

Notes to the Financial Statements

For The Year Ended December 31, 2009

1 STATUS AND NATURE OF BUSINESS

East West Life Assurance Company Limited (the company) was incorporated in Pakistan on August 18, 1992 as a public limited company under the Companies Ordinance, 1984. Its shares are quoted on Karachi Stock Exchange. The company commenced life insurance operations on February 22, 1993 after registration with Controller of Insurance on February 14, 1993. The address of its registered and principal office is 28 Regal Plaza, M.A. Jinnah Road, Quetta and 310 EFU House, M.A. Jinnah Road Karachi, respectively. The company is engaged in life insurance carrying on participatory and non-participatory business. In accordance with the requirements of Insurance Ordinance, 2000, the company has established shareholders' fund and following statutory funds in respect of its each class of life insurance business:

- ◆ Ordinary Life;
- ◆ Universal Life; and
- ◆ Accident and Health.

2 BASIS OF PRESENTATION

These financial statements have been prepared on the format of financial statements issued by Securities and Exchange Commission of Pakistan (SECP) through Securities and Exchange Commission (Insurance) Rules, 2002 (the Rules).

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 (IFRSs) issued by the International Accounting Standards Boards as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, Insurance Ordinance, 2000 and the Rules. In case the requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000 and the Rules, shall prevail.

SECP through notification vide SRO 15091/2009 dated February 13, 2009 allowed insurance companies to differ from the application of International Accounting Standard-39 (IAS 39) Financial Instruments: Recognition and Measurement in respect of valuation subsequent to initial recognition of investments available for sale. Accordingly, the requirements of IAS 39, to the extent allowed by SECP, as aforesaid, have not been considered for the preparation of these financial statements.

3.1 Standards, Amendments and Interpretations to Published Approved Accounting Standards Effective in Current Year

IAS-1 (Revised) 'Presentation of financial statements' (effective from January 01, 2009), was issued in September 2007. According to new standard, the items of income and expenses that are not recognized in the profit and loss and non-owners changes in equity should be recognized through statements of comprehensive income. The revised standard requires an entity to opt for presenting such items of income and expenses either in (a) single statement (a statement of comprehensive income) or (b) two statements (a separate income statement and a statement of comprehensive income). The company has adopted IAS 1 (Revised) with effect from January 01, 2009 and adopted to presents two separate statements. However, company does not have any items of comprehensive income to report for the year ended December 31, 2009 and comparative period.

IFRS-4 'Insurance Contracts' (effective from January 01, 2005). The IFRS makes limited improvements to accounting for insurance contracts until the Board completes the second phase of its project on insurance contracts. The standard also requires that an entity issuing insurance contracts (an insurer) to disclose information about those contracts. The required information has been disclosed in notes to these financial statements.

IFRS-7 'Financial Instrument: Disclosures' (effective from April 28, 2008) supersedes IAS 30 - Disclosure in the Financial Statements of Banks and Similar Financial Institutions and disclosure requirements of IAS 32 - Financial Instruments: Disclosure and Presentation. The application of the standard did not have significant impact on the company's financial statements other than increased disclosures.

IFRS-8 'Operating Segments' (effective from January 1, 2009) has replaced IAS 14 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes and introduces disclosure regarding the reportable segments and products. There is no impact of the new standard on the company's financial statements other than the additional disclosures.

There are other new standards and interpretations to published approved accounting standards that are mandatory for accounting periods beginning on or after January 01, 2009, some which are changes in terminology only, and some of which are substantive but are considered not to be relevant but and have had no material effect on the company's financial statements.

3.2 Standards, Amendments And Interpretations to Published Approved Accounting Standards that are Relevant But Not Yet Effective

The following standards, amendments and interpretations to published approved accounting standards are mandatory for the company's accounting periods beginning on or after January 01, 2010:

Certain amendments in IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after January 01, 2010 resulting from April 2009 Annual Improvements to IAFRSs. Adoption of the above standard will only effect the presentation of financial statements.

IAS 7 "Statement of Cash Flows" effective for annual periods beginning on or after January 01, 2010. The application of the standard is not expected to have significant impact on the company's financial statements.

IAS 24 "Related Party Disclosures" amended definition of related parties and effective for the annual periods beginning on or after January 01, 2011. The application of the standard is not expected to have significant impact on the company's financial statements except for certain increase in disclosures.

There are other amendments resulting from annual improvement project initiated by International Accounting Standards Board in April 2009 and November 2009, Specifically in IAS 17, "Leases", IAS 28 "Investment in Associates", IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" that are considered relevant to the company's financial statements. The management is in the process of evaluating the impact of these changes on the company's financial statements.

3.3 Standards, Amendments and Interpretations To Published Approved Accounting Standards that are Not Relevant and Not Yet Effective

Standard, Amendments or Interpretation	Effective Date (Accounting Periods Beginning on or After)
IFRS 1 "First time Adoption of International Financial Reporting Standards"	January 01, 2010
IFRS 2 "Share-based Payments"	January 01, 2010

IFRS 3 "Business Combinations"	July 01, 2009
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"	January 01, 2010
IFRS 9 "Financial Instruments - Classification and Measurement"	January 01, 2013
IAS 28 "Investment in Associates"	July 01, 2009
IAS 31 "Interests in Joint Ventures"	July 01, 2009
IAS 32 "Financial Instruments: Presentation"	February 01, 2010
IAS 39 "Financial Instruments-Recognition and Measurement"	January 01, 2010
IFRIC 17 "Distributions of Non-cash Assets to Owners"	July 01, 2009
IFRIC 18 "Transfer of Assets from Customers"	July 01, 2009

4 BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention except for certain financial assets and liabilities which are stated at fair value or amortized cost as applicable.

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

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented except stated otherwise.

5.1 Use of Critical Accounting Estimates and Judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000, the Securities and Exchange Commission the Rules and the Companies Ordinance, 1984, requires management the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continuously evaluated and are based on historical experience including expectation of future events that are believed to be reasonable under the circumstances.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The areas where required assumptions and estimates are significant to the company's financial statements or where judgment was exercised in application of accounting policies are as follows:

1. Provision for Compensated Absences	(Note 5.3)
2. Claims (IBNR)	(Note 5.4)
3. Policyholders' Liabilities	(Note 5.5)
4. Taxation	(Note 5.6)
5. Useful Life of Depreciable / Amortizable Assets	(Note 5.9)
6. Impairment of Assets	(Note 5.11)
7. Reinsurance recoveries against outstanding claims	(Note 5.17)

However, assumptions and judgments made by management in the application of accounting policies that have significant effect on the financial statements are not expected to result in material adjustment to the carrying amounts of assets and liabilities in the next year.

5.2 Statutory Funds

The company maintains statutory funds in respect of each class of life insurance business. Assets, liabilities, revenues and expenses of the company are referable to respective statutory fund, wherever, these are not referable to statutory funds, these are allocated to the shareholders' fund.

Apportionment of assets, liabilities, revenues and expenses wherever required, between funds are made on fair and equitable basis and in accordance with the written advice of the appointed actuary.

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.

5.3 Staff Retirement Benefits

Defined Contribution Plan

The company operates an approved provident fund scheme for all its permanent employees. Equal monthly contributions are made both by the company and its employees to the fund at the rate of 10% of basic salary.

Accumulated Compensated Absences

The company make provision in the financial statements for its liabilities towards vested compensated absences accumulated by its employees, estimated on the basis of actuarial valuation carried out by the company's actuary. Latest actuarial valuation was carried out as at December 31, 2009. For detail of basis of assumptions taken by the actuary refer note 12.

5.4 Claims

A liability for outstanding claims is recognized in respect of all claims incurred up to the balance sheet date and includes amounts in relation to unpaid reported claims, claims incurred but not reported and expected claims settlement cost. Claims where intimation of the event giving rise to the claim is received 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.

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.

5.5 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.

5.6 Income Tax Expense

Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing laws of taxation on income. The charge for the current tax is calculated using the rate enacted or substantively enacted at the balance sheet date.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for the taxation purposes. A deferred tax asset is recognized only to the extent that is probable that future taxable profits will be available and the credits can be utilized. Deferred tax asset is reduced to the extent

that it is no longer probable that the related tax benefits will be realized. The company's deferred tax computation gives rise to deferred tax asset of Rs. 10.2 million which has not been recognised in these financial statements.

5.7 Investments

Classification

Investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rate are classified as available for sale. Investments acquired principally for the purpose of generating a profit from short-term fluctuation in price are classified as held for trading. Investments with fixed or determinable payments and fixed maturity where the company has positive intent and ability to hold to maturity are classified as held-to-maturity.

Initial Recognition

All investments are initially recognized at fair value including the transaction costs except held for trading investments which are recognized at fair value. All purchases and sales of investments which require delivery within time frame established by the regulations or market convention are accounted for at the settlement date. Settlement date is the date that an asset is delivered to or by the company.

Subsequent Measurement

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

Available for sale investments are measured at lower of cost or market value (market value being taken as lower if the fall is other than temporary) in accordance with Securities and Exchange Commission (Insurance) Rules, 2002 and is recognized as provision due to impairment in the value of investment. Any change in the provision for impairment in the value of investment held for sale is recognized in profit and loss/revenue account in which it arises.

Investments held for trading are subsequently measured at their fair values and the difference is taken to respective profit and loss/ revenue accounts in which it arises.

Fair / Market Value Measurement

For investments in government securities fair/market value is determined by reference to quotation obtained from Reuters page (PKRV). For investments in quoted marketable securities, fair/market value is determined by reference to stock exchange quoted market price at the close of business on balance sheet date. The fair /market value of the term finance certificates are determined by the average rates quoted by brokers.

Impairment of 'Available for Sale' Equity Investments

The company determines that 'available-for-sale' equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged required judgment. In making this judgment, the company evaluates among other factors, the normal volatility in share price. In addition, the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational/financial cash flow. For impairment in available for sale equity securities refer note 18.5.

5.8 Investments in Associates

Investment in associates is valued using equity method.

5.9 Fixed Assets

Tangible Assets

These are stated at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on the reducing balance method at rates mentioned in note 16.1.

Depreciation on additions and disposals during the year is charged from the month of addition to the month of disposal, when parts of an item of asset have different useful lives, they are accounted for as separate item in fixed assets.

Subsequent costs are included in the assets' carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other expenses are charged to income during the financial year in which they are incurred.

Depreciation rates and method are reviewed at each balance sheet date and adjusted, if required.

Gains or losses on disposal of fixed assets are determined by comparing proceeds with the carrying amount. These are included in the profit and loss account currently.

Intangible Assets

These include computer software and are recorded initially at cost and subsequently carried at cost less any accumulated amortization and any accumulated impairment losses, if any.

These are amortized over their useful lives and amortization is charged to income using the straight line method.

Capital Work-in-Progress

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

5.10 Cash and Cash Equivalents

For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand, stamps in hand and deposits with banks.

5.11 Impairment

The carrying amount of each asset is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account.

5.12 Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in Pakistani Rupees, which is the company's functional and presentation currency.

5.13 Insurance Contract

Insurance contracts are those contracts where the company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders.

5.14 Revenue Recognition

Premium

Individual life first year premiums are recognized once related policies have been issued against receipt of premium. Individual life renewal premiums are recognized upon receipt of premium and acceptance by the company.

Group life premiums are recognized as and when due.

Single premium are recognized once the related policies are issued against the receipt of premium.

Accident and Health

Group health premiums are recognized as and when due. In respect of certain group policies the company continues to provide cover even if the premium is received after the grace period.

Dividend Income

Dividend income is recognized when right to receive such income is established.

Interest/Markup Income

Interest/Markup income from bank deposits and fixed income securities is recognized using effective interest method.

5.15 Amount Due from (to) Other Insurers / Reinsurers

It is net amount receivable (payable) against recovery of claims, reinsurance commissions receivable and premiums ceded to reinsurers and claims payable or premiums receivables from other insurers. These are recognised at fair value.

5.16 Reinsurance Premiums Ceded

For reinsurance contracts operating on a proportional basis, or for which the term of the reinsurance contract is directly referable to the term of the underlying policy(s), premium ceded to reinsurers is recognised as liability at the same point at which the premium of the underlying policy(s) is recognised as revenue. At the same point premium ceded is recognised as expense over the period of reinsurance. Reinsurance premiums ceded not yet recognised are recognised as prepayments and are disclosed in "amount due from (to) other insurers / reinsurers".

5.17 Reinsurance Recoveries

Claims recoveries receivable from reinsurers and other recoveries receivable are recognised as assets at the same time as the claims which give rise to the right to the recovery are recognised.

5.18 Acquisition Cost

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

Commission 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 the 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.

5.19 Financial Instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instruments and derecognized when the company loses control of contractual rights that comprise the financial assets and in case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the de-recognition of financial asset or financial liabilities is included in the profit and loss or revenue account currently, as the case may be.

5.20 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 the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

5.21 Provisions

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

5.22 Foreign Currencies

Transactions in foreign currencies are translated into reporting currency at the rate of exchange prevailing on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling on the balance sheet date. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Exchange differences are included in the income currently.

5.23 Dividend and Appropriation to Reserves

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

5.24 Premium Due But Unpaid

These are initially recognized at fair value. Provision for impairment on premium receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to original terms of receivable.

5.25 Loan Secured Against Life Insurance Policies

Cash Loan

The company provides loans to their policyholders on the basis of payment of premium for three consecutive years. The maximum limit of disbursement is 80 percent of the surrender value and carries a markup rate determine by the company from time to time.

Auto Paid-Up Loan

These non-interest bearing loans are available to policyholder of the company to the extent of cash value built in their policies.

5.26 Level of Precision

Figures in these financial statements have been rounded to the nearest rupee.

6. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Number of Shares		Rupees	Rupees
Ordinary Shares of Rs.10 each Fully Paid in Cash			
<u>45,496,000</u>	<u>41,360,000</u>	<u>454,960,000</u>	<u>413,600,000</u>

6.1 Reconciliation of Issued, Subscribed and Paid-Up Share Capital

	<u>2009</u>	<u>2008</u>
	Number of Shares	
Number of Shares at Beginning of the Year	41,360,000	35,200,000
Right Shares Issued During the Year	4,136,000	6,160,000
Number of Shares at End of the Year	<u>45,496,000</u>	<u>41,360,000</u>

6.2 Rights Shares Issued During the Year

The company in its extra ordinary general meeting held on September 25, 2009, announced issuance of 10% right shares, which were exercised on December 29, 2009. Subscription received has been transferred to shareholder's account on December 30, 2009.

6.3 Capital Management Policies and Procedures

The company's capital management objectives are:

- ◆ to ensure the company's ability to continue as a going concern; and
- ◆ to provide an adequate return to shareholders

by pricing its insurance premium commensurately with the level of risk.

The company's objective in capital management is to maintain a balance between shareholders' capital to overall financing and statutory funds to the investments. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amounts of dividends paid to shareholders and issue new shares. Further the company ensures to comply with all the regulatory requirements regarding capital and its management.

Capital requirements applicable to the company are set and regulated by the Securities and Exchange Commission of Pakistan (SECP). These requirements are put in place to ensure sufficient solvency margins. The company manages its capital requirement by assessing its capital structure against the required capital level on a regular basis. Minimum capital requirement for the company as required by circular No. 03 of 2007 dated April 10, 2007 is Rs. 450 million for 2009 and Rs. 500 million for 2010 and onwards.

7 ANALYSIS OF ACCUMULATED (DEFICIT)/ SURPLUS AS SHOWN IN BALANCE SHEET

	<u>Note</u>	<u>2009 Rupees</u>	<u>2008 Rupees</u>
Accumulated Surplus In Statement of Changes in Equity Ignoring Effect of Capital Transfers at Start of Year		117,861,481	108,353,454
Add: (Loss)/Surplus in Profit and Loss Account for the Year		(223,832,535)	44,708,027
Less: Dividend Paid During the Year		—	(35,200,000)
Accumulated Surplus in Statement of Changes in Equity Ignoring Effect of Capital Transfers at End Of Year		(105,971,054)	117,861,481
Less: Accumulated Net Capital Transferred In Statutory Funds	14	(199,620,426)	(116,120,426)
Total Accumulated (Deficit)/Surplus as Shown in Balance Sheet		<u>(305,591,480)</u>	<u>1,741,055</u>

8 DEFERRED LIABILITIES - GRATUITY PAYABLE

Opening Balance		90,550	128,500
Less: Paid During the Year		—	(37,950)
Closing Balance		<u>90,550</u>	<u>90,550</u>

Unfunded gratuity scheme for the permanent employees of the company had been discontinued since 2003. Outstanding balance represents the liability of the company pertaining to the employees rendered their services at the time of discontinuation and allowed the members to withdraw their balances at the time of completion/termination of their employment. Consequently, no further charge and contribution has been accounted for since then.

	<u>2009 Rupees</u>	<u>2008 Rupees</u>
9 OUTSTANDING CLAIMS		
Opening Balance	6,555,457	5,690,471
Add: Claims Incurred During the Year	165,142,667	157,013,303
Less: Claims Paid During the Year	(164,904,582)	(156,148,317)
Closing Balance	<u>6,793,542</u>	<u>6,555,457</u>

10 PREMIUMS RECEIVED IN ADVANCE

Opening Balance	4,813,577	2,029,259
Add: Created During the Year	68,267,384	35,863,527
Less: Adjusted During the Year	(66,306,679)	(33,079,209)
Closing Balance	<u>6,774,282</u>	<u>4,813,577</u>

	2009 Rupees	2008 Rupees
11 AMOUNT DUE TO OTHER INSURERS / REINSURERS		
Opening Balance	4,133,750	4,879,958
Add: Premiums Ceded During the Year	81,280,797	86,784,622
Amount Received During the Year	1,490,110	3,114,542
	82,770,907	89,899,164
Less: Claims Recoveries During the Year	(70,247,344)	(78,935,359)
Commission Recoveries During the Year	(6,330,776)	(7,188,203)
Amount Paid During the Year	(4,499,927)	(4,521,810)
	(81,078,047)	(90,645,372)
Closing Balance	5,826,610	4,133,750

- 12** This includes provision made against accumulated compensation absences on the basis of actuarial assumptions taken by company's actuary.

The main assumptions used for actuarial valuation are as under:

Principal Actuarial Assumption	2009	2008
Discount Factor Used Per Annum	12.75%	15%
Expected Increase in Eligible Pay Per Annum	12.75%	15%

12.1 Movement in Payable to Accumulated Compensation Absences Plan

Opening Balance	1,052,314	686,906
Charge During the Year	639,358	365,408
Closing Balance	1,691,672	1,052,314

13 AGENT'S BALANCES

Opening Balance	3,478,669	289,583
Add: Incurred During the Year	26,992,780	15,066,939
Less: Paid During the Year	(26,812,186)	(11,877,853)
Closing Balance	3,659,263	3,478,669

14 MOVEMENTS IN EQUITY OF STATUTORY FUNDS

	Statutory Funds			Aggregate December 31, 2009	Aggregate December 31, 2008
	Ordinary Life	Universal Life	Accident & Health		
	Rupees.....				
Policyholders' Liabilities					
Balance at Beginning of the Year	33,544,570	78,736,511	6,918,967	119,200,048	108,672,260
Policyholders' Liabilities Transfer Due to Conversion	(3,812,306)	3,812,306	—	—	—
Increase/(Decrease) During the Year	915,879	27,536,289	9,290,096	37,742,264	10,527,788
Balance at End of the Year	30,648,143	110,085,106	16,209,063	156,942,312	119,200,048
Capital Contributed by Shareholders' Fund					
Balance at the Beginning of the Year	96,220,426	18,400,000	1,500,000	116,120,426	88,020,426
Capital Contributed During the Year	20,000,000	46,500,000	17,000,000	83,500,000	28,100,000
Balance at End of the Year	116,220,426	64,900,000	18,500,000	199,620,426	116,120,426
Accumulated Deficit					
Balance at the Beginning of the Year	(95,759,707)	(18,293,001)	(1,445,680)	(115,498,388)	(84,752,402)
Deficit Allocated in Respect of the Year	(17,744,436)	(46,572,681)	(14,491,123)	(78,808,240)	(30,745,986)
Balance at End of the Year	(113,504,143)	(64,865,682)	(15,936,803)	(194,306,628)	(115,498,388)

15 OTHER CREDITORS AND ACCRUALS

	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2009	Aggregate December 31, 2008
		Ordinary Life	Universal Life	Accident & Health		
	Rupees.....					
Sundry Creditors	141,595	391,467	91,733	133,871	758,666	769,074
Provident Fund Payable	15,100	117,026	37,750	18,875	188,751	138,830
	156,695	508,493	129,483	152,746	947,417	907,904

16 CONTINGENCIES AND COMMITMENT

There are no contingencies and commitment at balance sheet date.

17 DEPOSITS MATURING WITHIN 12 MONTHS

	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2009	Aggregate December 31, 2008
		Ordinary Life	Universal Life	Accident & Health		
	Rupees.....					
Term Deposit Receipts						
Faysal Bank Limited	—	—	—	—	—	6,000,000
Mybank Limited	—	—	5,000,000	10,000,000	15,000,000	7,500,000
NIB Bank Limited	—	—	—	—	—	7,500,000
JS Bank Limited	—	—	—	—	—	15,000,000
Network Micro Finance Bank Limited	—	—	15,000,000	—	15,000,000	5,000,000
	—	—	20,000,000	10,000,000	30,000,000	41,000,000

17.1 These deposits carry interest at the rate of 5% to 11% (2008: 5% to 6%) per annum.

18 INVESTMENTS

Notes	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2009	Aggregate December 31, 2008	
		Ordinary Life	Universal Life	Accident & Health			
Rupees							
Government Securities	18.1	48,442,808	20,151,140	77,682,614	2,051,603	148,328,165	80,831,205
Other Fixed Income Securities	18.2	—	—	5,356,827	—	5,356,827	5,377,925
Listed Equities and Mutual Fund	18.3	32,368,841	—	—	—	32,368,841	276,015,764
Investment in Associate	18.4	11,505,985	—	—	—	11,505,985	14,665,507
		92,317,634	20,151,140	83,039,441	2,051,603	197,559,818	376,890,401
18.1 Government Securities							
Held-to-Maturity							
10 Years Pakistan Investment Bonds		5,000,000	—	—	—	5,000,000	5,000,000
10 Years Pakistan Investment Bonds		—	—	2,999,553	—	2,999,553	2,999,455
10 Years Pakistan Investment Bonds		—	—	583,094	—	583,094	578,587
3 Years Pakistan Investment Bonds		—	—	—	—	—	15,853,343
10 Years Pakistan Investment Bonds		16,483,346	—	—	—	16,483,346	15,932,691
10 Years Pakistan Investment Bonds		6,234,648	10,151,140	23,049,104	2,051,603	41,486,495	40,467,129
10 Years Pakistan Investment Bonds		15,794,504	—	—	—	15,794,504	—
10 Years Pakistan Investment Bonds		1,957,376	—	—	—	1,957,376	—
Treasury Bills		2,972,934	10,000,000	51,050,863	—	64,023,797	—
		48,442,808	20,151,140	77,682,614	2,051,603	148,328,165	80,831,205

The particulars of investments are as follows:

Held-to-Maturity	Amounts in Rupees	Maturity	Principal Repayment	Coupon Percentage	Coupon Payment
10 Years Pakistan Investment Bonds	5,000,000	April 2014	On Maturity	8%	Semi-Annually
10 Years Pakistan Investment Bonds	2,999,553	April 2014	On Maturity	8%	Semi-Annually
10 Years Pakistan Investment Bonds	583,094	October 2013	On Maturity	8%	Semi-Annually
10 Years Pakistan Investment Bonds	32,277,850	May 2016	On Maturity	9.6%	Semi-Annually
10 Years Pakistan Investment Bonds	41,486,495	June 2012	On Maturity	11%	Semi-Annually
10 Years Pakistan Investment Bonds	1,957,376	August 2018	On Maturity	12%	Semi-Annually
Treasury Bills	64,023,797	April 2010	On Maturity	11.5%	On Maturity
	148,328,165				

The company has deposited 10 years Pakistan Investment Bonds amounting to Rs. 46.25 million (December 31, 2008: Rs. 44.5 million) with the State Bank of Pakistan under section 29 of the Insurance Ordinance, 2000.

18.2 Other Fixed Income Securities

Held-to-Maturity	Amounts in Rupees	Maturity	Principal Repayment	Coupon Percentage	Coupon Payment
Term Finance Certificate					
Pakistan Mobile Communication Limited	—	5,356,827	—	5,356,827	5,377,925

The Particulars of Investments are as Follows:

Term Finance Certificate	Number of Certificates	Maturity	Tenor	Rate of Return	Profit Payment
Pakistan Mobile Communication Limited	1,060	2013	7 Years	12.46%	Half Yearly

18.3 Listed Equities and Mutual Funds

Notes	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2009	Aggregate December 31, 2008
		Ordinary Life	Universal Life	Accident & Health		
Rupees						
Available for Sale						
Listed Equities	65,162,411	—	—	—	65,162,411	229,587,264
Mutual Funds	46,428,500	—	—	—	46,428,500	46,428,500
Less: Provision for Impairment in Value of Investment	18.5 (79,222,070)	—	—	—	(79,222,070)	—
	32,368,841	—	—	—	32,368,841	276,015,764

The aggregate market value of above investment as at December 31, 2009 is Rs. 33 (2008: Rs. 64) million.

18.4 Investment in Associate

Name of Associate	Chief Executive	Place of Incorporation	Proportion and Nature of Ownership Interest	Principal Activity
East West Insurance Company Limited	Mr. Naved Yunus	Pakistan	0.41% Due to Common Directorship	General Insurance

Summarized financial information in respect of associate based on latest available unaudited financial statements is set out below:

	2009 Rupees	2008 Rupees
Total Assets	661,692,001	1,273,323,727
Total Liabilities	332,140,647	383,635,958
Net Assets	329,551,354	889,687,769
Revenue - Net	436,967,795	405,704,620
(Loss) / Profit for the Year	(537,283,767)	265,827,258
Movement in Investment in Associate		
Initial Investment	14,665,507	13,529,179
Less: Movement In Investment During the Year	(855,105)	—
Add: Share of (Loss) / Profit in Associate	(2,201,700)	1,194,828
Less: Dividend Received	(102,717)	(58,500)
Net Investment in Associate	11,505,985	14,665,507

18.5 During the year, the management has recognized impairment loss after taking into account adjustment effect of price movement during each quarter on available for sale investments as required by SRO 150(1)/2009 dated February 13, 2009 and circular no. 03 of 2009 dated February 16, 2009 issued by Securities and Exchange Commission of Pakistan.

20.3 Details of Disposal of Fixed Assets - By Negotiation

Description	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Gain / (Loss)	Particulars of Purchasers
Air Conditioner	19,900	3,318	16,582	16,582	—	Mr. Mumtaz
Suzuki Mehran (LEC-8534)	390,790	39,272	351,518	365,750	14,232	East West Insurance Co. (Related Party)

	<u>Note</u>	<u>2009</u> <u>Rupees</u>	<u>2008</u> <u>Rupees</u>
21 AUDITORS' REMUNERATION			
Audit Fee		400,000	350,000
Half Yearly Review		75,000	75,000
Others		50,000	50,000
Out of Pocket Expenses		140,907	121,467
		665,907	596,467
21.1 Allocation of the Auditors' Remuneration is as follows:			
Expense Not Attributable to Statutory Funds	22	332,954	323,234
Administration Expenses - Ordinary Life Business		166,476	136,616
Administration Expenses - Universal Life		66,591	54,647
Administration Expenses - Accidental and Health Business		99,886	81,970
		332,953	273,233
		665,907	596,467
22 EXPENSES NOT ATTRIBUTABLE TO STATUTORY FUNDS			
Salary and Other Benefit		7,811,564	5,364,881
Staff Welfare		808,161	291,581
Travelling		244,949	293,036
Advertisement		452,114	345,610
Telephone		405,787	289,922
Electricity		312,343	176,154
Vehicle Maintenance		1,695,502	787,555
Insurance to Vehicles		823,488	445,368
Fees and Subscription		75,000	60,000
Professional and Consultancy		180,000	531,860
Supervision Fees		699,221	270,610
Professional Tax		226,950	171,650
Depreciation	20.1	7,340,380	5,114,789
Amortization	20.2	40,225	120,675
Auditor Remuneration	21.1	332,954	323,234
Brokerage Commission		101,041	139,961
Operating Lease Rentals		831,141	817,080
Compensated Absences		102,297	58,465
Printing and Stationery		313,022	228,055
IAP Membership Fees		75,000	81,250
Underwriting Commission		413,600	616,000
Miscellaneous Expenses		88,617	73,413
		23,373,356	16,601,149

The above expenses represent allocation in accordance with the advice of the appointed actuary.

	<u>2009</u> <u>Rupees</u>	<u>2008</u> <u>Rupees</u>
23 TAXATION		
Current	<u>1,236,232</u>	<u>812,697</u>

23.1 Relationship Between Tax Expense and Accounting Profit

Numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the company's tax computation gives rise to a tax loss. Provision for current year income tax consists of tax on government securities.

24 (LOSS) / EARNINGS PER SHARE - Basic and Diluted

(Loss) / Profit for the Year - Rupees	<u>(223,832,535)</u>	<u>44,708,027</u>
Weighted Average Number of Ordinary Shares	<u>41,382,663</u>	<u>35,250,630</u>
(Loss) / Earnings Per Share - Rupees	<u>(5.40)</u>	<u>1.27</u>

Earnings per share for the year ended December 31, 2008 has not been restated as no bonus element raised due to issue of right shares during the year.

25 POLICYHOLDERS' LIABILITIES AS PER ACTUARY

	<u>Statutory Funds</u>					<u>Aggregate December 31, 2009</u>	<u>Aggregate December 31, 2008</u>
	<u>Ordinary Life</u>		<u>Universal Life</u>	<u>Accident & Health</u>			
	<u>Individual</u>	<u>Group</u>		<u>Individual</u>	<u>Group</u>		
	<u>Rupees</u>						
Gross of Reinsurance							
Actuary Liability Relating to Future Events	17,657,316	35,603,612	110,395,705	1,105,191	14,378,872	179,140,696	146,707,250
Provision for Outstanding Reported Claims Payable Over the Period Exceeding Twelve Months	1,615,689	—	—	—	—	1,615,689	1,822,795
Provision for Claims Incurred But Not Reported (IBNR)	100,000	7,146,950	478,404	250,000	475,000	8,450,354	2,005,186
Total	<u>19,373,005</u>	<u>42,750,562</u>	<u>110,874,109</u>	<u>1,355,191</u>	<u>14,853,872</u>	<u>189,206,739</u>	<u>150,535,231</u>
Net of Reinsurance							
Actuary Liability Related to Future Events	17,657,316	9,465,138	109,610,106	1,105,191	14,378,872	152,216,623	116,402,253
Provision for Outstanding Reported Claims Payable Over the Period Exceeding Twelve Months	1,615,689	—	—	—	—	1,615,689	1,822,795
Provision for Claims Incurred But Not Reported (IBNR)	100,000	1,810,000	475,000	250,000	475,000	3,110,000	975,000
Total	<u>19,373,005</u>	<u>11,275,138</u>	<u>110,085,106</u>	<u>1,355,191</u>	<u>14,853,872</u>	<u>156,942,312</u>	<u>119,200,048</u>

26 REMUNERATION OF CHIEF EXECUTIVE AND OTHER EXECUTIVE

	2009		2008	
	Chief Executive	Directors	Chief Executive	Directors
	Rupees			
Managerial Remuneration (Including Bonus)	931,500	560,000	931,500	435,000
House Rent Allowance	372,000	—	372,000	—
Utilities	535,406	—	328,535	—
Retirement Benefits	165,600	—	165,600	—
Reimbursement of Expenses	1,881,636	—	1,901,203	—
	3,886,142	560,000	3,698,838	435,000
Number of Person(s)	1	2	1	2

Certain employees are provided with free use of company maintained cars.

27 TRANSACTIONS WITH RELATED PARTIES

The related parties comprises East West Insurance Limited (Associated Company), directors of the company, key management personnel, associated undertakings, entities with common directors, statutory funds and employees' funds. Following are the balances and transactions with related parties.

	December 31, 2009			December 31, 2008		
	Directors	Key Management Personnel	Associated Companies & Common Directorship	Directors	Key Management Personnel	Associated Companies & Common Directorship
	Rupees					
Balances						
Premium Receivable	—	—	114,786	—	—	566,429
Amount Due From Associate Undertaking	—	—	—	—	—	—
Investment	—	—	62,841,398	—	—	230,425,773
Transactions						
Premium Received	—	—	1,020,000	—	—	1,347,310
Premium Paid	—	—	823,488	—	—	555,689
Claims Paid	—	—	2,011,999	—	—	1,272,653
Dividend Received	—	—	—	—	—	58,500
Investments	—	—	62,841,398	—	—	230,425,773
Received From Associate Undertaking	—	—	—	—	—	303,418

28 BUSINESS SEGMENTS

A segment is a distinguishable component of the company that is engaged in business activities from which the company earns revenues and incurs expenses and its results are regularly reviewed by the company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. Further, discrete financial information is available for each segment. The company accounts for segment reporting using the classes or business as specified under the Insurance Ordinance, 2000 and the Securities and Exchange Commission (Insurance) Rules, 2002 as the reporting format based on the company's practice of reporting to the management on the same basis.

The company's reportable segments under IFRS 8 are as follows:

a) Statutory Funds

Ordinary Life

The ordinary life segment provides life assurance coverage to individuals under conventional policies issued by the company. It also provides life insurance coverage to members of business enterprises, corporate entities and common interest groups under life insurance schemes issued by the company.

Universal Life

Universal life segment provides life assurance coverage to individuals under universal life policies issued by the company.

Accident and Health

Accident and health business segment provides health coverage to member enterprises, corporate entities and common interest groups under health insurance scheme issued by the company.

b) Shareholders' Fund

Assets, liabilities, expenses and revenues that are not attributable to other segments are managed under shareholder's fund.

All segments assets, liabilities, income and expenses are allocable to reportable segments. Assets and liabilities of each segment are disclosed in balance sheet while expenses and revenues of shareholder's fund are presented in profit and loss account and that of other segments are presented in revenue account.

29 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The company is primarily exposed to credit risk, liquidity risk and market risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. Overall risk arising from the company's financial assets and liabilities are limited. The company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below. The board of directors has overall responsibility for establishing and oversight of company's risk management framework. The board is also responsible for developing the company's risk management policies.

29.1 Credit Risk and Concentration of Credit Risk

Credit risk is the risk that one party to financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly effected by changes in economics, political and other conditions. Concentration of credit risk indicate the relative sensitivity of the company's performance to developments effecting a particular industry.

The company manages its credit risk by monitoring credit exposure, limiting transaction with specific counter party and continually assessing the credit worthiness of counter parties. Management considers that all the financial assets that are neither past due nor impaired are of good credit quality. The maximum exposure of the company to credit risk at reporting date without taking account any collateral held or other credit enhancements is as:

	2009	2008
	Rupees	Rupees
Cash and Cash Equivalent		
Cash in Hand	24,992	29,777
Current and Other Accounts	29,745,027	54,866,298
Deposits Maturing Within 12 Months	30,000,000	41,000,000
Loans and Receivables		
Loans Secured Against Life Insurance Policies	8,424,813	10,386,126
Unsecured Advances to Employees	1,038,801	547,082
Premiums Due But Unpaid	21,662,251	25,660,951
Amount Due From Other Insurer and Reinsurer	—	134,323
Investment Income Accrued	4,693,758	1,708,629
Sundry Receivables	2,852,479	3,646,452
Held-to-Maturity Financial Assets		
Investment	153,684,992	86,209,130
	252,127,113	224,188,768

The credit risk to cash and cash equivalent is negligible, since the counter parties are reputable banks with high quality external credit rating. Company did not hold any collateral against above assets except 'loans secured against life insurance policies' that are secured against reserve balance of the policyholders. There is no impairment against past due balances as they relate to a number of policyholders and other insurers/reinsurers for whom there is no recent history of defaults.

The age analysis of receivables that are due but not impaired is as follow:

	2009	2008
	Rupees	Rupees
Upto One Year	22,371,930	26,501,940
More Than One Year	10,567,613	13,191,589
	32,939,543	39,693,529

Sector Wise Analysis of Premium Due But Unpaid is as Follow:

Financial Institutions	17,053,759	9,402,301
Transport and Communication	—	1,455,880
Food and Beverages	1,866,667	1,997,532
Engineering	144,585	3,892,914
Auto and Allied	100,000	—
Others	2,497,240	8,912,324
	21,662,251	25,660,951

All recoveries from reinsurers of Rs. nil (2008: Rs. 134,323) are from "A" quality credit rated companies.

29.2 Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the company could be required to pay its liabilities earlier than expected or difficulties in raising funds to meet commitments associated with financial liabilities as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. The following are the contractual maturities of financial liabilities, including interest payments and excluding impact of netting agreements:

Financial Assets and Liabilities

		Year 2009									Non Interest Bearing Financial Instrument
Effective Interest Rate	Exposed to Interest Rate Risk										
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years		
Rupees											
On Balance Sheet											
Financial Assets											
		24,992	—	—	—	—	—	—	—	—	24,992
		29,745,027	29,745,027	—	—	—	—	—	—	—	—
		30,000,000	30,000,000	—	—	—	—	—	—	—	—
		8,424,813	—	—	—	—	—	—	—	—	8,424,813
		1,038,801	—	—	—	—	—	—	—	—	1,038,801
		197,559,818	—	—	64,023,797	—	41,486,495	13,939,474	34,235,226	—	43,874,826
		21,662,251	—	—	—	—	—	—	—	—	21,662,251
		4,693,758	—	—	—	—	—	—	—	—	4,693,758
		2,852,479	—	—	—	—	—	—	—	—	2,852,479
		296,001,939	59,745,027	—	64,023,797	—	41,486,495	13,939,474	34,235,226	—	82,571,920
Financial Liabilities											
		90,550	—	—	—	—	—	—	—	—	90,550
		6,793,542	—	—	—	—	—	—	—	—	6,793,542
		6,774,282	—	—	—	—	—	—	—	—	6,774,282
		5,826,610	—	—	—	—	—	—	—	—	5,826,610
		12,486,105	—	—	—	—	—	—	—	—	12,486,105
		3,659,263	—	—	—	—	—	—	—	—	3,659,263
		947,417	—	—	—	—	—	—	—	—	947,417
		36,577,769	—	—	—	—	—	—	—	—	36,577,769
On Balance Sheet Gap		259,424,170	59,745,027	—	64,023,797	—	41,486,495	13,939,474	34,235,226	—	45,994,151

Year 2008

Effective Interest Rate	Exposed to Interest Rate Risk									Non Interest Bearing Financial Instrument
	Total	Up to 1 Month	Over 1 to 3 Months	Over 3 to 6 Months	Over 1 to 2 Years	Over 2 to 3 Years	Over 3 to 5 Years	Over 5 to 10 Years	Above 10 Years	
Rupees										
On Balance Sheet										
Financial Assets										
Cash in Hand	29,777	—	—	—	—	—	—	—	—	29,777
Current and Other Accounts	5% To 6%	54,866,298	54,866,298	—	—	—	—	—	—	—
Deposits Maturing Within 12 Months	5% to 6%	41,000,000	41,000,000	—	—	—	—	—	—	—
Loans Secured Against Life Insurance Policies		10,386,126	—	—	—	—	—	—	—	10,386,126
Unsecured Advances to Employees		547,082	—	—	—	—	—	—	—	547,082
Investment	8% to 10%	376,890,401	—	15,853,343	—	—	46,423,641	23,932,146	—	290,681,271
Premiums Due But Unpaid		25,660,951	—	—	—	—	—	—	—	25,660,951
Amount Due From Associated Undertaking		134,323	—	—	—	—	—	—	—	134,323
Investment Income Accrued		1,708,629	—	—	—	—	—	—	—	1,708,629
Sundry Receivables		3,515,142	—	—	—	—	—	—	—	3,515,142
		514,738,729	95,866,298	15,853,343	—	—	46,423,641	23,932,146	—	332,663,301
Financial Liabilities										
Deferred Liabilities - Gratuity		90,550	—	—	—	—	—	—	—	90,550
Outstanding Claims		6,555,457	—	—	—	—	—	—	—	6,555,457
Premium Received In Advance		4,813,577	—	—	—	—	—	—	—	4,813,577
Amounts Due to Other Insurer and Reinsurer		4,133,750	—	—	—	—	—	—	—	4,133,750
Accrued Expenses		7,885,776	—	—	—	—	—	—	—	7,885,776
Agent's Balances		3,478,669	—	—	—	—	—	—	—	3,478,669
Other Creditors and Accruals		907,904	—	—	—	—	—	—	—	907,904
		27,865,683	—	—	—	—	—	—	—	27,865,683
On Balance Sheet Gap		486,873,046	95,866,298	15,853,343	—	—	46,423,641	23,932,146	—	304,797,618

29.3 Market Risk

Market risk is the risk that the value of a financial instruments will fluctuate as a result of changes in interest rates or market prices due to a change in credit rating of the issuer of the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The company is not exposed to currency risk as it is not involved in foreign currency transactions. However, it is exposed to interest rate risk and market price risk.

29.4 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to changes in market interest rates through its investment in other fixed income securities of Rs. 5,356,827 (2008: Rs. 5,377,925). Management considers that fluctuation in market interest rate will have no significant impact.

29.5 Fair Value Sensitivity Analysis for Fixed Rate Instrument

The company does not account for any fixed rate financial asset and liability at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account.

Other Price Risk

The company is not exposed to this risk.

30 FAIR VALUE OF FINANCIAL ASSETS

The fair value of all other financial assets and financial liabilities is estimated to approximate their carrying value.

31 INSURANCE RISK

31.1 The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of resulting claim. By the very nature of the contract the risk is random and unpredictable. The company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under contracts.

The company manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposure are managed by having documented underwriting limits and criteria. Adequate reinsurance is arranged to mitigate the effect of potential loss to the company for large insured events. Further, the company adopts the strict claim review policies including active management and prompt perusing of the claims, regular detail review of claims handling procedures and frequent investigation of false claims to review the insurance risk.

The underwriter's freedom to underwrite is paramount. Therefore, the underwriter will have the discretion to decline, reduce, or modify the proposal or cut out a rider even if the case appears to be acceptable. Those risk subject to a higher than normal mortality are said to be sub-standard or impaired risk as their chances of surviving from year to year are impaired. Such lives are either accepted only with extra premium or with some restriction, or postponed or declined as the merits of individual case warrant. The amount of extra premium i.e. occupational or physical extra should be imposed as per the Extra Premium Rate book designed by the appointed actuary. Free cover limit in case of group insurance business is set with the consolation of the appointed actuaries on case to case basis.

31.2 General Terms the Insurance Contracts Issued By the Company are as Follow:

Benefits offered to group insurance clients

Group Life

Death Due to Any Cause
 Accidental Death Benefit
 Accidental Permanent Disability
 Accidental Temporary Disability
 Natural Disability (Only Complete Blindness and Paralysis)
 Reimbursement of Hospital Expense Due to Accident with Limits

Group Health

Hospitalization Benefits with Limits According to Category
 Major Medical Benefit with Limits in Case of Dread Disease / Critical Illness
 Reimbursement of Outpatient Expenses with Limits

The following benefits are offered by the company to its individual clients.

Individual Life

The company stopped selling conventional type business since 2007. All enforce conventional policies were converted to universal life policies. Hence, in conventional life business, there are only non-participating paid-up conventional policies.

Individual Accidental

The company, in its accidental and health statutory fund, offers two individual one-year renewable term non-participating accidental products.

The following riders are offered by the company which can be added to its periodic premiums universal life products.

- Accidental Death Benefit
- Accidental Indemnity Benefit
- Family Income Benefit Rider
- Term Insurance Rider
- Major Surgery Benefit

31.3 Particulars of Insurance Contracts Provided by the Company are as Follow:

Type of insurance contracts	Insurance Risks	Type of Customers	Insured Events	Method Used to Distribute
Mehfooz Sarmaya Plan	Mortality Risk, Investment Risk	From Age 18 to Age 60 Years (in Good Health)	Death	In-House Agency
Sarmaya Gold Plan (Single Premium)	Mortality Risk, Investment Risk, Accidental Death Risk	From Age 18 to Age 60 Years (in Good Health)	Death	In-House Agency
Scholar's Plan	Mortality Risk Of Payer And Child, Investment Risk	Children From Age 1 to Age 17 With Related Payer From Age 18 to 60 (in Good Health)	Death	In-House Agency

31.4 The general principles adopted in the valuation of various classes of business and the reasons for adopting them are described below:

Group Business

The liability in respect of group life and accidental and health insurance, and riders of all types, was set using the Unearned Premium Method. Due provision was made for claims incurred but not reported ("IBNR") by analyzing claims incurred after the valuation date till the reporting date.

Individual Accidental Policies

The liability in respect individual accidental policies was set using the Unearned Premium Method. Due provision was made for IBNR claims.

Conventional Individual Life Business

- a) The liability under conventional individual life assurances was calculated by deducting from the present value of the sums assured, ninety per cent of the present value of the net premiums as defined below. This provides a cushion of ten per cent of the present value of net premiums over the minimum valuation basis.
- b) As at the valuation date, there was only one fully enforce policy of conventional type which is an endowment policy. Rest all policies are either paid-up or are in the benefit stage where the premiums have been ceased.
- c) Net premiums were calculated under the Modified Preliminary Term Method, to be the level net premiums on the valuation basis plus adjustments to allow for the first year expenses at 5% of net premiums for each year of the premium paying term (e.g. 50% for a term of 10 years), limited to 100% for a term of 20 years or more.
- d) The age at entry was taken to be the age nearest birthday at the entry date.
- e) The actual premium paying term was used for the enforce policy.
- e) Maturity dates were taken as 30th June of the actual calendar year of maturity.
- f) The valuation age was taken to be the age nearest birthday at entry plus curate duration plus ½.

- g) The period from the valuation date to the maturity date was taken as original term of assurance less (curate duration plus $\frac{1}{2}$).
- h) The future number of premiums payable was taken as the original number of premiums payable less (curate duration plus one).
- i) Joint Life Assurances, except Special Joint Life Assurances, were valued as though they were Single Life Endowment Assurances. Special Joint Life Assurances were valued using joint lives' mortality, assuming the second life to be 3 years younger than the life.
- j) All premiums were assumed to be paid annually on 30th June.
- k) No provision for disability benefits has been made.
- l) Appropriate adjustment was made for early payment of death claims.
- m) Provision was made for future expenses on limited payment and paid-up policies. Further, for prudence, a supplemental expense provision was made.
- n) Each policy was valued individually and negative reserves are eliminated.
- o) Where an extra premium was charged for any reason, a reserve was set up of 50% of one year's office extra premium. Liens and other methods of dealing with extra premiums were ignored.
- p) The valuation methods adopted are such that no policy is treated as an asset.
- q) The valuation used the EFU (1961-66) Mortality Table and a valuation interest rate of 3.75%.

Universal Life Business

The liability for universal life business was calculated by summing up individual mathematical reserves of the policies. The Mathematical Reserves as at the valuation date were calculated individually in accordance with the bases outlined in the policy document.

The valuation used the LIC (1994-96) Mortality Table as the base for deducting mortality charges.

Suitable provisions were made for the Unexpired Mortality Charges, Expense Charges, Unexpired Linked Riders and Investment Income to be credited to each policy account in respect of the period from the policy anniversary date of the said calendar year up to the valuation date.

31.5 Unexpired Risk - Unearned Premium and Premium Deficiency

Group Business

The liability in respect of group life and health insurance, and riders of all types, was set using the Unearned Premium Method. Due provision was made for IBNR claims by analyzing claims incurred after the valuation date till the reporting date. During the year, the claim ratio in respect of group life business was adverse. Most of the groups for which the claim ratio was adverse are not with the company on the valuation date, i.e. their insurance term has expired before the valuation date. The groups that were unexpired as of the valuation date mostly had a favourable claim ratio. Hence, no premium deficiency reserve is required for unexpired liabilities in respect of group life and health business.

Individual Accidental Policies

The liability in respect Individual Accidental Policies was set using the Unearned Premium Method. Due provision was made for claims Incurred But Not Reported ("IBNR") and immediate payments of claims. The claim ratio is favourable; hence no Premium Deficiency Reserve is required.

Policyholder Liabilities - Long Term Business

Individual conventional life paid up business: The valuation uses assumptions as set out by SECP which are adequate to meet the liability adequacy test requirements of IFRS 4.

For the Frequency and Severity of Claims

In individual life business, the frequency and severity of claims is restricted because of underwriting strategies which does not permit higher sum assureds to higher age groups. Secondly, high sum assureds are reinsured.

The mortality risk is well diversified because the insures are spread all over Pakistan where the company has established branches.

In group life business, the number of groups and number of life insureds are enough to treat the business as well diversified. Hence frequency of claims is controlled through diversification. The severity of claims is restricted due to reinsurance and requirement of medical underwriting for high sum assured insureds in the groups.

In group health business, the frequency and severity of claims is controlled through proper claim investigation processes and pacts between panel hospitals and the company. The severity is also controlled through upper limits on claims and exclusions of some high expense diseases. Additional premium is charged per thousand of a limit which covers some dread diseases.

31.6 Sources of Uncertainty In Estimation of Future Benefit Payments and Premium Receipts**Mortality and Morbidity Experience**

Mortality table based on experience of Indian Life Insured with some adjustments is used to value group life business. This assumption varies due to the volume of the group and nature of industry to which that group belongs.

Group health business is valued on the table of rates developed by the appointed actuary based on historical experience of the company. The assumptions vary due to change in medical inflation rates.

Persistency Rates for Long Term Individual Policies

The valuation of individual conventional paid up policies has been carried out using 100% persistency (i.e. the liabilities contain no recognition of lapses) as per the guidelines of SECP.

Expense Levels and Inflation

The following assumptions are used to value unexpired expenses for periodic premium individual universal life products:

97% of the first year expense charge (90% of premium) occurs on the day of issuance of policy. The remaining 3% is reserved for unexpired term proportionately;

30% of the second year expense charge (15% of premium) occurs on the first anniversary of the policy. The remaining 70% is reserved for unexpired term proportionately;

For group life and health, the basic premium is loaded 10% to 15% to cover administration expenses, excluding commission expense which is separately factored in. In group health, the assumption of average hospitalization expense per day is updated periodically based of medical inflation rates;

In individual accidental policies, around 40% of premium is allocated to expenses and commission payments.

Investment Returns

The valuation of individual conventional paid up policies has been carried out using 3.75% discount rate assumption as per the guidelines of SECP.

The account values of universal life policies depends upon historical investment returns earned on these policies. Hence the liability incorporates investment return distributed to the policyholder up to the valuation date. Due provision is made for unexpired investment income.

The future investment returns are not sensitive to the liability as at the valuation date in respect of universal life policies.

Tax

There is no major impact of taxes on valuation of liabilities, future benefit payments and premium receipts.

Process for Estimation of IBNR and its Provisioning Mechanism

Due provision was made for IBNR claims by analyzing claims incurred after the valuation date till the reporting date. The claims actually intimated in January 2010 and February 2010 which pertains to calendar year 2009 were taken as IBNR reserve after adjusting the amount for unreported claims pertaining to 2009. For adjustment, the history of lags between the date of claim occurrence (e.g. death) and date of intimation was analyzed. The lag factors were developed and applied to total claims.

Process Used to Decide on Assumptions

The assumptions are used only to value Individual Conventional Paid up Policies. These assumptions are fixed according to the SECP guidelines.

Mortality Assumption:	EFU (1961-1966) Table
Interest Rate:	3.75% per Annum
Expenses and Persistency:	No Explicit Assumptions

No assumptions have been made to value Universal Life Policyholders' liabilities since the liabilities are based on actual account values as at the valuation date i.e. Retrospective valuation method has been used.

31.7 Sensitivity Analysis

Variables	Change in Variable	Change in Liability 2009	Change in Liability 2008
a) Long Term Insurance With Fixed Guaranteed Terms (Individual Life Conventional Paid Ups)			
Worsening of Mortality and/or Morbidity Rates FOR Risk Policies	5%	13,869	17,569
	10%	27,605	34,990
Improvement of Mortality Rates for Annuities	N/A	N/A	N/A
Worsening of Persistency Rates for Long Term Individual Policies	No Assumption of Persistency in Estimating Policyholders' Liability		
Increase in Expense Levels and Inflation	No Assumption of Expenses in Estimating Policyholders' Liability		
Decrease in Investment Returns	The Discount Rate of 3.75% P.A. is Fixed by SECP.		

b) Long Term Insurance Contracts Without Fixed Terms (Individual Life Universal Life)

The policyholders' liability in respect of individual universal life business is based on accumulated account value with provision for unexpired charges. The liability does not have any explicit underlying assumptions and do not contain any uncertain item. Therefore no sensitivity analysis is required.

31.8 Claim Development

Development of claims against insurance contracts issued is not disclosed as uncertainty about the amount and timing of claim settlement is usually resolved within one year.

32 REINSURANCE RISK

Reinsurance ceded do not relieve the company from its obligation to policy holder and as a result the company remains liable for the portion outstanding claims reinsured to the extent that reinsurer fails to meet the obligation under the reinsurance agreement.

In order to minimize the financial exposure arising from large claims, the company, in normal course of business, enters into agreement with other reinsurers.

In order to manage this risk, the company obtains reinsurance cover only from companies with sound financial health. The company has reinsurance arrangements with "A" rated companies Hannover Life Re and Mapfre Re to cover the individual policies and group life insurance policies. There is no reinsurance assets shown as on December 31, 2009 (2008: Rs. 134,323) balance sheet. The amount of Rs.5,826,605 shows an amount due to reinsurance as on December 31, 2009 (2008: Rs. Nil).

The detail summaries of reinsurance contracts of the company are as follows:

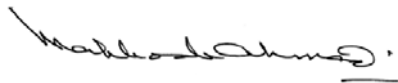
Name of the Reinsurer	Treaty Structure	Participation Share	Rating	Territorial Scope	Risk Covered
Hannover Rueckvericherunf AG	Quota Share	50%	"A"	Pakistan	Group Life Insurance Portfolio of Assumed: Basic Death and Accidental Death Dread Disease / Critical Hospitalization Total Permanent and Partial Disability
Hannover Rueckvericherunf AG	Surplus	Sum Assured above 200,000	"A"	Pakistan	Individual Life Insurance Portfolio of Assumed: Basic Death
Mapfre Re (Compania De Reaseguros, S.A)	Quota Share	25%	"A"	Pakistan	Group Life Insurance Portfolio of Assumed: Basic Death Accidental Death Dread Disease / Critical Hospitalization Total Permanent and Partial Disability

33 DATE OF AUTHORIZATION FOR ISSUE

These financial statements are authorized for issue on March 9, 2010 by the Board of Directors of the Company.

34 SUBSEQUENT EVENT

There is no event subsequent to the balance sheet date that requires adjustment or disclosure in these financial statements.



CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD
Chairman



MAHEEN YUNUS, CPCU
Managing Director &
Chief Executive



A. K. M. SAYEED
Director



JAVED YUNUS
Director