilities are as follows:

(Rupees in '000)

	2011		2010	
	UAE Dirhams	US Dollars	UAE Dirhams	US Dollars
Assets	61,638,812	83,676,322	52,012,248	39,939,408
Liabilities	61,638,812	83,676,322	47,365,368	15,691,187

### 27.2.3 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 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.

### 27.3 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.

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	(Rupees in '000)	
		2011	2010
Bank deposits	10	30,222,602	25,437,238
Loans		23,018,300	19,463,011
Investments	13	29,313,862	28,630,442
Premium due but unpaid		6,865,373	5,392,682
Amount due from other insurers / reinsurers		156,212	98,411
Agents balances		208	211
Investment income due but outstanding		325,501	157,206
Accrued investment income		3,905,504	3,048,806
Sundry receivables	14	215,104	250,272
Others		30,524	26,368
<b>Total</b>		<b>94,053,190</b>	<b>82,504,647</b>

Provision is made for receivables against premium due but unpaid in accordance with the Corporation's policies. The remaining past due balances were not impaired as they relate to a number of policyholders from whom there is no history of default.

	(Rupees in '000)	
	2011	2010
<b>The age analysis of premium due but unpaid:</b>		
Up to 1 year	6,582,133	5,315,330
1-2 years	65,445	51,038
2-3 years	201,926	11,175
Over 3 years	15,869	15,139
	<b>6,865,373</b>	<b>5,392,682</b>



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

(Rupees in '000)

Bank	Rating		Rating agency	2011	2010
	Long term	Short term			
Askari Commercial Bank Limited	AA	A1+	PACRA	234,123	1,558,886
Bank Alfalah Limited	AA	A1+	PACRA	725,751	311,666
MCB Bank Limited	AA+	A1+	PACRA	2,623,380	1,050,000
Habib Bank Limited	AA+	A-1+	JCR-VIS	7,697,099	7,643,595
National Bank of Pakistan	AAA	A-1+	JCR-VIS	4,033,843	4,000,015
United Bank Limited	AA+	A-1+	JCR-VIS	10,388,529	8,554,448
The Bank of Punjab	AA-	A1+	PACRA	16	20,885
Habib Metropolitan Bank Limited	AA+	A1+	PACRA	1	1
KASB Bank Limited	BBB	A3	PACRA	45	43
Kenya Commercial Bank	-	-	-	712	712
Bank of Ceylon - Srilanka	-	AA(lka)	Fitch Ratings	86	86
Al Baraka Bank (Pakistan) Limited	A	A2	PACRA	556,932	495,050
Grindlays Bank Limited - Srilanka	-	-	-	162	162
Allied Bank of Pakistan	AA	A1+	PACRA	958,553	687,397
Soneri Bank Limited	AA-	A1+	PACRA	509,548	-
Faysal Bank Limited	AA	A1+	PACRA	900,196	-
Summit Bank Limited	A	A2	JCR VIS	200,000	-
Standard Chartered Bank Limited	AAA	A1+	PACRA	25,000	-
Others	-	-	-	1,368,626	1,114,292
				<u>30,222,602</u>	<u>25,437,238</u>

The credit quality of the Corporation's investments in Term Finance Certificates can be assessed with reference to external credit ratings as follows:

**Term Finance Certificates:**

Orix Leasing Pakistan Limited	AA+	PACRA	33,668	101,319
Pakistan Mobile Communication Limited	A+	PACRA	314,228	379,861
Engro Chemical Pakistan Limited	AA	PACRA	201,560	201,734
Pak Arab Fertilizer Limited	AA	JCR VIS	167,216	211,069
			<u>716,672</u>	<u>893,983</u>

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

(Rupees in '000)

	Note	2011	2010
<b>Amount due from other insurers/reinsurers</b>			
A or above		<u>156,212</u>	<u>98,411</u>

#### 27.4 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 and reserve borrowing 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.





The following are the contractual maturities of financial liabilities other than policyholder liabilities, including estimated interest payments on an undiscounted cash flow basis:

(Rupees in '000)

	2011			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
<b>Financial liabilities</b>				
Amounts due to other insurers / reinsurers	230,458	230,458	230,458	-
Amount due to agents	2,904,371	2,904,371	2,904,371	-
Accrued expenses	1,692,396	1,692,396	1,692,396	-
Others	2,115,396	2,115,396	2,115,396	-
	<u>6,942,621</u>	<u>6,942,621</u>	<u>6,942,621</u>	<u>-</u>

(Rupees in '000)

	2010			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
<b>Financial liabilities</b>				
Amounts due to other insurers / reinsurers	128,045	128,045	128,045	-
Amount due to agents	2,330,317	2,330,317	2,330,317	-
Accrued expenses	1,393,998	1,393,998	1,393,998	-
Others	1,659,034	1,659,034	1,659,034	-
	<u>5,511,394</u>	<u>5,511,394</u>	<u>5,511,394</u>	<u>-</u>

## 27.5 Fair value

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

(Rupees in '000)

	2011	
	Carrying value	Fair value
Government securities	184,041,241	178,434,751
Other fixed income securities	716,672	695,095
Listed equity securities	24,071,092	46,216,069

## 28 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 retained earnings.

The Corporation is also subject to capital requirements of United Arab Emirates (UAE) where it maintains a branch office that issues insurance contracts. The Corporation complies fully with the minimum capital requirements imposed by insurance supervisory authority in UAE. The UAE Cabinet has issued cabinet resolution No. 42 of 2009 which came into force on January 31, 2010, requiring the insurance companies to increase their minimum paid-up share capital to AED 100 million within three years from the date of this resolution. The Corporation has taken up this matter with Ministry of Finance through Ministry of Commerce for enhancing the capital. Ministry of Finance advised the Corporation to approach the UAE Government for seeking permission to raise the required paid up share capital by the end of December 2014.



In pursuance of this requirement, the Corporation is seeking approval from Ministry of Commerce for increase in the Authorized Capital from Rs. 1,500 million to Rs. 3,000 million and paid up capital from Rs. 1,100 million to Rs. 2,500 million.

The paid up capital of the Corporation is currently Rs. 1,100 million.(Rupees in '000)

There were no changes made to the capital base nor to the objectives, policies and processes for managing capital.

Further details are given in the table below:

	2011	2010
Retained earnings	520,223	406,878
Capital resources on a regulatory basis	1,100,000	1,100,000
Shareholders' equity	<u>1,620,223</u>	<u>1,506,878</u>

## 29 INSURANCE RISK

### 29.1 Insurance contracts

#### 29.1.1 Classification

The Corporation maintains three statutory funds which are as follows:

- Pakistan Life Fund
- Overseas Life Fund
- Pension Fund

Within the Pakistan Life Fund the 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 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 on account of group pension deposit administration contracts.

Considering all the three statutory funds together, the bulk of Corporation business consists of individual life conventional policies. Most of the remaining business consists of group insurancerup business. Individual universal life business and pension fund business are relatively less significant classes of business in terms of weight of their policy liabilities. 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:

#### 29.1.2 Contract details and measurement

The insurance contracts offered by the Corporation are described below:

##### 29.1.2.1 Individual life policies

###### *Individual life conventional products*

These are long term contracts with level annual 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 providing benefits only in case of death benefits. Under these policies no benefit is due if the policyholder survived in the duration of the policy. The Corporation sells both level term insurance and decreasing term insurance also known as mortgage protection plans.

#### *Annuities*

The Corporation also has a small number of individual and group annuities on its books. Under these contracts a periodic income benefit is payable to the insured life for as long as annuitant is alive.

#### *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 offices and sales managers. Each sales sector headed by a sector head is further grouped under nearly 700 area offices, more than a thousand sector offices, 26 zones and 4 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 policyholders of the Corporation come from all strata of society, with greater representation of the rural areas due to wider outreach of its field force. In most cases the new policyholders are below age of 56.



### 29.1.2.2 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 either 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.

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.

### 29.1.2.3 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.

### 29.1.3 Reserving method

#### 29.1.3.1 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.



### **29.1.3.2 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.

### **29.1.3.3 Group life policies**

Group life business consists of short duration one year renewable term insurance policies. The Corporation holds an unearned premium reserve for that portion of the premium which has not yet accrued on the balance sheet date.

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 duly accounting for the IBNR provisions. This reserve is equal to 30% of the unearned premium reserved.

### **29.1.3.4 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.

### **29.1.3.5 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 more than their market value. The additional valuation arising from the adoption of IRR valuation is being held as a separately identifiable reserve within the pension statutory fund.

## **29.2 Reserves for outstanding claims**

The Corporation holds a reserve for all claims which have been reported but are still outstanding on the balance sheet date. Another estimated reserve is kept within the actuarial liability for claims which has been incurred but has 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.

## **29.3 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 upon the results of this test the Appointed Actuary considers that the liability being kept by the Corporation is adequate.

## **29.4 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 that it can safely hold on its own account.



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 re-insurer 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 for now.

## **29.5 Accounting estimates and judgments and process used for deciding assumptions**

### **29.5.1 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 results of this study are 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.

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 feels that there is an adequate data for arriving at credible results.

### **29.5.2 Investment income**

Due to long term nature of its individual life policies the Corporation is exposed to the risk of adverse fluctuation of 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.

### **29.5.3 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 results of this study are utilized in the estimation of liability under realistic assumptions to ensure the adequacy of the reserves being held.



## **29.6 Frequency and severity of claims**

### **29.6.1 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.

### **29.6.2 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 26 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 86 % 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.

### **29.6.3 Claims development**

The development of claims against insurance contracts issued is not disclosed as uncertainty as to the timing and amount of claims is usually resolved within a period of one year.

## **29.7 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-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.



## **29.8 Management of insurance tact**

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 presoribes guidelines for investment of funds.

&lt;団1olt The Corporation's strategy for management of insurance risk meets the minimum standards laid 1211 by the law in addition to certain other practices which are Corporation specific.

### **29.8.1 Financial risk**

#### **29.8.1.1 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喝完1211 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 policiesก1ol3. 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 adds another layer of security against interest risk.

#### **29.8.1.2 Expense risk**

This is that the actual expenses of the Corporation are more than the provision in its premium rates. To ensure that adequate reserves are kept for the risk of expense overrun the net premiums used by the Corporation in its actuarial valuation are suitably reduced to give due allowance for the higher expense ratio of the Corporation.

#### **29.8.1.3 Mortality risk**

The mortality used in the reserving basis 1211 basis is the mortality prescribed by the SECP, which is the EFU 1961-66 table. Due to advances in health care technology the current mortality levels are significantly lower than the mortality rates of this table. Hence the reserving basis has adequate margins for absorbing the impact of adverse fluctuation in mortality.

#### **29.8.1.4 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 is more than its surrender value. This ensures that the Corporation does not suffer any adverse impact in case any policies are surrendered.



#### **29.8.1.5 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.

#### **29.8.1.6 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 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 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 somewhat mitigated 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.

#### **29.8.1.7 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.

#### **29.8.2 Credit risk and asset risk**

Management of credit risk and asset risk deals with risks emanating from the assets side of the balance sheet.

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.

#### **29.8.3 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 is automatically charged commensurating with such risk.

For lives which are otherwise uninsurable, the Corporation offers a special product line known as the non-declinature 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.



### 29.9 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%	0.27%
Decrease in mortality	10%	(0.27%)
Increase in discount rate	0.5% addition in rate	(4.42%)
Decrease in discount rate	0.5% reduction in rate	4.69%

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.

### 30 SEGMENT REPORTING

Class of Business wise assets, liabilities and operating results has been disclosed in the Balance Sheet, Profit and Loss account and Revenue account prepared in accordance with the requirements of the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002.

### 31 RELATED PARTY TRANSACTIONS

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 normal market 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:

	(Rupees in '000)	
	Aggregate	
	2011	2010
<b>Profit oriented state-controlled entities-common ownership</b>		
Premiums	449,762	369,220
Claims	180,346	285,376
Profit commission	1,508	2,383
<b>Subsidiaries</b>		
Rental income received	1,954	2,303
Right shares received at par	4,463	-
Cash received from sale of shares	-	18,569
<b>Staff retirement fund</b>		
Contribution to provident fund	52,503	47,146
Contribution made directly by Corporation to pension fund	45,438	-
Contribution to funded gratuity	74,313	47,621
Expense charged for pension fund	512,677	329,063
<b>32 NUMBER OF EMPLOYEES</b>		
The number of employees as at December 31 are:		
Permanent employees	3,616	3,655
Area managers	886	707
	4,502	4,362

### 33 DATE OF AUTHORISATION FOR ISSUE

These financial statements were approved and authorized for issue on April 30, 2012 by the Board of Directors of the Corporation.

  
**Shahid Aziz Siddiqi**  
 Chairman

  
**Farooq Hadi**  
 Director

  
**Wazir Ali Khoja**  
 Director

  
**Yasmeen Saud**  
 Executive Director (Finance and Accounts)



(Rupees in '000)

		2010 Exposed to yield / interest rate risk								
Effective yield/Mark-up rate %	Maturity upto one year	Maturity from one to two year	Maturity from two to three year	Maturity from three to four year	Maturity from four to five year	Over five year	rab total	Non - interest bearing financial instruments	Total	
<b>Financial Assets</b>										
<b>Fixed rate instruments</b>										
		-	-	-	-	-	-	-	84,852	84,852
		-	-	-	-	-	-	-	4,082,285	4,082,285
	5-13.85	20,357,410	997,543	-	-	-	-	21,354,953	-	21,354,953
	11 12	1,048,115	895,662	952,832	714,624	819,435	14,625,964	19,056,632	-	19,056,632
	6-10	59,655	53,170	51,873	50,577	44,093	-	259,368	-	259,368
		-	-	-	-	-	-	-	147,011	147,011
	13 8-13.75	31,442,290	16,326,207	5,277,711	2,900,330	291,924	100,182,539	156,421,001	24,311,588	180,732,589
		-	-	-	-	-	-	-	5,392,682	5,392,682
		-	-	-	-	-	-	-	98,411	98,411
		-	-	-	-	-	-	-	211	211
		-	-	-	-	-	-	-	157,206	157,206
		-	-	-	-	-	-	-	3,048,806	3,048,806
	14	-	-	-	-	-	-	-	250,272	250,272
		-	-	-	-	-	-	-	26,368	26,368
		-	-	-	-	-	-	-	-	-
	13 KIBOR+2.85	772,217	2,241,525	8,422,683	-	369,981	-	11,806,406	-	11,806,406
<b>Total Financial Assets</b>		<b>53,679,687</b>	<b>20,514,107</b>	<b>14,705,099</b>	<b>3,665,531</b>	<b>1,525,433</b>	<b>114,808,503</b>	<b>208,898,360</b>	<b>37,599,692</b>	<b>246,498,052</b>
<b>Financial Liabilities</b>										
<b>Fixed rate instruments</b>										
		-	-	-	-	-	-	-	230,421,529	230,421,529
	7	-	-	-	-	-	-	-	9,220,065	9,220,065
		-	-	-	-	-	-	-	128,045	128,045
		-	-	-	-	-	-	-	2,330,317	2,330,317
		-	-	-	-	-	-	-	1,393,998	1,393,998
		-	-	-	-	-	-	-	1,659,034	1,659,034
<b>Total Financial Liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>245,152,988</b>	<b>245,152,988</b>
<b>On balance sheet gap</b>		<b>53,679,687</b>	<b>20,514,107</b>	<b>14,705,099</b>	<b>3,665,531</b>	<b>1,525,433</b>	<b>114,808,503</b>	<b>208,898,360</b>	<b>(207,553,296)</b>	<b>1,345,064</b>





# Statement by the Appointed Actuary Form LM

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

In my opinion,

- a. The policyholders liabilities included in the balance sheet of State Life Insurance Corporation of Pakistan has been determined in accordance with the provisions of the Insurance Ordinance, 2000; and
- b. Each statutory fund of the State Life Insurance Corporation of Pakistan complies with the solvency requirements of the Insurance Ordinance, 2000.

A handwritten signature in black ink, appearing to read 'Shujaat Siddiqui'.

**(Shujaat Siddiqui)**  
Appointed Actuary



# Statement of Directors

Form LN

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

## Section 46 (6)

- a. In our opinion the annual statutory accounts of the State Life Insurance Corporation of Pakistan set out in the forms attached to the statement have been drawn up in accordance with the Insurance Ordinance, 2000, and the Insurance Rules, 2002: and
- b. State Life Insurance Corporation of Pakistan has at all times in the year complied with the provisions of the Insurance Ordinance, 2000, and the Insurance Rules, 2002, made there under relating to paid-up capital, solvency and re-insurance arrangements; and
- c. As at December 31, 2011 State Life Insurance Corporation of Pakistan continues to be in compliance with the provisions of the Insurance Ordinance, 2000, and the Insurance Rules, 2002, made there under relating to paid-up capital, solvency and reinsurance arrangement.

## 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.

**Shahid Aziz Siddiqi**  
Chairman

**Farooq Hadi**  
Director

**Wazir Ali Khoja**  
Director

**Yasmeen Saud**  
Executive Director (Finance and Accounts)



# Progress at a Glance since Inception

(Rupees in millions)

	1973	1975	1978	1980	1983	1985	1988	1990	1993	1996	1997	1998
First Year Premium (Net)	48	50	80	110	228	341	678	846	918	1,698	1,490	1,306
Renewal Premium (Net)	219	244	305	365	606	847	1,515	2,267	3,284	4,694	4,364	4,413
Group Premium (Net)	50	61	114	164	294	347	880	642	930	1,266	1,413	1,244
Pension Premium	-	-	-	-	-	-	-	-	-	-	-	-
Total Premium (Net)	317	354	500	638	1,128	1,535	3,073	3,755	5,132	7,658	7,266	6,964
Investment Income	81	122	221	279	562	767	1,323	1,906	3,675	5,984	5,901	5,996
Total Income	391	504	727	920	1,690	2,307	4,406	5,674	8,814	13,650	13,177	12,976
Total Outgo	292	307	427	593	1,005	1,342	2,597	2,877	4,138	7,355	7,477	8,451
Life Fund	1,494	1,735	2,494	3,111	4,660	6,422	11,327	16,321	28,333	45,582	51,010	55,460
Yield on Life Fund (%)	7	8	10	10	14	14	14	14	15	15	13	12
Overall Expense Ratio (%)	33	33	31	34	34	36	34	35	34	43	43	54
Renewal Expense Ratio(%)	26	27	26	30	28	25	26	22	26	35	39	56
Investment Portfolio	1,401	1,766	2,512	3,155	4,691	6,367	11,140	15,980	27,601	43,084	48,289	54,017
Policy Benefits	141	191	271	375	596	796	1,560	1,565	2,391	4,097	4,341	4,715
No. of Policies in Force (Individual Life)	357,413	379,083	397,158	413,231	489,366	599,423	945,258	1,297,879	1,681,946	2,087,919	2,092,404	2,033,388
No. of Lives Covered (Group Life)	-	1,500,000	2,340,472	2,585,775	2,802,279	3,003,387	3,767,266	4,308,986	4,250,232	4,341,011	4,198,974	4,456,347
Total Business in Force (Sum Assured and Bonuses)	17,899	17,952	30,055	45,847	62,277	77,542	117,726	145,626	311,306	440,762	489,772	539,751



(Rupees in millions)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Annual Compound Growth Rates (1973-2011)
1,275	1,041	1,124	1,350	1,797	2,348	2,806	3,327	3,854	5,159	7,196	9,647	11,990	16%
4,312	4,538	4,565	5,489	5,790	6,655	8,454	9,785	12,054	13,993	17,634	22,287	28,144	14%
1,251	1,102	1,249	1,518	2,281	1,997								
2,548	2,281	1,997	2,548	2,866	2,796	3,532	3,514	3,676	4,645	13%			
-	-	7	8	13	15	14	14	11	23	29	33	0%	
6,838	6,681	6,945	8,364	9,881	11,014	13,820	15,992	18,717	22,695	28,367	35,639	44,812	14%
8,406	7,873	8,492	11,200	10,202	13,610	13,106	14,924	17,505	19,133	21,545	27,434	31,175	17%
15,286	14,592	15,436	19,564	20,082	24,624	26,926	30,915	36,222	41,828	49,914	63,073	75,988	15%
8,060	8,745	8,342	8,165	9,938	11,544	12,673	15,393	17,049	20,779	27,356	31,489	37,122	14%
62,484	68,127	75,343	86,211	95,957	108,808	122,775	137,960	156,737	177,459	199,445	230,422	268,580	15%
15	13	13	1广播	12	14	12	12	13	12	12	14	13	-
46	54	40	38	39	41	36	41	33	35	41	40	39	-
45	57	37	34	35	34	28	34	9	11	19	18	17	-
59,933	64,829	74,029	86,203	96,415	110,488	124,984	142,159	161,966	182,874	205,804	235,935	275,110	15%
4,904	5,136	5,572	5,005	6,123	7,063	7,654	8,912	10,783	12,779	15,724	17,072	19,420	14%
1,963,723	1,878,139	1,806,476	1,801,919	1,849,125	1,926,254	2,044,015	2,183,783	2,348,791	2,568,698	2,895,354	3,317,192	3,774,293	7%
3,501,163	3,259,618	3,295,387	3,443,916	3,632,688	3,898,333	3,731,002	3,915,529	4,061,865	3,879,686	3,754,296	3,835,712	6,043,553	-
656,776	499,136	506,245	629,011	816,210	947,239	1,040,556	1,143,770	1,289,079	1,602,159	1,674,745	2,013,298	2,690,594	15%



# State Life Offices in Pakistan and U.A.E.

## Regional Office (South)

State Life Building # 2,  
10th Floor, Wallace Road  
Karachi.  
Tel. 021-99217035-36

## Karachi South

State Life Building # 2,  
11th Floor, Wallace Road  
Karachi.  
Tel. 021-99217023-24

## Karachi Central

Al-Farhan Towers,  
Plot # D-15, Block-H,  
N. Nazimabad, Karachi.  
Tel. 021-99260011-13

## Karachi Eastern

Jason Trade Centre,  
7th Floor, 39-A-1,  
PECHS, Sharah-e-Faisal,  
Karachi.  
Tel. 021-34539180-8095

## Hyderabad

State Life Building,  
Thandi Sarak.  
Tel. 022-9200622-352

## Quetta

2nd Floor,  
PIA Building, Hali Road.  
Tel. 081-9201520/30

## Sukkur

State Life Building,  
Minara Road.  
Tel. 071-9310501-525

## Mirpurkhas

M.A. Jinnah Road,  
Near D.C. Office,  
Islamabad.  
Tel. 0233-9290205

## Larkana

State Life Building,  
Qaid-e-Awam Road.  
Tel. 074-9410800-01

## Gulf

P.O. Box # 11276,  
Dubai, U.A.E.  
Tel. 0097142729061  
Fax 0097142729051

## Regional Office (Central)

66-C/1, Gulberg-III,  
Lahore.  
Tel. 042-99205121-22

## Lahore Central

State Life Square,  
4- Lytton Road,  
Lahore,  
Tel. 042-99210269-70

## Lahore Western

State Life Square,  
4- Lytton Road,  
Lahore,  
Tel. 042-99211711-642

## Faisalabad

State Life Building # 2,  
Liaquat Road.  
Tel. 041-9200390-636

## Sargodha

40 Civil Lines,  
Green Plaza College Road.  
Tel. 048-9230311-319

## Gujranwala

Din Plaza, G.T. Road.  
Tel. 055-9200282-285

## Sialkot

Paris Road.  
Tel. 052-9250101-111

## Real Estate

State Life Building # 5,  
33-E, Blue Area,  
Islamabad.  
Tel. 051-9205329-6162

## Real Estate

State Life Building ,  
15-A, Davis Road,  
Lahore.  
Tel. 042-9200396

## Regional Office (North)

State Life Building # 9,  
Bulund Markaz Plaza, 33-E,  
4th Floor, Blue Area, Islamabad.  
Tel. 051-9204935-47

## Rawalpindi

State Life Building # 1,  
The Mall.  
Tel. 051-9270315-1351

## Peshawar

State Life Building ,  
34-The Mall.  
Tel. 091-9212312-314

## Abbottabad

Farooqabad Plaza,  
Mansehra Road.  
Tel. 0992-380924 -381090

## Mirpur (AK)

Barry Mian Plaza,  
Kotli Road.  
Tel. 05827-927465-435106

## Swat

Dean Plaza Opp. Central Hospital,  
P.O.Box # 4, Saidu Sharif.  
Tel. 0946-9240060

## Gujrat

State Life Building,  
5th Floor,  
G.T. Road.  
Tel. 053-9260242

## Islamabad

State Life Building # 9,  
4th Floor, 33-E, Blue Area,  
Jinnah Avenue, Islamabad.  
Tel. 051-9206017

## G&P Rawalpindi

State Life Building # 8,  
Kashmir Road,  
Rawalpindi.  
Tel. 051-9272598

## Regional Office (Multan)

4th Floor, State Life Building,  
Chowk Nawan Shaher,  
Abdali Road.  
Tel. 061-9200670-770

## Multan

State Life Building,  
Chowk Nawan Shaher,  
Abdali Road.  
Tel. 061-9200676-801

## Sahiwal

Sattar Complex,  
Stadium Road.  
Tel. 040-9200022-23

## Rahim Yar Khan

2nd Floor Iqbal Complex,  
Model Town.  
Tel. 068-9230027-28

## Dera Ghazi Khan

1st Floor, Dubai Trade Center,  
Jampur Road.  
Tel. 064-2470612-9239130

## Bahawalpur

Circular Road,  
Al-Karim Plaza, 2nd Floor.  
Tel. 062-9255171-72

## G&P Peshawar

State Life Building,  
34 - The Mall,  
Peshawar.  
Tel. 091-9211596

## G&P Karachi

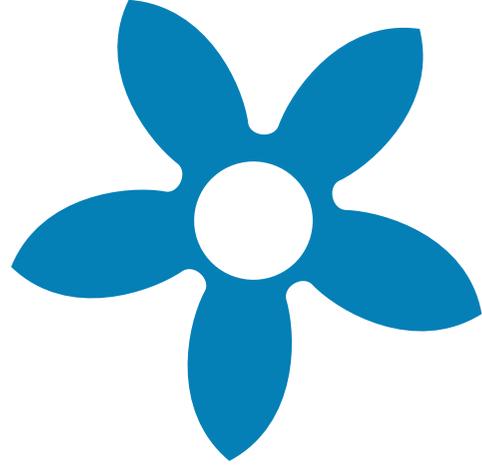
State Life Building # 2,  
Wallace Road,  
Karachi.  
Tel. 021-99217060-97

## G&P Lahore

State Life Building,  
15-A, Davis Road,  
Lahore.  
Tel. 042-99200355-58

# State Life

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in Pakistan  
with a  
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The AAA Rating from PACRA reflects our exceptionally strong capacity to meet contractual obligations with our policyholders. It also denotes the leading position of State Life amongst insurance companies in Pakistan. Our extensive distribution network, good management, comprehensive information systems and growing business volumes are the basis for the ever-growing confidence that our policyholders repose in us.

State Life's senior management extends its gratitude to its policyholders for their unshakable trust and appreciates the hard work and dedication of its employees, officers and marketing force.

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**A Lasting Tradition for Every Generation**

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