

**STATE LIFE INSURANCE CORPORATION
OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**INDEX TO THE FINANCIAL STATEMENTS
FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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**INDEPENDENT AUDITOR'S REPORT
TO THE DIRECTORS OF STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

Opinion

We have audited the financial statements of State Life Insurance Corporation of Pakistan- UAE Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the UAE Branches as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branches in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Branches' financial statements in the United Arab Emirates and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of UAE Federal Law No. 6 of 2007 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branches' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branches or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UAE Branches financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters applicable, related safeguards.

Further, as required by the UAE Federal Law No 6 of 2007, as amended, we report that we have obtained all the information and explanation we considered necessary for the purposes of our audit.

15 April 2021



NABEEL AL SAIE - PUBLIC ACCOUNTANTS DMCC
Nabeel A A Al Saie
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STATE LIFE INSURANCE CORPORATION OF PAKISTAN
 UAE BRANCHES
 DUBAI, UNITED ARAB EMIRATES

STATEMENT OF FINANCIAL POSITION
 FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
 AS AT 31 DECEMBER 2020

| | Notes | 31 December 2020 AED '000 | 31 December 2019 AED '000 |
|--|-------|---------------------------------|---------------------------------|
| ASSETS | | | |
| Property and equipment | 3 | 68 | 108 |
| Statutory deposit | 4 | 4,000 | 4,000 |
| Loans guaranteed by life insurance policies | 5 | 15,349 | 16,489 |
| Investment carried at fair value through profit/loss | 6 | - | - |
| Investment at amortized cost | 6 | 260,823 | 231,919 |
| Premiums and insurance balance receivables | 7 | 7,014 | 7,921 |
| Reinsurer's share of technical reserve | 12 | 3,212 | 3,131 |
| Reinsurance receivable | | 132 | 376 |
| Accrued investment income | | 6,550 | 6,112 |
| Other receivables and prepayments | 8 | 590 | 600 |
| Cash and cash equivalents (including deposits) | 9 | 258,919 | 265,757 |
| Total assets | | 556,657 | 536,413 |
| Equity and Liabilities | | | |
| Head office account | | 239,641 | 238,463 |
| Total equity | | 239,641 | 238,463 |
| Liabilities | | | |
| Retirement benefit obligation | 10 | 620 | 566 |
| Accounts payable | 11 | 3,704 | 3,229 |
| Reinsurance payable | | - | - |
| Reinsurance risk reserve | 13 | 3 | - |
| | | 4,327 | 3,795 |
| Insurance liabilities | | | |
| Insurance contract liabilities | | 11,426 | 5,745 |
| Premiums received in advance | | 3,053 | 3,516 |
| | | 14,479 | 9,261 |
| Technical provision | | | |
| Unearned premium reserve | | 979 | 755 |
| Claims under settlement reserve | | 44 | - |
| Claims incurred but not reported reserve | | 386 | 412 |
| Mathematical reserve | | 270,332 | 255,970 |
| Policyholders' surplus | | 26,469 | 27,757 |
| Total technical provision | 12 | 298,210 | 284,894 |
| Total liabilities | | 317,016 | 297,950 |
| Total equity and liabilities | | 556,657 | 536,413 |

The accompanying notes form an integral part of these financial statements.



Abdul Manan Shaikh
 Zonal Chief

STATE LIFE INSURANCE CORPORATION OF PAKISTAN
 UAE BRANCHES
 DUBAI, UNITED ARAB EMIRATES

INCOME STATEMENT
 FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
 FOR THE YEAR ENDED 31 DECEMBER 2020

| | | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|---|-------------|---------------------------------------|---------------------------------------|
| | <u>Note</u> | | |
| Gross written premium | | 37,241 | 36,589 |
| Reinsurance premium ceded | | (558) | (596) |
| Net premium | | 36,683 | 35,993 |
| Transfer to unearned premium reserve | | (164) | 47 |
| Net premium earned | | 36,519 | 36,040 |
| Reinsurance commission earned | | 223 | 119 |
| Less: commission incurred | | (5,455) | (4,689) |
| Gross underwriting income | | 31,287 | 31,470 |
| Gross claims paid | | 27,508 | 26,649 |
| Reinsurance share of insurance claims | | (324) | (608) |
| Net claims paid | | 27,184 | 26,041 |
| Change in net outstanding loss reserves | | 44 | (53) |
| Change in net claims incurred but not reported reserve (IBNR) | | (26) | (48) |
| Change in mathematical reserves | | 14,341 | 18,375 |
| Net claims incurred | | 41,543 | 44,315 |
| Net underwriting income | | (10,256) | (12,845) |
| Income from investment | 14 | 12,209 | 13,869 |
| Other income | | 242 | 4 |
| Total income | | 2,195 | 1,028 |
| General expenses | 15 | (2,922) | (2,687) |
| Taxes, License and fees | | (414) | (622) |
| Value Added Tax | | (53) | (61) |
| Bonus and rebates | | (4,918) | (3,590) |
| Net (deficit) for the year | | (6,112) | (5,932) |

The accompanying notes form an integral part of these financial statements.



Abdul Manan Shaikh
 Zonal Chief



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**STATEMENT OF COMPREHENSIVE INCOME
FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | <u>Notes</u> | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|---------------------------------------|--------------|---------------------------------------|---------------------------------------|
| Net (deficit) for the year | | (6,112) | (5,932) |
| Policyholders' funds beginning | | 284,894 | 268,684 |
| Bonus to policyholders | | 4,918 | 3,590 |
| Change in gross technical provision | | 14,604 | 18,584 |
| Other adjustments | | - | - |
| | | <u>298,304</u> | <u>284,926</u> |
| Head office share in surplus | | (94) | (32) |
| Policyholders' funds | 12 | <u>298,210</u> | <u>284,894</u> |

The accompanying notes form an integral part of these financial statements.




Abdul Manan Shaikh
Zonal Chief

**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**STATEMENT OF CHANGES IN EQUITY
FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | Head office balances <u>AED '000</u> | Fair value adjustment <u>AED '000</u> | Total <u>AED '000</u> |
|-------------------------------|---|--|----------------------------------|
| Balance at 1 January 2019 | 234,340 | – | 234,340 |
| Head office share in surplus | 32 | – | 32 |
| Movement during the year 2019 | <u>4,091</u> | <u>–</u> | <u>4,091</u> |
| Balance at 31 December 2019 | 238,463 | – | 238,463 |
| Head office share in surplus | 94 | – | 94 |
| Movement during the year 2020 | <u>1,084</u> | <u>–</u> | <u>1,084</u> |
| Balance at 31 December 2020 | <u>239,641</u> | <u>–</u> | <u>239,641</u> |

The accompanying notes form an integral part of these financial statements.



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**STATEMENT OF CASH FLOWS
FOR INSURANCE OF PERSONS AND FUND ACCUMULATION OPERATIONS
FOR THE YEAR ENDED 31 DECEMBER 2020**

| | 31 December 2020 <u>AED '000</u> | 31 December 2019 <u>AED '000</u> |
|--|---|---|
| Net (deficit) for the year | (6,112) | (5,932) |
| Adjustments for: | | |
| Depreciation | 44 | 52 |
| Bonus to policyholders | 4,918 | 3,590 |
| Provision for staff gratuity | 54 | 73 |
| Head office share in surplus | (94) | (32) |
| Other adjustments | — | — |
| | <u>(1,190)</u> | <u>(2,249)</u> |
| Cash flow from operating activities | | |
| Decrease / (Increase) in insurance and other receivables | 723 | 1,628 |
| (Increase) in reinsurance share of technical reserve | (81) | (359) |
| (Decrease) / Increase in insurance and other payables | 5,693 | 1,959 |
| Increase / (Decrease) in due to other reinsurers | — | (148) |
| Increase in technical provision | 14,604 | 18,584 |
| Staff gratuity paid during the year | — | (129) |
| Increase in reinsurance risk reserve | 3 | — |
| | <u>19,752</u> | <u>19,286</u> |
| Net cash from operating activities | | |
| Cash flow from investing activities | | |
| Decrease/(Increase) in financial investments | (28,904) | 80,708 |
| Decrease / (Increase) in loans to policyholders | 1,140 | 1,876 |
| Purchase of property and equipment | (4) | (29) |
| Disposal of property & equipment | — | 1 |
| Net cash (used by)/from investing activities | <u>(27,768)</u> | <u>82,556</u> |
| Cash flow from financing activities | | |
| Increase in head office balances | 1,178 | 4,123 |
| Net cash from financing activities | <u>1,178</u> | <u>4,123</u> |
| Net increase/(decrease) in cash and cash equivalents | (6,838) | 105,965 |
| Cash and cash equivalents at beginning of the year | <u>265,757</u> | <u>159,792</u> |
| Cash and cash equivalents as the end of the year (Note 9) | <u>258,919</u> | <u>265,757</u> |

The accompanying notes form an integral part of these financial statements



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
DUBAI, UNITED ARAB EMIRATES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

1 GENERAL INFORMATION

The 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 the United Arab Emirates (UAE) with 3 branches in Dubai, Abu Dhabi and Sharjah. Its zonal office is located at Dubai (UAE).

The Corporation’s UAE branches underwrite life assurance policies in accordance with the provisions of the UAE Federal Law No. 6 of 2007 relating to insurance companies and insurance agents.

The UAE regional office address of the Corporation is Sheikh Saeed Bin Saqr Al Qasmi Building, Muraqbat Road, P.O. Box 11278, Dubai, UAE.

The total number of staff employed by the Branches as at 31 December 2020 was 36 (2019: 38).

1.1 Coronavirus (COVID-19) outbreak and its impact on the Branches

With the recent and rapid development of the coronavirus disease (COVID-19) outbreak, the world economy entered a period of unprecedented health care crisis that has already caused considerable global disruption in business activities and everyday life. Certain countries including United Arab Emirates (UAE) have adopted extraordinary and economically costly containment measures and have required companies to limit or even suspend normal business operations.

Management has considered the unique circumstances and the risk exposures of the Branches that could have a material impact on the business operations and has concluded that the main impacts on the Branches profitability/ liquidity position may arise from:

- Recoverability of premium and insurance balances receivable
- Reduction in gross premium due to non-renewal of policies
- Provision for outstanding claims and claims incurred but not reported
- Fair value measurement of financial instruments

Based on the above consideration, management has concluded that there is no significant impact on the Branches profitability position as at reporting date.

Further, the Branches have performed stress testing as required by Insurance Authority of UAE approved by the Board of Directors, who are satisfied that the Company will continue to operate as a going concern. Accordingly, these financial statements have been prepared on a going concern basis. Management will continue to monitor the situation and, will take necessary and appropriate actions on a timely basis to respond to this unprecedented situation.



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by International Accounting Standards Board (IASB) and applicable requirements of U.A.E. Federal Law No.6 of 2007 regarding Establishment of the Insurance Authority and Organisation of its Operations & Executive Regulations of 2010 and U.A.E. Federal Law No.2 of 2015.

The principal accounting policies applied in the preparation of these financial statements are set out as below. These policies have been consistently applied to in all the years presented.

2.2 Basis of preparation

The financial statements are presented in UAE Dirhams (AED). These are prepared on the historical cost basis except for available-for-sale financial assets which are stated at fair value. Held-to-maturity investments are stated at amortised cost.

2.3 Revenue

Premiums

The initial premium is recognized when the policy is issued after receipt of that premium. Subsequent premiums falling due under the policy are recognized if received before expiry of the grace period, or if advanced by the Corporation under the Automatic Non-Forfeiture provisions.

However, premiums due in the month of December but not received by 31st December are recognized if the grace period is to expire after the next 1st January.

Ceded reinsurance premiums are accounted for in the same accounting periods as the premiums for the related direct insurance, and are calculated in accordance with reinsurance arrangements in place during the year.

Interest income

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income

Dividend income from investment is recognised when the shareholders' right to receive payment has been established.

2.4 Claims

Claims paid

Claims paid during the period are charged against income on the basis of actual settlements made.



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

Outstanding claims

On an on-going basis, provisions are made for all known and reported claims, including handling costs, for all classes of business which have not been paid as at the period end date and are stated gross with the reinsurance portion being shown separately under current assets.

2.5 Financial instruments

Classification

A financial instrument is any contract that gives rise to both a financial asset for the Corporation and a financial liability or equity instrument of another party. All assets and liabilities in the statement of financial position are financial instruments except investment property, property and equipment, employees' end of service benefits and shareholders' equity.

Financial instruments are categorised as follows:

- Investments in equity instruments are classified at Fair Value through profit and loss (FVTPL), unless the company designates an investment that is not held for trading as at Fair Value through other comprehensive income (FVTOCI) on initial recognition.
- Originated loans and receivables are loans and receivables created by the Corporation by providing money and services to debtors. Originated loans and receivables comprise trade receivables, due from related parties, recoverable from other insurers and policyholders' loans.
- Held-to-maturity financial assets are assets with fixed or determinable payments and fixed maturity that the Corporation has the intent and ability to hold to maturity. These include certain debts and equity investments.

Recognition

The Corporation recognises available-for-sale financial assets on the date it commits to purchase of assets. From this date any gains and losses arising from changes in fair value of the assets are recognised in equity.

Originated loans and receivables are recognised on the day they are delivered to the counter party.

Measurement

Financial instruments are measured initially at cost, including transaction costs. Subsequent to initial recognition, all assets with the exception of held-to-maturity and loans and receivables are measured at fair value.

Held-to-maturity assets and loans and receivables are measured at amortised costs less impairment losses. Amortised cost is calculated on the effective interest rate method. Discounting is omitted if immaterial.



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
UAE BRANCHES
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price as at the period end date without any deduction for transaction costs.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised in the statement of other comprehensive income.

De-recognition

A financial asset is derecognised when the Corporation loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expired or surrendered. A financial liability is derecognised when it is extinguished. The Corporation uses the specific identification method to determine the gains or losses on de-recognition.

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method, except for financial liabilities designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognised in profit or loss. Discounting is omitted if immaterial.

2.6 Financial Investments

Held-to-maturity

Held-to-maturity investments, which are debt investments with fixed payments and maturity that the Corporation has the intent and ability to hold to maturity are stated at amortised historical cost less impairment losses.

Fair value through profit and loss

Fair value through profit and loss investments are equity and debt investments that are held for trading. Movements in the fair value are recognised in profit or loss.

Fair value through other comprehensive income

Fair value through other comprehensive income investments are equity and debt investments that are not held for trading. Movements in the fair value are recognised in other comprehensive income.

2.7 Insurance and other receivables

Trade and other receivables are stated at their cost less provision for doubtful debts, which approximates their fair value.



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2.8 Insurance and other payables

Liabilities are recognised for amounts to be paid in future for goods or services received, whether billed or not to the Corporation. Trade and other payables are stated at their cost which approximates to their fair value.

2.9 Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives of the property and equipment.

The rates of depreciation used are based on the following estimated useful lives of the assets.

| | Years |
|------------------------|--------------|
| Furniture and fixtures | 10 |
| Office equipment | 10 |
| Motor vehicles | 5 |
| Computer equipment | 3 1/3 |

2.10 Impairment losses

The carrying amount of the Corporation's assets is reviewed at each year end date or whenever there is an indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Calculation of recoverable amount

The recoverable amount of the Corporation's investments in held-to-maturity securities and receivables, if significant, is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits under lieu, call deposits, current accounts and short-term deposits balances with original maturities of twelve months or less. Bank overdrafts that are repayable on demand and form an integral part of the Corporation's cash management are included as a component of cash and cash equivalents for the purpose of cash flows.



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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

2.12 Employees' end of service benefits

Staff terminal benefits

In compliance with U.A.E. Labour Law, the Corporation has a termination gratuity benefit scheme covering all of its non-national employees who have been with the Corporation for more than one year. The provision for staff terminal benefits is based on the liability that would arise if the employment of all the employees was terminated as at the year-end date.

UAE Nationals - Retirement and Social Security Law

The UAE government has issued Federal Law No. 7 of 1999 for Retirement and Social Security. Under this law, the employer must contribute 12.5% of the contribution calculation salary for these Emirati employees, and the employees must contribute 5% of the salary calculating the contributions for these Emirati employees. The contributions of the company are recognized as an expense in the income statement when incurred. The contributions of the employer and employees have been shown to the extent that they remained unpaid at the balance sheet date as a liability.

2.13 Foreign currency transactions

Transactions in foreign currencies are translated to U.A.E. Dirhams at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies as at the period-end date are translated to U.A.E. Dirhams at the foreign exchange rate ruling as at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to U.A.E. Dirhams at the foreign exchange rate ruling at the date of the transaction.

2.14 Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expenses.

2.15 Provisions

A provision is recognised in the statement of financial position when the Corporation has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected cash flows at a rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

2.16 Critical accounting estimates and judgements

The Corporation makes estimates and assumption that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.



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**NOTES TO THE FINANCIAL STATEMENTS
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The estimation of the ultimate liability arising from claims made, claims incurred but not reported and unearned premium under insurance contracts are the Corporation's most critical accounting estimates. There are several sources of the uncertainty that need to be considered in the estimate of the liability that the Corporation will ultimately pay for such estimates. The Corporation estimates for reported and unreported losses and establishing resulting provisions and related reinsurance recoverable is continually reviewed and updated, and adjustments resulting from this review are reflected in statement of comprehensive income. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

Management reviews the useful lives and impairment of depreciable assets at each reporting date, based on the expected utility of the assets to the Corporation.

| 3 PROPERTY AND EQUIPMENT | Furniture and fixtures AED'000 | Office equipment AED'000 | Motor vehicles AED'000 | Computer equipment AED'000 | Total AED'000 |
|---------------------------------|---|-------------------------------------|-----------------------------------|---------------------------------------|--------------------------|
| Cost | | | | | |
| As at 1 January 2019 | 342 | 121 | 197 | 249 | 909 |
| Additions for the year | 25 | – | – | 4 | 29 |
| Disposals for the year | (13) | – | – | – | (13) |
| As at 31 December 2019 | 354 | 121 | 197 | 253 | 925 |
| Additions for the year | – | – | – | 4 | 4 |
| Disposals for the year | – | – | – | – | – |
| As at 31 December 2020 | 354 | 121 | 197 | 257 | 929 |
| Accumulated Depreciation | | | | | |
| As at 1 January 2019 | 311 | 82 | 150 | 234 | 777 |
| Charge for the year | 16 | 9 | 21 | 6 | 52 |
| On disposals for the year | (12) | – | – | – | (12) |
| As at 31 December 2019 | 315 | 91 | 171 | 240 | 817 |
| Charge for the year | 8 | 7 | 22 | 7 | 44 |
| On disposals for the year | – | – | – | – | – |
| As at 31 December 2020 | 323 | 98 | 193 | 247 | 861 |
| Net carrying amount | | | | | |
| As at 31 December 2020 | 31 | 23 | 4 | 10 | 68 |
| As at 31 December 2019 | 39 | 30 | 26 | 13 | 108 |



**STATE LIFE INSURANCE CORPORATION OF PAKISTAN
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)**

4 STATUTORY DEPOSIT

A deposit of AED 4,000,000 (2019: AED 4,000,000) bearing interest rate of 3.35% per annum has been placed with one of the branches' bankers, in accordance with Article 42 of Federal Law No. (6) Of 2007 relating to insurance companies. This deposit has been pledged to the bank as security against a guarantee issued by the Bank in favor of the Insurance Authority of UAE for the same amount. This deposit cannot be withdrawn without prior approval of the Insurance Authority of UAE.

| 5 LOANS GUARANTEED BY LIFE INSURANCE POLICIES | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|--|--|--|
| Cash loans | 9,285 | 9,534 |
| Automatic non-forfeiture provisions | <u>6,064</u> | <u>6,955</u> |
| Balance as at 31 December | <u>15,349</u> | <u>16,489</u> |

The rate of interest on policyholders' loan is 8% (2019: 8%).

| 6 FINANCIAL INVESTMENTS | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|---|--|--|
| Investments at fair value through profit and loss | <u>–</u> | <u>–</u> |
| Investment at amortized cost | | |
| UAE Government Bonds | 80,768 | 70,315 |
| Bonds issued by other A rated countries | <u>2,996</u> | <u>–</u> |
| Government debt securities | <u>83,764</u> | <u>70,315</u> |
| Other securities rated A or above | <u>–</u> | <u>–</u> |
| Securities rated A or above | <u>83,764</u> | <u>70,315</u> |
| Securities rated below A | – | 1,791 |
| Pakistan Government Bonds – B rated | <u>177,059</u> | <u>159,813</u> |
| Total | <u>260,823</u> | <u>231,919</u> |

The investments in international organization comprises of bonds and preference shares issued by them. The bonds are valued at amortized cost and preference shares are valued at market value prevailing at the reporting date.

| 7 PREMIUM AND INSURANCE BALANCE RECEIVABLES | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|--|--|--|
| Premium receivable - Inside UAE | <u>7,014</u> | <u>7,921</u> |
| Between 30-90 days | <u>7,014</u> | <u>7,921</u> |



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| | | | |
|----------|---|---|---|
| 8 | OTHER RECEIVABLE AND PREPAYMENTS | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
| | Receivable from employees | 201 | 202 |
| | Security deposits | 90 | 93 |
| | Prepayments | 299 | 305 |
| | Sundry receivable | – | – |
| | | 590 | 600 |
| | | | |
| 9 | CASH AND CASH EQUIVALENTS | 31 December 2020 <u>AED '000</u> | 31 December 2019 <u>AED '000</u> |
| | Cash in hand | – | – |
| | Cash at banks | 5,880 | 7,823 |
| | Fixed deposits | 253,039 | 257,934 |
| | | 258,919 | 265,757 |

Short term deposits comprise of fixed deposits with various local banks bearing annual interest rate of average 3.35% – 1.25%. The maturity of these deposits falls within one year.

10 RETIREMENT BENEFIT OBLIGATION

The movement in this account during the year was as follows:

| | | | |
|-----------|--------------------------|--|--|
| | | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
| | Balance as at 1 January | 566 | 622 |
| | Charge for the year | 54 | 73 |
| | Payments during the year | – | (129) |
| | | 620 | 566 |
| | | | |
| 11 | ACCOUNTS PAYABLE | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
| | Inside UAE | | |
| | Accrued expenses | 994 | 931 |
| | Amount due to agents | 1,816 | 1,407 |
| | Other payable | 894 | 891 |
| | | 3,704 | 3,229 |



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| 12 POLICYHOLDERS' FUNDS | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|--------------------------------|--|--|
| Balance as at 31 December | <u>298,210</u> | <u>284,894</u> |

The policyholders' funds represent amount set aside to meet the aggregate amount of the liabilities of the Corporation in relation to its long-term (life) business as at 31 December 2020.

The Corporation's consulting actuary during the year was Mr. Shujaat Siddiqui. The liability arising out of the actuarial valuation of individual life policies and surplus was determined by him.

The policyholders, funds comprised of the following technical provisions:

| | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|---|--|--|
| Unearned premium reserve (UPR) | 979 | 755 |
| Claims under settlement reserve (OSLR) | 44 | - |
| Claims incurred but not reported (IBNR) | 386 | 412 |
| Mathematical reserve | <u>270,332</u> | <u>255,970</u> |
| | 271,741 | 257,137 |
| Policyholders' surplus | <u>26,469</u> | <u>27,757</u> |
| | 298,210 | 284,894 |
| Less: reinsurance share | <u>(3,212)</u> | <u>(3,131)</u> |
| Net Policyholders' funds | <u>294,998</u> | <u>281,763</u> |

13 REINSURANCE RISK RESERVE

In accordance with Article 34 of Insurance Authority's Board of Directors Decision No. (23) of 2019, the Branches allocated an amount equals to 0.5% (five per thousand) of total reinsurance premiums ceded to reinsurance reserve.

This reserve is accumulated year after year and may not be disposed of without the written approval of the Director General of the Insurance Authority.

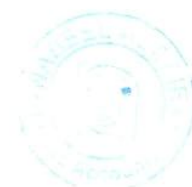


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| 14 INCOME FROM INVESTMENT ACTIVITIES | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
|---|--|--|
| Interest on bank deposits | 6,415 | 7,253 |
| Interest on Gov. securities & other bonds | 16,238 | 19,175 |
| Interest on policy loans | 750 | 863 |
| Interest on late payment of premium | 414 | 493 |
| Dividend income | – | – |
| Amortization and other adjustments | (737) | (2,054) |
| Other interest income | – | 1 |
| Net realized gain on investment | 44 | – |
| | <u>23,124</u> | <u>25,731</u> |
| Less: allocation of income to other Gulf countries | <u>(10,915)</u> | <u>(11,862)</u> |
| | <u>12,209</u> | <u>13,869</u> |
| | | |
| 15 GENERAL EXPENSES | 31 December 2020 <u>AED'000</u> | 31 December 2019 <u>AED'000</u> |
| Staff salaries | 2,487 | 2,536 |
| Employee benefits and welfare | 59 | 143 |
| Insurance expenses | 151 | 141 |
| Traveling expenses | 63 | 100 |
| Communication expenses | 125 | 149 |
| Printing and stationery | 10 | 28 |
| Computer equipment and software | 1 | 1 |
| Other professional and legal charges | 313 | 209 |
| Rent and rates expenses | 433 | 525 |
| Advertisement expenses | 39 | 59 |
| Provision for depreciation | 44 | 52 |
| Provision for staff gratuity | 54 | 73 |
| Exchange loss | 16 | (3) |
| Head office expenses | 206 | 272 |
| All other expenses | 143 | 169 |
| | <u>4,144</u> | <u>4,454</u> |
| Less: management expenses allocated to other gulf countries | <u>(1,222)</u> | <u>(1,767)</u> |
| | <u>2,922</u> | <u>2,687</u> |
| | | |
| 16 FINANCIAL INSTRUMENTS | | |

The financial assets of the branches include cash at bank and in hand, trade receivables, due from other insurers and investments held to maturity and available for sale. Financial liabilities include trade payables, due to other insurers, and policyholders' liabilities.



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Credit risk

All of the branches underwriting activities are carried out in the US Dollar and United Arab Emirates (AED). Cash is placed with a group of banks with good credit ratings. Credit risk on account receivables is spread, as they are due from a large number of customers.

Credit risk with respect to reinsurers is mitigated by placement only with those companies having an acceptable rating. Credit risk with respect to policyholders' loans is limited as these are secured by the cash value of the policies.

Managing reinsurance risk

The corporation carries reinsurance cover to minimise exposure to potential losses arising from large insurance claims and consequently in the normal course of business enters into arrangements with other parties for reinsurance purposes. Reinsurance ceded contracts do not relieve the corporation from its obligations to policyholders. The branches do not have any borrowings from the bank.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The branches are exposed to market risk with respect to its investments in quoted and unquoted shares.

The branches limits market risks by maintaining a diversified portfolio and by continuous monitoring of developments in stock markets. In addition, the branches actively monitor the key factors that affect stock movements, including analysis of the operational and financial performance of investees.

Fair value

The fair value of the branches financial instruments, except for short-term investments and policyholders funds, approximates their carrying amounts. Short-term investments are stated at market value, with any resultant gain or loss recognised in the income statement. The fair value of policyholders' liabilities has been determined by the consulting actuaries.

Liquidity risk

Liquidity risk is the risk that the branches face in meeting its present and future financial obligations in a timely manner. Solvency risk refers to the excess of assets over liabilities, and hence, to the adequacy of the corporation's capital. The Corporation manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.



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Exchange risk

A major portion of the Corporation's branches liabilities associated with conventional life policies are denominated in US Dollars whereas the major portion of its assets are denominated in UAE Dirhams. This creates a risk for the Corporation due to the guaranteed nature of the conventional life policies where the liabilities are guaranteed in US Dollars but the assets backing the liabilities are mostly denominated in UAE Dirhams. However, since the Dirham is pegged to US\$, the exchange risk is minimal. Moreover, the Corporation has foreign currency deposits with banks which are insignificant in terms of amount and hence exchange risk related to these deposits is minimal.

17 General

Figures are rounded off to nearest thousands of AED.

18 Subsequent events

There were no adjusting or non-adjusting events at the year end to report.

19 Value Added Tax (VAT)

UAE Government has introduced 5% value added tax with effect from 1 January 2018. However, life insurance premium is under exempted category.



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20 CAPITAL RISK MANAGEMENT

The solvency regulations identify the required Solvency Margin to be held in addition to insurance liabilities. The Solvency Margin (presented in the table below) must be maintained at all times throughout the year. The Branch is subject to solvency regulations which it has complied with during the year. The Branch has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations.

The table below summarizes the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Branch and the total capital held to meet these required Solvency Margins.

| | 31 December 2020 <u>AED '000</u> | 31 December 2019 <u>AED '000</u> |
|---|---|---|
| Minimum Capital Requirement (MCR) | 100,000 | 100,000 |
| Solvency Capital Requirement (SCR) | 57,688 | 59,602 |
| Minimum Guarantee Fund (MGF) | 19,229 | 19,867 |
| Own funds | | |
| Basic own funds | 119,616 | 132,406 |
| Ancillary own funds | - | - |
| MCR Solvency Margin - Minimum Capital Requirement (Surplus/Deficit) | 19,616 | 32,406 |
| MCR Solvency Margin Solvency Capital Requirement (Surplus/Deficit) | 61,927 | 72,804 |
| MCR Solvency Margin Minimum Guaranteed Fund (Surplus/Deficit) | 100,386 | 112,539 |

The above table shows that for the year ended 31 December 2020, all Solvency requirements are being met.

