

Notes to the Financial Statements

For The Year Ended December 31, 2010

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 addresses of its registered and principal office are 57 Regal Plaza, M.A. Jinnah Road, Quetta and 310 EFU House, M.A. Jinnah Road Karachi, respectively. The company is engaged in life insurance 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:

- o Ordinary Life,
- o Universal Life, and
- o 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 under the Companies Ordinance, 1984, Insurance Ordinance, 2000 and the Rules, shall prevail. Since company does not have any comprehensive income to report for the year ended December 31, 2010 and comparative period, a statement of comprehensive income has not been made.

3.1 New/Revised Standards and Interpretations to Existing Standards Effective From Current Period or Early Adopted But Not Relevant to the Company

The following standards (revised or amended) and interpretations became effective for the current financial period or early adopted, but are either not relevant or do not have any material effect on the financial statements of the company:

- o IFRS 2 (Amendments) "Share-based Payments - Group cash-settled share-based payment transactions"
- o IFRS 5 (Amendments) "Non-current Assets Held for Sale and Discontinued Operations"
- o Amendments to IAS 1 "Presentation of Financial Statements"
- o Amendments to IAS 7 "Statement of Cash Flows"
- o IAS 27 (Amended) "Consolidated and Separate Financial Statements"
- o IAS 27 (as revised in 2008) "Consolidated and Separate Financial Statements"
- o IAS 28 (as revised in 2008) "Investments in Associates"



- o IFRIC 15 "Agreement for Construction of Real Estate"
- o IFRIC 17 "Distributions of Non-cash Assets to Owners"

The application of improvements to IFRSs issued in 2009 has not had any material effect on amounts reported in these financial statements.

3.2 The Following Standards, Amendments and Interpretations of Approved Accounting Standards will be Effective for Accounting Periods Beginning on or After January 01, 2011 or Later:

IFRS 9 'Financial instruments' introduces new requirements for the classification and measurement of financial assets and financial liabilities and for their derecognition. While the International Accounting Standards Board has prescribed the effective date period beginning on or after January 1, 2013 with earlier application permitted, the Securities and Exchange Commission of Pakistan and the State Bank of Pakistan have still not notified its effective date for adoption locally. As a result, there will be no impact on the company's financial statement till IFRS 9 is notified.

IAS 12 Deferred Tax: Tax Recovery of Underlying Assets (Amendments to IAS 12). The amendment to IAS 12 is effective for annual periods beginning on or after January 01, 2012. Earlier application is permitted. The limited scope amendments are relevant only when an entity elects to use the fair value model for measurement in IAS 40 Investment Property. The amendments introduce a rebuttable presumption that in such circumstances, an investment property is recovered entirely through sale.

IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after January 01, 2011) - The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. This amendment will result in some changes in disclosures.

IAS 32 (Amendment) 'Financial Instruments: Presentation' (effective for annual periods beginning on or after February 01, 2010) - 'Classification of rights issues' - The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities.

IFRIC 13 (Amendment) 'Customer Loyalty Programmes' (effective from annual periods on or after January 01, 2011). The amendment clarifies that the fair value of award credits take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. This amendment will have no impact on the company's financial statement.

IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after July 01, 2010) - This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. This amendment will have no impact on the company's financial statement.

Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. This amendment is not likely to have any impact on the company's financial statements.



Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 01, 2011. The amendments include list of events or transactions that require disclosure in the financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

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 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. 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 are disclosed in the followings notes:

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 5.4)



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, 2010. 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 it 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. 8.9 million (2009: 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 requires 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.

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 20.1.

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 (Refer note 20.2).

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 statement of cash flows, 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 premiums are recognized once the related policies are issued against the receipt of premium.

Accident and Health

Group accident and 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/Mark-Up Income

Interest/Mark-up income on securities is recognized using effective interest method. Income on bank deposits is recognized on accrual basis.

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(ies), premium ceded to reinsurers is recognised as liability at the same point at which the premium of the underlying policy(ies) 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 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.



5.18 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.

5.19 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.

5.20 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.

5.21 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.

5.22 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.

5.23 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.

5.24 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 mark-up 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.

5.25 Level of Precision

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



6. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Number of Shares		Rupees	Rupees
Ordinary Shares of Rs.10 each Fully Paid in Cash			
<u>50,045,600</u>	<u>45,496,000</u>	<u>500,456,000</u>	<u>454,960,000</u>

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

	<u>2010</u>	<u>2009</u>
	Number of Shares	
Number of Shares at Beginning of the Year	45,496,000	41,360,000
Right Shares Issued During the Year	4,549,600	4,136,000
Number of Shares at End of the Year	<u>50,045,600</u>	<u>45,496,000</u>

6.2 Rights Shares Issued During the Year

The company in its extraordinary general meeting held on October 01, 2010, announced issuance of 10% right shares, which were exercised on December 28, 2010.

6.3 Capital Management Policies and Procedures

The company's capital management objectives are:

- o to comply with the minimum paid-up capital requirement prescribed by SECP
- o to ensure the company's ability to continue as a going concern; and
- o 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. 500 million (2009: Rs. 450 million).



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

	<u>Note</u>	<u>2010 Rupees</u>	<u>2009 Rupees</u>
Accumulated Surplus In Statement of Changes In Equity Ignoring Effect of Capital Transfers At Start of Year		(105,971,054)	117,861,481
Add: (Loss)/Surplus in Profit and Loss Account for the Year		3,193,684	(223,832,535)
Accumulated (Deficit) in Statement of Changes In Equity Ignoring Effect of Capital Transfers at End of Year		(102,777,370)	(105,971,054)
Less: Accumulated Net Capital Transferred in Statutory Funds	14	(250,720,426)	(199,620,426)
Total Accumulated (Deficit)/Surplus as Shown in Balance Sheet		<u>(353,497,796)</u>	<u>(305,591,480)</u>

8 DEFERRED LIABILITIES - GRATUITY PAYABLE

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>2010 Rupees</u>	<u>2009 Rupees</u>
9 OUTSTANDING CLAIMS		
Opening Balance	6,793,542	6,555,457
Add: Claims Incurred During the Year	162,347,316	165,142,667
Less: Claims Paid During the Year	(160,711,460)	(164,904,582)
Closing Balance	<u>8,429,398</u>	<u>6,793,542</u>

10 PREMIUMS RECEIVED IN ADVANCE

Opening Balance	6,774,282	4,813,577
Add: Received During the Year	77,443,836	68,267,384
Less: Adjusted During the Year	(73,046,605)	(66,306,679)
Closing Balance	<u>11,171,513</u>	<u>6,774,282</u>



	<u>2010</u> <u>Rupees</u>	<u>2009</u> <u>Rupees</u>
11 AMOUNT DUE TO OTHER INSURERS / REINSURERS		
Opening Balance	5,826,610	4,133,750
Add: Premiums Ceded During The Year	66,292,261	81,280,797
Amount Received During The Year	—	1,490,110
	66,292,261	82,770,907
Less: Claims Recoveries During The Year	(52,990,465)	(70,247,344)
Commission Recoveries During The Year	(4,950,799)	(6,330,776)
Amount Paid During The Year	(5,847,812)	(4,499,927)
	(63,789,076)	(81,078,047)
Closing Balance	8,329,795	5,826,610

12 ACCRUED EXPENSES		
Salary and Other Benefits Payable	2,092,517	2,854,750
Compensated Absences Payable	12.1 1,505,628	1,691,672
Other Accrued Expenses	6,924,051	7,939,683
	10,522,196	12,486,105

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

The main assumptions used for actuarial valuation are as under:

Principal Actuarial Assumption

	<u>2010</u>	<u>2009</u>
	Percentage.....	
Discount Factor Used Per Annum	14.50%	12.75%
Expected Increase In Eligible Pay Per Annum	14.50%	12.75%
	Rupees.....	

Movement In Payable to Accumulated Compensation Absences

Opening Balance	1,691,672	1,052,314
(Reversal)/Charge During the Year	(186,044)	639,358
Closing Balance	1,505,628	1,691,672

13 AGENT'S BALANCES		
Opening Balance	3,659,263	3,478,669
Add: Incurred During the Year	25,594,800	26,992,780
Less: Paid During the Year	(27,240,849)	(26,812,186)
Closing Balance	2,013,214	3,659,263



14 MOVEMENTS IN EQUITY OF STATUTORY FUNDS

	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009
	Ordinary Life	Universal Life	Accident & Health		
Rupees					
Policyholders' Liabilities					
Balance at Beginning of the Year	30,648,143	110,085,106	16,209,063	156,942,312	119,200,048
Policyholders' Liabilities Transfer Due to Conversion	(178,546)	178,546	—	—	—
Increase During the Year	897,460	40,868,408	12,870,729	54,636,597	37,742,264
Balance at End of the Year	31,367,057	151,132,060	29,079,792	211,578,909	156,942,312
Capital Contributed By Shareholders' Fund					
Balance at the Beginning of the Year	116,220,426	64,900,000	18,500,000	199,620,426	116,120,426
Capital Contributed During the Year	7,000,000	35,800,000	8,300,000	51,100,000	83,500,000
Balance at End of the Year	123,220,426	100,700,000	26,800,000	250,720,426	199,620,426
Accumulated Deficit					
Balance at the Beginning of the Year	(113,504,143)	(64,865,682)	(15,936,803)	(194,306,628)	(115,498,388)
Deficit Allocated in Respect of the Year	(8,477,422)	(35,244,853)	(10,284,766)	(54,007,041)	(78,808,240)
Balance at End of the Year	(121,981,565)	(100,110,535)	(26,221,569)	(248,313,669)	(194,306,628)

15 OTHER CREDITORS AND ACCRUALS

	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009
		Ordinary Life	Universal Life	Accident & Health		
Rupees						
Sundry Creditors	156,090	493,400	125,640	148,213	923,343	758,666
Provident Fund Payable	29,185	92,253	23,492	27,712	172,642	188,751
	185,275	585,653	149,132	175,925	1,095,985	947,417

16 CONTINGENCIES AND COMMITMENT

There are no contingencies and commitment at balance sheet date (2009: Nil).

17 DEPOSITS MATURING WITHIN 12 MONTHS

	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009
		Ordinary Life	Universal Life	Accident & Health		
Rupees						
Term Deposit Receipts						
Mybank Limited	—	3,000,000	50,000,000	—	53,000,000	15,000,000
Network Micro Finance Bank Limited	—	—	—	—	—	15,000,000
	—	3,000,000	50,000,000	—	53,000,000	30,000,000

17.1 These deposits carry interest at the rate of 5% to 12% (2009: 5% to 11%) per annum.



18 INVESTMENTS

Notes	Shareholders' Fund	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009	
		Ordinary Life	Universal Life	Accident & Health			
Rupees							
Government Securities	18.1	67,124,091	17,399,972	63,002,683	10,402,013	157,928,759	148,328,165
Other Fixed Income Securities	18.2	—	—	4,454,731	—	4,454,731	5,356,827
Listed Equities and Mutual Fund	18.3	31,762,452	—	—	—	31,762,452	32,368,841
Investment in Associate	18.4	—	—	—	—	—	11,505,985
		98,886,543	17,399,972	67,457,414	10,402,013	194,145,942	197,559,818

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	—	—	2,999,656	—	2,999,656	2,999,553
10 Years Pakistan Investment Bonds	—	—	587,583	—	587,583	583,094
10 Years Pakistan Investment Bonds	17,034,001	—	—	—	17,034,001	16,483,346
10 Years Pakistan Investment Bonds	6,388,432	10,399,972	23,615,444	2,102,013	42,505,861	41,486,495
10 Years Pakistan Investment Bonds	15,826,682	—	—	—	15,826,682	15,794,504
10 Years Pakistan Investment Bonds	1,962,353	—	—	—	1,962,353	1,957,376
10 Years Pakistan Investment Bonds	3,632,915	—	—	—	3,632,915	—
Treasury Bills	17,279,708	7,000,000	35,800,000	8,300,000	68,379,708	64,023,797
	67,124,091	17,399,972	63,002,683	10,402,013	157,928,759	148,328,165

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	2,999,656	April 2014	On Maturity	8%	Semi-Annually
10 Years Pakistan Investment Bonds	587,583	October 2013	On Maturity	8%	Semi-Annually
10 Years Pakistan Investment Bonds	32,860,683	May 2016	On Maturity	9.6%	Semi-Annually
10 Years Pakistan Investment Bonds	42,505,861	June 2012	On Maturity	11%	Semi-Annually
10 Years Pakistan Investment Bonds	1,962,353	August 2018	On Maturity	12%	Semi-Annually
10 Years Pakistan Investment Bonds	3,632,915	July 2020	On Maturity	12%	Semi-Annually
Treasury Bills	68,379,708	March 2011	On Maturity	11.5%	On Maturity
	157,928,759				

The company has deposited 10 years Pakistan Investment Bonds amounting to Rs. 50.53 million (2009 : Rs. 46.25 million) with the State Bank of Pakistan under section 29 of the Insurance Ordinance, 2000.

18.2 Other Fixed Income Securities

Shareholders' Fund	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009	
	Ordinary Life	Universal Life	Accident & Health			
Rupees						
Held-to-Maturity						
Term Finance Certificate						
Pakistan Mobile Communication Limited	—	—	4,454,731	—	4,454,731	5,356,827

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, 2010	Aggregate December 31, 2009
		Ordinary Life	Universal Life	Accident & Health		
Rupees						
Available for Sale						
Listed Equities	11,011,731	—	—	—	11,011,731	65,162,411
Mutual Funds	21,357,110	—	—	—	21,357,110	46,428,500
Less: Provision for Impairment Net of Reversals	18.3.1 (606,389)	—	—	—	(606,389)	(79,222,070)
	31,762,452	—	—	—	31,762,452	32,368,841

18.3.1 This includes provision for impairment of Rs. 5,017,097 (2009: Rs. 79,222,070) and reversal of impairment of Rs. 4,410,708 (2009: Nil). Due to recognition of impairment loss, the carrying values are equal to the market value.

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:

	2010 Rupees	2009 Rupees
Total Assets	—	661,692,001
Total Liabilities	—	332,140,647
Net Assets	—	329,551,354
Revenue - Net	—	436,967,795
(Loss) / Profit for the Year	—	(537,283,767)
Movement In Investment In Associate		
Initial Investment	11,505,985	14,665,507
Less: Movement in Investment During the Year	(11,505,985)	(855,105)
Add: Share of Profit in Associate	—	(2,201,700)
Less: Dividend Received	—	(102,717)
Net Investment in Associate	—	11,505,985

18.5 During the year, company has disposed off entire investment in associates amounting to Rs.11,505,985 at Rs. 30,679,605, resulting in gain of Rs. 19,173,620.



19 SUNDRY RECEIVABLES

	Statutory Funds			Aggregate December 31, 2010	Aggregate December 31, 2009
	Shareholders' Fund	Ordinary Life	Universal Life		
	Rupees				
Advance for Expenses	—	—	862,274	—	862,274
Deposits	—	884,768	649,416	405,365	1,939,549
	<u>—</u>	<u>884,768</u>	<u>1,511,690</u>	<u>405,365</u>	<u>2,801,823</u>
					<u>2,852,479</u>

20 FIXED ASSETS

20.1 Tangible Assets

	Furniture and Fixture	Office Equipment	Computers Equipments	Vehicle Equipment	Vehicle	Total
		Rupees				
At January 01, 2009						
Cost	36,428,946	10,743,955	3,787,326	637,010	13,426,006	65,023,243
Accumulated Depreciation	8,486,576	4,006,638	2,000,542	154,863	3,804,204	18,452,823
Net Book Value	<u>27,942,370</u>	<u>6,737,317</u>	<u>1,786,784</u>	<u>482,147</u>	<u>9,621,802</u>	<u>46,570,420</u>
Year Ended December 31, 2009						
Opening Net Book Value	27,942,370	6,737,317	1,786,784	482,147	9,621,802	46,570,420
Additions	1,760,635	1,619,880	482,322	64,300	7,476,290	11,403,427
Disposals						
Cost	—	19,900	—	—	390,790	410,690
Depreciation	—	3,318	—	—	39,272	42,590
	—	16,582	—	—	351,518	368,100
Depreciation Charge	2,861,804	808,394	606,584	54,109	3,009,490	7,340,381
Closing Net Book Value	<u>26,841,201</u>	<u>7,532,221</u>	<u>1,662,522</u>	<u>492,338</u>	<u>13,737,084</u>	<u>50,265,366</u>
At December 31, 2010						
Cost	38,189,581	12,343,935	4,269,648	701,310	20,511,506	76,015,980
Accumulated Depreciation	11,348,380	4,811,714	2,607,126	208,972	6,774,422	25,750,614
Net Book Value	<u>26,841,201</u>	<u>7,532,221</u>	<u>1,662,522</u>	<u>492,338</u>	<u>13,737,084</u>	<u>50,265,366</u>
Year Ended December 31, 2010						
Opening Net Book Value	26,841,201	7,532,221	1,662,522	492,338	13,737,084	50,265,366
Additions	283,250	61,750	37,825	—	—	382,825
Disposals						
Cost	—	620,000	—	52,500	3,411,161	4,083,661
Depreciation	—	431,921	—	13,176	1,429,150	1,874,247
	—	188,079	—	39,324	1,982,011	2,209,414
Depreciation Charge	2,699,520	743,244	501,593	48,171	2,592,018	6,584,546
Closing Net Book Value	<u>24,424,931</u>	<u>6,662,648</u>	<u>1,198,754</u>	<u>404,843</u>	<u>9,163,055</u>	<u>41,854,231</u>
At December 31, 2010						
Cost	38,472,831	11,785,685	4,307,473	648,810	17,100,345	72,315,144
Accumulated Depreciation	14,047,900	5,123,037	3,108,719	243,967	7,937,290	30,460,913
Net Book Value	<u>24,424,931</u>	<u>6,662,648</u>	<u>1,198,754</u>	<u>404,843</u>	<u>9,163,055</u>	<u>41,854,231</u>
Rate of Depreciation	10%	10%	30%	10%	20%	

20.2 Intangible Assets	Cost			Accumulated Amortization			Net Book Value As At December 31, 2010	Useful Life	
	As At January 01, 2010	Additions	Disposal	As At December 31, 2010	As At January 01, 2010	For the Year			As At December 31, 2010
	Rupees								
Computer Software	—	885,115	—	885,115	—	167,961	167,961	717,154	1 Year
December 2009	160,900	—	—	160,900	120,675	40,225	160,900	—	



20.3 Details of Disposal of Fixed Assets - By Negotiation

Description	Cost	Accumulated Depreciation	Book Value	Sale Proceeds	Gain / (Loss)	Particulars of Purchasers
Generator	620,000	431,921	188,079	300,000	111,921	Mr. Nisar Ahmed
Hyundai Santro (LED-8225)	738,190	259,843	478,347	560,000	81,653	Mr. Asad Jamil
Honda City (AGG-834)	278,000	32,433	245,567	650,000	404,433	Mr. Jam Naeem Ahmed
Suzuki Baleno (AKF-534)	774,000	493,516	280,484	500,000	219,516	Mr. Farhan Farooq
Honda City (AGK-656)	278,000	41,700	236,300	630,000	393,700	Mr. Farhan Farooq
Suzuki Mehran (LRG-4462)	297,500	177,731	119,769	215,000	95,231	Mr. Saleem Khan
Suzuki Cultus (LED-9033)	708,471	271,878	436,593	600,000	163,407	Mr. Imran Akhter
Suzuki Mehran (LEB-7494)	389,500	165,225	224,275	250,000	25,725	Mr. Islam Badshah
	4,083,661		2,209,414	3,705,000	1,495,586	

	Note	2010 Rupees	2009 Rupees
21 EXPENSES NOT ATTRIBUTABLE TO STATUTORY FUNDS			
Salary and Other Benefit		8,367,727	7,913,861
Staff Welfare		781,527	808,161
Traveling		401,517	244,949
Advertisement		137,620	452,114
Telephone		288,033	405,787
Electricity		202,014	312,343
Entertainment		363,097	—
Vehicle Maintenance		1,322,676	1,695,502
Insurance to Vehicles		730,676	823,488
Fees and Subscription		500,000	75,000
Professional And Consultancy		180,000	180,000
Supervision Fees		291,360	699,221
Professional Tax		123,650	226,950
Depreciation	20.1	6,584,546	7,340,380
Amortization	20.2	167,961	40,225
Auditor Remuneration	22.1	408,831	332,954
Brokerage Commission		—	101,041
Operating Lease Rentals		184,977	831,141
Printing and Stationery		261,923	313,022
IAP Membership Fees		96,656	75,000
Underwriting Commission		454,960	413,600
Miscellaneous Expenses		113,314	88,617
		21,963,065	23,373,356

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

22 AUDITORS' REMUNERATION

Audit Fee		400,000	400,000
Half Yearly Review		75,000	75,000
Others		175,000	50,000
Out of Pocket Expenses		167,662	140,907
		817,662	665,907

22.1 Allocation of the Auditors' Remuneration is as follows:

Expense Not Attributable to Statutory Funds	21	408,831	332,954
Administration Expenses - Ordinary Life Business		204,416	166,476
Administration Expenses - Universal Life Business		81,766	66,591
Administration Expenses - Accidental And Health Business		122,649	99,886
		408,831	332,953
		817,662	665,907



	<u>2010</u> <u>Rupees</u>	<u>2009</u> <u>Rupees</u>
23 TAXATION		
Current	<u>2,052,165</u>	<u>1,236,232</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 EARNINGS / (LOSS)PER SHARE - Basic and Diluted

Profit / (Loss) for the Year - Rupees	<u>3,193,684</u>	<u>(223,832,535)</u>
Weighted Average Number of Ordinary Shares	<u>45,533,394</u>	<u>41,382,663</u>
Earnings / (Loss) Per Share - Rupees	<u>0.07</u>	<u>(5.41)</u>

Earnings per share for the year ended December 31, 2009 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, 2010</u>	<u>Aggregate December 31, 2009</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	17,570,798	38,695,352	154,666,460	2,710,981	25,518,811	239,162,402	179,140,696
Provision for Outstanding Reported Claims Payable Over the Period Exceeding Twelve Months	1,413,868	—	—	—	—	1,413,868	1,615,689
Provision for Claims Incurred But Not Reported (IBNR)	100,000	4,207,395	204,948	250,000	600,000	5,362,343	8,450,354
Total	<u>19,084,666</u>	<u>42,902,747</u>	<u>154,871,408</u>	<u>2,960,981</u>	<u>26,118,811</u>	<u>245,938,613</u>	<u>189,206,739</u>
Net of Reinsurance							
Actuary Liability Related to Future Events	17,570,798	11,077,879	150,932,060	2,710,981	25,518,811	207,810,529	152,216,623
Provision for Outstanding Reported Claims Payable Over the Period Exceeding Twelve Months	1,413,868	—	—	—	—	1,413,868	1,615,689
Provision for Claims Incurred but Not Reported (IBNR)	100,000	1,204,512	200,000	250,000	600,000	2,354,512	3,110,000
Total	<u>19,084,666</u>	<u>12,282,391</u>	<u>151,132,060</u>	<u>2,960,981</u>	<u>26,118,811</u>	<u>211,578,909</u>	<u>156,942,312</u>



26 REMUNERATION OF CHIEF EXECUTIVE AND OTHER EXECUTIVE

	2010		2009	
	Chief Executive	Directors	Chief Executive	Directors
	Rupees			
Managerial Remuneration (Including Bonus)	828,000	—	931,500	—
Directors' Fee	—	500,000	—	500,000
Chairman's Honorarium	—	60,000	—	60,000
House Rent Allowance	372,000	—	372,000	—
Utilities	608,398	—	535,406	—
Retirement Benefits	165,600	—	165,600	—
Reimbursement of Expenses	2,307,261	—	1,881,636	—
	4,281,259	560,000	3,886,142	560,000
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 of East West Insurance Company 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:

	2010			2009		
	Directors	Key Management Personnel	Associated Companies & Common Directorship	Directors	Key Management Personnel	Associated Companies & Common Directorship
	Rupees					
Balances						
Premium Receivable	—	—	564,786	—	—	114,786
Amount Due From Associate Undertaking	—	—	—	—	—	—
Investment	—	—	3,781,330	—	—	62,841,398
Transactions						
Premium Received	—	—	2,125,120	—	—	1,020,000
Premium Paid	—	—	730,676	—	—	823,488
Claims Paid	—	—	2,826,423	—	—	2,011,999
Dividend Received	—	—	—	—	—	—
Investments						
Sales	—	—	11,505,985	—	—	—
Purchases	—	—	—	—	—	—
Underwriting Commission	—	—	454,960	—	—	413,600



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:

	2010	2009
	Rupees	Rupees
Upto One Year	21,765,488	22,371,930
More Than One Year	7,913,399	10,567,613
	29,678,887	32,939,543
Sector Wise Analysis of Premium Due But Unpaid is as follow:		
Financial Institutions	7,311,570	17,053,759
Transport and Communication	2,302,135	—
Food and Beverages	2,015,831	1,866,667
Engineering	—	144,585
Auto and Allied	182,319	100,000
Others	5,262,227	2,497,240
	17,074,082	21,662,251

30.2 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 2010									
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	24,657	—	—	—	—	—	—	—	—	24,657	
Current and Other Accounts	5% To 6%	83,156,828	83,156,828	—	—	—	—	—	—	—	
Deposits Maturing Within 12 Months	5% to 11%	53,000,000	53,000,000	—	—	—	—	—	—	—	
Loans Secured Against Life Insurance Policies	7,548,871	—	—	—	—	—	—	—	—	7,548,871	
Unsecured Advances to Employees	1,004,284	—	—	—	—	—	—	—	—	1,004,284	
Investment	8% to 12%	194,145,942	68,379,708	—	42,505,861	5,042,314	7,999,656	38,455,951	—	31,762,452	
Premiums Due But Unpaid	17,074,082	—	—	—	—	—	—	—	—	17,074,082	
Investment Income Accrued	1,249,827	—	—	—	—	—	—	—	—	1,249,827	
Sundry Receivables	2,801,823	—	—	—	—	—	—	—	—	2,801,823	
		360,006,314	136,156,828	68,379,708	—	42,505,861	5,042,314	7,999,656	38,455,951	61,465,996	
Financial Liabilities											
Deferred Liabilities - Gratuity	90,550	—	—	—	—	—	—	—	—	90,550	
Outstanding Claims	8,429,398	—	—	—	—	—	—	—	—	8,429,398	
Amounts Due to Other Insurer and Reinsurer	8,329,795	—	—	—	—	—	—	—	—	8,329,795	
Accrued Expenses	10,522,196	—	—	—	—	—	—	—	—	10,522,196	
Agent's Balances	2,013,214	—	—	—	—	—	—	—	—	2,013,214	
Other Creditors and Accruals	1,095,985	—	—	—	—	—	—	—	—	1,095,985	
		30,481,138	—	—	—	—	—	—	—	30,481,138	
On Balance Sheet Gap		329,525,176	136,156,828	68,379,708	—	42,505,861	5,042,314	7,999,656	38,455,951	30,984,858	



Year 2009

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	24,992	—	—	—	—	—	—	—	—	24,992
Current and Other Accounts	5% To 6%	29,745,027	29,745,027	—	—	—	—	—	—	—
Deposits Maturing Within 12 Months	5% to 6%	30,000,000	30,000,000	—	—	—	—	—	—	—
Loans Secured Against Life Insurance Policies		8,424,813	—	—	—	—	—	—	—	8,424,813
Unsecured Advances to Employees		1,038,801	—	—	—	—	—	—	—	1,038,801
Investment	8% to 10%	197,559,818	—	64,023,797	—	41,486,495	13,939,474	34,235,226	—	43,874,826
Premiums Due But Unpaid		21,662,251	—	—	—	—	—	—	—	21,662,251
Amount Due From Associated Undertaking		—	—	—	—	—	—	—	—	—
Investment Income Accrued		4,693,758	—	—	—	—	—	—	—	4,693,758
Sundry Receivables		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										
Deferred Liabilities - Gratuity		90,550	—	—	—	—	—	—	—	90,550
Outstanding Claims		6,793,542	—	—	—	—	—	—	—	6,793,542
Amounts Due to Other Insurer and Reinsurer		5,826,610	—	—	—	—	—	—	—	5,826,610
Accrued Expenses		12,486,105	—	—	—	—	—	—	—	12,486,105
Agent's Balances		3,659,263	—	—	—	—	—	—	—	3,659,263
Other Creditors and Accruals		947,417	—	—	—	—	—	—	—	947,417
		29,803,487	—	—	—	—	—	—	—	29,803,487
On Balance Sheet Gap		266,198,452	59,745,027	64,023,797	—	41,486,495	13,939,474	34,235,226	—	52,768,433

30.3 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, 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.

30.4 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. 4,454,731 (2009: Rs. 5,356,827). Management considers that fluctuation in market interest rate will have no significant impact.

30.5 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.

30.6 Other Price Risk

The company is not exposed to this risk.

31 FAIR VALUE OF FINANCIAL ASSETS

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



32 INSURANCE RISK

32.1 Insurance Contract

The company 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. Company classifies its contracts (policies) into group life, group accident and health, individual life and individual accident and health business. None of the contracts of the company contains discretionary participation feature. Company also offers some supplementary benefits attached in the form of riders with individual life contracts.

32.2 General Terms the Insurance Contracts Issued by the Company are as follows:

32.2.1 Group Policies

Group Life

The group life policies are generally one year renewable term insurance contracts. In most of the cases they provide group coverage to the employees of an employer. Group policies are issued to lending agencies such as banks to provide group coverage to their borrowers. In many cases, supplementary coverage is also provided which may include accidental or natural disability benefits and additional accidental death benefit.

Under the group life insurance policies, in most cases, the insured event is either death due to any cause. In case of supplementary coverage, the insured event can include accidental death or disability or natural disability.

All the group insurance contracts are non participatory and have no cash value. Company has its own market personnel to sell group policies.

Group Health

The group health policies of the company provide covered against accidental death, disability, sickness and critical illness. These are generally one year renewable term insurance contracts which are non participatory and have no cash value. In most of the cases, they provide group coverage to the employees of an employer. Company has its own market personnel to sell these policies.

32.2.2 Individual Policies

Individual Conventional Life Products

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 Accident and Health Products

The company, in its accidental and health statutory fund, offers two individual one-year renewable term non-participating accidental products which provide covered against accidental death, disability, sickness and critical illness. These products are distributed through in-house agency of the company.

Universal Life Products

Under these plans a certain amount is set aside from the premium for expenses and meeting the mortality cost and the remainder of the premium is invested to earn some investment return. Investment return is allocated to these products on an annual basis keeping in view the investment earnings of the 'Universal Life Fund'.

Particulars of insurance contracts provided by the company under Universal Life 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



The following riders are offered by the company which can be added to its periodic premiums Universal Life products:

1. Accidental Death Benefit
2. Accidental Indemnity Benefit
3. Term Insurance Rider
4. Major Surgery Benefit
5. Family Income Benefit Rider

32.2.3 Policyholders' Liabilities

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

Group Policies

The liability in respect of group life and accidental and health insurance, and riders of all types, was set using the unearned premium method. Unearned premium reserve is held for that portion of premium which has not yet accrued at balance the sheet date. Due provision was made for claims Incurred But Not Reported ("IBNR") by analyzing claims incurred after the valuation date till the reporting date and past pattern of claim intimation lag from the date of occurrence of claim. The company also holds a premium deficiency reserve which reflects the view of the appointed actuary regarding the eventual loss ratio expected under group insurance contracts duly accounting for the IBNR provisions.

Individual Accidental Policies

The liability in respect individual accidental policies was set using the unearned premium method as described above for group business.

Individual Conventional Life Policies

The liability under individual conventional life assurances is calculated by deducting from the present value of the sums assured, ninety percent of the present value of the net premiums. Net premiums are 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. EFU (1961-66) Mortality Table and a valuation interest rate of 3.75% are used for valuation of liabilities. As at the balance sheet date (valuation date), all conventional policies are either paid-up or are in benefit stage where the premiums have been ceased.

Individual Universal Life Policies

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. LIC (1994-96) Mortality Table is used 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.

32.3 Liability Adequacy Test

The adequacy of liability held by the company has been tested using an alternative reserving method based upon realistic estimates of future mortality, expenses, lapses and investment return. Based upon the results of this test the appointed actuary considers that the liability being kept by the company is adequate.

32.4 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 insureds 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.

However, the frequency can be affected in case there is a variation in the mortality rates experienced by the group of lives insured by the company. An unusual catastrophic event such as a disease epidemic, flash floods or a major earthquake can produce a sudden spike in the frequency.

32.5 Accounting Estimates and Judgments

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:

- a) 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;
- b) 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;
- c) 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; and
- d) 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.

32.6 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.



32.7 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 behaviour 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.

32.8 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 2011 and February 2011 which pertains to calendar year 2010 were taken as IBNR reserve after adjusting the amount for unreported claims pertaining to 2010. 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.

32.9 Sensitivity Analysis

Variables	Change in Variable	Change in Liability 2010	Change in Liability 2009
a) Long Term Insurance With Fixed Guaranteed Terms (Individual Life Conventional Paid Ups)			
Worsening of Mortality and/or Morbidity Rates FOR Risk Policies	5%	13,729	13,869
	10%	27,318	27,605
Variables			
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 on 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.

32.9.10 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.

32.9.11 Management of Insurance Risk

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. Free cover limit in case of group insurance business is set with the consultation of the appointed actuaries on case to case basis.

The insurance law has laid down some minimum criteria for insurance risk management, which is mandatory for all insurers. This includes guidance regarding minimum capital requirement for insurers, requirement to submit a financial condition report on an annual basis, minimum reserving basis for the financial condition report, minimum solvency requirements and requirement to match the currency of assets and liabilities. Also, the law lays down certain restrictions on the assets that may be counted as admissible assets, prescribes guidelines for valuation of assets and liabilities, prescribes reinsurance arrangements and prescribes guidelines for investment of funds. Strategy of the company to manage insurance risk meets the regulatory requirements in this regard in addition to internal company specific practices.

32.9.12 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.

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 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

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 places tremendous emphasis on quality customer services and retention of clients by making persistency standard an integral part of the sales force culture. It 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.

Surrenders Risk

The reserving basis used by the company does not assume any surrenders. However, the company ensures that the reserves kept by it for each policy is more than its surrender value. This ensures that the company does not suffer any adverse impact in case any policies are surrendered.

Catastrophe Risk

The business of the company is spread in different geographical areas of the country. However, the insurance penetration rate in the country is very low. This means for any localized segment of the population only a small proportion of the people would be covered under life insurance. The proportion covered by the company policies is expected to be even smaller. As a result, any localized catastrophic event is not expected to have any significant impact on the company.

The situation is a bit different on the group insurance side where there is a higher concentration of risk because by its very nature this business often covers a large number of persons located within a restricted geographical area, such as a building or a factory premises. This risk is somewhat mitigated due to the presence of reinsurance cover for the individual and group policies. In addition, the premium rates of the company are signed to adequately cater for this risk. Premium deficiency reserve held by the company for its group business provides an extra layer of security against this risk.

Operational Risk or Pricing Risk

The company utilizes industry recognized underwriting practices to ensure that only standard risks are written on standard rates. Any sub-standard risks identified during the underwriting process are charged suitable extra premiums. This ensures fair and equitable treatment between various risk categories and helps in keeping its



standard rates competitive by the insurance industry standards. This practice also protects the company against the risk of large number of sub-standard impaired lives accumulating on its policy portfolio, since extra premium is automatically charged commensuration with such risk.

33 REINSURANCE RISK

Reinsurance ceded do not relieve the company from its obligation to policyholder 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 Re and Mapfre Re, to cover the individual policies and group life insurance policies. There is no reinsurance assets shown as on December 31, 2010 (2009: Nil) balance sheet. The amount of Rs. 8,112,922 shows an amount due to reinsurance as on December 31, 2010 (2009: Rs. 5,826,610).

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 Rueckvericherung 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 Rueckvericherung 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

34 DATE OF AUTHORIZATION FOR ISSUE

These financial statements are authorized for issue on March 8th, 2011 by the Board of Directors of the Company.

35 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

