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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF STATE LIFE INSURANCE CORPORATION OF PAKISTAN

REPORT ON REVIEW OF CONDENSED INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS

Introduction

We have reviewed the accompanying condensed interim unconsolidated statement of financial position of State Life Insurance Corporation of Pakistan ('Corporation') as at June 30, 2019 and the related condensed interim unconsolidated profit and loss account, condensed interim unconsolidated statement of comprehensive income, condensed interim unconsolidated statement of changes in equity, and condensed interim unconsolidated statement of cash flows, and notes to the condensed interim unconsolidated financial statements for the six-month period then ended (here-in-after referred to as the "condensed interim unconsolidated financial statements"). Management is responsible for the preparation and presentation of this condensed interim unconsolidated financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these condensed interim unconsolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed interim unconsolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As more fully explained in note 15.1.13 to the condensed interim unconsolidated financial statements, the Punjab and Balochistan Revenue Authorities have introduced sales tax on life insurance premium effective from November 01, 2018 and July 01, 2015, respectively. The Corporation, notwithstanding the principal stand that life insurance is not a service and therefore do not fall within the scope of taxability under the provincial sales tax laws of the provinces, along with Insurance Association of Pakistan is currently in negotiation with provincial tax authorities to seek an exemption and to agree the portion of premium which should be subject to sales tax. International Accounting Standard 37 'Provision, Contingent Liabilities and Contingent Assets' requires that provision should be recognized when the entity has a present legal obligation as a result of past event and the reliable estimate can be made of the obligation. The Corporation considers that it is premature to estimate the liability for sales tax on life insurance as this stage. We consider that the liability can be estimated based on the current provincial sales tax laws and related regulations. Therefore, it was impracticable for us to quantify the full effect of provincial sales tax on the condensed interim unconsolidated financial statements for the period ended June 30, 2019.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph nothing has come to our attention that causes us to believe that the accompanying condensed interim unconsolidated financial statements is not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter

We draw attention to the contents as detailed in note 1.4 to the condensed interim unconsolidated financial statements in respect of the Presidential Order dated April 06, 2016 in respect of State Life (Reorganization and Conversion) Ordinance, 2016 which was issued by Government of Pakistan Ministry of Law and Justice to provide for the re-organization and conversion of the State Life Insurance Corporation of Pakistan into a Public Limited Company. As a consequence of reorganization and conversion, the Corporation is not expected to continue as a going concern. The Company formed shall be taking over the business, functions, contracts, policies, proceedings, undertakings, assets, liabilities, etc. of the Corporation at a specific date which is uncertain. Since there will be no change in operational activities of the Corporation pursuant to change in legal structure, no adjustments are expected to the carrying values of the assets and liabilities. Our conclusion is not modified in respect of this matter.

Other Matters

i. The condensed interim unconsolidated financial statements for the six-month period ended June 30, 2018 and the annual unconsolidated and consolidated financial statements of the Corporation for the year ended December 31, 2018 were reviewed/audited by Grant Thornton Anjum Rahman and Riaz Ahmad and Company, whose review report dated September 10, 2018 expressed an unmodified conclusion with an emphasis of matter paragraph on the reorganization and conversion of Corporation and whose audit report dated May 31, 2019 expressed a qualified opinion based on the issue related to provincial sales tax along with an emphasis of matter paragraph on the reorganization and conversion of Corporation.

ii. The figures for the three months period ended June 30, 2019 and June 30, 2018 in the condensed interim unconsolidated profit and loss account and condensed interim unconsolidated statement of comprehensive income have not been subject to review and therefore, we do not express a conclusion thereon.

The engagement partners on the audit resulting in this independent auditor's report are Muhammad Khalid Aziz and Zulfikar Ali Causer.

Grant Thornton Anjum Rahman.
Grant Thornton Anjum Rahman
Chartered Accountants

BDO Ebrahim & Co.
Chartered Accountants

Karachi
Date: **31 AUG 2019**

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION (UN-AUDITED)
AS AT JUNE 30, 2019

	Note	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
		------------Rupees in '000------------	
ASSETS			
Property and equipment	5	372,792	414,002
Investment property	6	3,746,293	3,657,341
Investments in subsidiaries and associates		338,010	338,010
Investments			
Equity securities	7	78,209,015	87,831,533
Government securities	8	684,150,402	638,939,449
Mutual funds	9	6,818,779	7,852,632
Debt securities	10	3,138,361	3,623,918
Loans secured against life insurance policies		98,469,865	93,313,445
Insurance / reinsurance receivables	11	20,999,666	21,803,073
Other loans and receivables	12	41,714,978	34,806,142
Taxation - payments less provision		4,105,279	3,958,284
Prepayments		396,074	395,030
Cash and bank	13	17,827,903	33,298,315
TOTAL ASSETS		960,287,417	930,231,174
EQUITY AND LIABILITIES			
Capital and reserves attributable to Corporation's equity holders			
Ordinary share capital		4,000,000	3,500,000
Ledger account C & D		1,645,258	1,257,718
Reserves		7,043	507,043
Unappropriated profit		925,622	713,615
Capital contributed to shareholder fund		-	(100,000)
TOTAL EQUITY		6,577,923	5,878,376
LIABILITIES			
Insurance liabilities	14	924,943,202	890,675,969
Retirement benefit obligations		6,851,339	6,343,778
Deferred capital grant		-	14,025
Premium received in advance		8,865,849	8,079,218
Insurance / reinsurance payables		274,472	466,442
Deferred tax		672,012	472,871
Other creditors and accruals		12,102,620	18,300,495
TOTAL LIABILITIES		953,709,494	924,352,798
TOTAL EQUITY AND LIABILITIES		960,287,417	930,231,174
CONTINGENCIES AND COMMITMENTS	15		

The annexed notes from 1 to 31 form an integral part of this condensed interim unconsolidated financial statement.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM UNCONSOLIDATED PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Note	Six months period ended		Three months period ended	
		June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
		----------Rupees in '000	----------		
Premium revenue		41,585,945	39,573,294	19,808,297	17,897,884
Premium ceded to reinsurers		(71,548)	(60,632)	(44,407)	(45,692)
Net premium revenue	16	41,514,397	39,512,662	19,763,890	17,852,192
Investment income	17	35,025,699	31,216,873	14,905,082	13,920,825
Net realized fair value (loss) / gain on financial assets	18	(17,715)	1,589	(17,715)	(1,286)
Net unrealized fair value (loss) / gain on financial assets	19	(10,841,059)	6,748,789	(14,390,579)	(5,229,782)
Net rental income	20	315,371	302,497	172,917	154,197
Other income	21	7,636,487	4,520,620	7,084,192	2,327,235
		32,118,783	42,790,368	7,753,897	11,171,189
Net income		73,633,180	82,303,030	27,517,787	29,023,381
Net insurance benefits		(26,382,317)	(22,156,479)	(15,097,318)	(11,913,487)
Recoveries from reinsurers		12,706	18,526	(5,771)	2,608
Net insurance benefits	22	(26,369,611)	(22,137,953)	(15,103,089)	(11,910,879)
Net change in insurance liabilities (other than outstanding claims)		(35,934,405)	(47,486,186)	(6,684,846)	(10,524,120)
Acquisition expenses	23	(5,064,759)	(7,633,098)	(2,762,748)	(3,999,597)
Marketing and administration expenses	24	(4,124,804)	(3,548,250)	(2,150,841)	(1,848,771)
Other expenses	25	(148,468)	(104,973)	(89,958)	(61,019)
Total expenses		(45,272,436)	(58,772,507)	(11,688,393)	(16,433,507)
Results of operating activities		1,991,133	1,392,570	726,305	678,995
Profit before tax		1,991,133	1,392,570	726,305	678,995
Income tax expense	26	(577,977)	(298,522)	(215,754)	(84,451)
Profit for the period		1,413,156	1,094,048	510,551	594,544
Earnings per share - Rupees	27	39.74	36.47	14.14	19.82

The annexed notes from 1 to 31 form an integral part of this condensed interim unconsolidated financial statement.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Six months period ended		Three months period ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
	-----------------------Rupees in '000	-----------------------		
Profit for the period	1,413,156	1,094,048	510,551	594,544
Other comprehensive income				
Change in unrealized gains/(losses) on investments held at fair value through OCI	-	-	-	-
Actuarial gains/(losses) on retirement benefit schemes	-	-	-	-
Total comprehensive income for the period	1,413,156	1,094,048	510,551	594,544

The annexed notes from 1 to 31 form an integral part of this condensed interim unconsolidated financial statement.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY(UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Attributable to equity holders of the Corporation					
	Share capital	Capital contributed to statutory fund	General and revenue reserves	Ledger account C & D	Unappropriated profit	Total
	Rupees in '000					
Balance as at January 01, 2018 - as reported	3,000,000	(1,200,000)	307,043	2,204,876	1,269,915	5,581,834
Effect of restatement	-	-	-	(225,754)	-	(225,754)
	3,000,000	(1,200,000)	307,043	1,979,122	1,269,915	5,356,080
Total comprehensive income for the period	-	-	-	372,751	721,297	1,094,048
Transferred to BESOS from profit for the year ended December 31, 2017	-	-	-	-	(55,876)	(55,876)
Transfer to general reserve	-	1,200,000	-	(1,200,000)	-	-
Dividend for the year ended December 31, 2017	-	-	-	-	(1,214,038)	(1,214,038)
Balance as at June 30, 2018	3,000,000	-	307,043	1,151,873	721,298	5,180,214
Balance as at January 01, 2019	3,500,000	(100,000)	507,043	1,257,718	713,615	5,878,376
Total comprehensive income for the period	-	-	-	487,540	925,616	1,413,156
Transfer to general reserve	-	100,000	-	(100,000)	-	-
Dividend for the year ended December 31, 2018	-	-	-	-	(713,609)	(713,609)
Transfer for the issuance of share capital	500,000	-	(500,000)	-	-	-
Balance as at June 30, 2019	4,000,000	-	7,043	1,645,258	925,622	6,577,923

The annexed notes from 1 to 31 form an integral part of this condensed interim ~~unconsolidated~~ financial statement.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM UNCONSOLIDATED STATEMENT OF CASH FLOW (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

	Six months period ended	
	June 30, 2019	June 30, 2018
	------Rupees in '000------	
OPERATING CASH FLOWS		
(a) Underwriting activities		
Premiums received	44,091,335	40,026,055
Reinsurance premiums paid	(263,516)	(221,841)
Claims paid	(15,872,390)	(13,736,357)
Surrenders paid	(12,177,099)	(10,755,480)
Reinsurance and other recoveries received	156,690	207,355
Commissions paid	(8,530,960)	(10,224,956)
Other underwriting payments	(870,496)	(1,161,800)
Net cash flow from underwriting activities	6,533,564	4,132,976
(b) Other operating activities		
Income tax paid	(525,835)	(364,977)
General management expenses paid	(5,114,131)	(4,892,911)
Loans advanced	(3,681,240)	(7,334,936)
Loan repayments received	831,260	5,177,838
Other payments on operating assets	(1,444,529)	(501,438)
Net cash flow from other operating activities	(9,934,475)	(7,916,424)
Total cash flow from all operating activities	(3,400,911)	(3,783,448)
INVESTMENT ACTIVITIES		
Profit / return received	27,188,851	28,590,832
Dividends received	2,668,163	2,526,456
Rentals received	1,305,381	578,730
Payments for investments	(83,761,257)	(85,033,375)
Proceeds from disposal of investments	37,668,425	35,948,000
Fixed capital expenditure	(101,579)	(245,176)
Proceeds from sale of property and equipment	-	(2,165)
Total cash flow from investing activities	(15,032,016)	(17,636,698)
FINANCING ACTIVITIES		
Dividend paid	-	(1,269,914)
Total cash flow from financing activities	-	(1,269,914)
Net cash flow from all activities	(18,432,927)	(22,690,060)
Cash and cash equivalents at beginning of period	27,616,698	33,384,565
Cash and cash equivalents at end of period	9,183,771	10,694,505
Reconciliation to profit and loss account		
Operating cash flows	(3,400,911)	(3,783,447)
Depreciation expense	(53,840)	(60,460)
Investment income	32,118,783	42,717,316
Amortization/capitalization	313,816	287,721
Allocation of surplus	(100,000)	(1,200,000)
Non cash adjustments (APL)	(3,393,075)	(2,632,260)
Decrease in assets other than cash	4,471,490	5,334,547
Decrease in liabilities other than running finance	(29,030,647)	(39,942,120)
	925,616	721,297
Ledger account C & D	487,540	372,751
Profit after taxation	1,413,156	1,094,048

The annexed notes from 1 to 31 form an integral part of this condensed interim unconsolidated financial statement.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE CONDENSED UNCONSOLIDATED INTERIM FINANCIAL STATEMENTS (UN-AUDITED)
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2019

1 LEGAL STATUS AND NATURE OF BUSINESS

1.1 State Life Insurance Corporation of Pakistan (the Corporation) was incorporated in Pakistan on November 1, 1972 under the Life Insurance Nationalization Order, 1972 (LINO). The Corporation's principal office is located at State Life Building No. 9, Dr. Zia Uddin Ahmad Road, Karachi. It operates in Pakistan through 34 zones for individual life business, 4 zones for group life business and in the gulf countries {comprising United Arab Emirates (UAE) and Kuwait} through zonal office located at Dubai (UAE).

1.2 The Corporation is engaged in the life insurance, health and accident insurance businesses.

1.3 The Corporation was issued the certificate of authorization for commencement of Window Takaful Operation under rule 6 of the Takaful rules, 2012 by SECP vide letter no. 0097, dated September 22, 2016. However the Corporation is in the process of launching the Window Takaful Operations at an expected date of Sep 13, 2019. For the purpose of carrying on the takaful business, the Operator has formed an Individual Family Participant Takaful Fund (IFPTF) on August 18, 2017 under the Waqf deed and cede Rupees 1 million to the IFPTF. The Waqf deed governs the relationship of Operator and participants for management of takaful operations.

1.4 The Presidential Order dated April 06, 2016 in respect of State Life (Reorganization and Conversion) Ordinance, 2016 was issued by Government of Pakistan Ministry of Law and Justice to provide for the re-organization and conversion of the State Life Insurance Corporation of Pakistan into a Public Limited Corporation. After the commencement of this Ordinance, the Federal Government established a Corporation namely, State Life Insurance Corporation Limited under the repealed Companies Ordinance, 1984 (XLVII of 1984) with the objective of taking over the business, functions, contracts, policies, proceedings, undertakings, assets, liabilities. etc. of the Corporation on fulfillment of the statutory requirements. The National Assembly converted the said Ordinance into Bill for the conversion of State Life Insurance Corporation to State Life Insurance Corporation Limited and sent the Bill to Senate for approval and the Senate, instead of passing the Bill, proposed few amendments in the Bill. For the consideration of the proposed amendments the matter was moved to National Assembly Standing Committee on Commerce and the matter is still pending with that Committee.

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Under the new scheme all the assets, liabilities, contracts, policies, proceedings and undertakings of the Corporation shall stand transferred to and vest in the Public Limited Corporation on a specific date which is uncertain. Accordingly, the Corporation is not expected to continue as going concern. Since there will be no change in operational activities of the Corporation pursuant to change in aforesaid legal structure, no adjustments are expected to the carrying amounts of assets and liabilities.

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 The condensed unconsolidated interim financial statements of the Corporation has been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of;

- International Accounting Standard 34 - 'Interim Financial Reporting (IAS-34)' issued by the International Accounting and Standard Board (IASB) as are notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and Takaful Rules, 2012.

In case requirements differ, the provisions of or directives issued under the Companies Act, 2017, Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and Takaful Rules, 2012 shall prevail.

2.2 These condensed unconsolidated interim financial statements does not include all the information and disclosures required in the annual financial statements, accordingly, these condensed interim financial statements should be read in conjunction with the Corporation's annual financial statements as at and for the year ended December 31, 2018.

2.3 These condensed unconsolidated interim financial statements are prepared and presented in Pakistani Rupees, which is the Corporation's functional and presentation currency.

2.4 These condensed unconsolidated interim financial statements have been prepared under the historical cost convention except the certain investments which are carried at fair value and the obligations under certain employee benefits that are measured at present value. Accrual basis of accounting has been used except for statement of cash flow.

3 NEW ACCOUNTING STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED STANDARDS

3.1 Standard / amendments that are effective in current year and relevant to the Corporation

The Corporation has adopted the standard / amendments to the following approved accounting standards as applicable in Pakistan which became effective during the year from the dates mentioned below against the respective standard:

		Effective date (annual periods beginning on or after)
Conceptual Framework for Financial Reporting 2018 - Original Issue		March 01, 2018
IFRS 15	Original issue	July 01, 2018
IFRS 15	Clarifications to IFRS 15	July 01, 2018
IFRS 7	Financial Instruments : Disclosures - additional hedge accounting disclosures(and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	July 01, 2018
IAS 39	Financial Instruments: Recognition and Measurements-amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception	July 01, 2018
IFRS 16	Leases	January 01, 2019

Corporation has concluded that the impact of adoption of IFRS 16 is not material on these condensed interim unconsolidated financial statements.

		Effective date (annual periods beginning on or after)

3.2 Amendments that are effective in current year and not relevant to the Corporation

IFRS 2	Share-based Payment - amendments to clarify the classification and measurement of share-based payment transactions	January 01, 2018
IFRS 4	Insurance Contracts - amendments regarding the interaction of IFRS 4 and IFRS 9	January 01, 2018
IFRS 5	Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	July 01, 2018
IFRS 8	Amendments regarding the interaction of IFRS 4 and IFRS 9	January 01, 2018
IAS 40	Investment Property - amendments to clarify transfers of property to, or from, investment property	January 01, 2018

Other than the amendments to standards mentioned above, there are certain annual improvements made to IFRS that became effective during the year:

Annual Improvements to IFRSs (2014 – 2016) Cycle:

IFRS 1	First-time Adoption of International Financial Reporting Standards	January 01, 2018
IAS 28	Investments In Associate and Joint Ventures	January 01, 2018

3.3 Amendments not yet effective

The following amendments to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard:

		Effective date (annual periods beginning on or after)
Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38,IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update these pronouncements with regard to references to and quotes from the framework or to indicate where they refer to different version of the Conceptual Framework.		January 01, 2020
IFRS 3	Business Combinations - amendments to clarify the definition of a business	January 01, 2020
IFRS 8	Amendments regarding prepayment features with negative compensation and modifications of financial liabilities	January 01, 2019
IFRS 9	Financial Instruments - amendments regarding prepayment features with negative compensation and modifications of financial liabilities negative compensation and modifications of financial liabilities	January 01, 2019
IAS 1	Presentation of financial statements - amendments regarding the definition of materiality	January 01, 2020
IAS 8	Accounting policies, changes in accounting estimates and errors - amendments regarding the definition of materiality	January 01, 2020
IAS 19	Employee benefits - amendments regarding plan amendments, curtailments or settlements	January 01, 2019
IAS 17	Amendments regarding plan amendments, curtailments or settlements	January 01, 2019
IAS 28	Investments in Associates and Joint Ventures - amendments regarding long-term interests in associates and joint ventures	January 01, 2019

The annual improvements to IFRSs that are effective from the dates mentioned below against respective standards:

Annual improvements to IFRSs (2015 – 2017) Cycle:

IFRS 3	Business Combinations	January 01, 2019
IFRS 11	Joint Arrangements	January 01, 2019
IAS 12	Income Taxes	January 01, 2019
IAS 23	Borrowing Costs	January 01, 2019

Standards or interpretations not yet effective

The following new standards and interpretations have been issued by the International Accounting Standards Board (IASB), which have not been adopted locally by the Securities and Exchange Commission of Pakistan (SECP):

IFRS 1	First Time Adoption of International Financial Reporting Standards
IFRS 14	Regulatory Deferral Accounts
IFRS 17	Insurance Contracts

The Corporation expects that the adoption of the other amendments and interpretations of the standards will not have any material impact and therefore will not affect the Corporation's unconsolidated financial statements in the period of initial application.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation adopted in the preparation of these condensed unconsolidated interim financial statements are the same as those applied in the preparation of the unconsolidated financial statements of the Corporation for the year ended December 31, 2018 except those as specified below;

4.1 IFRS 9 - Financial Instruments and Amendment to IFRS 4 'Insurance Contracts- Applying IFRS 9 'Financial Instruments with IFRS 4

IFRS 9 'Financial Instruments' was issued on July 24, 2017. This standard is adopted locally by the Securities and Exchange Commission of Pakistan through its S.R.O. 229 (I)/2019 and is effective for accounting period / year ending on or after June 30, 2019.

IFRS 9 replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

Amendment to IFRS 4 'Insurance Contracts- Applying IFRS 9 'Financial Instruments with IFRS 4 (effective for annual periods beginning on or after July 01, 2018). The amendment address issue arising from the different effective dates of IFRS 9 and the forthcoming new standard IFRS 17 'Insurance Contracts'. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from July 01, 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied.

Temporary Exemption from Application of IFRS 9

As an insurance Corporation, the management has opted temporary exemption from the application of IFRS 9 as allowed by International Accounting Standards Board (IASB) for entities whose activities are predominantly connected with insurance. Additional disclosures, as required by the IASB, for the financial assets with contractual cash flows that meet the 'Solely for Payment of Principal and Interest' (SPPI) criteria excluding those held for trading and for the financial assets that do not meet the SPPI criteria for being eligible to apply the temporary exemption from the application of IFRS 9.

When adopted IFRS 9 replaces the existing IAS 39, 'Financial Instruments - Recognition and Measurement' and will affect the following two areas.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Corporation's financial assets and financial liabilities.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				---------Rupees in '000	-------------
Financial assets					
Equity securities	(a)	Held for trading	Fair value through profit and loss	78,209,015	78,209,015
Mutual funds	(a)	Held for trading	Fair value through profit and loss	6,818,779	6,818,779
Debt securities					
Government securities	(b)	Held to maturity	Amortised cost	684,150,402	684,150,402
Debt securities	(b)	Held to maturity	Amortised cost	3,138,361	3,138,361
Loans secured against life insurance policies	(c)	Loans and receivables	Amortised cost	98,469,865	98,469,865
Other loans and receivables	(c)	Loans and receivables	Amortised cost	41,714,978	41,714,978
Prepayments	(c)	Loans and receivables	Amortised cost	396,074	396,074
Cash and bank balances	(c)	Loans and receivables	Amortised cost	17,827,903	17,827,903
				930,725,377	930,725,377

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss (ECL) model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. The ECL model involve significant judgments and estimation processes. The Corporation is currently in the process of analyzing the potential impact of expected credit loss model upon adoption of IFRS 9.

4.2 IFRS 16 - Leases

IFRS 16 'Leases' was issued on January 01, 2016. This standard is adopted locally by the Securities and Exchange Commission of Pakistan and is effective for accounting periods beginning on or after January 1, 2019. IFRS 16 replaced IAS 17 'Leases', and IFRIC 4 'Determining whether an Arrangement contains a Lease' The Corporation applied IFRS 16 with a date of initial application of January 01, 2019.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is twelve months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Corporation does not have significant impact of IFRS 16 due to short term lease contracts.

	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
	----------Rupees in '000 -----------	

5. PROPERTY AND EQUIPMENT

	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
Operating fixed assets		
Net book value as at the beginning of the period / year	414,002	436,867
Additions / adjustments during the period / year	4,889	102,355
Net depreciation charge during the period / year	(46,099)	(125,220)
Net book value as at the end of the period / year	372,792	414,002

6 INVESTMENT PROPERTY

	June 30, 2019	December 31, 2018
Investment Properties	2,293,661	2,298,608
Less : Provision for impairment in value of investment property	(895)	(895)
	2,292,766	2,297,713
Capital work-in-progress	1,453,527	1,359,628
	3,746,293	3,657,341

7 INVESTMENTS IN EQUITY SECURITIES

	June 30 2019 (Un-audited)			December 31 2018 (Audited)		
	Cost	Impairment / provision	Carrying value	Cost	Impairment / provision	Carrying value
Fair value through profit or loss		------------Rupees in '000------------				
Related parties						
Listed shares	3,439,097	-	15,976,271	3,450,495	-	17,798,141
Unlisted shares	5,000	-	5,000	5,000	-	5,000
Others						
Listed shares	24,788,644	-	62,132,033	24,624,467	-	69,932,681
Unlisted shares	269,576	(173,865)	95,711	268,643	-	95,711
Unlisted preference shares	3,743	-	-	3,743	-	-
	28,506,060	(173,865)	78,209,015	28,352,348	-	87,831,533

8 INVESTMENTS IN GOVERNMENT SECURITIES

	June 30, 2019					December 31, 2018
	Maturity Year	Effective Yield (%)	Amortized Cost	Principal Repayment	Carrying Value	Carrying Value
Held to maturity			----------Rupees in '000----------			
3 year Pakistan Investment Bonds	2019 - 2021	12.70% - 13.00%	84,955,561	89,446,000	84,955,561	58,864,883
5 year Pakistan Investment Bonds	2019 - 2023	13.05% - 13.20%	160,334,765	161,106,000	160,334,765	152,057,680
10 year Pakistan Investment Bonds	2019 - 2028	13.55% - 13.80%	351,483,048	346,018,800	351,483,048	340,263,996
15 year Pakistan Investment Bonds	2021 - 2026	13.65% - 13.90%	11,745,278	11,870,000	11,745,277	13,670,780
20 year Pakistan Investment Bonds	2024 - 2031	13.75% -14.00%	28,368,718	28,900,000	28,368,719	28,342,644
30 year Pakistan Investment Bonds	2036 - 2038	13.90% - 14.10%	37,610,788	40,050,000	37,610,788	37,580,665
Treasury Bill	2019	10.53% - 10.60%	246,829	250,000	246,829	-
Islamic Republic of Pakistan Bonds			9,405,415	-	9,405,415	8,158,801
			684,150,402	677,640,800	684,150,402	638,939,449

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9 INVESTMENT IN MUTUAL FUNDS

	June 30 2019 (Un-audited)			December 31 2018 (Audited)		
	Cost	Impairment / provision	Carrying value	Cost	Impairment / provision	Carrying value
	-----------Rupees in '000-----------					
Fair value through profit or loss						
Listed						
Open end mutual fund	3,015,481	-	5,083,532	3,015,481	-	5,888,937
Unlisted						
Close end mutual fund	861,155	-	1,735,247	861,155	-	1,963,695
	3,876,636	-	6,818,779	3,876,636	-	7,852,632

10 INVESTMENTS IN DEBT SECURITIES

	Note	June 30 2019 (Un-audited)			December 31 2018 (Audited)		
		Cost	Impairment / provision	Carrying value	Cost	Impairment / provision	Carrying value
		-----------Rupees in '000-----------					
Held to maturity							
Debentures	9.1	7,573	(7,573)	-	7,573	(7,573)	-
Fair value through profit or loss							
Foreign fixed income securities		3,138,361	-	3,138,361	3,623,918	-	3,623,918
		3,145,934	(7,573)	3,138,361	3,631,491	(7,573)	3,623,918

10.1 Debentures include an amount of Rs. 7.573 million (December 31, 2018: Rs. 7.573 million) pertaining to those companies which are in liquidation process since 1974. Further, a court case is in process against the Colony Textile Mills Limited against debenture loan amounting to Rs. 0.678 million (December 31, 2018: Rs. 0.678 million). The Corporation had made full provision against these debentures.

		June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
		-----------Rupees in '000 -----------	

11 INSURANCE / REINSURANCE RECEIVABLES

	June 30, 2019	December 31, 2018
Unsecured and considered good		
Due from insurance contract holders	20,783,055	21,442,479
Less: provision for impairment of receivables from Insurance contract holders	-	-
Due from other insurers / reinsurers	216,611	360,594
Less: provision for impairment of due from other insurers / reinsurers	-	-
	20,999,666	21,803,073

12 OTHER LOANS AND RECEIVABLES

	June 30, 2019	December 31, 2018
Accrued investment income	39,048,305	32,109,897
Loans to agents	90,919	69,694
Loans to employees	919,007	915,705
Other receivables	1,656,747	1,710,846
	41,714,978	34,806,142

13 CASH AND BANK BALANCES

	June 30, 2019	December 31, 2018
Cash and cash equivalent		
- In hand	32,229	13,481
- In transit	4	341,802
	32,233	355,283
Cash at bank		
- Current accounts	5,017,965	16,071,428
- Savings accounts	4,133,573	11,189,987
- Fixed deposits maturing after 12 months	8,644,132	5,681,617
	17,827,903	33,298,315

14 INSURANCE LIABILITIES

	June 30, 2019	December 31, 2018
Reported outstanding claims (including claims in payment)	16,926,122	18,593,297
Incurred but not reported claims	4,030,467	4,027,893
Liabilities under individual conventional insurance contracts	902,771,229	865,810,778
Liabilities under group insurance contracts	1,007,219	2,035,780
Other insurance liabilities	208,165	208,221
	924,943,202	890,675,969

15 CONTINGENCIES AND COMMITMENTS

15.1 Contingencies

15.1.1 The Corporation has filed appeals on different issues in the Honorable High Court of Sindh contesting the decision of the Appellate Tribunal Inland Revenue (ATIR) for the income years 1992-1993 to 2002-2003 mainly relating to turnover tax and excess perquisites. In addition, the issue of tax rate was raised for the income years 1992-93 to 1996-97. The Inland Revenue Department added back the excess perquisites to the taxable income and tax liability was enhanced accordingly. Further, Inland Revenue Department re-opened these assessments and rectified to invoke provisions of turnover tax on the ground that the tax paid under Fourth Schedule of the Income Tax Ordinance, 2001 is less than turnover tax and hence, should be paid accordingly.

The Corporation then filed aforesaid appeals on the ground that the Fourth Schedule of the Income Tax Ordinance, 2001 restricts taxable income to that portion of actuarial surplus which is attributed to the shareholders fund by the appointed Actuary.

All the appeals are still pending before Honorable High Court of Sindh, Karachi and management of the Corporation and its tax advisor are confident that ultimate outcome of these matters will be in favor of the Corporation and accordingly, no provision is required in these financial statements on account of these matters.

15.1.2 In the year 2010, the Inland Revenue Department served legal notices to the Corporation, requiring it to explain why the withholding tax has not been deducted on payments made to the policyholders on the maturity under section 151(1)(d) of the Income Tax Ordinance, 2001. Those notices were related to tax year 2008 and 2009.

According to those notices, the Inland Revenue Department were of opinion that Corporation was required to withhold Income Tax on maturity claims by virtue of the said section. The Department considered that the total amount of a matured policy given to the policy holder consist of bonuses and the sum assured. The bonuses are given to the policy holder on the basis of amount of premium received during the whole term of the policy which is a form of interest or profit on debt. Hence, the Corporation u/s 151 (1)(d) is liable for deducting withholding tax at the rate of 10% on the amount of bonuses paid to policyholder on maturity. Therefore, the Inland Revenue Department raised demands of Rs. 710.124 million and Rs. 738.514 million as withholding tax for tax year 2008 and 2009 respectively. The Corporation had filed appeals before Commissioner Inland Revenue Appeals (CIR (A)) on the grounds that policy contract as a debt instrument lacks legal sanctity and the definition of debt is being misinterpreted by the tax authorities.

CIR(A) has decided the subject appeals in favor of Corporation vide order No. 27 & 28 dated September 29, 2011 on the grounds that the provisions of section 151(1)(d) of the Income Tax Ordinance, 2001 are not attracted to the payments made by way of bonus on the maturity of the policies as the same can not be construed to be interest or profit on debt.

The demand raised by the Department has not been enforced after above judgment of CIR (A), therefore, no payment was made against the demand. Inland Revenue Department has filed appeals before the ATIR against the above orders of CIR (A) which were dismissed by learned ATIR vide order No. 506-07/KB/2012 on April 17, 2014.

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Inland Revenue Department has filed appeals before High Court of Sindh, Karachi against the orders of ATIR. Management of the Corporation and its tax advisor are confident that ultimate outcome of this matter will be in favor of the Corporation and accordingly, no provision is required in these financial statements on account of this matter.

15.1.3 Inland Revenue Department served a legal notice u/s 122 (5A) on apportionment of expenses under section 67 of the Income Tax Ordinance, 2001 to the dividend income for tax year 2004. The said notice was replied by the Corporation but not agreed by the concerned Additional Commissioner Inland Revenue (ACIR). Subsequently, amended assessment order was passed u/s 122 (5A) which resulted in tax demand of Rs. 164.88 million. The Corporation was not in agreement with said order and preferred appeal before CIR(A). Said appeal was not upheld at this forum. Next appeal was filed before ATIR. Meanwhile, the Department adjusted demand amount from the pending refunds for tax year 2010.

ATIR decided the above appeal in favor of the Corporation vide order No/ 925/KB/2010 dated July 24, 2012; wherein the addition made u/s 67 has been deleted. The said issue has already been decided by the Honorable High Court of Sindh, Karachi in an other appeal on the issue reported as Commissioner (Legal) Inland Revenue v/s EFU General Insurance Ltd 2011-PTD-2042.

In the year 2013, the Inland Revenue Department filed appeal in the Honorable High Court of Sindh against the decision of ATIR in the above cases. Inland Revenue Department has passed an order u/s 124 of the Income Tax Ordinance, 2001 to give effect to the appeal Ref. Document # 11/54 dated June 24, 2014 and also issued refund of Rs. 153.75 million to the Corporation. The Corporation had adjusted Rs. 8.8 million against demand for Tax year 2014.

The refund amounting to Rs. 2.2 million is still pending with the Department. An appeal was filed by Inland Revenue Department before the High Court of Sindh, Karachi. The aforesaid appeal has also been dismissed by the High Court of Sindh, Karachi vide order dated August 30, 2016. Inland Revenue Department has filed civil appeal before Honorable Supreme Court of Pakistan against the judgement of Honorable High Court of Sindh, Karachi which is pending as at reporting date.

15.1.4 In the year 2013, Inland Revenue Department issued similar notices to Corporation regarding withholding of tax on maturity proceeds of insurance policies. These notices were related to Tax Year 2010 to Tax Year 2012 stating that the Department holds a similar stance as described in the said note. Reply was filed by the Corporation through authorized representative which was not accepted by the Department and order of amendment u/s 161 and 205 of the Income Tax Ordinance was passed, resulting in total demand of Rs. 1,577.456 million (Rs. 1,249.138 million as withholding tax and Rs. 328.318 million as default surcharge).

The entire principal demand of Rs. 1,249.138 million was paid under protest and without prejudice to its legal right to appeal. The Corporation then filed appeals before CIR (A) which have not been upheld. The Corporation filed appeal before ATIR against the above order which has been decided in favor of Corporation vide consolidated order dated February 21, 2017. Further, LTU, Karachi had also issued notice u/s 161/205 of the Income Tax Ordinance, 2001 similar to the notices issued in the previous years to invoke the section 151 (1)(d) of the Ordinance to recover withholding tax from the Corporation on the amount of bonus paid to the policyholders on the maturity of the polices during the tax year 2013.

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Reply was filed through tax consultant which was not agreed by Department and order u/s 161/205 was passed and tax demand amounting to Rs. 609.23 million including default surcharge of Rs. 99.11 million was raised which was discharged without prejudice to legal rights to appeal. Appeal was filed before CIR (A) against said order which was upheld vide order # 34 dated March 30, 2015.

Inland Revenue Department has issued refund amounting to Rs. 500 million from appeal effect of Tax Year 2013 in July, 2015. Further, IR Department has adjusted outstanding demand for tax year 2009, 2010 and 2011 at Rs. 10.8 million, 12.5 million and Rs. 56.3 million respectively against pending appeal effect of tax year 2013. As at June 30, 2019, appeal effect amounting to Rs. 29.4 million is still pending with the Inland Revenue Department. Inland Revenue Department has filed an appeal before ATIR against the said order of the CIR (A) which is pending till to date.

The management and legal counsel are optimistic that ultimate outcome of the cases shall be decided in favor of the Corporation as ATIR has decided the appeals related to similar issue in previous years in favor of the Corporation.

15.1.5 While assessing the income and tax liability thereon for assessment years 2000-01, 2001-02 and 2002-03, Income Tax Department, AJK disallowed excess perquisites u/s 24(i) of the Income Tax Ordinance, 1979 (repealed) as inadmissible business expense of the Corporation. Disallowance of said expense increased taxable income for all the three years and tax liability was worked out accordingly which resulted in additional tax demand. The aggregate additional tax demand involved due to addition of excess perquisites to the Corporation's taxable income was Rs. 12.669 million (Assessment year 2000-01 to 2002-03 Rs. 1.464 million, Rs. 9.036 million, Rs. 2.169 million respectively).

In addition, the Corporation's assessments were also made at higher tax rate of 43% for assessment year 2000-01 and 2001-02 and at 45% for 2002-03 instead @ 5% being entire dividend income. These assessments at higher rates also multiplied Corporation's tax liability for each assessment year.

Being aggrieved, the Corporation preferred appeal before CIR(A), Mirpur-AJK against the alleged assessment orders. Corporation's appeals before CIR(A), Mirpur AJK were not upheld. Thereafter, Corporation had challenged the orders of CIR(A) before Appellate Tribunal Inland Revenue, Mirpur AJK. The learned ATIR upheld all the appeals of the Corporation vide order # ITAT/969-73 dated August 20, 2009.

Income Tax Department, AJK had filed reference against the order of ATIR-AJK before Honorable High Court of AJK. At present, Departmental references are still pending before High Court of Mirpur, Azad Jammu and Kashmir.

15.1.6 In 2015, Inland Revenue Department initiated monitoring of withholding of taxes for previous five year from tax year 2009 to 2013 u/s 161/205 of the Income Tax Ordinance, 2001. During the course of monitoring certain payment to insurance agents were held liable to withholding of tax u/s 233 as deemed commission for the first time. In addition payment evidence of withholding taxes under various sections of law were took into scrutiny.

Reply filed by the Corporation were not agreed by the Department and aggregate demand amounting to Rs. 494 million was raised for all tax years u/s 161 ,182 and 205 (tax year 2009: Rs. 48 million, tax year 2010: Rs. 58 million, tax year 2011: Rs. 53 million, tax year 2012: Rs. 258 million and tax year 2013: Rs. 77 million). The Corporation has paid the above demand under protest and without prejudice to the legal rights to appeal.

The Corporation being aggrieved preferred appeals against impugned orders of Inland Revenue Department before Commissioner Inland Revenue -Appeals. CIR (A) vides his order dated July 6, 2015 has vacated the orders passed by Deputy Commissioner Inland Revenue and has directed concerned Deputy Commissioner Inland Revenue Department to re-visit the case and pass order afresh.

Deputy Commissioner Inland Revenue on the directive of CIR (A) had issued notices afresh for tax year 2009 to 2013. Corporation has referred these notices to its tax consultant for compliance. Based on the reply filed by the Corporation through consultant for tax year 2009 to 2013, DCIR has passed rectified orders whereby previously created demand has been reduced by Rs. 7.6 million.

In prior year, Inland Revenue Department issued show cause notices related to monitoring of withholding taxes on similar lines for tax year 2014 and 2015. Reply filed by the Corporation was not agreed by the Inland Revenue Department and initial demand amounting to Rs. 450 million and Rs. 572 million was raised for the tax year 2014 and 2015 respectively.

On the advice of the consultant the Corporation filed application for rectification of order passed by DCIR for tax year 2014 and 2015. In pursuance of our rectification request, DCIR has passed rectified order whereby rectified demand of Rs.213 million and Rs.166 million was raised for the tax year 2014 and 2015 respectively.

Without prejudice to the legal right to appeal, the Corporation has adjusted demand for tax year 2014 from the pending refund of the tax year 2004 and 2012 and has paid demand amounting to Rs. 150 million for tax year 2015 in cash.

Being aggrieved from the order of DCIR for tax year 2014 and 2015, the Corporation has filed an appeal before CIR (A).CIR (A) in its order dated September 19, 2016 has referred back the case to concerned DCIR for re-assessment. At present, the case is being re-assessed by DCIR and is pending as at reporting date.

15.1.7 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated Jan 02, 2017 to the Corporation for tax year 2016 whereby certain issues regarding deduction claimed on account of provision for impairment in the value of investment properties, deduction claimed on account of gratuity and pension, deduction claimed on account of provision for impairment in shares, rationale for deduction of investment property related expenses, foreign tax credit u/s 103 of the Ordinance claimed in the annual tax return, taxation of dividend income as single basket income, etc. were confronted. The Corporation has engaged tax consultant for responding said notice.

Subsequent to the reply filed by the Corporation through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated March 06, 2017 u/s 122 (5A) of the Income Tax Ordinance, 2001 whereby demand of Rs. 23.7 million was raised u/s 137 of the Income Tax Ordinance.

Since, the Corporation has pending refunds towards Inland Revenue Department, therefore; without prejudice to the legal right to appeal; the Corporation through its tax consultant in said case has requested to adjust the above demand against pending refunds.

The Corporation filed appeal against the impugned order before CIR (A). Issue related to subjecting dividend income to normal tax rate is decided in favor of the Corporation whereas issues related to deduction claimed on account of real estate expenses, provision for impairment in value of shares and value of investment properties and provision for diminution in value of investment are decided against the Corporation. Inland Revenue Department as well as the Corporation filed appeals before ATIR against order of CIR (A) which are pending till to date.

15.1.8 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated March 13, 2017 to the Corporation for tax year 2015. Subsequent to the reply filed by the Corporation through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated April 13, 2017 u/s 122 (5A) of the Income Tax Ordinance, 2001 whereby demand of Rs. 163.4 million was raised u/s 137 of the Income Tax Ordinance. In said order, ACIR has incorrectly adjusted Rs. 446.6 million against demand raised u/s 161 / 205 of the Ordinance which was actually duly discharged by the Corporation by making cash payment.

The Corporation, not in agreement with above order, filed application for rectification u/s 221 dated April 24, 2017 through tax consultant which was rejected by concerned ACIR vide letter dated April 28, 2017. Our tax consultant vide letter dated May 05, 2017 again requested for rectification of order. DCIR passed rectified order vide letter DC # 03/117 dated December 21, 2017 whereby refund of Rs. 316.7 million is determined as refundable to the Corporation.

The Corporation filed appeal against the impugned order before CIR (A). Issues related to subjecting dividend income to normal tax rate and disallowance on account of exchange loss related to foreign currency balances are decided in favor of the Corporation whereas issues related to deduction claimed on account of real estate expenses, provision for impairment in value of shares and provision for bad debts are decided against the Corporation. Inland Revenue Department as well as the Corporation filed appeals before ATIR against order of CIR (A) which are pending till to date.

15.1.9 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi has served legal notice u/s 122 (9) of the Income Tax Ordinance, 2001 dated December 31, 2014 to the Corporation for tax year 2012 whereby certain issues regarding reconciliation of commission expense between cash flow statement and monthly withholding tax statements, short withholding of tax under various provisions of the Ordinance, taxation of dividend income as single basket income, provision for IBNR, etc. were confronted. Tax consultant responded said notice on behalf of the Corporation. Additional information/explanation were also called vide letters dated February 24, 2015, September 22, 2015 and January 25, 2017. Subsequent to the reply filed by tax consultant ACIR proceeded to amend an assessment and passed an amended assessment order dated Feb 02, 2017u/s122 (5A) of the Income Tax Ordinance, 2001 whereby outstanding refund for same year was utilized to adjust the demand of Rs. 39.3 million. After adjustment, balance refunds stands at Rs. 93.3 million.

the Corporation has filed appeal against the impugned order before CIR (A). Issue of subjecting dividend income to normal tax rate, foreign tax credit claimed u/s 103, disallowance of provision for IBNR and disallowance of amount pertaining to investment arrangement between Corporation and Bureau of Emigration and Overseas Employment has been decided by CIR (A) in favor of Corporation vide order dated May 22, 2017. However, CIR (A) has decided the issue relating to disallowance of provision for impairment in value of shares against the Corporation. Inland Revenue Department as well as Corporation has filed cross appeal before Appellate Tribunal Inland Revenue against above order of CIR (A) which is still pending till to date.

15.1.10 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi also issued notices u/s 122 of the Ordinance to the Corporation related to tax years 2011, 2013 and 2014. Vide Said notices, ACIR confronted. the Corporation engaged A.F. Ferguson & Co. for responding these notices. Subsequently, ACIR passed amended orders whereby demand of Rs. 520.5 million was raised (Tax Year 2011: Rs. 56.3 million, Tax Year 2013: Rs. 107.1 million and Tax Year 2014: Rs. 357.1 million). Inland Revenue Department adjusted the demand related to tax year 2011 from pending appeal effect related to tax year 2013. Further, demand related to tax years 2013 and 2014 was adjusted by Inland Revenue Department from pending refund related to tax year 2015. The Corporation, being aggrieved from above orders of ACIR, filed appeals before CIR (A). Appeals related to tax years 2013 and 2014 are pending before CIR (A) till to date. However, appeal related to tax year 2011 has been decided by CIR (A). Issue related to subjecting dividend income to normal tax rate has been decided in favor of the Corporation whereas issue related to deduction claimed on account of real estate expenses is decided against the Corporation. Inland Revenue Department as well as the Corporation filed appeals before ATIR against the order of CIR (A).

15.1.11 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi served notice u/s 122 of the Income Tax Ordinance, 2001 dated January 10, 2018 to the Corporation for Tax Year 2017. Vide Said notice, ACIR confronted issues like investment arrangement between the Corporation and Bureau of Emigration and Overseas Employment, deduction claimed on account of provision for diminution in value of investments, provision for impairment in the value of investment properties, provision for impairment in the value of shares, loans / advances to employees and agents, short withholding of tax under various provisions of the Ordinance. the Corporation engaged A.F. Ferguson & Co. for responding the notice. Subsequently, ACIR passed amended order whereby demand of Rs. 480.2 million was raised. Corporation, being aggrieved from above amended order, file appeal before CIR (A). Further, the Corporation, through its tax consultant, also file application for stay of tax demand vide letter dated April 05, 2018 along with application for out of turn hearing vide letter dated March 28, 2018 before CIR (A). Hearing before CIR (A) was held on April 26, 2018. CIR (A) vide order No. 6 dated May 03, 2018 decided issues which involves major tax impact at Rs. 357.1 million like tax on Bureau Fund, disallowance on account of inter-company rent expenses in favor of the Corporation. However, issue of disallowance on account of real estate expenses and provision against other receivables are decided against the Corporation. Inland Revenue Department as well as the Corporation filed appeals before ATIR against order of CIR (A) which are pending till to date.

15.1.12 In 1967, one of the defunct insurance company sold a property to certain persons on installments basis on certain agreed terms and conditions. However, later those vendees defaulted in payment of their installments on due dates which render the sale agreement null and void. Although these defaults were committed before Life Insurance Nationalization Order 10, 1972 came into existence, property was recorded in books of defunct insurance company at the time of Nationalization Order, which required all the assets and liabilities of defunct insurance companies to be vested in the Corporation. The matter remained pending till the vendees approached the Corporation in 2006 to execute the sale deed in their favor.

The Corporation had taken advice from their legal advisors who are of the view that since vendees had defaulted in making payment of their installments before Nationalization Order, 1972 came into existence, the above property is the property of the Corporation and vendees are in the possession of said property as licensees.

The Corporation a Suit for possession in respect of State Life Building 102-B, Gulberg, Lahore against vendees in the year 2007 in the Court of Civil judge, Lahore, whereas, the opponent vendee has filed a suit for specific performance. Both the suits have been clubbed and are pending for adjustment. However, management of the Corporation has not recognized the property, which has written down value of Rs. 42,000 as at reporting date, in its books as the said asset does not met the definition of property, plant and equipment as it arises from past events and its existence will be confirmed by uncertain future events not wholly within the control of the Corporation.

15.1.13 The provincial revenue authority of Punjab and Baluchistan has made applicable provincial sales tax on life insurance and health insurance, which as per the management is not currently enforced by the authorities. The Corporation has not levied the sales tax to policy holders in the said provinces and also not provided for in the accounts.

This being a collective issue of the industry, the Insurance Association of Pakistan (IAP) has actively taken up the matter with the provincial revenue authorities for the exemption on sales tax. The industry's main contention is that life and health insurance is not a service, but infact, an underwriter's promise to pay to the policyholder in the future, a specified sum of money, either on occurrence of an identified event causing loss, or upon maturity of the policy, as is also clearly defined in the definition of the term "insurance" under the Insurance Ordinance, 2000. On the basis of this definition, “Insurance” is actually a contract of indemnification from loss, dependent on a contingent event, and does not constitute a “service”. Such contention of the insurance industry has also been upheld in the superior courts of foreign jurisdiction.

The legal advisors, in their opinion, have expressed the view that an insurance contract is essentially a financial transaction, which is unrelated to the sale of any identifiable consumer goods or service, and as such, in leading jurisdictions, it has been widely held that insurance is not a service, hence, it does not fall within the scope of taxability under the provincial sales tax laws.

The legal advisors has also expressed their opinion that the applicability of sales tax on the provision of life and health insurance would be in contravention of global norms where insurance is held to be not a service, but rather, a financial transaction, and further, any such applicability of tax will greatly inhibit the ability of the Corporation and the country's other insurance providers to allow for access to life and health insurance as a basic personal right of a citizen to enjoy life according to the law. In other foreign jurisdictions including UK and Malaysia, life and permanent health insurance are either exempt, or, excluded from taxable services.

Based on the above, the legal advisors of the Corporation have expressed the opinion that there are sufficient grounds available to the Corporation for filing a Constitutional Petition to challenge the levy of provincial sales tax on life and health insurance, and in their opinion, it is likely that the Court may allow the same accordingly. However, in view of the ongoing discussions with the provincial tax authorities to resolve this matter administratively, the Corporation has not yet exercised its right to legal recourse, as the management is hopeful of a successful conclusion of discussions with the Authorities.

Based on the opinion of legal advisors, the Corporation has neither levied sales tax to policy holders in the province of Punjab and Baluchistan nor provided for in the unconsolidated financial statements.

15.2 Commitments

The Corporation is committed in respect of capital expenditure contract aggregating to Rs. 528 million (December 31, 2018: Rs. 252 million). There were no other commitments as at the balance sheet date.

	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	------Rupees in '000 ------	
16 NET INSURANCE PREMIUM REVENUE		
Gross premiums		
Regular premium individual policies		
First year	3,980,089	6,391,974
Second year renewal	3,533,230	3,250,578
Subsequent year renewal	27,230,936	25,138,887
Group policies with cash values	-	17,495
Group policies without cash values	6,841,690	4,774,360
Total gross premiums	41,585,945	39,573,294

	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	------Rupees in '000 ------	
Less: Reinsurance premiums ceded		
On individual life first year business	(9,877)	(15,669)
On individual life second year business	(10,007)	(5,106)
On individual life renewal business	(51,664)	(39,857)
On group policies	-	-
	(71,548)	(60,632)
Net insurance premium revenue	41,514,397	39,512,662

17 INVESTMENT INCOME

Income from equity securities		
- Dividend income	2,810,895	2,834,466
Income from debt securities		
- Return on debt securities	32,214,804	28,382,407
	35,025,699	31,216,873

18 NET REALISED FAIR VALUE (LOSS) / GAIN ON FINANCIAL ASSET

Realized gains on equity securities	(17,715)	1,589

19 NET UNREALIZED FAIR VALUE (LOSS) / GAIN ON FINANCIAL ASSETS

Unrealized losses on equity securities	(10,809,156)	(6,748,789)
Investment related expenses	(31,903)	-
	(10,841,059)	(6,748,789)

20 NET RENTAL INCOME

Rental income	597,280	598,360
Less: expenses of investment property	(281,909)	(295,863)
	315,371	302,497

21 OTHER INCOME

Return on bank balances	1,154,019	325,525
Return on loans to employees	23,387	16,177
Return on loans to policyholders	3,367,062	2,632,260.00
Exchange gain on revaluation	3,017,977	1,509,570
Miscellaneous income	74,042	37,096
Loss on sale of fixed assets	-	(8)
	7,636,487	4,520,620

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	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	------Rupees in '000 ------	

22 NET INSURANCE BENEFITS

	June 30, 2019	June 30, 2018
Gross Claims		
Claims under individual policies		
- by death	3,425,264	2,536,876
- by insured event other than death	174,213	185,672
- by maturity	4,835,686	4,485,359
- by surrender	11,959,461	10,755,480
- annuity payments	8,227	10,945
Total gross individual policy claims	20,402,851	17,974,332
Claims under group policies		
- by death	1,454,932	1,996,991
- by insured event other than death	3,403,995	1,815,989
- by surrender	889	659
- annuity payments	2,004	210
- experience premium refund	1,117,646	368,298
Total gross group policy claims	5,979,466	4,182,147
Total gross claims	26,382,317	22,156,479
Less: reinsurance recoveries		
-on individual life claims	(15,269)	(18,526)
-on group life claims	2,563	-
	(12,706)	(18,526)
Net insurance benefit expense	26,369,611	22,137,953

23 ACQUISITION EXPENSES

	June 30, 2019	June 30, 2018
Remuneration to insurance intermediaries on individual policies:		
- commission to agent on first year premiums	1,914,596	4,026,492
- commission to agent on second year premiums	448,188	508,521
- commission to agent on subsequent renewal premiums	1,115,823	1,228,367
- other benefits to insurance intermediaries	683,719	705,775
- branch overhead	590,517	863,789
Remuneration to insurance intermediaries on group policies:		
- commission	1,388	1,631
- other benefits to insurance intermediaries	966	514
Other acquisition costs		
- Stamp duty and medical fee	309,562	298,009
	5,064,759	7,633,098

	June 30, 2019 (Un-audited)	June 30, 2018 (Un-audited)
	------Rupees in '000 ------	

24 MARKETING AND ADMINISTRATION EXPENSE

Employee benefit cost	3,118,781	2,681,355
Travelling expenses	145,403	129,468
Advertisement and sales promotion	19,418	24,263
Printing and stationery	59,893	34,158
Depreciation expense	52,793	59,274
Rent, rates and taxes	136,505	114,146
Legal and professional charges - business related	99,133	86,535
Electricity, gas and water charges	400,348	341,550
Office repair and maintenance	7,361	5,369
Bank charges	18,362	20,126
Postages, telegrams and telephone charges	42,848	38,669
Miscellaneous expense	23,959	13,337
	4,124,804	3,548,250

25 OTHER EXPENSES

Auditors' remuneration	3,183	2,881
Miscellaneous expense	145,285	102,092
	148,468	104,973

26 INCOME TAX EXPENSE

For the period		
Current	378,836	298,522
Deferred	199,141	-
	577,977	298,522

27 EARNINGS PER SHARE

Profit after tax for the period	1,413,156	1,094,048
Weighted average outstanding number of ordinary shares as at period end	35,556	30,000
Earnings per share (Rupees)	39.75	36.47

During the current period, the Corporation has issued 5 million ordinary shares of Rs. 100 each to the exsisiting shareholders.

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of all financial assets and liabilities reflected in the condensed unconsolidated interim financial information are appropriate to their fair values except for non-trading investments. Fair value is determined on the basis of the objective evidence at each reporting date.

28.1 Carrying amount versus fair value

The following table compares the carrying amounts and fair values of the Corporation's financial assets and financial liabilities as at June 30, 2019.

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at June 30, 2019.

	As at June 30, 2019 (Unaudited)		As at December 31, 2018 (Audited)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Rupees in '000		Rupees in '000	
Financial assets				
Investments				
Equity securities	78,209,015	78,209,015	87,831,533	87,831,533
Government securities	684,150,402	612,012,904	638,939,449	579,980,000
Mutual funds	6,818,779	6,818,779	7,852,632	7,852,632
Debt securities	3,138,361	3,138,361	3,623,918	3,623,918
Loans secured against life insurance policies	98,469,865	98,469,865	93,313,445	93,313,445
Insurance / reinsurance receivables	20,999,666	20,999,666	21,803,073	21,803,073
Other loans and receivables	41,714,978	41,714,978	34,806,142	34,806,142
Prepayments	396,074	396,074	395,030	395,030
Cash and bank balances	17,827,903	17,827,903	33,298,315	33,298,315
Financial liabilities				
Insurance liabilities	924,943,202	924,943,202	890,675,969	890,675,969
Premium received in advance	8,865,849	8,865,849	8,079,218	8,079,218
Insurance / reinsurance payables	274,472	274,472	466,442	466,442
Other creditors and accruals	12,102,620	12,102,620	18,300,495	18,300,495

28.2 Fair value hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

IFRS 13 'fair value measurement' requires the Corporation to classify fair value measurements and fair value hierarchy that reflects the significance of the inputs used in making the measurements of fair value hierarchy has the following levels:

Level 1 quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfer between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes have occurred.

29 RELATED PARTY TRANSACTIONS

The Corporation has related party relationships with provident fund, pension fund scheme, gratuity fund, state owned profit oriented entities and its key management personnel. Transactions with related parties are made at arms length prices. There have been no guarantees provided or received for any related party receivables or payables. Other material transactions and balances with related parties are given below:

	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
	------Rupees in '000------	
Profit oriented state-controlled entities -common ownership		
Investment in shares - State Bank of Pakistan	3,221	3,221
Subsidiaries		
Rental income received	-	15,242
Staff retirement fund		
Contribution to provident fund	2,762	7,118
Contribution to pension fund	218,064	-
Contribution to funded gratuity fund	2,572	6,242
Expense charged to pension fund	529,878	893,536
Transactions with associated companies		
Dividend received during the period / year		
Pakistan Reinsurance Company Limited	-	256,313
Transactions with related parties - common directorship		
Investment in units :		
National Islamic Equity Trust	200,000	200,000
Balances with related parties - common directorship		
Investment in shares:		
Fauji Fertilizer Company Limited	10,117,182	10,772,711
Sui Southern Gas Company Limited	1,194,356	1,334,122
Sui Northern Gas Pipelines Company Limited	1,909,803	2,118,125
Alpha Insurance Company Limited	298,918	298,918
International Industries Limited	-	101,060
Pakistan Cables Limited	352,893	349,453
Security Papers Limited	466,039	447,003
Shahtaj Sugar Mills Limited	32,490	43,019
Pak Data Communication Limited	33,640	40,560
Premier Insurance Company Limited	33,012	37,774
Pakistan Reinsurance Company Limited	1,827,876	2,544,087

	June 30, 2019 (Un-audited)	December 31, 2018 (Audited)
	------Rupees in '000------	
Arabian Sea Country Club Limited	4,500	5,000
PICIC Insurance Limited	4,480	5,727
Nina Industries Limited	4,500	4,500
State Life Abdullah Haroon Road Property (Private) Limited (Subsidiary Company)	26,182	26,182
State Life Lackie Road Property (Private) Limited (Subsidiary Company)	12,910	12,910

30 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim unconsolidated financial statements were approved and authorized for issue on 3 1 AUG 2019 by the Board of Directors of the Corporation.

31 GENERAL

Figures in these condensed interim unconsolidated financial statements have been rounded off to nearest thousand of Rupees unless otherwise stated.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

Statement of Directors

Form LN

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

Section 46 (6)

a. In our opinion the financial statements of the State Life Insurance Corporation of Pakistan for the period ended June 30, 2019, set out in the forms attached to the statement have been drawn up in accordance with the Insurance Ordinance, and any rules made there under;

b. State Life Insurance Corporation of Pakistan has at all times in the period complied with the provisions of the Insurance Ordinance and the Insurance Rules made there under relating to paid-up-capital, solvency and re-insurance arrangements; and

c. As at June 30, 2019, State Life Insurance Corporation of Pakistan continues to be in compliance with the provisions of the Ordinance and the rules made there under relating to paid-up-capital, solvency and reinsurance arrangements.

Section 52 (2) (C)

d. In our opinion, each statutory fund of the State Life Insurance Corporation of Pakistan complies with the solvency requirements of the Insurance Ordinance, 2000 and the Insurance Rules, 2017.

CHAIRMAN	DIRECTOR	DIRECTOR	CHIEF FINANCIAL OFFICER
Farrukh Ahmad Hamidi	Ghiasuddin Ahmed	M. Bashir Khetran	Muhammad Rashid

Statement by the Appointed Actuary Form LM

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

In my opinion,

a. the policyholders liabilities / technical liabilities included in the balance sheet of State Life Insurance Corporation of Pakistan as at June 30, 2019 have been determined in accordance with the provisions of the Insurance Ordinance, 2000; and

b. each statutory fund of the State Life Insurance Corporation of Pakistan complies with the solvency requirements of the Insurance Ordinance, 2000.

(Shujaat Siddiqui)
Appointed Actuary

Dated: 31-08-2019