

**FINANCIAL STATEMENT FOR THE PERIOD ENDED 31ST
MARCH, 2019**

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)
AS AT MARCH 31, 2019

	Note	Rupees in '000'	
		March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Assets			
Property and equipment		382,656	414,002
Investment property	6	3,679,172	3,657,341
Investments in subsidiaries and associates		338,010	338,010
Investments			
Equity securities	7	99,231,983	87,831,533
Government securities	8	675,972,806	638,939,449
Debt securities	9	3,642,052	3,623,918
Mutual funds		0	7,852,632
Loans secured against life insurance policies		95,352,577	93,313,445
Insurance / reinsurance receivables		21,883,164	21,803,073
Other loans and receivables		34,762,666	34,806,142
Taxation - payments less provision		3,735,001	3,958,284
Prepayments		408,688	395,030
Cash & Bank	10	14,904,797	33,298,315
Total Assets		954,293,572	930,231,174
Equity and Liabilities			
Capital and reserves attributable to Company's equity holders:			
Authorized Share Capital	11.1	<u>5,000,000</u>	<u>5,000,000</u>
Ordinary share capital (Paid up)	11.2	3,500,000	3,500,000
Ledger account C & D		1,605,227	1,257,718
Reserves		1,220,652	507,043
Unappropriated profit/(Accumulated loss)		558,136	713,615
Capital contributed to / from Shareholder fund		-	(100,000)
Total Equity		6,884,015	5,878,376
Liabilities			
Insurance Liabilities	12	917,893,968	890,675,969
Liabilities under Investment Contracts			
Retirement benefit obligations		3,692,843	6,343,778
Deferred Capital Grant		-	14,025
Premium received in advance		8,691,742	8,079,218
Insurance / reinsurance payables		244,974	466,442
Deffered Tax		624,255	472,871
Other creditors and accruals		16,261,775	18,300,495
		29,515,589	33,676,829
Total Liabilities		29,515,589	33,676,829
Total Equity and Liabilities		954,293,572	930,231,174
Contingency(ies) and commitment(s)			

The annexed notes 1 to 17 form an integral part of these financial statements



CHAIRMAN

Ghiasuddin Ahmed



DIRECTOR

Hukhar-ul-Mussain Shah



DIRECTOR

Abdul Qadir Memon



CHIEF FINANCIAL OFFICER

Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
 CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
 FOR THE QUARTER ENDED MARCH 31, 2019

	Note	Rupees in '000'	
		March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)
Premium Revenue		21,777,648	21,675,408
Premium ceded to reinsurers		(27,141)	(14,940)
Net premium revenue		21,750,507	21,660,468
Net investment income		20,120,617	19,492,306
Net Unrealised fair value gains on financial assets	5.1	3,549,520	11,978,573
Net fair value gain/(loss) on financial assets at fair value through profit or loss		0	
Net rental Income		142,454	148,300
Other Income		552,295	
		24,364,886	31,619,179
Net income		46,115,393	53,279,647
Insurance benefits		11,284,998	10,242,992
Recoveries from reinsurers		(18,477)	(15,918)
Claim related expenses		1,943	
Net Insurance benefits		11,266,523	10,227,074
Net change in insurance liabilities (other than outstanding claims)	12	29,249,559	36,962,066
Acquisition expenses		2,272,428	3,633,502
Marketing and administration expenses		2,003,546	1,694,950
Other expenses		58,510	48,484
Total Expenses		33,584,043	42,339,002
Results of operating activities		1,264,827	713,571
		1,264,827	713,571
Profit before tax		1,264,827	713,571
Income tax expense	13	(362,223)	(214,071)
Profit for the year		902,604	499,500
Other Comprehensive income:			
Change in unrealized gain/ (losses) on available-for-sale financial assets			
Currency translation differences (related to net investment in foreign currency)			
Actuarial gain/ (losses) on retirement benefit schemes			
Other comprehensive income for the year, net of tax			
Total comprehensive income for the year		902,604	499,500
Earnings (after tax) per share - Rupees	14	25.79	16.65

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 CHAIRMAN
 Ghlasuddin Ahmed


 DIRECTOR
 Mujhar-ul-Hussain Saah


 DIRECTOR
 Abdul Qadir Memon


 CHIEF FINANCIAL OFFICER
 Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2019


	Attributable to equity holders of the Company					Total
	Share capital	Capital contributed to Statutory fund	Revenue reserves General reserves	Unappropriated profit / (Accumulated loss)	Ledger Account C and D	
	Rupees in thousand					
Balance as at January 1, 2018	3,000,000	-1,200,000	307,043	1,269,914	0	3,376,957
At beginning of year						
Effect of change in accounting policy					2,192,064	2,192,064
Total comprehensive income for the year						
Transfer to general reserve		1,200,000		499,500	-1,200,000	499,500
Balance as at March 31, 2018	3,000,000	0	307,043	1,769,414	992,064	6,068,521
Balance as at January 1, 2019	3,500,000	-100,000	507,043	713,615	1,257,718	5,878,376
Unappropriated Profit				558,136	478,429	1,036,565
Effect of change in accounting policy					593,335	593,335
Tax on surplus retained in Ledger D @ 28%				-6	(624,255)	-624,261
Transfer to general reserve		100,000	713,609	(713,609)	(100,000)	0
Balance as at March 31, 2019	3,500,000	0	1,220,652	558,136	1,605,227	6,884,015

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CHAIRMAN
Ghiasuddin Ahmed


DIRECTOR
Ifkhar-ul-Hussain Shah


DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED MARCH 31, 2019

Note	Rupees in '000'	
	March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)
	Rupees in thousand	
Operating Cash flows		
(a) Underwriting activities		
Insurance premium received	66,420,738	22,666,308
Reinsurance premium paid	(248,608)	(93,240)
Claims paid	(7,683,501)	(7,801,562)
Surrenders paid	(5,512,521)	(4,991,287)
Reinsurance and other recoveries received	241,543	96,388
Commission paid	(6,246,592)	(6,404,254)
Commission received	-	-
Marketing and administrative expenses paid	0	0
Other underwriting payments	(361,397)	(552,585)
Net cash flow from underwriting activities	46,609,662	2,919,768
(b) Other operating activities		
Income tax paid	(5,480)	95,403
General management expenses paid	(3,059,612)	(1,937,115)
Other payments on operating assets	(519,498)	(82,243)
Loans advanced	(44,467,578)	(1,395,196)
Loan repayments received	(3,407)	(17,885)
Net cash flow from other operating activities	(48,055,575)	(3,337,036)
Total cash flow from all operating activities	(1,445,913)	(417,268)
Investment activities		
Profit/ return received	17,842,329	17,479,481
Dividend received	236,568	846,158
Rental received	710,685	244,540
Payment for investments / investment properties	(39,712,669)	(40,926,325)
Proceeds from investments / investment properties	3,422,369	34,998,207
Fixed capital expenditure	(24,790)	(110,145)
Proceeds from sale of property, plant and equipment	342	299
Total cash flow from investing activities	(17,525,166)	12,532,215
Financing activities		
Proceeds from issuance of shares	-	-
Interest paid	-	-
Loan received	-	-
Capital payment repaid by Statutory fund	-	(1,200,000)
Loan paid	-	-
Proceeds from issuance of convertible bond	-	-
Payments for redemption of convertible bond	-	-
Dividends paid	-	-
Total cash flow from financing activities	-	(1,200,000)
Net cash flow from all activities	(18,971,079)	10,914,947
Cash and cash equivalents at beginning of year	27,616,698	33,384,570
Cash and cash equivalents at end of year	8,645,619	44,299,517
Reconciliation to Profit and Loss Account		
Operating cash flows	(768,352)	(417,268)
Depreciation expense	(32,401)	(23,627)
Provisions	-	69,914
Investment income and rental income	24,485,423	31,619,179
Amortization/capitalization	129,972	111,050
Allocation of surplus	(100,000)	(1,200,000)
Non cash adjustments	(1,905,278)	(1,234,757)
Increase/(decrease) in assets other than cash	2,373,645	2,354,877
(Increase)/decrease in liabilities other than borrowings	6,123,652	4,982,198
Other adjustments (please specify)	(29,404,057)	(35,762,066)
Profit or loss after taxation	902,604	499,500

The annexed notes 1 to 17 form an integral part of these financial statements


CHAIRMAN
Ghiasuddin Ahmed


DIRECTOR
Iftikhar-ul-Hussain Stan


DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2019

1 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. Ziauddin Ahmad Road, Karachi. It operates in Pakistan through 33 zones for individual life business, 4 zones for group life business and one Zone in the gulf countries.
- 1.2 The Corporation is engaged in the life insurance business and health and accident insurance business.

2 BASIS OF PREPARATION

- 2.1 These condensed interim financial information have been prepared in accordance with the format prescribed under Securities and Exchange Commission (Insurance) Rules, 2017 {Vide SRO NO. 89(1) / 2017 dated February 09, 2017

SECP vide SRO stated above introduced new accounting formats and regulations whereby exemption available from certain provisions of IAS 39 has been withdrawn. Now available for sale investments (AFS) is required to be disclosed at fair value as described in Note No. (5)

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

2.3 Statement of compliance

These condensed interim financial information have been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' as applicable in Pakistan, provisions of and directives issued under the Companies Ordinance, 1984, Insurance Ordinance, 2000, SECP (Insurance) Rules, 2017 and Accounting Regulation 2017.

In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2017 and Accounting Regulation 2017 shall prevail.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies and the methods of computation adopted by the Company in the preparation of the condensed interim financial information are the same as those applied in the preparation of the annual financial statements of the Company for the year ended December 31, 2018, except as disclosed in Note No.(5).

4 FINANCIAL RISK MANAGEMENT / JUDGEMENTS AND ESTIMATES

The financial risk management objectives and policies are consistent with those disclosed in the financial statements of the Company for the year ended December 31, 2018.

In preparing this condensed interim financial information, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at the year ended December 31, 2018.

5 CHANGE IN ACCOUNTING POLICIES

As mentioned in note 2.1, the Accounting Regulations 2017 become effective from January 01,2018. New Accounting Regulations introduced new accounting formats comprising of single column Balance Sheet, Profit and Loss Account and Cash flow statement. Published Financial Statements do not require statutory fund wise reporting. As per regulation 6(1)(ii), Ledger account balances A and B have become the part of insurance liability whereas ledger account D balance (retained earnings other than participating business) is incorporated in capital and reserves, attributable to the shareholders. All investments are required to be valued in accordance with IAS/IFRS.

- 5.1 The change in accounting policy has been applied retrospectively. The effect of the significant changes in accounting policy on the current and prior period financial statements are summarized below:

	(Rupees in '000)	
	March 2019	2018
Market value of Listed Equity Securities and Mutual Fund at the end of 1st Quarter	97,317,743	-
Market value of Listed Equity Securities and Mutual Fund at the end of Year	-	93,769,923
Book value of Listed Equity Securities and Mutual Fund at the end of 1st Quarter		-
Book value of Listed Equity Securities and Mutual Fund at the end of the Year	31,359,444	31,361,144
Unrealized Gain at the end of first quarter	65,958,299	-
Unrealized Gain at the end of Year	-	62,408,779
Unrealized Gain for the period (Jan - Mar 2019)	3,549,520	
Balance of statutory funds at the year ended December 31, 2018		873,813,261
Balance of Statutory funds as at March 31, 2019		<u><u>903,441,249</u></u>

6 INVESTMENT PROPERTIES		Rupees in '000'
		March 31 2019
		December 31
		2018 (Audited)
		(Un-audited)
Investment Properties	3,680,067	3,658,236
Less : Provision for impairment in value	(895)	(895)
Capital work in progress	<u>3,679,172</u>	<u>3,657,341</u>

7 INVESTMENTS IN EQUITY SECURITIES - (AFS THROUGH PROFIT AND LOSS ACCOUNT)

	Rupees in '000'	
	March 31 2019 (Un-audited)	December 31 2018 (Audited)
	Cost	Impairment / provision
Related parties	3,450,495	18,591,259
Listed shares	5,000	5,000
Unlisted shares	200,000	186,335
Mutual funds	24,893,474	(3,743)
Others	862,833	(172,931)
Listed shares	2,815,481	6,758,129
Mutual funds	-	3,743
Unlisted Preference shares	-	-
Less: Provision for diminution in value	(176,675)	(176,675)
	<u>32,050,608</u>	<u>99,231,983</u>
	-176,674	28,352,348
	-	87,831,533

8 GOVERNMENT SECURITIES

	Rupees in '000'	
	March 31 2019	December 31 2018 (Audited)
	(Un-audited)	(Un-audited)
Held to maturity	Effective Yield (%)	Amortized Cost
Pakistan Investment Bonds	2019-2021	12.30-12.70
3 year Pakistan Investment Bonds	2019-2023	12.30-13.05
5 year Pakistan Investment Bonds	2019-2028	12.30-13.75
10 year Pakistan Investment Bonds	2021-2026	13.65-13.90
15 year Pakistan Investment Bonds	2024-2031	13.75-14.00
20 year Pakistan Investment Bonds	2036 - 2038	13.90-14.10
30 year Pakistan Investment Bonds	2019	10.53-10.60
Islamic Republic of Pakistan Bond T Bills	-	-
	83,932,217	85,436,000
	159,029,799	159,631,800
	346,606,953	341,018,800
	11,726,781	11,870,000
	28,358,359	28,900,000
	37,593,652	40,050,000
	8,237,234	8,237,233
	487,811	500,000
	675,972,806	667,406,600
	-	638,416,747
	-	487,811

9 INVESTMENTS IN DEBT SECURITIES -

Rupees in '000

March 31 2019
(Un-audited)

	Cost	impairment / provision	Carrying value
Related parties			
Term Finance Certificates			
Others			
Debentures	7,573	(7,573)	0
Term Finance Certificates	0	-	0
Foreign fixed income securities	3,642,052	-	3,642,052
	<u>3,649,625</u>		<u>3,642,052</u>

10 CASH & BANK

Rupees in '000

March 31 2019
(Un-audited)

December 31
2018 (Audited)

Cash and Cash Equivalent		
- Cash and others	33,644	355,283
Cash at bank		
- Current account	3,122,851	16,071,428
- Savings account	11,748,302	16,871,604
	<u>14,904,797</u>	<u>33,298,315</u>

10.1 Cash and short term borrowing include the following for the purposes of the cash flow statement:

March 31 2019

March 31 2018

Cash and cash equivalents		
Cash and others	33,644	22,931
Current and PLS accounts	3,122,851	4,989,623
Deposit maturing with 12 months	5,489,124	39,286,963
	<u>8,645,619</u>	<u>44,299,517</u>

11 SHARE CAPITAL

11.1 Authorized Capital

March 31 2019 (Un-audited)	December 31 2018 (Audited)		March 31 2019 (Un-audited)	December 31 2018 (Audited)
Number of Shares			Rupees in '000	
<u>50,000,000</u>	<u>50,000,000</u>	Ordinary shares of Rs.100 each	<u>5,000,000</u>	<u>5,000,000</u>

11.2 Issued, subscribed and paid-up share capital

March 31 2019 (Un-audited)	December 31 2018 (Audited)		March 31 2019 (Un-audited)	December 31 2018 (Audited)
Number of Shares			Rupees in '000	
<u>35,000,000</u>	<u>35,000,000</u>	Ordinary shares of Rs.100 each	<u>3,500,000</u>	<u>3,500,000</u>

12 INSURANCE LIABILITIES

		March 31 2019 (Un-audited)	December 31 2018 (Audited)
Policyholder liabilities (net of reinsurance)			
Reported outstanding claims (including claims in payment)	12.1	16,682,274	18,593,297
Incurred but not reported claims	12.2	4,027,265	4,027,893
Investment component of unit-linked and account value policies	12.3	-	-
Liabilities under conventional life insurance contracts	12.4	895,368,429	865,810,778
Liabilities under group insurance contracts	12.5	1,597,816	2,035,780
Other Policyholder Liabilities	12.6	208,149	208,221
Unearned commission income			
Balances in Statutory fund ledger accounts			
		<u>917,883,933</u>	<u>890,675,969</u>

12.1 Reported Outstanding Claims

		March 31 2019 (Un-audited)	December 31 2018 (Audited)
Gross of Reinsurance			
Payable within one year		11,677,592	13,015,307
Payable over a period of time exceeding one year		<u>5,004,682</u>	<u>5,577,989</u>
		16,682,274	18,593,296
Recoverable from Reinsurers			
Receivable within one year			
Receivable over a period of time exceeding one year		<u>-137,528</u>	<u>-360,594</u>
Net Reported Outstanding Claims		<u>16,544,746</u>	<u>18,232,702</u>

12.2 Incurred But Not Reported Claims

		March 31 2019 (Un-audited)	December 31 2018 (Audited)
Gross of Reinsurance		4,027,265	4,027,893
Reinsurance Recoveries			
Net of Reinsurance		<u>4,027,265</u>	<u>4,027,893</u>

12.3 Investment Component of Unit Linked and Account value Policies

Gross of Reinsurance	-	-
Reinsurance Recoveries	-	-
Net of Reinsurance	<u>-</u>	<u>-</u>

12.4 Liabilities under Individual Conventional Insurance Contracts

Gross of Reinsurance	895,036,770	865,361,337
Reinsurance Recoveries	(760,842)	(773,631)
Net of Reinsurance	<u>894,275,928</u>	<u>864,587,706</u>

12.5 Liabilities Under Group Insurance Contracts

Gross of Reinsurance	1,597,816	2,035,780
Reinsurance Recoveries	-	-
Net of Reinsurance	<u>1,597,816</u>	<u>2,035,780</u>

12.6 Other Insurance Liabilities

Gross of Reinsurance	208,149	208,221
Reinsurance Recoveries	-	-
Net of Reinsurance	<u>208,149</u>	<u>208,221</u>

13 TAXATION

	March 31 2019 (Un-audited)	March 31 2018 (Un-audited)
Current Tax	228,262	214,071
Deferred Tax	133,960	0
	<u>362,222</u>	<u>214,071</u>

14 EARNINGS PER SHARE

	March 31 2019 (Un-audited)	March 31 2018 (Un-audited)
Profit (after tax) for the year	902,604	499,500
Earning per share	<u>25.79</u>	<u>16.65</u>

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 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 favour 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 the 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 @ 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 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. 506-507/KB/2012 on April 17, 2014.

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 Corporation but not agreed by the concerned 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.

Appellate Tribunal Inland Revenue (ATIR) decided the above appeal in favor of 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. In previous years, 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 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 adjudication.

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 as described in note 15.1.2. 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 favour 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 policies during the tax year 2013. 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 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 March 31, 2019, appeal effect amounting to Rs. 29.4 million related to tax year 2013 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 favour 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 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 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, 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, 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 taken 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). Corporation has paid the above demand under protest and without prejudice to the legal rights to appeal.

Corporation being aggrieved preferred appeals against impugned orders of Inland Revenue Department before Commissioner Inland Revenue -Appeals. CIR (A) vide 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.

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 Corporation filed application for rectification of order passed by DCIR for tax year 2014 and 2015. 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, 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, 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.

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 02.01.2017 to SLIC 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. SLIC has engaged tax consultant for responding said notice.

Subsequent to the reply filed by SLIC through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated 06.03.2017 u/s 122 (5A) of the Income Tax Ordinance, 2001 whereby demand of Rs. 23.77 million was raised u/s 137 of the Income Tax Ordinance.

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

SLIC filed appeal against the impugned order before CIR (A). Issue related to subjecting dividend income to normal tax rate is decided in favor of SLIC 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 SLIC. Inland Revenue Department as well as SLIC 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 13.03.2017 to SLIC for tax year 2015 whereby almost similar issues as stated in note 15.1.7 were raised. Subsequent to the reply filed by SLIC through its counsel, ACIR proceeded to amend an assessment and passed an amended assessment order dated 13.04.2017 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 SLIC by making cash payment.

SLIC, not in agreement with above order, filed application for rectification u/s 221 dated 24.04.2017 through tax consultant which was rejected by concerned ACIR vide letter dated 28.04.2017. The Corporation vide letter dated 05.05.2017 again requested for rectification of order. DCIR passed rectified order vide letter DC # 03/117 dated 21.12.2017 whereby refund of Rs. 316.7/ M is determined as refundable to SLIC.

SLIC 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 SLIC 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 SLIC. Inland Revenue Department as well as SLIC 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 31.12.2014 to SLIC 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 SLIC. Additional information / explanation were also called vide letters dated 24.02.2015, 22.09.2015 and 25.01.2017. Subsequent to the reply filed by tax consultant ACIR proceeded to amend an assessment and passed an amended assessment order dated 02.02.2017 u/s 122 (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.

SLIC 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 Immigration and Overseas Employment has been decided by CIR (A) in favor of Corporation vide order dated 22.05.2017. 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 SLIC related to tax years 2011, 2013 and 2014. Vide Said notices, ACIR confronted almost similar issues as stated at note 15.1.7 and 15.1.9. SLIC engaged A.F. Ferguson & Co. for responding these notices. Subsequently, ACIR passed amended orders whereby demand of Rs. 520.5/ M was raised (Tax Year 2011: Rs. 56.3/M, Tax Year 2013: Rs. 107.1/ M and Tax Year 2014: Rs. 357.1/ M). 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. SLIC, being aggrieved from above orders of ACIR, filed appeals before CIR (A). Issues related to subjecting dividend income to normal tax rate, addition on account of inter-office rent expense, provision for diminution in value of investments and tax on Bureau Fund has been decided in favour of SLIC by CIR (A). However, issues related to deduction claimed on account of real estate expenses and provision for bad and doubtful debts are decided against SLIC. Inland Revenue Department as well as SLIC filed appeals before ATIR against the orders of CIR (A).
- 16.1.11 Additional Commissioner Inland Revenue, Audit Range-B, Zone-III, LTU, Karachi served notice u/s 122 of the Income Tax Ordinance, 2001 dated 10.01.2018 to SLIC for tax year 2017. Vide Said notice, ACIR confronted issues like investment arrangement between SLIC 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. SLIC engaged A.F. Ferguson & Co. for responding the notice. Subsequently, ACIR passed amended order whereby demand of Rs. 480.2/ M was raised. Corporation, being aggrieved from above amended order, file appeal before CIR (A). Further, Corporation, through its tax consultant, also file application for stay of tax demand vide letter dated 05.04.2018 along with application for out of turn hearing vide letter dated 28.03.2018 before CIR (A). Hearing before CIR (A) was held on 26.04.2018. CIR (A) vide order No. 6 dated 03.05.2018 decided issues which involves major tax impact at Rs. 357.1/ M like tax on Bureau Fund, disallowance on account of inter-company rent expenses in favour of SLIC. However, issue of disallowance on account of real estate expenses and provision against other receivables are decided against SLIC. Inland Revenue Department as well as SLIC 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.

State Life filed 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 the balance sheet date, in its books as the said asset does not meet 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.

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The provincial revenue authority of Punjab and Balochistan has made applicable provincial sales tax on life insurance and health insurance. 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.

Corporation is of 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, Corporation has not levied sales tax to policy holders in the province of Punjab and Balochistan and nor provided for in the unconsolidated financial statements.

15.2 Commitments

The Corporation is committed in respect of capital expenditure contract aggregating to Rs. 127 million (2018: Rs. 127 million). There were no other commitments as at the balance sheet date.

16 GENERAL

16.1 Corresponding figures have been rearranged and reclassified, wherever necessary, to facilitate comparison. However, there are no material reclassifications to report.

16.2 Figures have been rounded off to the nearest thousand of rupees, unless otherwise stated.

17 DATE OF AUTHORISATION FOR ISSUE

These financial statements were approved and authorized for issue on May 31, 2019 by the Board of Directors of the Corporation.


CHAIRMAN
Ghlasuddin Ahmed


DIRECTOR
Mubihar-ul-Hussain Shah


DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

Statement of Directors

(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 quarter ended March 31, 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 year 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 March 31, 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
Ghiasuddin Ahmed


DIRECTOR

Ifkhar-ul-Hussain Shah


DIRECTOR
Abdul Qadir Memon


CHIEF FINANCIAL OFFICER
Muhammad Rashid

Statement by the Appointed Actuary

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 March 31, 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: May 31, 2019