EFU LIFE ASSURANCE LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	Shareholders' Fund	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
		(Rupees in '000)						
Share capital and reserves								
Authorised share capital [100,000,000 ordinary shares (2010: 100,000,000) of Rs.10 each]		1,000,000	-	-	-	-	**1,000,000**	1,000,000
Issued, subscribed and paid up Share Capital	8	850,000	-	-	-	-	**850,000**	850,000
Accumulated surplus		650,140	-	-	-	-	**650,140**	496,775
General reserves		232,500	-	-	-	-	**232,500**	232,500
Net shareholders' equity		1,732,640	-	-	-	-	**1,732,640**	1,579,275
Balance of statutory fund [including policyholders' liabilities Rs. 23,921 million (2010: Rs. 18,574 million)	10	-	23,987,418	407,741	14,995	4,055	**24,414,209**	18,865,481
Deferred tax liability	11	11,750	-	-	-	-	**11,750**	11,800
Creditors and accruals								
Outstanding claims	12	-	261,847	359,496	-	894	**622,237**	514,710
Premiums received in advance		-	430,391	32,832	756	534	**464,513**	418,578
Amounts due to reinsurers		-	28,315	24,529	278	1,027	**54,149**	37,477
Amounts due to agents		-	266,783	28,568	5	160	**295,516**	243,694
Accrued expenses		515	118,659	8,451	-	43	**127,668**	106,836
Unclaimed dividend		8,728	-	-	-	-	**8,728**	5,206
Other creditors and accruals	13	17,480	47,228	3,112	-	23	**67,843**	55,653
Inter - fund payable		-	221,857	5,586	2,601	767	**230,811**	324,025
Total liabilities		26,723	1,375,080	462,574	3,640	3,448	**1,871,465**	1,706,179
Contingency	14							
Total equity and liabilities		**1,771,113**	**25,362,498**	**870,315**	**18,635**	**7,503**	**28,030,064**	22,162,735

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2011

	Note	Shareholders' Fund	Statutory Funds: Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
		(Rupees in '000)						
Cash and bank deposits	15							
Policy stamps in hand		-	10,120	283	-	-	**10,403**	3,623
Current and other accounts		36,321	533,556	231,294	4,491	2,392	**808,054**	752,702
Deposits maturing within 12 months		-	235,000	88,000	-	-	**323,000**	70,000
		36,321	778,676	319,577	4,491	2,392	**1,141,457**	826,325
Loans	16							
To employees - secured		47,937	-	-	-	-	**47,937**	44,776
To employees and agents- unsecured		8,553	-	-	-	-	**8,553**	10,807
		56,490	-	-	-	-	**56,490**	55,583
Investments	17							
Government securities		502,135	15,898,131	273,613	6,736	954	**16,681,569**	10,679,895
Other fixed income securities		60,753	3,564,691	171,265	3,513	2,846	**3,803,068**	4,212,481
Listed equities and mutual funds		233,759	4,377,239	33,781	3,611	-	**4,648,390**	4,819,084
Unlisted equities		508	-	-	-	-	**508**	508
		797,155	23,840,061	478,659	13,860	3,800	**25,133,535**	19,711,968
Current assets - others								
Premiums due but unpaid		-	-	40,529	-	-	**40,529**	28,860
Amounts due from reinsurers		-	14,283	1,991	-	-	**16,274**	86,159
Amounts due from agents		-	-	-	-	-	**-**	-
Prepayments		-	13,597	2,778	-	22	**16,397**	11,772
Sundry receivables		-	11,296	925	-	6	**12,227**	15,589
Investment income accrued	18	9,053	653,763	19,858	284	1,250	**684,208**	478,105
Taxation - provision less payments		190,873	-	-	-	-	**190,873**	171,683
Advances and deposits		-	50,822	5,998	-	33	**56,853**	31,791
Inter-fund receivable		230,811	-	-	-	-	**230,811**	324,025
		430,737	743,761	72,079	284	1,311	**1,248,172**	1,147,984
Fixed assets	19							
Tangible assets								
Leased hold land		126,505	-	-	-	-	**126,505**	126,505
Furniture, fixtures, office equipment and vehicles		257,683	-	-	-	-	**257,683**	232,617
Capital work in progress		56,824	-	-	-	-	**56,824**	60,687
Intangible (Computer software)		9,398	-	-	-	-	**9,398**	1,066
		450,410	-	-	-	-	**450,410**	420,875
Total assets		**1,771,113**	**25,362,498**	**870,315**	**18,635**	**7,503**	**28,030,064**	22,162,735

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011	2010
Investment income not attributable to statutory funds		------(Rupees in '000)------	
Return on government securities		**39,419**	21,091
Return on other fixed income securities and deposits		**12,156**	15,237
Dividend income		**13,797**	20,827
		65,372	57,155
Gain on disposal of available-for-sale investments		**1,727**	-
Provision for impairment in the value of available for sale investments		**(37,307)**	(204,131)
Net investment income / (loss)		**29,792**	(146,976)
Other revenue	22	**15,804**	18,161
		45,596	(128,815)
Expenses not attributable to statutory funds	23	**(24,562)**	(9,468)
		21,034	(138,283)
Surplus transferred from statutory funds		**859,781**	689,318
Profit before tax		**880,815**	551,035
Taxation	24	**(302,450)**	(187,800)
Profit after tax		**578,365**	363,235
Earnings per share - basic and diluted	26	**6.80**	4.27

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	**Director**	**Managing Director & Chief Executive**	**Chairman**

EFU LIFE ASSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Share Capital	General Reserves	Accumulated Surplus	Total
	---------------------------------(Rupees in '000)-------------------------			
Balance as at 1 January 2010	750,000	232,500	646,040	1,628,540
Changes in equity for 2010				
Issue of bonus shares	100,000	-	(100,000)	-
Dividend for the year 2009	-	-	(412,500)	(412,500)
Profit for the year	-	-	363,235	363,235
Balance as at 31 December 2010	850,000	232,500	496,775	1,579,275
Changes in equity for 2011				
Dividend for the year 2010	-	-	(425,000)	(425,000)
Profit for the year	-	-	578,365	578,365
Balance as at 31 December 2011	**850,000**	**232,500**	**650,140**	**1,732,640**

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED
STATEMENT OF CASH FLOWS
AS AT 31 DECEMBER 2011

	Shareholders' Fund	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
Operating cash flows	---(Rupees in '000)---						
a) Underwriting activities							
Premiums received	-	8,783,485	1,376,997	1,376	2,007	**10,163,865**	8,480,973
Reinsurance premiums paid	-	(59,066)	(15,166)	34	1,343	**(72,855)**	(122,263)
Claims paid	-	(229,795)	(804,754)	-	(507)	**(1,035,056)**	(882,137)
Surrenders paid	-	(1,580,027)	-	(1,780)	-	**(1,581,807)**	(1,291,118)
Commissions paid	-	(1,831,622)	(235,839)	(50)	(329)	**(2,067,840)**	(1,939,057)
Net cash generated from / (used in) underwriting activities	-	5,082,975	321,238	(420)	2,514	**5,406,307**	4,246,398
b) Other operating activities							
Income tax paid	(321,690)	-	-	-	-	**(321,690)**	(129,295)
General management expenses paid	(25,137)	(1,014,213)	(94,419)	(101)	(427)	**(1,134,297)**	(907,711)
Other operating payments	(5,838)	(44,435)	(89,563)	-	(4,564)	**(144,400)**	(34,371)
Other operating receipts	140,585	17,356	-	2,171		**160,112**	42,090
Loans advanced	(19,606)	-	-	-	-	**(19,606)**	(39,448)
Loan repayments received	18,699	-	-	-	-	**18,699**	42,880
Other payments on operating assets	-	(22,317)	(3,981)	-	(27)	**(26,325)**	(3,299)
Net cash generated from / (used in) other operating activities	(212,987)	(1,063,609)	(187,963)	2,070	(5,018)	**(1,467,507)**	(1,029,154)
Total cash generated from / (used in) all operating activities	(212,987)	4,019,366	133,275	1,650	(2,504)	**3,938,800**	3,217,244
Investment activities							
Profit / return received	64,209	2,025,609	60,987	1,429	337	**2,152,571**	1,567,370
Dividends received	13,797	361,003	850	334	-	**375,984**	272,909
Payments for investments	(216,081)	(5,682,320)	-	-	-	**(5,898,401)**	(5,734,660)
Proceeds from disposal of investments	10,614	137,231	86,470	1,732	5,035	**241,082**	653,630
Fixed capital expenditure	(76,698)	-	-	-	-	**(76,698)**	(117,496)
Proceeds from disposal of fixed assets	6,794	-	-	-	-	**6,794**	14,025
Total cash generated from / (used in) investing activities	(197,365)	(3,158,477)	148,307	3,495	5,372	**(3,198,668)**	(3,344,222)
Financing activities							
Surplus appropriated to shareholders' fund	859,781	(822,560)	(33,053)	(2,719)	(1,449)	**-**	-
Dividends paid	(425,000)	-	-	-	-	**(425,000)**	(412,500)
Total cash generated from / (used in) financing activities	434,781	(822,560)	(33,053)	(2,719)	(1,449)	**(425,000)**	(412,500)
Net cash generated from / (used in) all activities	24,429	38,329	248,529	2,426	1,419	**315,132**	(539,478)
Cash at beginning of the year	11,892	740,347	71,048	2,065	973	**826,325**	1,365,803
Cash at end of the year	**36,321**	**778,676**	**319,577**	**4,491**	**2,392**	**1,141,457**	826,325

Reconciliation to profit and loss account

	Aggregate 2011	Aggregate 2010
Operating cash flows	**3,938,800**	3,217,244
Depreciation	**(40,789)**	(35,534)
Amortization	**(3,060)**	(3,890)
Profit on disposal of fixed assets	**3,480**	6,620
Other revenue	**12,324**	11,541
Investment revenue	**2,722,334**	1,932,489
(Diminution) / appreciation in market value of investments	**(203,025)**	78,406
Provision for impairment in the value of available for sale investments	**(39,257)**	(213,721)
Provision for doubtful debt investment	**(40,501)**	13,932
Profit / (loss) on sale of investments	**47,031**	(301,068)
Increase in assets other than cash	**(105,008)**	21,735
Increase in liabilities	**(5,713,964)**	(4,364,519)
Profit after taxation	**578,365**	363,235

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED
REVENUE ACCOUNT
AS AT 31 DECEMBER 2011

	Note	Statutory Funds					
		Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
		(Rupees in '000)					
Income							
Premiums less reinsurances		8,572,363	1,021,674	1,414	1,812	**9,597,263**	7,920,022
Net investment income		2,395,382	58,942	1,734	732	**2,456,790**	1,657,014
Total net income		10,967,745	1,080,616	3,148	2,544	**12,054,053**	9,577,036
Claims and expenditure							
Claims net of reinsurance recoveries		1,787,950	570,979	1,743	107	**2,360,779**	1,837,151
Management expenses		2,944,664	339,158	160	783	**3,284,765**	2,952,552
Total claims and expenditure		4,732,614	910,137	1,903	890	**5,645,544**	4,789,703
Excess of income over claims and expenditure		6,235,131	170,479	1,245	1,654	**6,408,509**	4,787,333
Add : policyholders' liabilities at beginning of the year		18,307,248	246,427	16,469	3,686	**18,573,830**	14,491,707
Less : policyholders' liabilities at end of the year	9.2	23,650,350	252,050	14,846	3,527	**23,920,773**	18,573,830
		(5,343,102)	(5,623)	1,623	159	**(5,346,943)**	(4,082,123)
Surplus before tax		892,029	164,856	2,868	1,813	**1,061,566**	705,210
Movement in policyholders' liabilities		5,343,102	5,623	(1,623)	(159)	**5,346,943**	4,082,123
Transfer of surplus to shareholders' fund		(822,560)	(33,053)	(2,719)	(1,449)	**(859,781)**	(689,318)
Balance of statutory funds at beginning of the year		18,574,847	270,315	16,469	3,850	**18,865,481**	14,767,466
Balance of statutory funds at end of the year		**23,987,418**	**407,741**	**14,995**	**4,055**	**24,414,209**	18,865,481
Represented by:							
Policyholders' liabilities	9.2	23,650,350	252,050	14,846	3,527	**23,920,773**	18,573,830
Retained earnings on other than participating business		337,068	155,691	149	528	**493,436**	291,651
Balance of statutory funds	10	**23,987,418**	**407,741**	**14,995**	**4,055**	**24,414,209**	18,865,481

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED

STATEMENT OF PREMIUMS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Statutory Funds					
	Investment Linked Business	**Conventional Business**	**Pension Business (Unit Linked)**	**Accident & Health Business**	**Aggregate 2011**	**Aggregate 2010**
Gross premiums	(Rupees in '000)					
Regular premium individual policies*						
First year	2,831,978	3,974	-	372	**2,836,324**	2,451,093
Second year renewal	1,788,635	2,275	-	83	**1,790,993**	1,335,769
Subsequent year renewal	4,040,270	5,591	1,473	2,059	**4,049,393**	3,202,210
Single premium individual policies	86,526	-	-	-	**86,526**	141,968
Group policies without cash values	-	1,366,363	-	-	**1,366,363**	1,244,475
Total gross premiums	8,747,409	1,378,203	1,473	2,514	**10,129,599**	8,375,515
Less: Reinsurance premiums ceded						
On individual life first year business	25,379	522	-	14	**25,915**	30,127
On individual life second year business	23,876	955	-	31	**24,862**	19,174
On individual life renewal business	125,791	2,502	59	657	**129,009**	121,904
On group policies	-	352,550	-	-	**352,550**	284,288
Total reinsurance premium ceded	175,046	356,529	59	702	**532,336**	455,493
Net premiums	**8,572,363**	**1,021,674**	**1,414**	**1,812**	**9,597,263**	7,920,022

* Individual policies are those underwritten on an individual basis, and includes joint life policies underwritten as such.

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	**Director**	**Managing Director & Chief Executive**	**Chairman**

EFU LIFE ASSURANCE LIMITED
STATEMENT OF CLAIMS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
Gross claims	(Rupees in '000)					
Claims under individual policies						
by death	255,749	14,860	-	-	**270,609**	194,243
by insured event other than death	13,145	-	-	657	**13,802**	12,149
by maturity	28,001	-	-	-	**28,001**	30,504
by surrender	1,580,027	-	1,780	-	**1,581,807**	1,291,118
Total gross individual policy claims	1,876,922	14,860	1,780	657	**1,894,219**	1,528,014
Claims under group policies						
by death	-	652,645	-	-	**652,645**	547,623
by insured event other than death	-	66,880	-	-	**66,880**	29,151
experience refund	-	110,646	-	-	**110,646**	66,682
Total gross group claims	-	830,171	-	-	**830,171**	643,456
Total gross claims	1,876,922	845,031	1,780	657	**2,724,390**	2,171,470
Less: Reinsurance recoveries						
On individual life first year business	16,701	12,824	-	4	**29,529**	12,437
On individual life second year business	9,248	-	-	-	**9,248**	4,166
On individual life subsequent renewal business	36,968	-	-	475	**37,443**	31,544
On group claims	-	218,132	-	-	**218,132**	204,614
On experience refund of premiums	26,055	43,096	37	71	**69,259**	81,558
Total reinsurance	88,972	274,052	37	550	**363,611**	334,319
Net claims	**1,787,950**	**570,979**	**1,743**	**107**	**2,360,779**	1,837,151

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	**Director**	**Managing Director & Chief Executive**	**Chairman**

EFU LIFE ASSURANCE LIMITED
STATEMENT OF EXPENSES
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
Acquisition costs		-----------(Rupees in '000)-----------					
Remuneration to insurance intermediaries on individual policies:							
- commission on first year premiums		1,397,950	1,303	-	158	**1,399,411**	1,281,015
- commission on second year premiums		169,824	223	-	36	**170,083**	125,602
- commission on subsequent renewal premiums		101,330	142	37	95	**101,604**	87,018
- commission on single premiums		1,731	-	-	-	**1,731**	2,991
- override commission		208,203	405	14	69	**208,691**	165,440
- other benefits to insurance intermediaries		308,337	507	64	107	**309,015**	263,054
		2,187,375	2,580	115	465	**2,190,535**	1,925,120
Remuneration to insurance intermediaries on group policies:							
- commission		-	238,142	-	-	**238,142**	331,491
- other benefits to insurance intermediaries		-	24,737	-	-	**24,737**	21,746
		-	262,879	-	-	**262,879**	353,237
Branch overheads	20	288,977	7,274	45	77	**296,373**	246,875
Other acquisition costs							
- policy stamps		46,279	484	-	3	**46,766**	41,697
Total acquisition cost		2,522,631	273,217	160	545	**2,796,553**	2,566,929
Administration expenses							
Salaries and other benefits		204,950	41,268	-	129	**246,347**	182,549
Travelling expenses		52,805	2,143	-	5	**54,953**	45,441
Actuary's fees		5,508	488	-	4	**6,000**	5,700
Medical fees		12,863	1,081	-	-	**13,944**	13,341
Legal and professional fee		9,510	820	-	6	**10,336**	9,867
Advertisements and publicity		7,735	692	-	5	**8,432**	15,218
Computer expenses		3,838	391	-	3	**4,232**	2,718
Printing and stationery		18,359	2,351	-	10	**20,720**	16,057
Depreciation	19.3	8,305	1,432	-	5	**9,742**	8,716
Amortisation		2,808	249	-	3	**3,060**	3,890
Rental		10,518	2,898	-	6	**13,422**	11,450
Exchange gain		(3,242)	-	-	-	**(3,242)**	(1,540)
Postage		25,171	3,083	-	16	**28,270**	14,305
Fees and subscription		19,100	2,506	-	13	**21,619**	15,430
Other management expenses	21	52,881	6,776	-	33	**59,690**	55,271
Gross management expenses		2,953,740	339,395	160	783	**3,294,078**	2,965,342
Commission from reinsurers		(9,076)	(237)	-	-	**(9,313)**	(12,790)
Net management expenses		**2,944,664**	**339,158**	**160**	**783**	**3,284,765**	2,952,552

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	Director	Managing Director & Chief Executive	Chairman

EFU LIFE ASSURANCE LIMITED
STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Statutory Funds					
	Investment Linked Business	**Conventional Business**	**Pension Business (Unit Linked)**	**Accident & Health Business**	**Aggregate 2011**	**Aggregate 2010**
Investment income	------------------------------------(Rupees in '000)--					
On government securities	1,592,260	31,951	835	211	**1,625,257**	931,809
On other fixed income securities and deposits	639,868	29,851	562	526	**670,807**	693,368
Dividend income	361,003	850	334	-	**362,187**	252,082
Amortisation of discount / (premium)	32,360	(66)	(50)	(5)	**32,239**	18,300
	2,625,491	62,586	1,681	732	**2,690,490**	1,895,559
Gain / (loss) on sale of investments						
Shares and mutual fund units	44,460	822	22	-	**45,304**	(301,068)
(Loss) / gain on revaluation of investments						
Government securities	419,125	-	369	-	**419,494**	(330,675)
Other fixed income securities	62,957	-	101	-	**63,058**	46,725
Listed equities securities and mutual fund units	(717,377)	-	(439)	-	**(717,816)**	344,056
	(235,295)	-	31	-	**(235,264)**	60,106
Provision for impairment in value of investments						
Available-for-sale fixed income securities	(37,489)	(3,012)	-	-	**(40,501)**	13,932
Available-for-sale equity securities and mutual fund units	(496)	(1,454)	-	-	**(1,950)**	(9,590)
	(37,985)	(4,466)	-	-	**(42,451)**	4,342
	2,396,671	58,942	1,734	732	**2,458,079**	1,658,939
Less : Investment related expense	(1,289)	-	-	-	**(1,289)**	(1,925)
Net investment income	**2,395,382**	**58,942**	**1,734**	**732**	**2,456,790**	**1,657,014**

The annexed notes 1 to 33 form an integral part of these financial statements.

Director	**Director**	**Managing Director & Chief Executive**	**Chairman**

1. STATUS AND NATURE OF BUSINESS

EFU Life Assurance Limited (the Company) was incorporated in Pakistan on 09 August 1992 as a public limited company under the Companies Ordinance, 1984 and started its operation from 08 November 1992. The shares of the Company are quoted on Karachi Stock Exchange. The registered office of the Company is located at Al-Malik Centre, 70W, F-7/G-7 Jinnah Avenue, Islamabad while principal place of business is located at 37-K, Block 6, PECHS, Karachi.

The Company is engaged in life insurance business including ordinary life business, pension fund business and accident and health business and has established following statutory funds, as required by the Insurance Ordinance, 2000:

- Investment Linked business (includes individual life business)
- Conventional business (includes group life and individual life businesses)
- Pension business (unit linked)*
- Accident and health business

* The Company had discontinued pension business and accordingly no new business has been written under this fund.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with the format prescribed under Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002].

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with 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 as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the 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 SECP has allowed the insurance companies to defer the application of International Accounting Standard – 39 (IAS-39) “Financial Instruments: Recognition and Measurement” in respect of valuation of “available-for-sale investments”. Accordingly, the requirements of IAS-39, to the extent allowed by SECP as aforesaid, have not been considered in the preparation of these financial statements (also see note 17.6)

4. BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of the historical cost convention except revaluation of certain investments at fair value.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as described below:

New and amended standards and interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

IAS 24 - Related Party Disclosures (Revised)
IAS 32 - Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

IFRS 3 - Business Combinations

-Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
-Measurement of non-controlling interests
-Un-replaced and voluntarily replaced share-based payment awards

IFRS 7 - Financial Instruments: Disclosures
- Clarification of disclosures

IAS 1 - Presentation of Financial Statements
-Clarification of statement of changes in equity

IAS 27 - Consolidated and Separate Financial Statements
- Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements

IAS 34 - Interim Financial Reporting
- Significant events and transactions

IFRIC 13 - Customer Loyalty Programmes
- Fair value of award credits

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements.

5.2 Reinsurance assets

Reinsurance contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued. Claim recoveries receivable from the reinsurers are recognized at the same time as the claim which give rise to the right of recovery and are measured at the amount expected to be recovered.

Reinsurance assets represent balances due from reinsurance companies which are stated on the basis of amounts receivable under the respective contract after considering any impairment in the value of such assets.

5.3 Statutory funds

The Company maintains statutory funds for all classes of life insurance business. Assets, liabilities, revenues and expenses are recorded in respective funds, if referable or, on the basis of actuarial advice if not referable. Other assets, liabilities, revenues and expenses are allocated to shareholders' fund. Policyholders' liabilities have been included in statutory funds on the basis of the actuarial valuation carried out by the appointed actuary of the Company on the balance sheet date as required by Section 50 of the Insurance Ordinance, 2000. A capital transfer provided to statutory funds by the shareholders’ fund is recorded as a reduction in the shareholders’ equity. Changes in the amount of capital contributed to statutory funds is recorded by the shareholders' funds directly in

5.4 Policyholders' liabilities

Policyholders' liabilities are stated at a value determined by the appointed actuary through an actuarial valuation carried out as at each balance sheet 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 Company underwrites are taken into account. The bases used are applied consistently from year to year.

The basic liability consists of the estimated actuarial liability against each contract which is in force. To this are added:

a) The cash value of policies which have lapsed over the last two years and where the liability would be reinstated in case of the policy being revived; and

b) A reserve for potential losses on a policy by policy basis.

5.5 Provision for outstanding claims

A liability for outstanding claims is recognized in respect of all claims incurred up to the balance sheet date, except for accident and health claims which are recognized as soon as reliable estimates of the claim amount can be made. Claims where intimation of the event giving rise to the claim is received or in respect of investment linked business when the policy ceases to participate in the earnings of the statutory fund are reported as claims in the revenue account. The liability for claims incurred but not reported at the year end is determined by the Appointed Actuary and are included in the policyholders' liabilities. Experience refund of premium calculated by appointed actuary is included in outstanding claims. Experience refund of premium receivable from reinsurers is included in the reinsurance recoveries of claim.

5.6 Investments

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for held-for-trading investments in which case transaction costs are charged to the profit and loss account. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. Subsequently the investments are classified as follows:

Held-for-trading

Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price are classified as held-for-trading.

Subsequent to initial recognition, these investments are remeasured at fair value. Gains or losses on investments on remeasurement of these investments are recognised in profit and loss account or the revenue account as the case may be.

Held-to-Maturity

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Investments classified as held-to-maturity are subsequently measured at amortized cost, taking into account any discount or premium on acquisition, using the effective interest rate method.

Available-for-Sale

Investments which do not fall in the above category are classified as available-for-sale.

Available-for-sale investments relating to the units assigned to policies of investment linked business and pension business are subsequently measured at their fair values and the difference taken to respective revenue accounts. Other available-for-sale investments are subsequently measured at lower of cost or market value (market value being taken as lower if fall is other than temporary).

5.7 Revenue recognition

- First year individual life premiums are recognized once the related policies have been issued and the premiums received. Renewal premiums are recognized upon receipt of premium provided the policy is still in force. Single premiums are recognized once the related policies are issued against the receipts of premium.
- Group life premiums are recognized when due. A provision for unearned premiums is included in the policyholders' liabilities.
- Reinsurance expense is recognized as a liability in accordance with the pattern of recognition of related premium.
- Interest income on bank deposits is recorded on a time proportion basis.
- Fixed income securities are recorded on a time proportion basis using effective interest rate method.
- Dividend income is recognized when right to receive such dividend is established.

5.8 Acquisition costs

These are costs incurred in acquiring insurance policies, maintaining such policies, and include without limitation all forms of remuneration paid to insurance agents.

Commissions and other expenses are recognized as an expense in the earlier of the financial year in which they are paid and financial year in which they become due and payable, except that commission and other expenses which are directly referable to the acquisition or renewal of specific contracts are recognized not later than the period in which the premium to which they refer is recognized as revenue.

5.9 Employees' retirement benefits

The Company operates two retirement benefit plans, i.e. an approved funded provident fund scheme for all permanent employees and an approved funded pension scheme for eligible officers. Monthly contributions to these funds are made in accordance with their rules. Contributions made to these funds are recognized as an expense.

5.10 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments finalized during the current year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

5.11 Dividends and other appropriations

Cash dividend to shareholders is recognized as liability in the period in which it is approved. Similarly all other appropriations other than those required by law including reserve for issue of bonus shares are recognized in the period in which they are approved.

5.12 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting using the classes or sub classes of business (statutory funds) as specified under the Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002.

Based on its classification of Insurance contracts issued, the Company has four business segments for reporting purposes namely investment linked business, conventional business, pension business and accident and health business.

5.13 Fixed Assets

Tangible assets

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

Depreciation is calculated so as to write off the depreciable amount of the assets over their expected useful lives at the rates specified in note 19.1 to the financial statements, after taking into account residual value, if any. The useful lives, residual values and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the quarter in which an asset is available for use while no depreciation is charged for the quarter in which asset is disposed off.

Subsequent cost are included in the assets carrying amount or recognized as separate asset, as appropriate, only when it is possible that the future economic benefit associated with the item will flow to the company 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. Gain and losses on disposal, if any, of assets are included in income currently.

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount.

Intangible assets

These are stated at cost less accumulated amortisation and any impairment in value. amortisation on intangible fixed assets is charged to income applying the straight line method at the rates specified in note 19.2 to the financial statements after taking into account residual value, if any.

Amortisation is charged from the quarter the assets are available for use and no amortisation is charged for the quarter in which the asset is disposed off. The useful life and amortisation method is reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying values of intangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable, if any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Capital work-in-progress

Capital work-in-progress is stated at cost less impairment losses, if any.

5.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of statement of cash flows, cash and cash equivalents consists of cash in hand, stamps in hand and deposits with banks.

5.15 Foreign currency transactions

5.15.1 Functional and presentation currency

These financial statements are presented in Pak Rupee, which is the Company’s functional and presentation currency.

5.15.2 Foreign currency translations

Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the balance sheet date. Gain and losses on translation are taken into income currently. Non monetary-items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

5.16 Provisions

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

5.17 Financial Instruments

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of the ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current year.

5.18 Off-setting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off and the Company intends either to settle the assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

6. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting polices. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and any future periods affected.

In the process of applying the Company’s accounting policies, management has made the following estimates and judgments which are significant to the financial statements:

	Note
Policyholders' liabilities and underlying actuarial assumptions	5.4, 9 & 28.3
Provision for outstanding claims	5.5 & 12
Classification of investments	5.6 & 17
Taxation and deferred taxation	5.10 & 11
Determining the residual value and useful lives of fixed assets	5.13 & 19

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard, Interpretation or amendment	Effective date (accounting periods beginning on or after)
IFRS 7 - Financial Instruments : Disclosures – (Amendments)	
- Amendments enhancing disclosures about transfers of financial assets	01 July 2011
- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1 - Presentation of financial Statements – Presentation of items of comprehensive income	01 July 2012
IAS 12 – Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 – Employee Benefits –(Amendment)	01 January 2013

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

	IASB Effective date (accounting periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01 January 2015
IFRS 10 – Consolidated Financial Statements	01 January 2013
IFRS 11 – Joint Arrangements	01 January 2013
IFRS 12 – Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 – Fair Value Measurement	01 January 2013

8. SHARE CAPITAL

2011	2010		2011	2010
(Number of Shares)			(Rupees in ‘000)	
		Issued, subscribed and paid-up		
15,000,000	15,000,000	Ordinary shares of Rs 10 each issued for cash	**150,000**	150,000
70,000,000	70,000,000	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**700,000**	700,000
85,000,000	85,000,000		**850,000**	850,000

8.1 As of balance sheet date 52,944,692 (2010: 53,056,406) ordinary shares of Rs. 10/- each were held by the associated companies.

9. POLICYHOLDERS' LIABILITIES

9.1 Gross of reinsurance

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in ‘000)					
Actuarial liability relating to future events	23,689,381	298,271	14,895	3,986	**24,006,533**	18,625,294
Provision for outstanding reported claims payable over a period exceeding twelve months	156,226	28,409	-	-	**184,635**	144,689
Provision for incurred but not reported claims	27,962	73,233	-	-	**101,195**	79,332
	23,873,569	**399,913**	**14,895**	**3,986**	**24,292,363**	18,849,315

9.2 Net of reinsurance

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)					
Actuarial liability relating to future events	23,538,113	195,348	14,846	3,527	**23,751,834**	18,440,098
Provision for outstanding reported claims payable over a period exceeding twelve months	89,617	5,101	-	-	**94,718**	78,937
Provision for incurred but not reported claims	22,620	51,601	-	-	**74,221**	54,795
	23,650,350	**252,050**	**14,846**	**3,527**	**23,920,773**	18,573,830

10. RECONCILIATION OF STATUTORY FUNDS

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)					
Policyholders' liabilities						
Balance at beginning of the year	18,307,248	246,427	16,469	3,686	**18,573,830**	14,491,707
Increase / (decrease) during the year	5,343,102	5,623	(1,623)	(159)	**5,346,943**	4,082,123
Balance at end of the year	**23,650,350**	**252,050**	**14,846**	**3,527**	**23,920,773**	18,573,830
Retained earnings on other than participating business						
Balance at beginning of the year	267,599	23,888	-	164	**291,651**	275,759
Surplus for the year	892,029	164,856	2,868	1,813	**1,061,566**	705,210
Surplus appropriated to shareholders' fund	(822,560)	(33,053)	(2,719)	(1,449)	**(859,781)**	(689,318)
Balance at end of the year (refer note no. 10.1)	**337,068**	**155,691**	**149**	**528**	**493,436**	291,651
Balance of statutory funds	**23,987,418**	**407,741**	**14,995**	**4,055**	**24,414,209**	18,865,481

10.1 Subsequent to the year end, the SECP has issued amendments to the SEC (Insurance) Rules, 2002, which includes revision in the solvency margin requirements for life insurers. Keeping in view such future solvency requirements, the Company has retained an aggregate amount of Rs. 466 million (2010: Rs. 267 million) in the Statutory Funds, based on the advice of the appointed actuary.

	Note	2011	2010
		(Rupees in '000)	
11. DEFERRED TAX LIABILITY			
Deferred tax liability arising in respect of:			
Accelerated tax depreciation		**11,750**	11,800
12. OUTSTANDING CLAIMS			
Investment linked business	12.1	**261,847**	194,747
Conventional business	12.2	**359,496**	319,219
Accident and health business	12.3	**894**	744
		622,237	514,710
12.1 Investment linked business			
Outstanding claims at the beginning of the year		**194,747**	154,964
Cash paid during the year		**(1,809,822)**	(1,486,764)
Net increase in liabities due to current year claims		**1,876,922**	1,526,547
Outstanding claims at the end of the year		**261,847**	194,747

	2011	2010
	(Rupees in '000)	
12.2 Conventional business		
Outstanding claims at the beginning of the year	**319,219**	358,997
Cash paid during the year	**(804,754)**	(683,941)
Net increase in liabities due to current year claims	**845,031**	644,163
Outstanding claims at the end of the year	**359,496**	319,219
12.3 Accident & Health Business		
Outstanding claims at the beginning of the year	**744**	2,533
Cash paid during the year	**(507)**	(2,549)
Net increase in liabities due to current year claims	**657**	760
Outstanding claims at the end of the year	**894**	744

13. OTHER CREDITORS AND ACCRUALS

		Statutory Funds					
	Shareholders' Fund	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	-----------	-----------	-----------	(Rupees in '000)	-----------	-----------	-----------
Staff Bonus payable	-	30,737	2,722	-	20	**33,479**	26,179
Payable to Workers' Welfare Fund	17,452	-	-	-	-	**17,452**	23,289
Medical fee payable	-	1,618	143	-	1	**1,762**	1,444
Sundry creditors payable	-	428	38	-	-	**466**	1,012
Withholding tax payable	-	414	35	-	-	**449**	931
Others	28	14,031	174	-	2	**14,235**	2,798
Total	17,480	47,228	3,112	-	23	**67,843**	55,653

14. CONTINGENCY

In the year 2010, an order under section 122(5A) of the Income Tax Ordinance, 2001 had been made by the Additional Commissioner (Inland Revenue) in respect of the income tax assessment for the tax year 2008, whereby an additional tax demand of Rs.183.433 million (including penalty of Rs. 3.608 million for non-payment of the tax demand) has been raised against the Company on account of treatment of capital gain which was claimed as a tax exemption by the Company. The Company has filed an appeal before the Additional Commissioner and Commissioner of Income Tax (Inland Revenue) against the aforementioned tax demand. The management based on the opinion of its tax consultant is confident that the outcome of the appeal would be favorable and hence, no provision against the above tax demand has been made in these financial statements.

15. CASH AND BANK DEPOSITS	Note	2011	2010
		(Rupees in '000)	
Policy stamps in hand		**10,403**	3,623
Current and other accounts			
Cash at bank - PLS saving accounts	15.1	**699,137**	673,714
Cash at Bank - Current accounts		**108,917**	78,988
		808,054	752,702
Deposits maturing within 12 months			
Term deposit receipts	15.2	**323,000**	70,000
		1,141,457	826,325

15.1 These carry mark-up ranging from 6% to 11% (December 31, 2010: 6% to 11%) per annum and include balance of Rs.18.261 million (December 31, 2010: Rs. 7.789 million) held with JS Bank Limited (a related party).

15.2 These have tenure of one month to three months (December 31, 2010: three month) and carry mark-up at the rate 10.85% to 12.50% (December 31, 2010: 12.1%) per annum.

16. LOANS

	Note	2011	2010
To employees - secured	16.1	**47,937**	44,776
To employees and agents - unsecured	16.2	**8,553**	10,807
		56,490	55,583

16.1 This represent housing and vehicle loans to employees at the interest rate ranging between 8% to 12.5% (December 31, 2010: 8% to 12.5%) per annum. These loans are recoverable over a period of one to ten years (2010: one to ten years) and are secured against retirement benefit payable to respective employees and security documents of property / vehicles.

16.2 This represent loans to employees and agents for domestic purposes at the interest rates ranging between 8% to 12.5% (December 31, 2010: 8% to 12.5%) per anum. These loans are recoverable over a period of one to seven years (2010: one to seven years).

17. INVESTMENTS

	Note	2011	2010
		(Rupees in '000)	
Government securities	17.1	**16,681,569**	10,679,895
Other fixed income securities	17.2	**3,803,068**	4,212,481
Listed equity securities and mutual fund units	17.3	**4,648,390**	4,819,084
Unlisted equity securities	17.4	**508**	508
		25,133,535	19,711,968

17.1 Government Securities

Held to maturity (at amortised cost)	Maturity year	Effective yield %	Shareholders' Fund	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
			(Rupees in '000)						
3 Months Treasury Bills	2011	12.7-13.64						**-**	678,227
6 Months Treasury Bills	2012	11.67-11.85	-	143,122	47,101	-	954	**191,177**	-
12 Months Treasury Bills	2012	11.82-13.31	299,316	390,960	57,887	-	-	**748,163**	-
3 Years Pakistan Investment Bonds	2014	11.25	-	47,909		-	-	**47,909**	-
5 Years Pakistan Investment Bonds	2012-16	9.3-11.5	92,244	241,935	29,886	-	-	**364,065**	128,035
8 Years WAPDA Sukuk Certificates	2012	14.1	57,500	-	-	-	-	**57,500**	57,500
10 Years Pakistan Investment Bonds	2012-18	8.0-12	42,183	234,375	138,739	-	-	**415,297**	534,064
15 Years Pakistan Investment Bonds	2019	9	10,892	-	-	-	-	**10,892**	10,986
20 Years Pakistan Investment Bonds	2024	10	-	54,659	-	-	-	**54,659**	54,697
			502,135	**1,112,960**	**273,613**	**-**	**954**	**1,889,662**	1,463,509
Available for sale (at fair value)									
3 Months Treasury Bills	2011	12.7 - 13.64						**-**	2,832,884
3 Months Treasury Bills	2012	11-11.91	-	348,063	-	-	-	**348,063**	
6 Months Treasury Bills	2012	11.88-12.04	-	1,569,463	-	2,381	-	**1,571,844**	
12 Months Treasury Bills	2011	12.3	-		-	-	-	**-**	377,778
12 Months Treasury Bills	2012	12.04-12.07	-	3,825,146	-	-	-	**3,825,146**	
GOP Ijara Sukuk Bonds	2013-14	11.76-11.94	-	123,000	-	-	-	**123,000**	35,000
3 Years Pakistan Investment Bonds	2014	11.25	-	726,354	-	-	-	**726,354**	-
5 Years Pakistan Investment Bonds	2012	9.3-11.5	-	1,978,688	-	-	-	**1,978,688**	159,492
10 Years Pakistan Investment Bonds	2010-18	8.0-14	-	5,777,191	-	2,734	-	**5,779,925**	5,412,115
15 Years Pakistan Investment Bonds	2019	9	-	120,972	-	-	-	**120,972**	110,992
20 Years Pakistan Investment Bonds	2024	10	-	316,294	-	1,621	-	**317,915**	288,125
			-	**14,785,171**	**-**	**6,736**	**-**	**14,791,907**	9,216,386
			502,135	**15,898,131**	**273,613**	**6,736**	**954**	**16,681,569**	**10,679,895**

17.1.1 Market value of the government securities carried at amortized cost amounted to Rs. 1,766.42 million (2010: Rs.1,390.32 million).

17.1.2 Government securities includes Rs.87 million (2010: Rs. 87 million) placed with the State Bank of Pakistan, in accordance with Section 29 of the Insurance Ordinance, 2000.

17.2 Other fixed income securities

Held-to-maturity (at amortised cost)	Maturity year	Effective yield %	Shareholders' Fund	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
			--------------------------------------	(Rupees in '000)	--------------------------------------				
Term Finance Certificates									
Allied Bank Limited 2nd Issue	2019	14.23	-	24,980	24,980	-	-	**49,960**	49,980
Allied Bank Limited.	2014	13.86	-	-	9,980	-	-	**9,980**	9,984
Askari Commercial Bank Limited 2nd Issue	2013	15.19	9,986	-	19,974	-	-	**29,960**	29,972
Azgard Nine Limited	2014	14.21	-	-	7,674	-	1,097	**8,771**	11,695
Bank Alfalah Limited - 3rd Issue	2013	13.42	-	-	24,152	-	-	**24,152**	23,694
Faysal Bank Limited	2014	13.31	-	-	20,088	-	-	**20,088**	20,142
Faysal Bank Limited	2013	15.26	-	4,999	-	-	250	**5,249**	7,884
NIB Bank Limited	2016	14.53	-	51,994	-	-	-	**51,994**	51,962
Optimus Limited.	2012	14.04	33,287	-	-	-	-	**33,287**	49,940
Pakistan Mobile Communication Private Limited. 3rd issue	2013	14.76	-	-	10,000	-	-	**10,000**	10,000
Soneri Bank Limited.	2013	13.50	-	-	18,332	-	1,499	**19,831**	26,062
Standard Chartered Bank (Pakistan) Limited - 3rd issue	2013	15.81	17,480	-	-	-	-	**17,480**	23,710
United Bank Limited - 2nd issue	2013	9.49	-	34,109	4,943	-	-	**39,052**	38,729
United Bank Limited 4th Issue	2018	14.73	-	53,618	34,154	-	-	**87,772**	87,605
			60,753	**169,700**	**174,277**	**-**	**2,846**	**407,576**	441,359
Available-for-sale (at fair value)									
Term Finance Certificates									
Agritech Limited	2013	15.02	-	17,486	-	-	-	**17,486**	26,229
Al-Abbas Sugar Mills Limited	2013	13.67	-	11,870	-	-	-	**11,870**	17,708
Allied Bank Limited	2014	13.86	-	257,082	-	-	-	**257,082**	252,066
Allied Bank Limited 2nd Issue	2019	14.23	-	47,378	-	-	-	**47,378**	48,079
Askari Commercial Bank Limited - 1st issue	2013	14.87	-	160,214	-	498	-	**160,712**	160,004
Askari Commercial Bank Limited - 2nd issue	2013	15.19	-	155,876	-	-	-	**155,876**	153,421
Askari Commercial Bank Limited - 3rd Issue	2019	14.41	-	51,148	-	-	-	**51,148**	50,730
Azgard Nine Limited	2012	15.81	-	16,251	-	-	-	**16,251**	26,622
Azgard Nine Limited PPTFC	2014	14.21	-	79,971	-	-	-	**79,971**	106,628
Bank Al Habib Limited 1st Issue	2012	10.00	-	25,977	-	-	-	**25,977**	40,711
Bank Al Habib Limited 2nd Issue	2015	15.33	-	245,353	-	-	-	**245,353**	249,183
Bank Al Habib Limited PPTFC	2017	15.50	-	80,268	-	-	-	**80,268**	75,049
Bank Alfalah Limited - 2nd issue	2012	13.43	-	59,834	-	-	-	**59,834**	88,750
Bank Alfalah Limited - 3rd Issue	2013	13.42	-	164,044	-	-	-	**164,044**	161,720
Bank Alfalah Limited – 4th Issue	2017	15.00	-	30,886	-	-	-	**30,886**	29,418
Engro Chemical Pakistan Limited	2015	13.46	-	268,201	-	-	-	**268,201**	268,252
Engro Rupiya 1st issue	2014	14.50	-	20,152	-	-	-	**20,152**	-
Escort Investment Bank Limited	2012	15.90	-	2,456	-	-	-	**2,456**	9,912
Faysal Bank Limited	2014	13.31	-	240,774	-	992	-	**241,766**	236,138
Faysal Bank Limited	2013	15.26	-	56,888	-	125	-	**57,013**	84,725
Financial Receivable Securitization Company Limited	2014	15.80	-	25,086	-	-	-	**25,086**	34,918
First Dawood Investment Bank Limited.	2012	15.00	-	54,753	-	-	-	**54,753**	56,340
IGI Investment Bank Limited	2011	14.35	-	-	-	-	-	**-**	2,429
Jahangir Siddiqui & Company Limited - 4th Issue	2012	14.42	-	19,332	-	-	-	**19,332**	38,610
KASB Securities Limited	2012	13.90	-	11,636	-	-	-	**11,636**	34,665
New Allied Electronics (Private) Limited	2015	16.00	-	-	-	-	-	**-**	1,000
NIB Bank Limited	2016	14.53	-	179,102	-	-	-	**179,102**	177,954
Optimus Limited	2012	14.04	-	28,256	-	-	-	**28,256**	49,140
Orix Leasing Pakistan Limited	2014	15.40	-	72,480	-	-	-	**72,480**	151,498
Orix Leasing Pakistan Limited - 2nd Issue	2012	15.18	-	12,091	-	-	-	**12,091**	37,172
Orix Leasing Pakistan Limited PPTFC	2013	15.01	-	92,020	-	-	-	**92,020**	-
Pak Arab Fertilizers (Private) Limited	2013	14.88	-	258,108	-	1,486	-	**259,594**	318,433
Pakistan Mobile Communications (Private) Limited (2nd Issue)	2013	13.56	-	190,812	-	-	-	**190,812**	192,063
Pakistan Mobile Communications (Private) Limited (3rd Issue)	2013	14.76	-	60,073	-	-	-	**60,073**	99,822
Pakistan Mobile Communications (Private) Limited PRE IPO	-	14.60	-	2,966	-	-	-	**2,966**	-
Sitara Chemical Industries Limited (Sukuk)	2013	14.17	-	22,786	-	-	-	**22,786**	40,725
Soneri Bank Limited	2013	13.50	-	106,222	-	-	-	**106,222**	140,105
Standard Chartered Bank (Pakistan) Limited – 2nd Issue	2011	9.49	-	-	-	-	-	**-**	13,894
Standard Chartered Bank Pakistan Limited - 3rd Issue	2013	15.81	-	61,506	-	412	-	**61,918**	82,816
Sui Southern Gas Company Limited	2012	12.79	-	1,605	-	-	-	**1,605**	3,148
United Bank Limited – 3rd Issue	2014	15.08	-	103,927	-	-	-	**103,927**	104,137
United Bank Limited 2nd issue	2013	9.49	-	104,053	-	-	-	**104,053**	95,925
United Bank Limited 4th Issue	2018	14.73	-	56,750	-	-	-	**56,750**	54,176
			-	**3,455,673**	**-**	**3,513**	**-**	**3,459,186**	3,814,315
Less: Provision for impairment in the value of available-for-sale fixed income securities			-	(90,682)	(3,012)	-	-	(93,694)	(53,193)
			60,753	3,534,691	171,265	3,513	2,846	3,773,068	4,202,481
Certificate of Investment-First Habib Modarba	2012	12.25	-	30,000	-	-	-	30,000	10,000
			60,753	**3,564,691**	**171,265**	**3,513**	**2,846**	**3,803,068**	**4,212,481**

17.2.1 Market Value of other fixed income securities carried at amortized cost amounted to Rs. 407.2 million (2010: Rs. 428.85 million).

17.3 Listed equity securities and mutual fund units

	Note	Shareholders' Fund	Statutory Funds: Investment Linked Business	Statutory Funds: Conventional Business	Statutory Funds: Pension Business (Unit Linked)	Statutory Funds: Accident & Health Business	Aggregate 2011	Aggregate 2010
		(Rupees in '000)						
Held-for-trading (at fair value)								
Listed equities		-	377,759	-	-	-	**377,759**	402,893
Available-for-sale (at fair value)								
Listed equities		-	3,702,283	-	3,611	-	**3,705,894**	3,828,688
Open end mutual fund units		-	215,239	-	-	-	**215,239**	170,590
Available-for-sale (at lower of cost or fair value)								
Listed equities	17.3.2	1,271,612	84,793	65,899	-	-	**1,422,304**	1,462,940
Open end mutual fund units		24,817	13,343	15,000	-	-	**53,160**	72,484
		1,296,429	4,393,417	80,899	3,611	-	**5,774,356**	5,937,595
Less: Provision for impairment in the value of equity securities	17.3.1	(1,062,670)	(16,178)	(47,118)	-	-	**(1,125,966)**	(1,118,511)
		233,759	**4,377,239**	**33,781**	**3,611**	**-**	**4,648,390**	4,819,084

17.3.1 Reconciliation of provision

Balance at the beginning of the year	1,057,165	15,682	45,664	-	-	1,118,511	904,790
Adjustment on disposal of investments	(31,802)	-	-			(31,802)	-
Charge for impairment in the value of available-for-sale investments	37,307	496	1,454	-	-	39,257	213,721
Balance at the end of the year	**1,062,670**	**16,178**	**47,118**	**-**	**-**	**1,125,966**	**1,118,511**

17.3.2 Listed equities include investment in EFU General Insurance Limited (a related party) at carrying value of Rs. 132.878 million (2010: Rs. 280.390 million) representing 6.81% (2010: 6.81 %) of the issued capital of the related party.

17.4 This represents investment in ordinary shares of Security General Insurance Company Limited. The breakup value of each ordinary share of Rs.10 is Rs.102.09 based on the latest audited financial statements available for the year ended December 31, 2010. The Company's holding as at the year end is 0.67% (number of shares: 457,036) {(2010: 0.67%) (number of shares: 457,036)}. The Chief Executive Officer of Security General Insurance Company Limited is Ms. Nabiha Shahnawaz.

17.5 Investments by classification

	2011	2010
	(Rupees in '000)	
Held-to-maturity		
Government securities	**1,889,662**	1,463,509
Other fixed income securities	**407,576**	441,359
	2,297,238	1,904,868
Available-for-sale		
Government securities (at fair value)	**14,791,907**	9,216,386
Other fixed income securities (at fair value)	**3,489,186**	3,824,315
Listed equity securities and mutual fund units (at fair value)	**3,921,133**	3,999,278
Listed equity securities and mutual fund units (at lower of cost or fair value)	**1,475,464**	1,729,813
	23,677,690	18,769,792
Held-for-trading - listed equities	**377,759**	402,893
Unlisted equity securities (relating to shareholders' fund)	**508**	508
Less: Impairment in the value of available-for-sale investments		
Impairment in the value of equity securities	**(1,125,966)**	(1,312,900)
Impairment in the value of fixed income securities	**(93,694)**	(53,193)
	(1,219,660)	(1,366,093)
Total Investments - net of provision	**25,133,535**	19,711,968

17.6 As per the Company's accounting policy and SECP's accounting regulations for Life Insurance companies certain, available-for-sale investments are stated at lower of cost or market value (market value being taken as lower if the reduction is other than temporary). However, International Accounting Standard (IAS)39, "Financial Instruments: Recognition and Measurements" dealing with the recognition and measurement of financial instruments requires that these investments should be measured at fair value. Accordingly, had these investments been measured at fair value, their carrying value as on December 31, 2011 would have been lower by Rs. 11.45 million (December 31, 2010: higher by Rs. 7.571 million).

18. INVESTMENT INCOME ACCRUED

	Shareholders' Fund	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)						
Government securities	5,035	372,387	6,106	121	-	**383,649**	246,513
Fixed income securities	4,018	281,018	13,752	158	1,250	**300,196**	230,803
Dividend receivable	-	358	-	5	-	**363**	789
	9,053	653,763	19,858	284	1,250	**684,208**	478,105

19. FIXED ASSETS

		2011	2010
		(Rupees in '000)	
Tangible assets	19.1	**384,188**	359,122
Capital work-in-progress		**56,824**	60,687
Intangible assts (computer software)	19.2	**9,398**	1,066
		450,410	420,875

19.1 Tangible assets

	Cost: As at 01 January 2011	Cost: Additions	Cost: Disposals	Cost: As at 31 December 2011	Accumulated Depreciation: As at 01 January 2011	Accumulated Depreciation: Charge for the Year	Accumulated Depreciation: On disposal	Accumulated Depreciation: As at 31 December 2011	Written down value	Depreciation rate %
	(Rupees in '000)									
Lease hold land	126,505	-	-	126,505	-	-	-	-	126,505	-
Office equipment	40,044	5,345	167	45,222	13,072	3,011	52	16,031	29,191	10
Computers	31,008	9,238	375	39,871	21,932	4,472	335	26,069	13,802	30
Furniture and fixture	180,467	17,393	-	197,860	67,063	12,490	-	79,553	118,307	10
Vehicles	140,641	37,193	9,237	168,597	57,476	20,816	6,078	72,214	96,383	30
2011	**518,665**	**69,169**	**9,779**	**578,055**	**159,543**	**40,789**	**6,465**	**193,867**	**384,188**	

	Cost: As at 01 January 2010	Cost: Additions	Cost: Disposals	Cost: As at 31 December 2010	Accumulated Depreciation: As at 01 January 2010	Accumulated Depreciation: Charge for the Year	Accumulated Depreciation: On disposal	Accumulated Depreciation: As at 31 December 2010	Written down value	Depreciation rate %
	(Rupees in '000)									
Lease hold land	126,505	-	-	126,505	-	-	-	-	126,505	-
Office equipment	34,333	6,923	1,212	40,044	11,104	2,769	801	13,072	26,972	10
Computers	26,462	4,810	264	31,008	18,871	3,275	214	21,932	9,076	30
Furniture and fixture	142,355	38,591	479	180,467	56,254	11,187	378	67,063	113,404	10
Vehicles	125,071	35,404	19,834	140,641	52,164	18,303	12,991	57,476	83,165	30
2010	**454,726**	**85,728**	**21,789**	**518,665**	**138,393**	**35,534**	**14,384**	**159,543**	**359,122**	

19.2 Intangible assets

	Cost				Accumulated Amortization					
	As at 01 January 2011	Additions	Disposals	As at 31 December 2011	As at 01 January 2011	Charge for the Year	On disposal	As at 31 December 2011	Written down value	Amortization rate
	(Rupees in '000)									%
Computer software	**11,672**	**11,392**	**-**	**23,064**	**10,606**	**3,060**	**-**	**13,666**	**9,398**	33

	Cost				Accumulated Amortization					
	As at 01 January 2010	Additions	Disposals	As at 31 December 2010	As at 01 January 2010	Charge for the Year	On disposal	As at 31 December 2010	Written down value	Amortization rate
	(Rupees in '000)									%
Computer software	11,672	-	-	11,672	6,716	3,890	-	10,606	1,066	33

19.3 Depreciation has been allocated as follows:

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)					
Branch overheads	29,226	1,800	8	13	**31,047**	26,818
Administration expenses	8,305	1,432	-	5	**9,742**	8,716
	37,531	3,232	8	18	**40,789**	35,534

19.4 Disposal of tangible assets

	Original Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Gain / (Loss) on Sale	Mode of Disposal	Particulars of buyer	
	(Rupees in '000)							
Vehicle	54	45	9	100	91	Negotiation	Umer Keerio - Employee	Karachi
Vehicle	54	39	15	12	(3)	Negotiation	Irfan Iqbal	Karachi
Vehicle	464	390	74	250	176	Negotiation	Amir Amroz	Karachi
Vehicle	334	259	75	220	145	Negotiation	M. Farooq	Karachi
Vehicle	315	222	93	210	117	Negotiation	Shakeel Ahmed	Karachi
Vehicle	469	376	93	275	182	Negotiation	Anwar Ahmed	Karachi
Vehicle	315	211	104	250	146	Negotiation	Anwar Ahmed	Karachi
Vehicle	360	253	107	250	143	Negotiation	Zahid Ali	Karachi
Vehicle	360	247	113	325	212	Insurance Claim	EFU General Insurance Limited	Related Party
Vehicle	360	219	141	240	99	Negotiation	Khurram Shahzad	Karachi
Vehicle	604	461	143	415	272	Negotiation	Khurram Shahzad	Karachi
Vehicle	360	211	149	250	101	Negotiation	Salman Hussain	Karachi
Vehicle	604	446	158	430	272	Negotiation	Salman Shahzad	Karachi
Vehicle	835	649	186	550	364	Negotiation	Shakeel Ahmed	Karachi
Vehicle	835	627	208	610	402	Negotiation	M. Hammad	Karachi
	835	627	208	500	292	Insurance Claim	EFU General Insurance Limited	Related Party
Vehicle	885	653	232	675	443	Negotiation	M. Saleem	Karachi
Vehicle	470	71	399	450	51	Insurance Claim	EFU General Insurance Limited	Related Party
Vehicle	724	72	652	724	72	Insurance Claim	EFU General Insurance Limited	Related Party
Assets having Written down value less than Rs.50,000								
Computers	375	334	41	35	(6)	Various		
Office equipment	167	53	114	23	(91)	Various		
2011	**9,779**	**6,465**	**3,314**	**6,794**	**3,480**			
2010	21,789	14,384	7,405	14,025	6,620			

20. BRANCH OVERHEADS

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)					
Insurance premium	5,471	335	1	2	**5,809**	6,615
Printing and stationery	17,930	141	5	6	**18,082**	10,734
Advertisement and publicity	1,876	2,141	-	-	**4,017**	2,449
Postage	3,062	106	1	1	**3,170**	5,082
Traveling costs	111,319	834	1	2	**112,156**	85,018
Telephone and electricity	38,923	1,071	11	18	**40,023**	32,918
Rent, Rates and taxes	33,755	119	9	15	**33,898**	33,249
Conveyance	5,048	12	1	3	**5,064**	4,896
Repair and maintenance	10,442	103	2	5	**10,552**	15,719
Entertainment	23,754	441	5	10	**24,210**	16,306
Depreciation	29,226	1,800	8	13	**31,047**	26,818
Other expenses	8,171	171	1	2	**8,345**	7,071
	288,977	**7,274**	**45**	**77**	**296,373**	246,875

21. OTHER MANAGEMENT EXPENSES

	Statutory Funds					
	Investment Linked Business	Conventional Business	Pension Business (Unit Linked)	Accident & Health Business	Aggregate 2011	Aggregate 2010
	(Rupees in '000)					
Insurance premium	2,920	642	-	2	**3,564**	2,620
Telephone and electricity	8,003	1,502	-	4	**9,509**	7,907
Repair and maintenance	9,248	1,001	-	6	**10,255**	6,476
Entertainment	12,343	1,583	-	8	**13,934**	11,979
Bank charges	8,237	729	-	6	**8,972**	4,784
Claim investigation fees	2,144	190	-	1	**2,335**	1,843
Other expenses	9,986	1,129	-	6	**11,121**	19,662
	52,881	**6,776**	**-**	**33**	**59,690**	55,271

	Note	2011	2010
		(Rupees in '000)	
22. OTHER REVENUE			
Gain on sale of fixed assets	19.4	**3,480**	6,620
Interest on loan to employees		**6,472**	6,256
Policy surrender income		**4,722**	3,967
Others		**1,130**	1,318
		15,804	18,161
23. EXPENSES NOT ATTRIBUTABLE TO STATUTORY FUNDS			
Printing and stationery		**1,332**	1,125
Advertisement and publicity		**106**	81
Travelling		**219**	257
Legal and professional fee		**665**	1,546
Workers' Welfare Fund		**18,139**	1,474
Auditors' remuneration	23.1	**1,230**	1,260
Donations	23.2	**1,708**	2,204
Others		**1,163**	1,521
		24,562	9,468

23.1 Auditors' remuneration

	2011	2010
Ernst & Young Ford Rhodes Sidat Hyder		
Audit fee and other certifications	950	950
Hyder Bhimji & Co.		
Audit fee and other certifications	280	310
Total auditors' remuneration	**1,230**	1,260

23.2 None of the directors or their spouses have any interest in donnees.

24. TAXATION

	2011	2010
	(Rupees in '000)	
Current	**302,500**	185,000
Deferred	**(50)**	2,800
	302,450	187,800

24.1 Relationship between tax expense and accounting profit

	2011	2010
Profit for the year	**880,815**	551,035
Tax at applicable rate 35% (2010: 35%)	**308,285**	192,862
Tax effect of amount tax at reduced rates	**(3,449)**	(5,206)
Effect of income exempt from tax	**(604)**	-
Others	**(1,782)**	144
Tax charge for the year	**302,450**	187,800

25. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

	2011		2010	
	Chief Executive	Executives	Chief Executive	Executives
	(Rupees in '000)			
Managerial remuneration including bonus	**16,095**	**103,187**	14,537	85,664
Utilities	**463**	**1,385**	336	579
Medical expenses	**216**	**616**	274	1,173
Leave passage	**-**	**263**	413	339
	16,774	**105,451**	15,560	87,755
Number of persons	**1**	**31**	1	28

The Chief Executive is provided with Company maintained cars and furnished accommodation. The Executives are provided with Company maintained cars and in certain cases, household items and furniture in accordance with their terms of employment.

26. BASIC AND DILUTED EARNINGS PER SHARE

	2011	2010
	(Rupees in '000)	
Profit for the year	**578,365**	363,235
	(Numbers in '000)	
Weighted average number of ordinary shares	**85,000**	85,000
	(Rupees)	
Earnings per share – basic and diluted	**6.80**	4.27

27. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

27.1 Financial risk management objectives and policies

The Company is exposed to a variety of financial risks: market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk and credit risk in relation to the financial statements on its balance sheet.

The Company's overall risk management seeks to minimise potential adverse effects on the Company's financial performance of such risk.

The Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. There are Board Committees and Management Committees for developing risk management policies and its monitoring.

27.1.1 Market Risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its investments and with respect to products other than unit linked products (where the investment risk is passed on to policyholders). The Company limits market risk by maintaining a diversified portfolio and by continuously monitoring developments in government securities, equity and term finance certificates. The Company, along with minimizing market risk by careful diversification in assets, also periodically carries out an Asset Liability management exercise, to match its duration of assets and liabilities.

27.1.1.1 Interest Rate Risk Exposure

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company invests in securities and has bank balances and deposits that are subject to interest / mark-up rate risk. The Company limits interest / mark-up rate risk by monitoring changes in interest / mark-up rates in the currencies in which its cash and investments are denominated.

The information about Company's exposure to interest rate risk (other than relating to policyholders' liabilities) based on contractual repricing or maturity dates as of December 31, 2011 whichever is earlier is as follows:

	2011											
	Exposed to yield / interest rate risk											
On balance sheet financial instruments	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 months	Over 6 months to 1 Year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 3 to 10 years	Above 10 years	Sub Total	Non-interest bearing financial instruments	Total
	(Rupees in '000)											
Assets												
Policy stamps in hand	-	-	-	-	-	-	-	-	-	-	10,403	10,403
Current and other accounts	699,137	-	-	-	-	-	-	-	-	699,137	108,917	808,054
Deposits maturing with in 12 months	298,000	25,000	-	-	-	-	-	-	-	323,000	-	323,000
Loans- secured to employees	1,272	2,562	4,195	7,526	12,733	7,032	5,994	6,623	-	47,937	-	47,937
Loans- unsecured to employees	684	1,237	1,652	2,876	1,075	651	353	25	-	8,553	-	8,553
Investments	623,140	414,537	1,285,835	6,108,409	1,706,518	1,441,087	3,138,333	5,394,011	372,766	20,484,637	4,648,898	25,133,535
Premiums due but unpaid	-	-	-	-	-	-	-	-	-	-	40,529	40,529
Amounts due from reinsurer	-	-	-	-	-	-	-	-	-	-	16,274	16,274
Sundry Receivables	-	-	-	-	-	-	-	-	-	-	12,227	12,227
Investment income accrued	-	-	-	-	-	-	-	-	-	-	684,208	684,208
Advances and deposits	1,137	1,915	2,632	2,142	1,518	179	43	57	-	9,623	47,230	56,853
	1,623,370	445,251	1,294,314	6,120,953	1,721,844	1,448,949	3,144,723	5,400,716	372,766	21,572,887	5,568,686	27,141,573
Liability												
Outstanding claims	-	-	-	-	-	-	-	-	-	-	622,237	622,237
Premiums received in advance	-	-	-	-	-	-	-	-	-	-	464,513	464,513
Amounts due to reinsurer	-	-	-	-	-	-	-	-	-	-	54,149	54,149
Amounts due to agent	-	-	-	-	-	-	-	-	-	-	295,516	295,516
Accrued expenses	-	-	-	-	-	-	-	-	-	-	127,668	127,668
Unclaimed Dividend	-	-	-	-	-	-	-	-	-	-	8,728	8,728
Other creditors and accruals	-	-	-	-	-	-	-	-	-	-	67,843	67,843
	-	-	-	-	-	-	-	-	-	-	1,640,654	1,640,654
Interest risk sensitivity gap	1,623,370	445,251	1,294,314	6,120,953	1,721,844	1,448,949	3,144,723	5,400,716	372,766	21,572,887	3,928,032	25,500,919
Cumulative interest risk sensitivity gap	1,623,370	2,068,621	3,362,935	9,483,888	11,205,732	12,654,681	15,799,404	21,200,121	21,572,887			

	2010											
	Exposed to yield / interest rate risk											
On balance sheet financial instruments	Upto 1 Month	Over 1 to 3 Months	Over 3 to 6 months	Over 6 months to 1 Year	Over 1 to 2 years	Over 2 to 3 years	Over 3 to 5 years	Over 3 to 10 years	Above 10 years	Sub Total	Non-interest bearing financial instruments	Total
	(Rupees in '000)											
Assets												
Policy stamps in hand	-	-	-	-	-	-	-	-	-	-	3,623	3,623
Current and other accounts	673,714	-	-	-	-	-	-	-	-	673,714	78,988	752,702
Deposits maturing with in 12 months	-	70,000	-	-	-	-	-	-	-	70,000	-	70,000
Loans- secured to employees	1,793	2,173	3,423	5,533	10,454	7,251	6,044	7,536	570	44,776	-	44,776
Loans- unsecured to employees	728	1,417	1,992	3,293	1,667	714	896	99		10,806	-	10,806
Investments	499,038	3,292,043	533,281	526,186	1,790,424	1,734,995	592,118	287,079	5,637,211	14,892,375	4,819,593	19,711,968
Premiums due but unpaid	-	-	-	-	-	-	-	-	-	-	28,860	28,860
Amounts due from reinsurer	-	-	-	-	-	-	-	-	-	-	86,159	86,159
Sundry receivables	-	-	-	-	-	-	-	-	-	-	15,589	15,589
Investment income accrued	-	-	-	-	-	-	-	-	-	-	478,105	478,105
Advances and deposits	1,027	1,673	1,363	1,195	737	225	58	71	-	6,349	25,442	31,791
	1,176,300	3,367,306	540,059	536,207	1,803,282	1,743,185	599,116	294,785	5,637,781	15,698,020	5,536,359	21,234,379
Liability												
Outstanding claims	-	-	-	-	-	-	-	-	-	-	514,710	514,710
Premiums received in advance	-	-	-	-	-	-	-	-	-	-	418,578	418,578
Amounts due to reinsurer	-	-	-	-	-	-	-	-	-	-	37,477	37,477
Amounts due to agent	-	-	-	-	-	-	-	-	-	-	243,694	243,694
Accrued expenses	-	-	-	-	-	-	-	-	-	-	106,836	106,836
Unclaimed Dividend	-	-	-	-	-	-	-	-	-	-	5,206	5,206
Other creditors and accruals	-	-	-	-	-	-	-	-	-	-	55,653	55,653
	-	-	-	-	-	-	-	-	-	-	1,382,154	1,382,154
Interest risk sensitivity gap	1,176,300	3,367,306	540,059	536,207	1,803,282	1,743,185	599,116	294,785	5,637,781	15,698,020	4,154,205	19,852,225
Cumulative interest risk sensitivity gap	1,176,300	4,543,606	5,083,665	5,619,872	7,423,153	9,166,339	9,765,455	10,060,239	15,698,020			

The effective interest rate range (per anum) for the financial assets is as follows:

	2011	2010
Saving and other accounts	**6% to 11%**	6% to 11%
Deposits	**10.85 % to 12.5%**	12.10%
Loans	**8% to 12.5%**	8% to 12.5%
Investments	**5% to 16%**	5% to 16%
Advances and other receivables	**8% to 12.5%**	8% to 12.5%

27.1.1.2 Foreign currency risk

Foreign 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. The Company, at present is not materially exposed to currency risk as majority of the transactions are carried out in Pak Rupees.

27.1.1.3 Equity Price Risk

Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), 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 Company’s listed securities are susceptible to market price risk arising from uncertainties about the future value of investment securities. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity, money market fund and term finance certificates (TFCs). In addition, the Company actively monitors the key factors that affect stock, money market and TFCs market. In the equity portfolio, the top three sectors by exposure are Oil and Gas, Banks and Chemicals.

27.1.2 Credit Risk

Credit risk arises when one party fails to discharge its obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties have similar types of business activities. As a result, any change in economic, political or other conditions would affect their ability to meet their contractual obligations. The Company is exposed to credit risk on premiums receivable from group clients, commission and claims recoverable from insurers and investment in term finance certificates. The management monitors exposure to credit risk through regular review of credit exposure, assessing credit worthiness of counter parties and prudent estimates of provision for doubtful debts. The Company believes it is not exposed to any major concentration of credit risk.

The credit quality of Company’s bank balances can be assessed with reference to external credit ratings as follows:

Rating of Banks*	2011	2010
	------ (Rupees in '000) ------	
AA+	**649,063**	503,948
AAA	**40,492**	26,990
A+	**2,008**	-
AA	**61,795**	109,504
A	**43,139**	3,496
AA-	**1,295**	82,710
A-	**10,262**	26,054
	808,054	752,702

*Rating of banks performed by PACRA, JCR-VIS and Standard and Poors.

The credit quality of Company's exposure on TFCs can be assessed with reference to rating issued by rating agency as follows:

Issuer of TFC	Rating	Raging Agency	2011	2010
			------ (Rupees in '000) ------	
Allied Bank Limited.	AA-	PACRA	**364,400**	360,109
Al-Abbas Sugar Mills Limited	A+	PACRA	**11,870**	17,708
Askari Bank Limited	AA-	PACRA	**397,696**	394,127
Azgard Nine Limited	NPD	PACRA	**64,492**	144,945
Agritech Limited	NPD	PACRA	**17,486**	26,229
Bank Alfalah Limited	AA-	PACRA	**278,916**	303,582
Bank AL Habib Limited	AA	PACRA	**351,598**	364,943
Engro Chemical Pakistan Limited	AA	PACRA	**288,353**	268,252
Escort Investment Bank Limited	A	JCR-VIS	**2,456**	9,912
Faysal Bank Limited	AA-	PACRA	**324,116**	348,889
Sub total carry forward			**2,101,383**	2,238,696

Issuer of TFC	Rating	Raging Agency	2011	2010
			------ (Rupees in '000) ------	
Sub total brought forward			**2,101,383**	2,238,696
Financial Receivables Securitization Company Limited	A+	PACRA	**25,086**	34,918
First Habib Modarba (Certificate of investment)	AA+/A1+	PACRA	**30,000**	10,000
First Dawood Investment Bank Limited	Unrated	-	**1,560**	3,147
IGI Investment Bank Limited	A+	PACRA	**-**	2,429
Jahangir Siddiqui & Company Limited	AA	PACRA	**19,332**	38,610
KASB Securities Limited	A+	PACRA	**11,636**	34,665
NIB Bank Limited	A+	PACRA	**231,096**	229,916
New Allied Electronics Industries (Private) Limited	NPD	PACRA	**-**	1,000
Optimus Limited	A	PACRA	**61,543**	99,080
ORIX Leasing Pakistan Limited	AA+	PACRA	**176,591**	188,670
Pak Arab Fertilizers (Private) Limited	AA	JCR-VIS	**259,594**	318,433
Pakistan Mobile Communication (Private) Limited	A+	PACRA	**263,851**	301,885
Sitara Chemical Industries Limited (Sukuk)	AA-	PACRA	**22,786**	40,725
Soneri Bank Limited	A+	PACRA	**126,053**	166,167
Standard Chartered Bank (Pakistan) Limited	AAA	PACRA	**79,398**	120,420
Sui Southern Gas Company Limited	AA	PACRA	**1,605**	3,148
United Bank Limited	AA	JCR-VIS	**391,554**	380,572
			3,803,068	4,212,481

The management monitors exposure to credit risk in premium receivable from group clients through regular review of credit exposure and prudent estimates of provision for doubtful debts. As of December 31, 2011 there was no provision for doubtful premiums as all the premiums receivable were considered good.

27.1.3 Capital risk managements

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development its businesses. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

Currently the Company has a paid up capital of Rs.850 million against the minimum required paid capital of Rs. 500 million set by the SECP for the life insurance companies for year ended December 31, 2011.

27.1.4 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:

	2011	
	Carrying value	Fair value
	(Rupees in '000)	
Government securities	**1,889,662**	**1,766,421**
Other fixed income securities	**407,576**	**407,203**
Listed equity securities and mutual fund units	**350,006**	**471,063**

28. INSURANCE RISK

28.1 Insurance contracts

28.1.1 Classification

The Company currently issues contracts that are classified as insurance contracts as they transfer significant insurance risk (against death, disability and sickness) from the policyholder to the company. In the past the company has issued contracts where the insurance risk transferred is insignificant, these therefore being classified as investment contracts.

The Company does not issue any contracts which contain a discretionary participation feature, all contracts which include an investment element being unit-linked contracts linked to internal mutual funds.

The Company classifies its business into Individual Life and Group Life businesses, in both cases the form of contract consisting of main plans and supplementary riders (which are generally optional).

Individual life business mainly consists of unit linked products and conventional protection products, in both cases with optional supplementary riders which generally provide protection only. Group Life business consists of protection products only.

28.1.2 Contract details and measurement

The insurance contracts offered by the Company are described below.

28.1.2.1 Individual Life Policies

These consist of the following types of policies:

(a) Unit Linked Products:

These are medium to long term unit-linked plans designed to address a variety of future policyholder needs, such as retirement planning, education planning for children, marriage planning for children, life protection and investments and savings for future. Premiums received from policyholders, after deduction of specified charges including risk charges, are invested in internal unit funds of the company The basic plan contains life cover over and above the unit value, with additional protection (for death, disability and sickness) being provided through the addition of optional riders.

Policyholder Liabilities for these plans (excluding attached riders) are measured as the sum of the fair value of units attached and the unearned part of any risk premiums charged.

(b) Conventional Protection Products:

Two types of products are offered under Individual life conventional business, these being medium to long term contracts with level premiums being paid over the policy period. The company offers a standard term life assurance product that offers protection in event of death as well as a decreasing term life assurance policy that covers outstanding loan balances.

Policyholder liabilities for both products are determined on a net premium basis by determining the present value of benefits less the present value of future net premiums, a theoretical net premium being calculated using conservative assumptions for mortality and the discount rate.

(c) Accident and Health Products:

These consist of long term and short term Accident and Health products providing cover against accidental death, disability, sickness and critical illness, offered both as long term as well as yearly renewable plans.

Policyholder Liabilities for short term contracts are evaluated using the unearned premium reserve method, taking into account the unexpired future period of risk, with a premium deficiency reserve being provided for where the company's management perceives that the premium being charged is not adequate. For the critical illness long-term contracts, liabilities are evaluated using a net premium method i.e expected present value of benefits payable less expected present value of net premiums receivable.

(d) Other Supplementary Benefits:

The Company also offers a variety of supplementary benefits attached with main plans including, additional term life assurance, income benefits, critical illness, sickness and accidental death and disability related benefits.

The methods used to determine policyholder liabilities differ with the nature and term of these benefits. Most supplementary benefits related to death and critical illness, are identical to some main plans offered in individual life business, the valuation methods used for these being consistent with their related main plans. Measurement of liabilities for benefits related to accident disability, accidental death and sickness are based on unearned premium method.

(e) Reserve for Outstanding Losses (Individual life)

The Company records reported losses as payable upon intimation of any claim. Unpaid claims are assessed from time to time and the liability measured in accordance with management's estimates of whether claims are payable or not.

Claims payable over a duration of more than one year are measured at the discounted value of expected payments.

The Company also provides, as part of policyholder liabilities, a reserve for incurred but not reported claims (IBNR). Due to insufficient claim history of Individual life business, however, the general lag method for IBNR is not used. The company adopts a methodology based on best estimates of future incurred but not reported claims, as suggested by the appointed actuary of the company.

28.1.2.2 Group Life Policies

(a) Nature of Contracts:

The Company's group life business, consists of one year term life contracts which provide coverage, in the event of death or disability, to:

- employees of a common employer, benefits payable under these contracts being either fixed, in case of death, or linked to the extent of loss incurred by the policyholder, in case of disability;

- customers of financial institutions, the contracts being issued to financial institutions to protect their customers' outstanding loan balances, such as on personal loan, mortgages and credit cards.

There are no cash values in group life contracts.

(b) Policyholder Liabilities:

Policyholder liabilities consist of the following components:

- Net Unearned Premium Reserve

The unearned premium reserve is the portion of premium that had been booked in the current period but pertains to a period that extends beyond the valuation date. The fraction of premium that is to be consumed in the succeeding period is considered to be unearned. The unearned premium is the aggregate for both posted and fluctuations in the unearned premium.

The unearned premium reserve is computed both gross and net of reinsurance, the methodology used for both being similar.

- Profit Commission Reserve (accrued for policyholders)

This is the total accrued profit commission that is payable to policy holders at a future date. Profit commission for any policy normally becomes payable at the end of three policy years. However, accrued profit commission is calculated at the end of each policy year to account for the liability that has been created for that year. The sum of all such accrued profit commissions for all schemes is the Profit Commission reserve.

- Profit Commission Reserve (accrued from re-insurer)

This is the total profit commission due from re-insurer on all reinsured schemes. Profit commission rates are applied on insured groups, based on their size. The total profit commission accrued from re-insurer is the sum of profit commissions for each group.

- Premium Deficiency Reserve

The need for premium deficiency reserve arises when the company expects to incur claims in excess of reserves set aside using conventional methods. The company analyzed its current portfolio of group contracts and evaluated loss ratios of group business. The company does not expect excessive claims on any schemes and hence no provision for Premium Deficiency Reserve is set aside.

- Incurred But Not Reported (IBNR) Reserve

The IBNR (incurred but not reported) reserve is an estimate of those claims that might have occurred but not yet reported. This is estimated by using the claim intimation lag from the date of death for the claims that have been reported in the last two years. The system generated IBNR triangle report is used to calculate the ratio of delay to estimate the probable claims pertaining to and not reported up to the valuation date.

28.1.3 Liability Adequacy Test

Liability adequacy test is applied to all those long term contracts where necessary, especially those products where actuarial liability estimation is based on conservative assumptions. Liability adequacy test is carried out using current best estimates of assumptions and future net cash flows, including premiums receivable, benefits payable and investment income from related assets.

To determine the adequacy of liabilities, assumptions must be based on realistic best estimates. At the moment, the company does not have sufficient mortality data for comparison with assumed life table efu(61-66). The company compares efu(61-66) with recent mortality studies carried out in South East Asia region. The comparison suggests that current actual mortality experience is better than the experience reflected in efu(61-66). Thus the company uses a modified version of efu(61-66) as a best estimate of mortality for liability adequacy test.

The investment return currently assumed for valuation is 3.75% per annum. This assumption reflects a long-term conservative return that the Company expects to earn on assets backing these liabilities. On a more realistic view of current financial markets, the Company estimates that a long term return on these assets of 6% is reasonable. Liabilities are re-evaluated at investment return assumption of 6% for Liability Adequacy Test.

The table below compares total policyholder liabilities under existing valuation basis with policyholder liabilities calculated using best estimate assumptions:

Assumption	Policyholder liabilities on existing valuation basis	Policyholder liabilities using best estimate assumptions
	(Rupees in '000)	
Mortality	23,920,773	23,809,364
Investment returns	23,920,773	23,908,718

The liabilities evaluated under these assumptions suggest that recognized liabilities are adequate and no further provision is required.

28.2 Reinsurance contracts held

The company has entered into reinsurance arrangements, for both its individual and group businesses, in order to manage risks associated with the frequency and severity of claims. These arrangements include cover under treaties as well as on a facultative basis. The terms of reinsurance treaties vary by type of business, the objective being to maintain a reasonable risk profile suiting the risk appetite and overall exposure to adverse movements in mortality or morbidity.

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 accounting to the terms of the arrangements.

The details related to reinsurance assets and liabilities are shown below:

Reinsurer rating	Amounts due from reinsurers	Reinsurance recoveries against outstanding claims
'A' or above	16,274	118,457

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

28.3 Accounting estimates and judgments

The company makes several estimates of assumptions to evaluate its assets and liabilities reported in its financial statements. On the liability side, there are a number of factors that have a direct impact on policyholder liabilities. Assumptions are continually evaluated using internal analysis and monitoring processes to test validity of these assumptions.

28.3.1 Mortality, Disability and Critical Illness

Mortality and disability rates are basic assumptions used in valuation of policyholder liabilities. For mortality, life table efu(61-66) is being currently used. The life table was published more than 40 years ago and may not reflect mortality improvements. In absence of any updated mortality study of Pakistan's insured population, efu (61-66) is used with some adjustment to reflect current mortality trends. For reserving purposes, a 10% mortality loading is used over efu (61-66) rates to build in conservatism. An analysis of past mortality experience, reveals that 10% mortality loading for reserving purposes is appropriate to ensure prudence.

Sudden adverse experience in mortality might occur due to epidemics, causing deaths on a mass scale due to incurable contagious illnesses. Mortality may also deteriorate over a period of time, due to wide-scale changes in living life styles, eating and health habits.

Sensitivity test with respect to mortality is carried out and impact on policyholder liabilities is observed. When mortality rates increase by 10%, policyholder liabilities increase by 0.16%. Likewise, when mortality rates decrease by 10%, policyholder liabilities decrease by 0.16%.

In absence of credible disability and critical illness incidence rates, the company uses reinsurance rates for actuarial liability valuation of disability and critical illness benefits.

28.3.2 Investment income

Investment income is an important assumption for valuation of long-term conventional plans. This is the rate at which future expected benefits and expected premiums are discounted. Currently, the valuation assumption used for investment income is 3.75% p.a.

Sensitivity test with respect to investment income is carried out and its impact on policyholder liabilities observed. When investment rate is increased by 10%, policyholder liabilities decrease by 0.01%. Likewise, when investment income rate is decreased by 10%, policyholder liabilities increase by 0.01%.

28.4 Frequency and Severity of claims

Frequency and severity can have a significant impact on total claims paid out by the company. High frequency of claims could occur due to adverse experience of mortality or disability. Adverse mortality experience, in short-term, could be due to a wide-range spread of fatal contagious disease, an epidemic. Over a longer term, overall health practices, eating and living habits could potentially have an adverse effect on mortality.

About 90% of company's business is concentrated in the provinces of Sindh and Punjab. This concentration is largely in line with the population of these provinces relative to country's total population. The company's diversified portfolio of contracts helps limit the frequency and severity of claims. However, in event of large number of deaths or disabilities, company does face the risk of paying out excessive claims. To manage and mitigate this exposure, arrangements in form of reinsurance and catastrophe cover are in place.

In Group life business, frequency and severity of claims can be affected by concentration of business in a specifically risky class of industry. Claim frequency can rise substantially from businesses in industries that are more prone to accidents due to the nature of work they perform. Likewise, severity of claims can also be associated with business concentration in a specific class of industry. The company continually monitors its concentration risk and takes measures to keep its business portfolio well diversified.

Contracts in group life, are mainly one year term life contracts, where premium rates are generally guaranteed for one year only. The company retains the right of changing premium rates by incorporating the claim experience of a group insured, thereby allowing the company to charge a specific group in line with its claim experience.

The company regularly carries out an exercise to monitor time lags between intimation and settlement claim dates. The study reveals that a significant portion of claims are settled within twelve months of claim intimation.

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

The uncertainty with respect to future premiums and benefits may arise due to unexpected changes in mortality or disability experience. Adverse mortality experience will result in excess benefit payments, and reduced future premium income.

Likewise, unexpected changes in surrenders and lapses could also have a significant impact on future realized premiums. Estimates of lapses and surrenders are based on internal experience studies carried out annually. Factors that could affect policyholder behavior include, market factors such as interest rates, policyholder preferences in terms of the monetary value that a policyholder relates with the insurance policy, the frequency of premium payments and the age of the individual.

28.6 Process used to decide on assumptions

Assumptions used to determine policyholder liabilities include, mortality/disability/critical illness rates, investment returns for conventional business, investment returns for investment linked business, expenses and mortality loading.

Mortality assumptions should in principle reflect adequate conservatism in liabilities. The Company considers efu(61-66) life table to be appropriate for actuarial valuation of policyholder liabilities.

Disability and Critical illness rates used for liability valuation are the reinsurance rates provided by the reinsurer. Due to lack of sufficient claim experience for these disabilities and critical illnesses, the company considers this as the best estimate available.

The company uses an investment return assumption of 3.75% per annum to evaluate actuarial liabilities of its conventional plans. Liabilities of conventional products should in principle reflect a long term conservative interest rate, to reflect adequate conservatism. An investment return of 3.75% per annum is hence considered appropriate.

For Unit Linked products where the death benefit is paid in form of annuity, the company uses a discount rate of 6% to evaluate present value of future stream of cash flows. In principle, the interest rate assumption set to discount cash flows should reflect the expected returns on assets backing these liabilities. The company expects to earn atleast a 6% return on assets backing these unit-linked liabilities.

In valuation of unearned premium reserve for unit-linked plans a loading of 10% is applied on rates from efu(61-66). In opinion of company’s management and appointed actuary this assumption is prudent.

The company also allows for mortality fluctuation reserve, an extra 0.05% of an individual policy’s Retained Sum at Risk to allow for adverse deviation in mortality experience. In opinion of company’s management and appointed actuary this assumption is prudent.

The company reserves for any increase in actuarial liability resulting from the possible reinstatement of lapsed policies. The current liability valuation also takes into account cash value of units pertaining to policies lapsed in last 2 years. A unit-linked policy lapses when the second annual premium of policy is not received. In principle, cash value of a lapsed policy is not surrenderable, as per provisions and conditions, unless the second premium is paid and policy is reinstated. However, the company recognizes the possibility of these lapsed policies to be reinstated and hence carries out periodic studies to determine expected renewals. In opinion of the company’s management and appointed actuary assumptions used to set aside a liability against these lapsed policies is prudent.

For the purpose of liability adequacy tests the company makes assumptions relating to expenses. For this purpose regular expense analyses are carried out based on actual expenses and transaction volumes.

28.7 Sensitivity Analysis

The basic assumptions used in valuation of liabilities are mortality, disability, critical illness rates and investment returns assumed in discounting future cash flows. The table below presents sensitivity results with respect to above mentioned factors, with their impact observed on policyholder liabilities:

Sensitivity variable	% change in sensitivity	% change in policyholder liabilities
Worsening of mortality and critical illness rates	10%	0.16%
Improvement in mortality and critical illness rates	10%	-0.16%
Increase in investment returns	10%	-0.01%
Decrease in investment returns	10%	0.01%

28.8 Management of insurance, financial and other risks

28.8.1 *Insurance Risk*

The risk that company faces is due to randomness in occurrence of insured events. In principle, the company faces the risk that total claims exceed the reserves set aside at any point in time.

The occurrence of any single claim and amount paid on a single claim is a random event. However, as the number of contracts and independent lives increase, the estimated claim amounts and the number of claims get closer to the actual figures. This phenomenon is observed when pool of contracts is large enough and lives are independent. To manage this risk, company monitors its concentration risk, on several parameters, and maintains diversity in its portfolio of insurance contracts.

In order to maintain this diversification, the company takes a number of steps to manage the overall insurance risk of its portfolio of insurance contracts. The risk of an individual life is broadly assessed in light of its: medical condition, which include living habits, physical health and medical history; occupational condition, which assesses an individual's job profile and whether any characteristics of the job could have a significant impact on that individuals mortality; financial condition, which determines the individuals ability and affordability to purchase and maintain an insurance contract over the long-term.

The company identifies and defines parameters in its underwriting strategy to clearly identify individuals (sub-standard lives) which could potentially increase the overall risk of insurance portfolio. Based on certain parameters, such individuals pay an extra charge called Extra Mortality Premium, in order to compensate for extra risk added to existing pool of insured individuals. These measures allow the company to charge an individual life in line with the risk contributed to its insurance portfolio. These underwriting measures also discourage accumulation of sub-standard lives in the insured pool, thereby managing the overall insurance risk of company in the long-term.

The company also has reinsurance arrangements with its reinsurance partners, to whom the company passes any excess insurance risk beyond its retention levels. Limits are continually monitored and kept in line with the overall risk tolerance. This allows the company to retain the risk according to its risk capacity and minimizes excessive claim payouts. Currently, the total risk retained on individual life products is Rs. 1,200,000 per life for the death risk and Rs. 600,000 for risks associated with critical illness plans. For Group Life, the company currently retains Rs. 500,000 of total life risk on each life and Rs. 50,000 per life on critical life cover

The company also has arrangements for claims in event of a catastrophic scenario under an Excess of Loss Catastrophe cover which is triggered in event of excessive claims, limiting total amount of claims paid out if such an event occurs.

28.8.2 Other risks

The company faces a number of financial risks in its assets and liabilities, apart from insurance risk. These risks can be broadly categorized as expense risk, lapse risk, market risk, credit risk and liquidity risk. This section describes these risks on the company level and identifies and describes the processes and strategy of management to manage these risks.

28.8.3 Expense risk

The risk that the Company faces is that future expenses may be higher than those used in pricing of products causing an expense overrun. The company mitigates this risk by incorporating a certain level of acceptable conservatism in building future policy expense factors in pricing and expects to maintain its actual expenses within these limits. Regular monitoring of expenses allows the Company to adjust its pricing in time to account for higher than expected expenses.

The Company closely monitors its expenses by regularly carrying out an expense analysis for its business. The assumptions for future policy expense levels are determined from the Company's most recent annual expense analysis, with an extra margin built-in to account for variability in future expenses. A review of product pricing is carried out each year based on the latest available expense factors. Constant monitoring of expenses enables the Company to take corrective actions in time.

Based on the results of expense analysis, the company apportions its management expenses to different lines of business.

28.8.4 Lapse risk

The risk the Company faces is that future persistency rates may be lower than assumed in pricing, thus impacting the emergence of profit from its portfolio of individual life policies. The Company however is confident that this risk is insignificant as the company places tremendous emphasis on quality customer services and retention of clients by making persistency standard an integral part of the sales force culture. The Company has been consistently maintaining good levels of persistency and will continue a similar trend in future.

The Company has robust systems in place to regularly monitor the lapse experience. Regular focus on persistency is embedded in the Company culture and is an integral part of the monitoring of the sales force performance and remuneration.

28.8.5 Market risk

Market risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk in relation to its investments with respect to products other than unit linked products (in unit linked products, investment risk is borne by the policyholder). The Company limits market risk by maintaining a diversified portfolio and by continuously monitoring developments in government securities, equity and term finance certificates. The company, along with minimizing market risk by careful diversification in assets, also periodically carries out an Asset Liability management exercise, to match its duration of assets and liabilities.

28.8.6 Credit risk and concentration of credit risk

Credit risk arises when one party fails to discharge its obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties have similar types of business activities. As a result, any change in economic, political or other conditions would affect their ability to meet their contractual obligations. The Company is exposed to credit risk on premiums receivable from group clients, commission and claims recoverable from insurers and investment in term finance certificates. The management monitors exposure to credit risk through regular review of credit exposure, assessing credit worthiness of counter parties and prudent estimates of provision for doubtful debts. The Company believes it is not exposed to any major concentration of credit risk.

28.8.7 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its funding requirements, without incurring a material loss in disposing off its illiquid assets. To guard against this risk, the company maintains a healthy balance of cash and cash equivalents and readily marketable securities. Liquidity is monitored regularly and assets are frequently rebalanced to maintain a certain level of liquidity at all times. Going forward, the company also plans to set up a contingency plan, whereby alternate sources of liquidity will be identified and assets would be analyzed and ranked in their liquidity order, to determine which assets would need to be disposed off first in case of a liquidity crisis.

The expected payouts in liabilities along with maturity profile of assets and liabilities are monitored to ensure that adequate liquidity is maintained within the company, to avoid the need of liquidating assets below their actual market value.

The following extract, classifies the assets and liabilities of the Company by type of product in each Statutory Fund as at 31st December 2011. The table below also presents details of assets under Shareholder's Fund:

2011	Investment Linked Products (All unit main linked plans)	Conventional Products (Individual, Group Life, Riders)	Shareholders' Fund	Total
	(Rupees in '000)			
Available for sale:				
- Government Securities	14,791,907	-	502,135	15,294,042
- Other fixed income securities	3,398,504	-	-	3,398,504
Held to maturity:				
- Government Securities	1,112,960	274,567	-	1,387,527
- Other fixed income securities	198,097	145,714	60,753	404,564
Available for sale:				
- Listed equities and mutual funds	4,011,460	97,236	106,806	4,215,502
- Unlisted equities and mutual funds	166,664	4,604	508	171,776
Investment in associates	120,768	13,899	126,953	261,620
Loans and receivables:				
- Insurance receivables	-	40,529	-	40,529
Reinsurance assets	-	16,274	-	16,274
Cash and cash equivalents	491,789	613,347	36,321	1,141,457
Other assets	654,047	106,585	937,637	1,698,269
Total assets	**24,946,196**	**1,312,755**	**1,771,113**	**28,030,064**

2011	Investment Linked Products (All unit main linked plans)	Conventional Products (Individual, Group Life, Riders)	Shareholders' Fund	Total
	(Rupees in '000)			
Long-term insurance contracts and investment contracts:				
Fixed term	17,362,627	104,233	-	17,466,860
Whole of life	5,922,104	-	-	5,922,104
Short-term insurance contracts	-	240,024	-	240,024
Riders	-	291,785	-	291,785
Retained earnings on other than participating business	282,745	210,691	-	493,436
Equity	-	-	1,732,640	1,732,640
Other liabilities	1,378,720	466,022	38,473	1,883,215
Total liabilities	**24,946,196**	**1,312,755**	**1,771,113**	**28,030,064**

29. SEGMENT REPORTING

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

30. NUMBER OF EMPLOYEES

Number of employees as at 31 December 2011 is 1,007 (2010: 871).

31. RELATED PARTY TRANSACTIONS

The related parties comprise of directors, key management personnel, associated undertakings, and entities with common directors and retirement benefit fund. The transactions with related parties, other than those disclosed elsewhere in these financial statements and remuneration of key management personnel (disclosed in note 25) are as follows:

	2011	2010
	(Rupees in '000)	
Associated companies (due to common directorship)		
Transactions		
Premium written	**23,826**	12,259
Premium paid	**15,921**	13,606
Claims paid	**6,649**	6,501
Claims received	**2,074**	866
Traveling expenses	**906**	372
Services hired	**2,432**	2,399
Commission paid	**66,334**	37,799
Dividend paid	**264,057**	254,768
Dividend received	**10,644**	31,336
Balances		
Bank balances	**15,843**	7,790
Balance payable	**4,680**	803
Balance receivable	**40**	27
Employees' funds		
Transactions		
Contribution to provident fund	**12,335**	10,139
Contribution to pension fund	**9,436**	7,992
Key Management Personnel		
Transactions		
Loan recovered	**-**	230

32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the Board of Directors in their meeting held on 10 March 2012.

33. GENERAL

33.1 Figures in these financial statements have been rounded off to the nearest thousand of rupees, unless otherwise stated.

33.2 The Board of Directors has proposed a cash dividend of Rs.5/- per share (2010:Rs.5/- per share) amounting to Rs.425 million (2010: Rs.425 million) at its meeting held on March 10, 2012 for the approval of the members at the annual general meeting to be held on April 14, 2012. These financial statements do not reflect this appropriation as explained in note 5.11.

Director	**Director**	**Managing Director & Chief Executive**	**Chairman**