

Directors' Report to the Shareholders

The Directors are pleased to present the 2017 Annual Report together with the audited financial statements of the Corporation for the year ended December 31, 2017.

Compliance with the Code of Corporate Governance for Insurers, 2016

In accordance with SRO 1045(1)/2016 dated 9th November 2016 issued by Securities & Exchange Commission of Pakistan on Corporate Governance rules for Insurers, 2016. The Directors are pleased to confirm the following:

- The financial statements, prepared by the management of State Life Insurance Corporation of Pakistan (the Corporation), present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- Proper books of account of the Corporation have been maintained;
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment;
- International Accounting Standards, International Financial Reporting Standards or any other regulation or law (including but not limited to the Shariah guidelines/principles) as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed;
- The system of internal control is sound in design and has been effectively implemented and monitored;
- As disclosed in note 1.4 to the financial statements, as a consequence of the corporatization, the Corporation may not be 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;
- There has been no material departure from the best practices of corporate governance;

2. Operating and Financial Performance:

During the period under review, overall performance of the Corporation remained satisfactory. An overview of the performance of State Life during the year 2017 as compared to year 2016 is given hereunder:

- Total Income of the State Life increased to Rs.170,331 million in 2017 as against Rs.154,353 million in the preceding year, registering an increase of 10%.
- Management expenses for the year 2017 were Rs. 30,935 million as compared to Rs.27,589 million in 2016 showing an increase 12%. Overall management expense ratio to total premium income for the year 2017 was 31% as almost the same for the year 2016.
- Payments to policyholders in the year 2017 were Rs.44,955 million as against Rs.37,939 million in 2016, showing an increase of 18%.
- Total amount of statutory funds for the year 2017 was Rs.707,388 million as against Rs. 614,177 million in 2016, showing an increase of 15%.

3. Business Portfolio Wise Performance

3.1 INDIVIDUAL LIFE BUSINESS – PAKISTAN’S OPERATIONS:

First year gross premium income under Individual Life policies, during the year 2017 is Rs.17,467 million as compared to Rs.16,766 million in the year 2016, resulting in an increase of 4%. Gross renewal premium was Rs.72,810 million in 2017 whereas it was Rs.65,015 million in 2016, resulting in an increase of 12%.

3.2 INDIVIDUAL LIFE BUSINESS – OVERSEAS OPERATIONS:

First year gross premium income under Individual Life policies, during the year 2017 was Rs.260 million as compared to Rs.304 million in the year 2016, showing a decrease of 15%. Gross renewal premium in 2017 was Rs.1,822 million as compared to Rs. 1,830 million in 2016, showing a decrease of 0.44%

3.3 GROUP LIFE BUSINESS:

Gross premium under Group Life policies during the year 2017 was Rs. 4,774 million as compared to Rs. 5,736 million in the year 2016, showing a decrease of 17%.

3.4 HEALTH INSURANCE BUSINESS:

Gross premium under Health Insurance policies during the year 2017 was Rs.3,912 million as compared to Rs.422 million in the year 2016, showing significant increase of 827%, mainly due to health insurance policies undertaken for the Prime Minister’s National Health Insurance Program and Sehat Sahulat Program of the Government of KPK.

3.5 REAL ESTATE:

Rental income was slightly down in the year 2017. However, expenses were slightly increased due to better upkeep and maintenance of building resulting in increased tenancy and rental income in the year to come.

	Rs. in million		
	<u>2017</u>	<u>2016</u>	<u>Inc/(Dec)</u>
Rental Income	1,104	1,119	-15
Expenses	641	627	14
Net	463	492	-29

3.6 INVESTMENT:

Net investment income including capital gains during the year 2017 was Rs. 69,566 million as compared to Rs. 64,526 million in 2016, showing an increase of 8%.

4. Key Operating and financial data

Summarized financial performance for the last six years is shown in the appendix-A

5. Others Disclosures

- There is no statutory payment outstanding as on Dec 31, 2017 on account of taxes, duties, levies and charges except as disclosed in notes to the Financial Statements.
- The value of investment made by the employees retirement funds, operated by the Corporation, as per their financial statements as at December 31, 2017, the audit of which are in progress, are as follows:

	Rs. in Million
Pension Fund	19,242
Gratuity Fund – Officers	134
Provident Fund	3,943

6. Board Meetings Attendance

During the year 2017, five meetings of the Board of Directors were held and attended as follows:

S.NO.	Director's Name	Meetings Attended
1	Mr. Shoaib Mir	Nil
2	Mr. Naveed Kamran Baloch	3
3	Mr. Saeed Chaman	Nil
4	Mr. Shafqaat Ahmed	5
5	Mr. Saad Amanullah Khan	5
6	Dr. Aliya Hashmi Khan	4
7	Mr. Naveed Arif	2
8	Dr. Aamer Ahmed	Nil

6.1 Pattern of Shareholding

As at December 31, 2017

Categories of Shareholders	Shares held
Government of Pakistan through Ministry of Commerce,	28.68 million
Benazir Employees Stock Option Scheme Trust (BESOS)	1.32 million
Total	30 million

7. Business Supporting Activities

- a. Training plays important role in development of manpower / human resources and success of an organization. State Life Insurance Corporation, a dynamic and leading Public Sector Corporation is maintaining the largest marketing network in Insurance Industry in the country and is continuously providing training for improving the marketing skills of its manpower by arranging seminars and imparting various regular training courses for field force and staff/officers of the Corporation.
- b. Region wise details of the courses conducted in the year 2017 by Human Resource Development Division (HRDD) as under:

REGION WISE FIELD TRAINING DATA FROM 01-01-2017 TO 31-12-2017

REGIONS	Foundation Course		M.O.S.C		M.M.S.C		TOTAL	
	Courses	Participants	Courses	Participants	Courses	Participants	Courses	Participants
South / P.O	20	488	9	124	2	29	31	641
Hyderabad	65	1366	19	359	1	24	85	1749
Central	58	1473	26	698	1	21	85	2192
Faisalabad	34	1077	18	691	2	43	54	1811
Multan	88	2438	21	533	6	118	115	3089
North	65	2187	24	613	2	41	91	2841
KPK	12	371	3	73	2	40	17	484
GRAND TOTAL	342	9400	120	3091	16	316	478	12807

REGION WISE STAFF TRAINING DATA FROM 01-01-2017 TO 31-12-2017

REGIONS	Record Keeping		FLMI		ERP		Cash Counter		Underwriting	
	Courses	Participants	Courses	Participants	Courses	Participants	Courses	Participants	Courses	Participants
South/PO	1	25	2	52	1	23	1	13	0	0
Hyderabad	1	29	0	0	2	83	0	0	1	40
Central	1	15	2	15	2	56	2	37	1	41
Faisalabad	0	0	0	0	0	0	3	95	0	0
Multan	1	43	2	30	1	57	0	0	1	50
KPK	1	20	0	0	0	0	0	0	1	25
North	0	0	2	39	1	59	1	18	1	36
TOAL	5	132	8	136	7	278	7	163	5	192

REGIONS	ERP GLAs		PPRA Rules		Medical Rules		Decision Making		Building Effective Relationship	
	Courses	Partici pants	Courses	Partici pants	Courses	Partici pants	Courses	Partici pants	Courses	Participants
South / P.O	0	0	0	0	0	0	0	0	0	0
Hyderab ad	0	0	1	29	0	0	0	0	0	0
Central	1	20	1	15	1	15	1	28	1	14
Faisalaba d	0	0	0	0	0	0	0	0	0	0
Multan	0	0	0	0	1	29	0	0	0	0
KPK	0	0	1	28	1	28	0	0	0	0
North	0	0	1	28	1	28	0	0	0	0
GRAND TOTAL	1	20	4	100	4	100	1	28	1	14

REGIONS	Management Planning		Job Responsibilities		Organizational Skills		Presentation Skills		Currency Features	
	Courses	Partici pants	Courses	Partici pants	Courses	Partici pants	Courses	Partici pants	Courses	Particip ants
South/PO	0	0	0	0	0	0	0	0	0	0
Hyderabad	0	0	1	57	1	43	0	0	0	0
Central	1	15	1	20	0	0	0	0	0	0
Faisalabad	1	30	0	0	0	0	1	27	0	0
Multan	1	39	1	40	0	0	0	0	1	46
KPK	1	16	0	0	1	25	0	0	0	0
North	1	17	1	25	0	0	0	0	0	0
TOAL	5	117	4	142	2	68	1	27	1	46

REGIONS	Customer Care		Audit Workshop		Director Program		GRAND TOTAL	
	Courses	Participants	Courses	Participants	Courses	Participants	Courses	Participants
South / P.O	1	20	0	0	1	10	7	143
Hyderabad	0	0	0	0	0	0	7	281
Central	0	0	0	0	0	0	15	291
Faisalabad	0	0	0	0	0	0	5	152
Multan	1	30	1	27	0	0	11	391
KPK	1	28	0	0	0	0	7	170
North	0	0	1	37	0	0	10	287
GRAND TOTAL	3	78	2	64	1	10	62	1715

8. Satisfaction of Policyholder

Prime objective of the Policyholders Service Division is to render quality services to its policyholders. In this pursuit certain measures have been taken to improve services such as quality underwriting, prompt settlement of claims and handling of grievances of policyholders/claimants or their successors on priority basis. New and improved online access makes it quick, simple and secure to view and make queries and obtain policy related information. Policyholders can, register for online access, download forms, view policy status, make request for changes in address, nomination etc. Further, the details of outstanding maturity claims have been made available on website along-with simplified procedures and contact details of concerned officials of Policyholders Service Division. A free of cost e-alert SMS based value added service has also been started for quick acknowledgement and response on different events to policyholders. These steps have not only increased the level of satisfaction of our policyholders but have also contributed towards growth of business in insurance industry.

9. Advertisement

Advertising plays a very significant role in business development; especially in large commercial Organizations like State Life. In a situation where a large cross section of population is still without life insurance or unaware of the benefits of life insurance, the need of aggressive advertising cannot be understated. The management of State Life being fully aware of advertising needs as the Corporation has provided adequate funds and support to Corporate Communications Department (CCD), to implement its multimedia advertising campaigns in consultation with the Marketing Division in the year under review. In 2017, CCD produced different TVC and launched many mix corporate and plan based campaigns specially Group Insurance plans on different prominent terrestrial and leading satellite T.V channels and leading national & regional newspapers in English / Urdu with an intention to highlight the robust business growth.

Multi-Media campaigns like Corporate Image Building, Bonus Announcement for Policyholders, Group Insurance, Revival of Policies, Recruitment Campaign and Year-end corporate campaign-2017 etc., has also been launched in national and regional newspapers all over Pakistan. Upon achieving 'AAA' rating for the straight seventh year by PACRA; press publicity has been prominently expressed to highlight this achievement. Radio being the most popular medium of publicity especially in the rural and sub urban areas has also been fully utilized. All these multi-media campaigns were effectively carried out during the year 2017. Under the slot of corporate social responsibility; State Life also sponsored some major sports and nation-wide philanthropic events for corporate image building in 2017 as a part of its participation in social service to the country.

In the year 2017, we recruited 49,253 (2016: 53,512) new Sales Representatives and provided the job opportunities throughout the country. Our Field Force counts reached 191,417 (Sales Representatives, Sales Officers and Sales Managers) who all are serving the country to provide protection with savings.

10. Insurer Financial Strength Rating

The rating reflects State Life Insurance Corporation utmost risk absorption capacity on the back of Government of Pakistan (GOP) guarantee for policyholders' liabilities.

The Corporation is pursuing a growth strategy wherein, while focusing on existing business lines, it intends to expand its product offerings – Bank assurance, Window Takaful and Micro insurance. State Life Insurance Corporation has taken up Government initiated health programs, reaching public at grass-root level.

State Life Insurance Corporation's ability to maintain its leadership in the life insurance sector is important. In this regard, successful execution of the envisaged business strategy including diversification and growth is essential. Additionally, implementation of core insurance ERP system will enable efficient business operations with the real time provision of services to all stakeholders.

A rating of "AAA" is the highest possible Financial Strength for an insurer to achieve and State Life stands alone in the life insurance industry have been assigned this rating.

11. The Future

Prime Minister's National Health Insurance Program (PMNHIP)

Prime Minister National Health Program has been implemented in 41 districts across Pakistan and provides protection against catastrophic health expenditures to the poor segment of society.

During its first phase 3.1 million poor families are being targeted in 41 focused districts across Pakistan. They will be provided with health insurance card. Through this card enrolled families can access indoor health care services worth upto Rs. 300,000 from 170+ empaneled hospitals across Pakistan.

The districts in which health care services have been started includes Islamabad (ICT), Muzaffargarh, Kotli (AJK), Skardu, Diamer (GB) Khyber Agency, Bajour Agency (FATA), Quetta, Loralai, Lasbela, Kech, Gwader (Balochistan), Rahim Yar Khan, Khanewal, Narowal, Sargodha, Layyah, Bhakkar, Khushab, Vehari, Hafizabad (Punjab), Kohat, Mardan, Chitral, Abbotabad(KPK), Hyderabad, Thatta, Sujawal, Tando Muhammad Khan, and Jacobabad (Sindh). In these Districts more than 65,000 individuals have been provided with services ranges from minor surgeries to open heart surgeries.

As per recent 3rd party satisfactory survey more than 94% of families who have accessed services are completely satisfied from the program.

The Program is perceived to be expanded to in all districts of Pakistan. State Life insurance Corporation being the largest social health insurance Corporation of Pakistan will seek this opportunity as continuation of its initiatives of corporate social responsibility and expansion of social health market across Pakistan.

KPK Sehat Sahulat Program:

The Social Health Protection Initiative (SHPI) Schemes which started in four districts of Khyber Pakhunkhwa has been extended to all 25 districts of the province. The target population of beneficiaries has been extended to 1.8 million. The coverage has also been enhanced to Rs. 30,000 per person for a family of 8 person maximum under secondary cover. The tertiary care benefit of Rs. 300,000 (Floating) has also been added along with cash payment to cover wage loss, Maternity Tertiary transport and funeral expenses. A total of 1.48 million families have been enrolled. Since the Govt of KP considers it a flagship project therefore action is underway to make it permanent through legislation.

Family Takaful

The Corporation on receipt of license to start Window Takaful Operations established a statutory fund namely "Family Takaful Fund" to offer Family Takaful Contracts. Family Takaful Contract is an arrangement to which rests on key Shariah principles of mutual cooperation, solidarity and well-being of a community, and based on the principles of Wakala Waqaf Model. Under a Takaful arrangement, individuals come together and contribute towards the common objectives of protecting each other against financial losses by sharing the risk on the basis of mutual assistance.

The obligation of Waqf for Waqf participant's liabilities is limited to the amount available in the Waqf Fund. In case there is a deficit in the Waqf Fund, the Window Takaful Operation shall grant an interest free loan (Qard-e-Hasna) to make good the deficit. The Loan shall be repayable from the future surpluses generated in the Waqf Fund, without any excess of the actual amount given to it. Repayment of Qard-e-Hasna shall receive priority over surplus distribution to participants from the Waqf Fund.

State life Insurance Corporation is in the process of launching Takaful Operations under Family Takaful Fund as disclosed in Note 1.3 to these Financial Statements.

Bancassurance

Bancassurance is an alternate distribution channel having divergent needs of the market than the traditional "Agency" sales channel. State Life Bancassurance Division was established to penetrate into untapped Bancassurance Market and to acquire the business due to its cost effectiveness. State Life Bancassurance started the operation during the last quarter end of 2012 after signing first agreement with United Bank Limited. Further State Life signed agreement with six more banks including FWBL, NBP, NIB, Summit Bank, Samba and Silk Bank for the strategic partnership in distribution of its Bancassurance products. State Life has continued to gain firm ground in this channel and negotiations with more other banks are ongoing.

Reinforced with State Life's reputation in the market, its Bancassurance channel is gradually showing sustainable growth and will undoubtedly contribute significant all-round improvement in the financial performance of State Life in coming years while providing a new avenue for business growth.

Information Technology

IT Division of State Life works with vision to "Achieve organizational goals through the use of information & Communication Technology (ICT) and to improve productivity and efficiency of process within the organization and enhance quality services to all stake-holder". Besides routine IT operations, State Life putting extensive efforts for implementation of newly evolved IT Strategy which includes: Implementation of Pre-packaged Software Solution for Core Businesses & supporting functions and deployment of New ICT infrastructure.

The successful implementation of IT Strategy will ensure provision of all mandated services online, more efficiently and effectively to all stakeholders including: Policyholders, field staff, senior management and regulators. The ongoing efforts will strengthen internal processes of State Life and facilitate its policyholders by providing them better service delivery mechanism.

12. Actuarial Valuation

As per 31st actuarial valuation as at 31st December 2017, the actuarial surplus arising during the inter-valuation period on participating policies was Rs. 63.195 million (2016: Rs. 60,751 million). The details of bonuses declared are stated as an appendix.

13. Dividend

After tax profit for the year 2017 is Rs.1,269.914 million (2016: Rs.1,212.261 million). After adjustment of Rs.55.876 million (2016: Rs.53.339 million) employees share on account of Benazir Employees Stock Option Scheme (BESOS), dividend payable to Government of Pakistan is Rs. 1,214.038 million (2016: Rs.1,037.695 million).

14. Auditors

The accounts for the year ended 31st December, 2017 were jointly audited by a panel of auditors comprising of (i) M/s. Riaz Ahmad & Company, Chartered Accountants, Karachi and (ii) M/s. BDO Ebrahim & Co., Chartered Accountants, Karachi. The accounts of Gulf Countries zone were audited by M/s. Nabeel Al-Saie, Public Accountants DMCC, Dubai, UAE.

15. Note of Appreciation

We are pleased to place on record the deep appreciation on behalf of the Board of Directors for the efforts made by all the tiers of the field force and devotion to duty of the staff and officers for the overall performance of the Corporation. We are grateful to the Insurance Division, Securities and Exchange Commission of Pakistan for their continued guidance and assistance. May our future efforts continue to contribute to the nation's wellbeing in the economic and fiscal fields.

On behalf of the Board of Directors


Shoaib Mir
Chairman

Karachi,
Date: April 30, 2018

Appendix-A

Key Operating and financial data:

	<u>Rs. in Million</u>					
	2017	2016	2015	2014	2013	2012
FIRST YEAR PREMIUM Net)	17,688	17,036	16,271	16,156	15,442	13,947
RENEWAL PREMIUM (Net)	74,462	66,708	57,729	53,363	43,348	35,145
GROUP PREMIUM INCLUDING HEALTH (Net)	8,610	6,078	5,941	6,823	6,955	6,926
INVESTMENT INCOME (Net)	69,566	64,526	60,316	50,715	50,949	37,977
POLICY BENEFITS	44,955	37,939	35,961	30,505	25,836	24,067
SURPLUS APPROPRIATED TO SHAREHOLDERS' FUND	1,580	1,519	1,269	1,186	1,046	1,019
PROFIT BEFORE TAX	1,894	1,831	1,589	1,333	1,178	1,155
TAXATION	624	618	541	428	368	388
PROFIT AFTER TAX	1,270	1,212	1,048	905	810	767
EARNINGS PER SHARE (RS)	42.33	40.41	34.93	72.05	73.65	69.75
BONUS TO POLICY HOLDERS	57,231	55,433	47,991	41,964	36,620	30,357
LIFE FUND	707,388	614,177	526,676	450,025	378,608	313,754
INVESTMENT PORTFOLIO	688,721	598,271	513,293	445,381	380,981	316,878
TOTAL ASSETS	755,973	659,811	571,827	496,689	420,806	349,198