MISSION STATEMENT

"To build value for our policyholders, field force, employees and shareholders, by providing quality products and services through multiple distribution channels for the Pakistani market and through investing in Pakistani financial institutions, thereby serving the Pakistani people."

Alico AIG Life

CONTENTS

Corporate Information	3
Directors' Report to the Shareholders	4-9
Pattern of Shareholding	10-11
Statement of Compliance with the Code of Corporate Governance	12-13
Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	14
Auditors' Report to the Members	15
Balance Sheet	16-17
Profit & Loss Account	18
Statement of Changes in Equity	19
Cash Flow Statement	20
Revenue Account	21
Statement of Premiums	22
Statement of Claims	23
Statement of Expenses	24
Statement of Investment Income	25
Notes to the Financial Statements	26-45
Statement of Directors and Appointed Actuary	46
Notice of Annual General Meeting	47-48
Form of Proxy	

Corporate Information

BOARD OF DIRECTORS

Arif Sultan Mufti	Chairman and Chief Executive	Chartered Accountant
Ehsan Ahmed Nomani	Director	Advocate
Khalid Anis-ur-Rehman	Director	Advocate
Shahid Siddiqui	Director	Actuary
Patrick Choffel	Director (Alternate Mr. Irfan Amir)	Business Executive
Nurul Islam	Director	Business Executive
Arif Abdul Aziz	Director	Financial Executive
Qasim Rabbani	Director	Business Executive

COMPANY SECRETARY

Asim Iftikhar	Cost and Management Accountant

APPOINTED ACTUARY

Syed Waqar Ahmed	FSA, CFA, FRM

AUDIT COMMITTEE

Arif Abdul Aziz	Chairman
Khalid Anis-ur-Rehman	Member
Shahid Siddiqui	Member
Salman Qureshi	Secretary & Internal Auditor

BANKERS

MCB Bank Limited
Standard Chartered Bank
Hong Kong Shanghai Banking Corporation
Habib Bank Limited
National Bank of Pakistan
Citi Bank N.A.
NIB Bank Limited
Bank Al-Habib Limited

LEGAL ADVISORS

Surridge and Beecheno

AUDITORS

KPMG Taseer Hadi & Co. - Chartered Accountants

SHARE REGISTRARS

THK Associates (Private) Limited
Ground Floor, State Life Building -3
Ziauddin Ahmed Road, Karachi-75530 P.O. Box No. 8533
Phone: +92 (21) 111-000-322 Fax: +92 (21) 5655595

REGISTERED OFFICE

Lakson Square Building No. 1,
11th Floor, Sarwar Shaheed Road, Karachi
Phone: +92 (21) 111-111-711 Fax: +92 (21) 5688042

DIRECTORS' REPORT TO THE SHAREHOLDERS

Your Directors take pleasure in presenting to you the 12th Annual Report of the Company along with the audited financial statements for the year ended 31 December 2006.

Economy

The Pakistan market has become very attractive for all types of businesses due to sustained economic growth, rising disposable incomes and supportive government policies in the rationalization of taxes and market place liberalization. Keeping pace your Company has full focus for sustainable future growth aligned with its strategic objectives.

Review of Operations

Your Company has completed its 11 full years of operations. The current year results show overall improved growth. The Individual Life products, IGP Plus and the Savings Plan introduced in 2005, continue to register good growth during 2006. The Accident & Health business also shows healthy growth with 2 new products, My Child and Safe Road introduced during 2006.

The Bancassurance business, which was launched in late 2005, shows remarkable growth.

Gross premium income under all lines of business has reached a level of Rs. 747 million, a growth of 8 % over the previous year. Major increase being recorded in the individual life business followed by accident and health under both individual and group. The growth in the Individual Life first year premium was 19 % and that of the renewal premium an aggressive 33% over last year.

	2006	2005
	(Rs. in thousand)	
Profit / Loss		
Net Surplus of Statutory Funds	**34,373**	33,344
Profit before appropriation of surplus to Shareholders' Fund	**13,834**	13,250
Tax (expense) / credits	**(392)**	1,366

Net Shareholders Equity

Net shareholders equity as at December 31, 2006 is Rs. 133 million; this is after retaining an amount of Rs.127 million in the statutory funds complying the requirements of the Insurance Ordinance 2000 relating to 1) Solvency and, 2) return of capital from statutory fund to shareholders' fund. If these conditions have not been there Shareholders' equity would have been increased to Rs. 260 million.

Claims

Your Company believes in par excellence service to its policyholders in all areas, particularly in the prompt settlement of claims. In this behalf it exercises strict measures to ensure that only genuine claims get paid. Accordingly, it has all the major claims investigated by professional investigators.

Despite these measures, the overall claims experience this year was unfavourable compared to last year. In particular, the Group Life Fund claims in 2006 were much heavier, with the claim ratio of 87% compared to 49% last year.

The Company continues to adhere to its long standing policy of prudent underwriting to entertain only good risks. Furthermore, we have in place reinsurance treaties with reputable international reinsurers to protect our portfolio from loss above our local retention limits and our retained account.

Investments

In accordance with our investment policy we mainly invest in government securities or only those securities having a minimum rating of AA- and providing good return. During the year yield on longer term (5 – 10 years) Government securities showed rising trend. However, on the short term front (up to one year) the yield on Government securities was lower compared to the rate offered by private banks. Therefore, we also focus on bank placements to generate higher yield on investments.

Our investment portfolio stood at Rs. 1,437 million at the end of 2006 (2005: Rs. 1,167 million) an increase by Rs. 270 million or 23% over the previous year. 77 % (2005: 88%) of our total investment portfolio is invested in government securities. Our total net investment income in 2006 was at Rs.136 million (2005: Rs. 118 million), showing an increase of 15% over last year.

Investment in Shareholders Fund stood at Rs. 126 million (2005: Rs. 116 million), at the end of 2006 showing an increase of 9% over the previous year.

Dividend

The Directors have recommended dividend of 5% (Re. 0.5 per share) to the shareholders for the year ended December 31, 2006 (2005: nil).

Agency Development

A 'quality not quantity' recruiting approach has measurably improved the persistency of new business and has helped to reduce policy lapses. Our recruitment approach is to increase the agent count with agents writing a reasonably steady volume of quality business, without relying on a few agents writing a considerable amount of business but with poor persistency. Our current agents are giving us good quality, persistent business. We continue to monitor individual agent persistency through several reports generated monthly for the agency department management team.

Corporate and Financial Reporting Framework

The Board of Directors and the management is fully committed to good corporate governance. As required under the Code of Corporate Governance issued by Securities and Exchange Commission of Pakistan directors are pleased to state the following:

a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

b) Proper books of account of the Company have been maintained.

c) Accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent assessment.

d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

e) The system of internal control is sound in design and has been effectively implemented and monitored. The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss.

The process used by the Board to review the effectiveness of system of internal control includes, inter alia, the following:

- The audit committee has written terms of reference and reports to the Board. It reviews the approach adopted by the Company's internal audit department and the scope of, and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material control weaknesses that have been identified, and discusses the actions to be taken in areas of concern with the relevant executive directors.
- An organization structure has been established which supports clear lines of communication and tiered levels of authority with delegation of responsibility and accountability.
- Business strategies agreed at departmental level are approved by the Board. In addition, there is an annual budgeting and strategic planning processes. These strategies are reviewed during the year to reflect significant changes in business environment.

The principal features of control framework include:

Evaluation and approval procedures for all capital expenditure and other transactions.

- Regular reporting and monitoring of financial performance of the line of business using operating statistics and monthly management accounts which highlight key performance indicators and variance from budgets and quarterly forecasts.

Further, reviews of the Company's system of internal control are also carried out by the internal audit department. The documented conclusions are confirmed at departmental level to the Board.

f) There are no doubts upon the Company's ability to continue as a going concern.

g) There has been no departure from the best practices of corporate governance, as detailed in Listing Regulations of the stock exchanges of Pakistan.

h) Information about outstanding taxes and levies is given in the Notes to the Accounts.

i) The un audited value of investments of Recognized Provident Fund as at December 31, 2006 was Rs. 19 million (2005: Rs. 16 million).

Key operating and financial data of last six years of American Life Insurance Company (Pakistan) Limited are as under:

(Rs.' 000)

Description	2006	2005	2004	2003	2002	2001
Gross Premium Income	747,156	691,797	544,078	346,249	249,292	164,067
Net Premium Income	655,042	631,422	504,368	312,955	230,319	149,470
Interest and Other Income	158,176	118,409	80,894	70,841	81,559	50,870
Net Claims	230,160	176,884	96,853	81,444	79,440	34,288
Net Commission and Acquisition Costs	153,194	129,759	117,288	73,491	60,296	36,483
Administration Expenses	159,408	120,911	116,237	108,120	103,638	80,158
Policy Holder Liability	1,140,077	918,487	643,265	376,394	266,606	177,750
Total Assets	1,667,052	1,380,889	998,839	742,936	566,481	448,786

Board Meetings and Change in Directorships

Since the last report, casual vacancies occurring on the Board due to resignation of two directors were filled by the Board of Directors within 30 days.

Mr. Nurul Islam appointed on March 31, 2006 in place of Mr. Andreas Vassiliou and Mr. Qasim Rabbani appointed on February 19, 2007 in place of Mr. Iqbal Siddiqi.

The Board record appreciation for the valuable services given by the outgoing Directors.

During the year six meetings of the Board of Directors were held and were attended as follows:

Date of Meeting	Attended by
March 22, 2006	Mr. Arif Sultan Mufti Mr. Khalid Anis-ur-Rehman Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel)
April 6, 2006	Mr. Arif Sultan Mufti Mr. Arif Abdul Aziz Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel)
April 7, 2006	Mr. Arif Sultan Mufti Mr. Arif Abdul Aziz Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel)
April 26, 2006	Mr. Arif Sultan Mufti Mr. Ehsan Ahmed Nomani Mr. Khalid Anis-ur-Rehman Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel) Mr. Iqbal Siddiqi
August 24, 2006	Mr. Arif Sultan Mufti Mr. Ehsan Ahmed Nomani Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel)
October 27, 2006	Mr. Arif Sultan Mufti Mr. Ehsan Ahmad Nomani Mr. Khalid Anis-ur-Rehman Mr. Shahid Siddiqui Mr. Irfan Amir (Alternate to Mr. Patrick Choffel)

Leave of absence was granted to Directors who could not attend some of the Board meetings.

Strategy

Our principal strategy has been to strengthen our market share, while continuing to emphasize our core values of discipline in underwriting, business conversation, tight management of expenses, and innovation in products and services. To achieve this, we continually seek to broaden distribution and intensify agency training and monitoring programs. Our agency force forms the cornerstone of our business. We rely on a three-tiered distribution operation

for Ordinary Life which focuses on segmenting the market into three income classes. By developing products which cater to the specific needs of each category we continue to make inroads in the local market and strive to make ALICO a household name.

Developing and promoting innovative Personal Accident products is also an important part of our strategy. Through Individual Accident & Health products and Direct Marketing initiatives we strive to increase premium, at the same time provide agents with alternative products and additional commission earnings.

Our Group Operation has been able to develop a sizable portfolio of multinational and reputed local organizations over the years. We continue to expand this business by adding new products, seeking alternative distribution channels and focusing on marketing additional products and services to our existing clients.

Manpower development is a continuous process and ranks very high in our overall strategy. Accordingly, it is our major commitment to provide constant and high quality training to our employees and field force to maintain their professionalism and keep them abreast of the market.

Future Outlook

Your Company remains optimistic about the long term opportunities while at the same time meeting the short term challenges. Your Company responded to the challenge by enhancing customer focus and by building an efficient field force. Your Company closely monitors the market situation, and believes that its unique business model and prudent risk management practice, coupled with a strong customer base and deep client relationship, will give it a sustainable long term competitive advantage. The Company will aggressively pursue new opportunities, and will ensure adequate internal preparedness to take maximum advantage of such opportunities.

Human Resources and Training

The Company continued to recruit staff on merit and provide training for desired skills. Company believes in retention of best talent. The Management continues to provide training to the staff at local as well as regional level in all spheres of business activities, including technical and operational support.

We are staffed with the local personnel who are constantly studying the need of individuals and developing innovative products to the specific need of each market segment.

The Company provides full financial assistance and encourages employees to appear in insurance diploma exams of Life Office Management Association.

Parent Company

American Life Insurance Company (ALICO) incorporated in the United States of America having its registered office at ONE ALICO PLAZA, Wilmington, State of Delaware, 19899, U.S.A. is the sponsor and holding Company of American Life Insurance Company (Pakistan) Limited.

Pattern of Shareholding

The pattern of Shareholding in the Company as at 31 December 2006 is included with the report. American Life Insurance Company holds 51% while local shareholders hold 49% of the Company's total shareholding.

All trades in the shares of the Company carried out by the Directors, CEO, CFO and Company Secretary, their spouses and minor children is reported as under:

	Sale/transfer
Arif Sultan Mufti- CEO	2,250

Subsequent Events

Directors of the Company have declared 5% dividend on ordnairy share. Apart from this there have been no material changes since 31 December 2006 and the Company has not entered into any commitment which could affect the financial position of the Company between the end of the financial year and the date of this report.

Auditors

Our present auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants, being eligible, have offered themselves for appointment as auditors for the forthcoming year. The Board of Directors on the recommendations of the audit committee has proposed its appointment as auditors for the year 2007.

Gratitude

We take this opportunity to express our appreciation to the Government of Pakistan, Ministry of Commerce and Department of Insurance under Securities and Exchange Commission of Pakistan for their invaluable assistance, support and guidance.

The Board of Directors would like to express their sincere thanks and wish to record their appreciation for the remarkable contribution made by the ALICO employees towards the Company's present achievements.

Lastly, our thanks go to thousands of shareholders and policyholders whose confidence, continued commitment and support for the Company has been a source of encouragement and inspiration.

On behalf of the Board of Directors.

Arif S. Mufti

CHAIRMAN & CEO
Karachi: 3 April 2007

Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Holding shares From	Holding shares To	Total shares held
189	1	100	14,731
210	101	500	93,169
33	501	1000	31,800
69	1001	5000	154,950
7	5001	10000	58,600
6	10001	15000	77,600
7	15001	20000	129,050
15	20001	25000	365,500
1	25001	30000	29,600
1	35001	40000	40,000
1	45001	50000	47,000
1	80001	85000	83,100
1	95001	100000	100,000
1	140001	145000	142,000
1	1205001	1210000	1,210,000
1	1220001	1225000	1,221,800
1	2065001	2070000	2,068,500
1	2095001	2100000	2,100,000
1	2310001	2315000	2,314,000
1	2525001	2530000	2,527,350
1	3120001	3125000	3,125,000
1	16565001	16570000	16,566,,250
550			32,500,000

Categories of shareholders	Number of shareholders	Total shares held	Percentage
Individuals	534	11,372,130	34.99
Joint Stock Companies	8	29,220	0.09
Financial Institutions	6	4,530,400	13.94
Foreign Companies	2	16,568,250	50.98
	550	32,500,000	100.00

Disclosure of Pattern of Shareholding as at December 31, 2006

Shareholders' category	Number of shareholders	Shares held
Associated companies, undertakings and related parties	1	16,566,250
NIT and ICP	1	1,000
Directors, CEO and their spouse and minor children	4	3,209,100
Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual funds	6	4,531,400
Joint Stock Companies and Others	8	29,220
Shareholders holding ten percent or more voting interest	1	16,566,250

Disclosure of Pattern of Shareholding as at December 31, 2006

	Number of shares held
Associated companies, undertakings and related parties	
American Life Insurance Company, Inc. USA	16,566,250
NIT and ICP	
Investment Corporation of Pakistan	1,000
Directors, CEO and their spouse and minor children	
Mr. Arif Abdul Aziz	3,125,000
Mr. Arif Sultan Mufti	83,100
Mr. Ehsan Ahmad Nomani	500
Mr. Khalid Anisur Rehman	500
Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual funds	
Cresent Investment Bank Limited	7,100
Trust Investment Bank Limited	500
First Dawood Investment Bank Limited	1,238,300
CDC - Trustee First Dawood Mutual Fund	2,068,500
Karachi Investment Company (Pvt.) Limited	1,215,000
The Bank of New York	2,000
Joint Stock Companies and Others	
Ali Husain Rajabali Limited	10,000
Rahat Securities Limited	500
Muhammad Ahmad Nadeem Sec (SMC-Pvt) Limited	3,000
MTM Securities (Pvt.) Limited	9,000
Y.S. Securities & Services (Pvt.) Limited	500
Zillion Capital Securities (Pvt.) Limited	5,000
Mars Securities (Pvt.) Limited	1,000
KAI Securities (Pvt.) Limited	220
Shareholders holding ten percent or more voting interest	
American Life Insurance Company, Inc. USA	16,566,250

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

Year ended Decmber 31, 2006

The Board of Directors of American Life Insurance Company (Pakistan) Limited has always supported and reconfirm its commitment to continued support and implementation of the highest standards of Corporate Governance at all times.

The Securities and Exchange Commission of Pakistan (SECP) vide its letter no. 2(10)SE/SMD/202 dated March 28, 2002 has directed all the Stock Exchanges to fully adopt the Code of Corporate Governance ("Code") in their listing regulations. In May 2002, the Stock Exchanges have formally incorporated this code in their listing rules.

In addition to the above, this statement is being presented to comply with the Code of Corporate Governance applicable to listed Insurance Companies issued under SRO. 68(1)/2003, for the purpose of establishing a framework of good governance, whereby an Insurance company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six non-executive directors and two executive directors.
2. None of the directors of the Company is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or NBFC. No director is a member of Stock exchange.
4. A casual vacancy occurring in the Board on March 06, 2006 was filled up by the directors within 25 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met six times in the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings.
9. The Board has established a system of sound internal control, which is effectively implemented at all levels within the Company. The Company includes all the necessary aspects of internal control given in the Code.
10. Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the Company, and as such fully aware of their duties and responsibilities. Furthermore, an in-house orientation course was also held during the year.

11. The Board has approved appointment of CFO, including remuneration and terms and conditions of employment, as determined by the CEO.

12. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

14. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed underwriting, claim settlement & reinsurance committees. The meetings of these committees held at least once in each quarter.

17. The Board has formed an Audit Committee. It comprises three members, of whom two are non executive directors including the chairman of the committee and one is an executive director.

18. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

19. The Board has set-up an effective internal audit function. The Internal Audit Department reports directly to the Chairman of the Audit Committee.

20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

22. The actuary appointed by the Company has confirmed that he or his spouse and minor children do not hold shares of the Company.

23. The Board ensures that the appointed actuary complied with the requirements set out for him in this code.

24. We confirm that all other material principles contained in the Code have been complied with.

By Order of the Board

Arif S. Mufti
Chairman & CEO
Karachi: 3 April 2007

REVIEW REPORT TO THE MEMBERS ON THE STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of American Life Insurance Company (Pakistan) Limited ("the Company") to comply with the listing regulations of the respective Stock Exchanges, where the Company is listed, and the Code of Corporate Governance applicable to listed insurance companies, issued under SRO 68(1)/2003, by the Securities and Exchange Commission of Pakistan.

The responsibility for compliance with the above Codes is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of such Codes and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with these Codes.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Codes of Corporate Governance as applicable to the Company for the year ended 31 December 2006.

KPMG Taseer Hadi & Co.

Chartered Accountants

Karachi: 3 April 2007

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

(i) balance sheet;
(ii) profit and loss account;
(iii) statement of changes in equity;
(iv) cash flow statement;
(v) revenue account;
(vi) statement of premiums;
(vii) statement of claims;
(viii) statement of expenses; and
(ix) statement of investment income

of **American Life Insurance Company (Pakistan) Limited** as at 31 December 2006 together with the notes forming part thereof, for the year then ended.

It is the responsibility of the Company's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the Approved Accounting Standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the Auditing Standards as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;

b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;

c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31 December 2006 and of the profit, its cash flows and changes in equity for the year then ended in accordance with Approved Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;

d) the apportionment of assets, liabilities, revenue and expenses between two or more funds has been performed in accordance with the advice of the appointed actuary; and

e) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

The financial statements of the Company for the year ended 31 December 2005 were audited by another firm of chartered accountants whose report dated 7 April 2006 expressed an unqualified opinion on those statements.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi: 3 April 2007

BALANCE SHEET AS AT DECEMBER 31, 2006

	Note	SHAREHOLDERS' FUND	STATUTORY FUNDS						AGGREGATE	
			Life (Participating)	Life (Non-participating)		Accident & Health		Pension Business Fund	2006	2005
				Individual	Group	Individual	Group			
		(Rupees in thousand)								
Share Capital and Reserves										
Authorised share capital (50,000,000 ordinary shares of Rs. 10 each)		500,000	-	-	-	-	-	-	500,000	500,000
Issued, subscribed and paid-up share capital	6	325,000	-	-	-	-	-	-	325,000	325,000
Accumulated deficit - net	7	(191,751)	-	-	-	-	-	-	(191,751)	(195,399)
Net Shareholders' Equity		133,249	-	-	-	-	-	-	133,249	129,601
Balance of Statutory Fund [including policyholders' liabilities Rs. 1,140 million (2005: Rs. 918 million)]		-	361,583	547,141	291,027	28,073	49,323	2,524	1,279,671	1,013,914
Deferred Liabilities										
Staff gratuity	9	-	3,661	5,571	3,035	271	466	9	13,013	10,813
Creditors and Accruals										
Outstanding claims		-	-	46,295	69,610	7,417	16,492	-	139,814	127,956
Premiums received in advance		-	3,002	14,792	2,974	1,388	-	-	22,156	21,356
Amount due to other insurers / reinsurers		-	1,008	1,535	18,075	1,091	1,762	-	23,471	31,168
Amount due to agents		-	1,742	2,650	-	404	-	-	4,796	8,639
Accrued expenses		-	6,761	10,289	5,605	501	861	17	24,034	18,097
Other creditors and accruals	10	-	5,054	7,691	4,678	375	718	10	18,526	11,023
		-	17,567	83,252	100,942	11,176	19,833	27	232,797	218,239
Other Liabilities										
Dividend	11	8,322	-	-	-	-	-	-	8,322	8,322
TOTAL LIABILITIES		8,322	382,811	635,964	395,004	39,520	69,622	2,560	1,533,803	1,251,288
TOTAL EQUITY AND LIABILITIES		141,571	382,811	635,964	395,004	39,520	69,622	2,560	1,667,052	1,380,889

	Note	SHAREHOLDERS' FUND	STATUTORY FUNDS						AGGREGATE	
			Life (Participating)	Life (Non-participating)		Accident & Health		Pension Business Fund	2006	2005
				Individual	Group	Individual	Group			
		(Rupees in thousand)								
Cash and Bank Deposits										
Cash and others		-	71	108	59	5	8	-	251	909
Current and other accounts		-	15,292	13,260	4,544	435	328	1,162	35,021	48,084
Deposits maturing within 12 months		32,426	102,898	150,204	54,600	229	-	110	340,467	100,000
		32,426	118,261	163,572	59,203	669	336	1,272	375,739	148,993
Loans secured against Life Insurance Policies		-	-	27,687	-	-	-	-	27,687	17,614
Loans Secured Against Other Assets										
To employees		1,048	-	-	-	-	-	-	1,048	968
To agents		2,268	-	-	-	-	-	-	2,268	3,568
Investments	12									
Government securities		93,140	228,410	372,503	302,338	39,084	53,941	1,228	1,090,644	1,024,696
Term finance certificates		-	-	2,968	2,856	-	-	-	5,824	41,858
		93,140	228,410	375,471	305,194	39,084	53,941	1,228	1,096,468	1,066,554
Current Assets - Others										
Premiums due but unpaid	13	-	4,771	22,476	7,609	-	11,003	-	45,859	56,533
Amount due from other insurers / reinsurers		-	4,428	6,739	-	2,550	-	-	13,717	22,359
Advance tax - net		7,253	-	-	-	-	-	-	7,253	5,408
Prepayments		-	4,978	7,576	4,127	369	634	13	17,697	12,542
Inter-fund balances		5,000	-	-	-	(5,000)	-	-	-	-
Sundry receivables	14	-	4,270	6,499	3,540	317	544	11	15,180	8,169
Accrued interest		436	5,713	7,713	5,399	643	1,637	6	21,547	10,272
		12,689	24,160	51,002	20,675	(1,121)	13,818	30	121,253	115,283
Deferred Taxation		-	-	-	-	-	-	-	-	392
Fixed Assets - tangible										
Capital work in progress		-	3,185	4,848	2,641	236	406	8	11,324	-
Leasehold improvements, furniture & fixtures, office equipments, computers and vehicles	15	-	8,795	13,384	7,291	652	1,121	22	31,265	27,516
		-	11,980	18,232	9,932	888	1,527	30	42,589	27,516
TOTAL ASSETS		141,571	382,811	635,964	395,004	39,520	69,622	2,560	1,667,052	1,340,889

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	2006	2005
		(Rupees in thousand)	
Investment income not attributable to statutory funds			
Return on Government Securities		13,424	14,492
Less: Amortisation of premium		931	1,185
Net Investment Income		12,493	13,307
Return on PLS term deposits and saving accounts		2,000	404
		14,493	13,711
Expenses not attributable to statutory funds			
Administration and miscellaneous expenses		659	461
Profit before appropriation of surplus to Shareholders' Fund		13,834	13,250
Surplus appropriated to Shareholders' Fund from Ledger Account D		27,000	4,000
Profit before tax		40,834	17,250
Taxation	19		
- Current		-	(1,366)
- Deferred		392	-
		392	(1,366)
Profit after tax		40,442	18,616
		(Rupees)	
Earnings per share - basic and diluted	20	1.24	0.57

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share Capital	Accumulated Surplus/(Deficit)			Total
		Accumulated surplus	Capital contributed to Statutory Funds	Sub-total	
	(Rupees in thousand)				
Balance as at 1 January 2005	325,000	150,834	(357,776)	(206,942)	118,058
Profit for the year	-	18,616	-	18,616	18,616
Capital contributed during the year	-	-	(27,545)	(27,545)	(27,545)
Capital withdrawn during the year	-	-	20,472	20,472	20,472
	-	-	(7,073)	(7,073)	(7,073)
Balance as at 31 December 2005	325,000	169,450	(364,849)	(195,399)	129,601
Profit for the year	-	40,442	-	40,442	40,442
Capital contributed during the year	-	-	(48,622)	(48,622)	(48,622)
Capital withdrawn during the year	-	-	11,828	11,828	11,828
	-	-	(36,794)	(36,794)	(36,794)
Balance as at 31 December 2006	**325,000**	**209,892**	**(401,643)**	**(191,751)**	**133,249**

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	SHAREHOLDERS' FUND	STATUTORY FUNDS						AGGREGATE	
			Life (Participating)	Life (Non-participating)		Accident & Health		Pension Business Fund	2006	2005
				Individual	Group	Individual	Group			
		(Rupees in thousand)								
Operating Cash Flows										
a) Underwriting activities										
Premiums received net of policy transfers		-	58,451	358,840	199,205	55,330	86,552	252	758,630	685,215
Reinsurance premiums paid		-	(4,451)	(35,301)	(56,661)	(4,432)	(2,617)	-	(103,462)	(26,074)
Claims paid		-	(11,571)	(11,611)	(119,616)	(3,813)	(53,089)	-	(199,700)	(156,245)
Surrenders paid		-	(3,002)	(18,265)	-	-	-	-	(21,267)	(11,672)
Reinsurance Recovery Received		-	-	748	2,380	(500)	37	-	2,665	14,443
Commissions paid		-	(11,015)	(88,446)	(38,315)	(17,158)	(598)	(13)	(155,545)	(120,870)
Commissions received		-	1,781	14,121	22,664	1,773	1,047	-	41,386	10,430
Net cash flow from underwriting activities		-	30,193	220,086	9,657	31,200	31,332	239	322,707	415,227
b) Other operating activities										
Income tax received / (paid)		(1,845)	-	-	-	-	-	-	(1,845)	(258)
General management expenses and other operating payments		(659)	(10,609)	(97,589)	(41,287)	(11,705)	(16,773)	(38)	(178,660)	(143,030)
Other operating receipts		1,564	(475)	11,402	7,370	2,323	(81)	(2)	22,101	5,849
Loans		1,221	-	(10,073)	-	-	-	-	(8,852)	(2,738)
Inter Fund Transaction		(30,520)	27,937	(37,959)	61,469	(3,572)	(17,496)	141	-	-
Net cash flow from other operating activities		(30,239)	16,853	(134,219)	27,552	(12,954)	(34,350)	101	(167,256)	(140,177)
Total cash flow from all operating activities		(30,239)	47,046	85,867	37,209	18,246	(3,018)	340	155,451	275,050
Investment activities										
Profit/ return received		3,396	11,480	11,138	13,669	4,010	4,047	108	47,848	45,838
Payments for short term deposits		(22,902)	(72,676)	(106,086)	(38,563)	(162)	-	(78)	(240,467)	(100,000)
Payments for investments		-	(72,713)	(61,409)	(72,450)	-	(9,272)	-	(215,844)	(787,855)
Proceeds from redemption of investments		11,349	91,165	84,359	68,274	-	7,734	-	262,881	568,912
Fixed capital expenditure		-	(3,448)	(6,148)	(1,936)	(272)	(476)	14	(12,266)	(2,492)
Capital work-in-progress		-	(3,185)	(4,848)	(2,041)	(236)	(406)	(8)	(11,324)	-
Proceeds from disposal of fixed assets		-	-	-	-	-	-	-	-	1,423
Total cash flow from investing activities		(8,157)	(49,377)	(82,994)	(33,647)	3,340	1,627	36	(169,172)	(274,174)
Financing activities										
Capital payments received by statutory funds		-	-	-	-	-	-	-	-	-
Surplus appropriated to Shareholder's fund		27,000	-	-	-	(27,000)	-	-	-	-
Total cash flow from financing activities		27,000	-	-	-	(27,000)	-	-	-	-
Net cash inflow/(outflow) from all activities		(11,396)	(2,331)	2,873	3,562	(5,414)	(1,391)	376	(13,721)	876
Cash and cash equivalents at the beginning of the year		11,396	17,694	10,495	1,041	5,854	1,727	786	48,993	48,117
Cash and cash equivalent at the end of the year	21	-	15,363	13,368	4,603	440	336	1,162	35,272	48,993
Reconciliation to Profit and Loss Account										
Operating cash flows									155,451	275,050
Depreciation expense									(8,517)	(8,834)
Profit on disposal of fixed assets									-	1,110
Increase / (decrease) in assets other than cash									3,155	6,318
(Increase) / decrease in liabilities									(238,349)	(337,134)
Investment income									124,799	107,841
Profit received on bank deposits									11,276	3,609
Deficit / (Surplus) of statutory funds									(34,373)	(33,344)
Surplus appropriated to Shareholders' fund									27,000	4,000
Profit or loss after taxation									40,442	18,616

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

REVENUE ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	STATUTORY FUNDS						AGGREGATE	
		Life (Participating)	Life (Non-participating)		Accident & Health		Pension Business Fund	2006	2005
			Individual	Group	Individual	Group			
		(Rupees in thousand)							
Income									
Premiums less reinsurances		53,928	315,659	147,996	48,557	88,650	252	655,042	631,422
Policy transfers from other statutory funds		43,105	-	-	-	-	-	43,105	60,746
Net investment income		23,466	49,617	32,281	3,005	3,830	107	112,306	94,554
Other income - net	19	2,530	14,860	10,023	2,759	1,201	4	31,377	10,164
Total net income		123,029	380,136	190,300	54,321	93,681	363	841,830	796,886
Claims and expenditure									
Claims, including bonuses, net of reinsurance recoveries		14,573	26,024	129,383	2,083	58,097	-	230,160	176,884
Policy transfers to other statutory funds		-	43,105	-	-	-	-	43,105	60,746
Management expenses less recoveries		20,366	172,037	75,683	27,013	17,484	19	312,602	250,670
Total Claims and Expenditure		34,939	241,166	205,066	29,096	75,581	19	585,867	488,300
Excess of income over claims and expenditure		88,090	138,970	(14,766)	25,225	18,100	344	255,963	308,586
Add: Policyholders' liabilities at beginning of the year	5	241,775	379,895	245,100	18,598	31,732	1,409	918,487	643,265
Less: Policyholders' liabilities at end of the year	5	(320,709)	(488,059)	(265,863)	(23,777)	(40,861)	(909)	(1,140,077)	(918,487)
Movement in policyholders' liabilities		(78,935)	(108,164)	(20,763)	(5,179)	(9,149)	600	(221,590)	(275,222)
Surplus / (deficit)		9,155	30,806	(35,529)	20,046	8,951	944	34,373	33,364
Movement in policyholders' liabilities		78,935	108,164	20,763	5,179	9,149	(600)	221,590	275,222
Transfers (to) or from Shareholders' Fund									
- Capital returned to Shareholders' Fund		-	-	-	-	(11,828)	-	(11,828)	(20,472)
- Capital contributions from Shareholders' Fund		-	-	48,622	-	-	-	48,622	27,545
- Surplus appropriated to Shareholders' Fund		-	-	-	(27,000)	-	-	(27,000)	(4,000)
		-	-	48,622	(27,000)	(11,828)	-	9,794	3,073
Balance of Statutory Fund at beginning of the year		273,493	408,171	257,171	29,848	43,051	2,180	1,013,914	702,275
Balance of Statutory Fund at end of the year		361,583	547,141	291,027	28,073	49,323	2,524	1,279,671	1,013,914
Represented by:									
Capital contributed by Shareholders' Fund	5	28,916	223,452	143,810	-	3,888	1,577	401,643	364,849
Policyholders' liabilities		320,709	488,059	265,863	23,777	40,861	909	1,140,077	918,487
Retained earnings attributable to policyholders (Ledger account A)		10,050	-	-	-	-	-	10,050	4,861
Retained earnings on par business attributable to shareholders undistributable (Ledger account B)		1,909	-	-	-	-	-	1,909	(2,697)
Retained earnings on other than participating business (Ledger account D)		-	(164,370)	(118,646)	4,296	4,574	138	(274,008)	(272,326)
Balance of statutory fund		361,583	547,141	291,027	28,073	49,323	2,524	1,279,671	1,013,914

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

STATEMENT OF PREMIUMS FOR THE YEAR ENDED DECEMBER 31, 2006

	STATUTORY FUNDS						AGGREGATE	
	Life	Life (Non-participating)		Accident & Health		Pension	2006	2005
	(Participating)	Individual	Group	Individual	Group	Business Fund		
	(Rupees in thousand)							
Gross premiums								
Regular premium individual policies*								
First year	12,558	135,567	-	38,176	-	-	**186,301**	161,362
Second year renewal	14,885	68,349	-	16,815	-	-	**100,049**	75,362
Subsequent year renewal	33,131	152,131	-	-	-	252	**185,514**	155,945
Group policies without cash values	-	-	185,253	-	90,039	-	**275,292**	299,128
Total Gross premiums	60,574	356,047	185,253	54,991	90,039	252	**747,156**	691,797
Less: Reinsurance premiums ceded								
On individual life first year business	1,592	17,181	-	-	-	-	**18,773**	12,709
On individual life second year business	1,567	7,194	-	-	-	-	**8,761**	5,877
On individual life renewal business	3,487	16,013	-	-	-	-	**19,500**	14,389
On individual accident and health first year	-	-	-	4,854	-	-	**4,854**	4,653
On individual accident and health second year	-	-	-	1,580	-	-	**1,580**	-
On group policies	-	-	37,257	-	1,389	-	**38,646**	22,747
	6,646	40,388	37,257	6,434	1,389	-	**92,114**	60,375
Net Premiums	**53,928**	**315,659**	**147,996**	**48,557**	**88,650**	**252**	**655,042**	631,422

* Individual policies are those underwritten on an individual basis, and includes joint life policies underwritten as such.

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

STATEMENT OF CLAIMS FOR THE YEAR ENDED DECEMBER 31, 2006

	STATUTORY FUNDS						AGGREGATE	
	Life (Participating)	Life (Non-participating) Individual	Life (Non-participating) Group	Accident & Health Individual	Accident & Health Group	Pension Business Fund	2006	2005
	(Rupees in thousand)							
Gross claims								
Claims under individual policies								
by death	-	8,507	-	-	-	-	**8,507**	18,223
by insured event other than death	-	-	-	1,583	-	-	**1,583**	2,758
by maturity	11,571	-	-	-	-	-	**11,571**	8,175
by surrender	3,002	18,265	-	-	-	-	**21,267**	11,672
Total gross individual policy claims	14,573	26,772	-	1,583	-	-	**42,928**	40,828
Claims under group policies								
by death	-	-	114,458	-	-	-	**114,458**	106,720
by insured event other than death	-	-	-	-	52,946	-	**52,946**	35,817
experience refund	-	-	17,305	-	5,188	-	**22,493**	7,962
Total gross group claims	-	-	131,763	-	58,134	-	**189,897**	150,499
Total Gross Claims	14,573	26,772	131,763	1,583	58,134	-	**232,825**	191,327
Less: Re-insurance Recoveries								
On individual life first year business claims	-	318	-	-	-	-	**318**	2,074
On individual life second year business claims	-	133	-	-	-	-	**133**	946
On individual life renewal business claims	-	297	-	-	-	-	**297**	2,316
On individual accident and health business claims	-	-	-	(500)	-	-	**(500)**	700
On group business claims	-	-	2,380	-	37	-	**2,417**	8,407
	-	748	2,380	(500)	37	-	**2,665**	14,443
Net Claims	**14,573**	**26,024**	**129,383**	**2,083**	**58,097**	-	**230,160**	176,884

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

STATEMENT OF EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2006

	Note	STATUTORY FUNDS						AGGREGATE	
		Life (Participating)	Life (Non-participating) Individual	Group	Accident & Health Individual	Group	Pension Business Fund	2006	2005
		(Rupees in thousand)							
Acquisition Costs									
Remuneration to insurance intermediaries on individual policies:									
Commission on first year premiums		6,793	73,334	-	14,035	-	-	**94,162**	83,457
Commission on second year premiums		858	3,940	-	3,134	-	-	**7,932**	5,181
Commission on subsequent renewal premiums		1,900	8,782	-	-	-	13	**10,695**	8,360
Other benefits to insurance intermediaries		3,091	20,043	-	611	-	-	**23,745**	19,677
		12,642	106,099	-	17,780	-	13	**136,534**	116,675
Remuneration to insurance intermediaries on group policies:									
Commission		-	-	38,315	-	598	-	**38,913**	27,564
Other benefits to insurance intermediaries		-	-	1,010	-	-	-	**1,010**	974
Branch Overheads									
- Salaries and other benefits		1,362	7,985	4,494	1,228	1,945	-	**17,014**	10,581
- Other operational costs		1,971	11,582	6,521	1,789	2,814	-	**24,677**	21,200
		3,333	19,567	11,015	3,017	4,759	-	**41,691**	31,781
Other acquisition cost									
Policy stamps		272	2,509	1,846	917	286	-	**5,830**	3,910
		16,247	128,175	52,186	21,714	5,643	13	**223,978**	180,904
Administration Expenses									
Salaries and other benefits		35	24,295	11,712	3,218	5,048	-	**44,308**	36,303
Traveling expenses		133	780	439	120	190	-	**1,662**	1,022
Auditors' remuneration	16	54	317	178	49	77	-	**675**	800
Actuary's fees		145	849	479	131	206	-	**1,810**	1,377
Medical fees		135	793	589	-	255	-	**1,772**	1,838
Legal and professional expenses		32	191	108	29	46	-	**406**	322
Advertisements		239	1,404	790	217	341	-	**2,991**	3,166
Computer expenses		58	338	191	52	82	-	**721**	868
Printing & Stationery		560	3,291	1,854	509	800	-	**7,014**	5,001
Depreciation		1,896	4,145	1,988	177	305	6	**8,517**	8,834
Rental		1,160	6,817	3,838	1,053	1,656	-	**14,524**	6,253
Other Management Expenses	17	2,642	18,099	7,372	2,022	3,182	-	**33,317**	23,326
Gross Management Expenses		23,336	189,494	81,724	29,291	17,831	19	**341,695**	270,034
Commission from Reinsurers		(2,970)	(17,457)	(6,041)	(2,278)	(347)	-	**(29,093)**	(19,364)
Net Management Expenses		**20,366**	**172,037**	**75,683**	**27,013**	**17,484**	**19**	**312,602**	250,670

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE | DIRECTOR | DIRECTOR

STATEMENT OF INVESTMENT INCOME FOR THE YEAR ENDED DECEMBER 31, 2006

	STATUTORY FUNDS						AGGREGATE	
	Life	Life (Non-participating)		Accident & Health		Pension	2006	2005
	(Participating)	Individual	Group	Individual	Group	Business Fund		
	(Rupees in thousand)							
Investment Income								
Return on :								
- Government Securities	25,213	49,752	34,257	3,659	4,381	108	117,370	97,896
- Term Finance Certificates	704	1,967	962	-	-	-	3,633	5,058
	25,917	51,719	35,219	3,659	4,381	108	121,003	102,954
Less : Amortisation of premium	2,451	2,102	2,938	654	551	1	8,697	8,420
	23,466	**49,617**	**32,281**	**3,005**	**3,830**	**107**	**112,306**	94,534

The annexed notes from 1 to 29 are an integral part of these financial statements.

CHAIRMAN & CHIEF EXECUTIVE

DIRECTOR

DIRECTOR

1. STATUS AND NATURE OF BUSINESS

The Company was incorporated in Pakistan on 9 October 1994 as a public limited company under the Companies Ordinance, 1984. Its shares are quoted on the Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Lakson Square, Building No. 1, Sarwar Shaheed Road, Karachi. The Company commenced its operations on 25 May 1995 after registration with the Controller of Insurance on 30 April 1995.

The Company is a subsidiary of American Life Insurance Company (incorporated in the United States of America). The ultimate parent of the Company is American International Group (incorporated in the United States of America).

The Company is engaged in life insurance, carrying on both participating and non-participating business. In accordance with the requirements of the Insurance Ordinance, 2000, the Company established a Shareholders' Fund and separate Statutory Funds, in respect of each class of life insurance business. The Statutory Funds established by the Company, in accordance with the advice of the Appointed Actuary, are as follows:

- Life (participating)
- Life (non-participating) – Individual
- Life (non-participating) – Group
- Accident & Health – Individual
- Accident & Health – Group
- Pension Business Fund

2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 and Securities and Exchange Commission (Insurance) Rules, 2002. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 or directives / rules issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 or of the said directives / rules take precedence.

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

3.1 Use of judgements and assumptions

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and underlying assumption are reviewed on an ongoing basis. Revisions to accounting estimates are recongised in the period in which the estimate in revised and in any future periods affected.

Actual results may differ from these estimates. In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant affect on the amounts recognised in the financial statements are described in note 25.

3.2 Functional and presentation currency

These financial statements have been presented in Pakistani Rupee, which is the Company's functional currency. All financial information presented in Pak Rupees has been rounded to the nearest thousand.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Statutory funds

(i) The Company maintains Statutory Funds in respect of each class of its life insurance business. Assets, liabilities, revenues and expenses of the Company are referable to respective Statutory Funds, however, wherever, these are not referable to Statutory Funds, they are allocated to the Shareholders' Fund.

Apportionment of assets, liabilities, revenues and expenses, wherever required, between the funds are made on a fair and equitable basis and in accordance with the written advice of the Appointed Actuary.

(ii) Actuarial valuation of life insurance business is required to be carried out annually as at the balance sheet date. Policyholders' liabilities included in the statutory funds are based on the actuarial valuation carried out by the Appointed Actuary as at 31 December 2006

(iii) As advised by Securities and Exchange Commission of Pakistan vide letter No. 46/52/ALICO/2004 dated 12 October 2004, the Company adopted the following basis in respect of ledger accounts:

- Allocated (100%) to Ledger Account B the accumulated deficit in the Life (Participating) Statutory Fund up to 31 December 2001 with zero balance in Ledger Account A.
- Transfer of Surplus in the Life (Participating) Statutory Fund, before allocation of bonus to participating policyholders, to Ledger Account A and then appropriation thereof as bonus to policyholders; and
- In accordance with the SECP directive, capital contributed for the purpose of bonus, or contributed for solvency and later diverted to bonus allocation, should no longer be considered as capital (i.e. loan from shareholder) but be made part of permanent money of the Life (Participating) Statutory Fund.

4.2 Policyholders' liabilities

Policyholders' liabilities are stated at a value determined by the appointed actuary through an actuarial valuation carried out as at each balance sheet date. In determining the value both acquired policy values as well as estimated values which will be payable against risks which the Company underwrites. The bases used are applied consistently from year to year.

4.3 Staff retirement benefits

Defined contribution plan

The Company operates an approved contributory provident fund for all its permanent employees. Monthly contributions are made by the Company and the employees @10% of basic salary.

During the year, Rs. 3,042 thousand (2005: Rs. 2,360 thousand) has been recognised in the revenue account in respect of defined contribution plan.

Defined benefit plan

The Company also operates an unfunded gratuity scheme, which covers all permanent employees in the regular service of the Company. The Scheme provides for a graduated scale of benefits, dependent on the length of the service, on termination date. Gratuity is based on the last drawn salary.

The latest actuarial valuation of the scheme was carried out as at 31 December 2006. The "Projected Unit Credit" actuarial cost method, using the following significant assumptions, was used by the actuary for valuation:

Discount rate	10%
Expected rate of increase in salary	10%

Actuarial gains or losses in excess of the 10% of the actuarial liability or plan assets are recognised over the average life of the employees.

4.4 Compensated absences

Accrual is made for employees compensated absences on the basis of accumulated leaves and last drawn salary.

4.5 Taxation

Income tax expense comprises of current and deferred tax.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax is calculated using tax rates enacted or substantively enacted. The charge for the current tax also includes adjustments, where considered necessary, to provisions for tax made in prior years arising from assessments framed during the year for such years.

Deferred

Deferred tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

4.6 Liability for outstanding claims

Claims are recognised at the date at which the insured event occurs except for accident and health claims which are recognised as soon as a reliable estimate of the claim amount can be made. Full provision is made for the estimated cost of claims incurred to the date of the balance sheet.

The claims liability constitutes amounts pertaining to unpaid claims and estimated claims settlement cost. Claims incurred but not reported (IBNR) are included in the policyholders' liabilities.

Claims recoveries receivable from reinsurers are recognized as assets at the same time when the corresponding claims are recorded in accordance with the terms of the re-insurance contracts.

Experience refund of premium is included in outstanding claims.

4.7 Loans secured against life insurance policies

Interest bearing loans are available to policyholders of the Company to the extent of ninety percent of cash values built in their policies. These are recognised on disbursement.

4.8 Investments

The Company has classified all its investments as held to maturity. These are investments with fixed or determinable payments and fixed maturity and the management has positive intent and ability to hold to maturity.

All investments are initially recognised at cost, being the fair value of the consideration given including acquisition charges associated with the investment. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are accounted for at the trade date i.e. the date when the Company commits to purchase or sell the investment.

Subsequently, investments are measured at amortized cost, less provision for other than temporary impairment in value, using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition. Any gain or loss is recognised in the income when the investment is derecognised or impaired.

4.9 Fixed assets – tangible

These are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Depreciation charge is based on straight line method of depreciation to allocate the depreciable amount of an asset over its estimated useful life at the rates given in note 16. Depreciable amount represents cost less estimated residual value, if any. Depreciation on additions during the year is charged on a proportionate basis. No depreciation is charged in the year of disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which these are incurred.

The asset's useful lives, residual values and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the estimated recoverable amount.

Gains or Losses on disposal or retirement of assets are taken to the Revenue Account.

4.10 Impairment

Assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

4.11 Provisions

Provisions are recognised when the Company has a legal or constructive obligation as a result of past events, and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed quarterly and adjusted to reflect current best estimate.

4.12 Revenue recognition

Premiums

- First year premiums on individual policies are recognised when the related policies are issued and premiums received. Second year and subsequent year renewal premiums are recognised when due.
- Group premiums are recognised when due.

Markup / Interest

Return on Government Securities and Term Finance Certificates are recognised on a time proportion basis that takes into account the effective yield on the asset.

Mark-up on bank deposits, loans to employees and loans to policyholders are recognised on accrual basis.

4.13 Acquisition costs

These are costs incurred in acquiring insurance policies, maintaining such policies, and include without limitation all forms of remuneration paid to insurance agents.

Commissions and other expenses are recognised as an expense in the earlier of the financial year in which they are paid and financial year in which they become due and payable, except that commission and other expenses which are directly referable to the acquisition or renewal of specific contracts are recognised not later than the period in which the premium to which they refer is recognised as revenue.

4.14 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting using the classes or sub-classes of business (Statutory Funds) as specified under the Insurance Ordinance 2000 and SEC (Insurance) Rules, 2002 as the primary reporting format.

The Company operates in Pakistan only.

4.15 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account or revenue account.

4.16 Financial assets and liabilities

All financial assets and liabilities are initially measured at fair value. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

Financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual

rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and liabilities are included in the profit and loss account or revenue account.

4.17 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set-off the recognised amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.18 Cash and cash equivalents

For the purposes of cash flow statement cash means:

- Cash and stamps in hand
- Cash at bank on current and other accounts
- Deposits maturing within three months

4.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves except appropriations required by the law or determined by actuary or allowed by Insurance Ordinance 2000, are recognised in the year in which these are approved.

5. MOVEMENTS IN EQUITY

	STATUTORY FUNDS						AGGREGATE	
	Life (Participating)	Life (Non-participating)		Accident & Health		Pension Business Fund	2006	2005
		Individual	Group	Individual	Group			
	(Rupees in thousand)							
Policyholders' liabilities								
Balance at the beginning of the year	241,773	379,895	245,100	18,598	31,712	1,409	918,487	643,265
Increase / (decrease) during the year	78,935	108,164	20,763	5,179	9,149	(600)	221,590	275,222
Balance at end of the year	**320,708**	**488,059**	**265,863**	**23,777**	**40,861**	**809**	1,140,077	918,487
Retained earnings attributable to policyholders - Ledger Account A								
Balance at the beginning of the year	4,861	-	-	-	-	-	4,861	608
Surplus allocated during the year (note 5.1)	39,660	-	-	-	-	-	39,660	36,644
Surplus Adjustment - 10% transferred to Ledger Account B	(3,966)	-	-	-	-	-	(3,966)	(3,664)
Bonus allocated during the year	(30,505)	-	-	-	-	-	(30,505)	(28,727)
Closing balance at the end of the year	**10,050**	-	-	-	-	-	10,050	4,861
Retained earnings on par business attributable to shareholders - Ledger Account B								
Balance at the beginning of the year	(2,057)	-	-	-	-	-	(2,057)	(5,721)
Surplus Adjustment - 10% transferred from Ledger Account A	3,966	-	-	-	-	-	3,966	3,664
Closing balance at the end of the year	**1,909**	-	-	-	-	-	1,909	(2,057)
Retained earnings on other than participating business - Ledger Account D								
Balance at the beginning of the year	-	(195,176)	(83,117)	11,250	(4,377)	(806)	(272,226)	(293,653)
Surplus/(deficit) allocated during the year	-	30,806	(35,529)	20,046	8,951	944	25,218	25,427
Surplus appropriated to Shareholders' Fund	-	-	-	(27,000)	-	-	(27,000)	(4,000)
Closing balance at the end of the year	-	(164,370)	(118,646)	4,296	4,574	138	(274,008)	(272,226)
Capital contributed by shareholders' fund								
Balance at the beginning of the year	28,916	223,452	95,188	-	15,716	1,577	364,849	357,776
Capital contributed during the year	-	-	48,622	-	-	-	48,622	14,661
Capital withdrawn during the year	-	-	-	-	(11,828)	-	(11,828)	(20,472)
Capital contributed to comply with section 21 of the Insurance Ordinance, 2000 (note 5.2)	-	-	-	-	-	-	-	12,884
	-	-	48,622	-	(11,828)	-	36,794	7,073
Balance at end of the year	**28,916**	**223,452**	**143,810**	-	**3,888**	**1,577**	401,643	364,849

5.1 This represent surplus earned in Life (Participating Statutory Fund before allocation of bonus. Amount of surplus appearing in the Revenue Account is net off bonus allocated during the year.

5.2 This represents capital distributed in 2005 by Statutory Fund to the Shareholders' Fund in accordance with the advice of the Appointed Actuary.

6. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2006	2005		2006	2005
(Number of shares in '000)			(Rupees in thousand)	
32,500	32,500	Ordinary Shares of Rs. 10 each fully paid in cash	**325,000**	325,000

American Life Insurance Company (incorporated in the United States of America) held 16,566,250 shares representing 51% (2005: 16,566,250 shares representing 51%) of Company's shares as at 31December 2006.

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

	2006	2005
	(Rupees in thousand)	
Accumulated surplus in the statement of changes in equity ignoring effect of capital transfers at beginning of the year	**169,450**	150,834
Add: Surplus in profit and loss account for the year	**40,442**	18,616
Accumulated surplus in statement of changes in equity ignoring effect of capital transfers at end of the year	**209,892**	169,450
Less: Accumulated net capital transfers in statutory funds	**(401,643)**	(364,849)
Total as shown in the Balance Sheet	**(191,751)**	(195,399)

7.1 In order to achieve compliance with the requirements of the Insurance Ordinance, 2000 relating to i) solvency; and ii) return of capital from statutory funds to shareholders' fund, the Company as at 31 December 2006 has retained an amount of Rs. 127.6 million (2005: Rs. 92.6 million) in the statutory funds. This has resulted in the shareholders' equity being lower by this amount.

8. POLICYHOLDERS' LIABILITIES

	STATUTORY FUNDS						AGGREGATE	
	Life (Participating)	Life (Non-participating) Individual	Life (Non-participating) Group	Accident & Health Individual	Accident & Health Group	Pension Business Fund	2006	2005
	(Rupees in thousand)							
Gross of Reinsurance								
Actuarial liability relating to future event	321,630	490,312	234,177	21,310	28,781	809	1,097,019	873,785
Provision for outstanding reported claims payable over a period exceeding twelve months	-	2,125	360	4,075	-	-	6,560	6,085
Provision for incurred but not reported claims	1,063	1,639	31,326	2,758	15,695	-	52,481	45,751
Total	**322,693**	**494,076**	**265,863**	**28,143**	**44,476**	**809**	**1,156,060**	**925,621**
Net of Reinsurance								
Actuarial liability relating to future events	319,645	484,550	234,177	20,601	25,166	809	1,085,248	871,682
Provision for outstanding reported claims payable over a period exceeding twelve months	-	1,570	360	418	-	-	2,348	1,684
Provision for incurred but not reported claims	1,063	1,639	31,326	2,758	15,695	-	52,481	45,751
Total	**320,708**	**488,059**	**265,863**	**23,777**	**40,861**	**809**	**1,140,077**	**918,487**

8.1 In case of Group Life (non-participating) and Pension Business Fund, the effect of reinsurance being not material, has not been considered by the Appointed Actuary in determining policyholders' liabilities of other Statutory Funds.

9. STAFF GRATUITY

The liability resulting from the actuarial valuation carried out as at December 31, 2006 is as follows:

9.1 Reconciliation of payable to defined benefit plan

		2006	2005
		(Rupees in thousand)	
Present value of defined benefit obligation	9.2	**12,681**	9,112
Net actuarial gain not recognised		**332**	1,701
		13,013	10,813

9.2 Movement in present value of defined benefit obligation

Opening balance	**9,112**	8,086
Current service cost	**2,564**	1,409
Interest cost	**729**	566
Loss on defined benefit obligation	**1,316**	698
Actual benefit paid during the year	**(1,040)**	(1,647)
Closing balance	**12,681**	9,112

9.3 Movement in liability recognised

Opening balance	**10,813**	10,599
Charge for the year	**3,240**	1,861
Payment during the year	**(1,040)**	(1,647)
Closing balance	**13,013**	10,813

9.4 Charge for defined benefit plan

Current service cost	**2,564**	1,409
Interest cost	**729**	566
Net actuarial gain recognized	**(53)**	(114)
	3,240	1,861

9.5 Historical information

	2006	2005	2004	2003	2002
	(Rupees in thousand)				
Actuarial loss / (gain) on obligation	**1,316**	698	(2,769)	-	256
Defined benefit obligation	**9,112**	8,086	9,149	7,283	5,065
Experience adjustment on plan liabilities	**14%**	9%	-30%	0%	5%

10. OTHER CREDITORS AND ACCRUALS

	STATUTORY FUNDS						AGGREGATE	
	Life (Participating)	Life (Non-participating) Individual	Group	Accident & Health Individual	Group	Pension Business Fund	2006	2005
	(Rupees in thousand)							
Withholding tax deducted	840	1,279	259	62	40	1	**2,481**	2,111
Reserve for partial maturities	749	1,162	-	59	-	-	**1,970**	2,281
Other liabilities	3,465	5,250	4,419	254	678	9	**14,075**	6,631
	5,054	**7,691**	**4,678**	**375**	**718**	**10**	**18,526**	11,023

11. DIVIDEND

	2006	2005
	(Rupees in thousand)	
Unpaid (note 11.1)	**8,288**	8,288
Unclaimed	**34**	34
	8,322	8,322

11.1 This represents dividend payable to the holding company. The remittance of which has been withheld, as per their instructions, till further notice.

12. INVESTMENTS

	SHARE HOLDERS FUND	STATUTORY FUNDS						AGGREGATE	
		Life (Participating)	Life (Non-participating) Individual	Group	Accident & Health Individual	Group	Pension Business Fund	2006	2005
	(Rupees in thousand)								
Government Securities-held to maturity (note 12.1)									
Defence Saving Certificates	61,095	72,630	251,874	120,173	-	-	-	505,772	428,496
WAPDA Bonds	-	16,705	5,855	5,055	-	5,107	-	30,722	31,233
Pakistan Investment Bonds	32,045	139,075	114,774	177,110	39,084	50,834	1,228	554,150	361,180
Treasury Bills	-	-	-	-	-	-	-	-	203,789
	93,140	228,410	372,503	302,338	39,084	53,941	1,228	1,090,644	1,024,696
Term Finance Certificates - held to maturity (note 12.2)									
Sui Southern Gas Company Limited	-	-	2,968	943	-	-	-	3,911	12,603
Orix Leasing Pakistan Limited	-	-	-	-	-	-	-	-	27,230
MCB Bank Limited	-	-	-	1,913	-	-	-	1,913	2,025
	-	-	2,968	2,856	-	-	-	5,824	41,858
	93,140	228,410	375,471	305,194	39,084	53,941	1,228	1,096,468	1,066,554

		Maturity	Tenor	Coupon Rate	Profit Payment	AGGREGATE 2006	AGGREGATE 2005
						(Rupees in thousand)	
12.1	**Government Securities-held to maturity**						
	Defence Saving Certificates	2007	10 Years	18.0%	At Maturity	166,634	141,175
	Defence Saving Certificates	2008	10 Years	18.0%	At Maturity	339,138	287,321
						505,772	428,496
	Wapda Bonds	2008	5 Years	7.3%	Half Yearly	30,722	31,231
	Pakistan Investment Bonds	2009	3 Years	9.1%	Half Yearly	50,833	-
	Pakistan Investment Bonds	2006	5 Years	11.0%	Half Yearly	-	15,203
	Pakistan Investment Bonds	2007	5 Years	10.0%	Half Yearly	10,238	10,730
	Pakistan Investment Bonds	2008	5 Years	7.0%	Half Yearly	37,576	37,873
	Pakistan Investment Bonds	2009	5 Years	7.0%	Half Yearly	5,233	5,324
	Pakistan Investment Bonds	2010	10 Years	14.0%	Half Yearly	11,898	12,356
	Pakistan Investment Bonds	2011	10 Years	13.0%	Half Yearly	150,355	122,244
	Pakistan Investment Bonds	2011	10 Years	14.0%	Half Yearly	62,766	40,816
	Pakistan Investment Bonds	2011	10 Years	12.0%	Half Yearly	30,013	30,673
	Pakistan Investment Bonds	2012	10 Years	11.0%	Half Yearly	66,255	57,909
	Pakistan Investment Bonds	2014	10 Years	8.0%	Half Yearly	5,445	5,492
	Pakistan Investment Bonds	2019	15 Years	9.0%	Half Yearly	22,524	22,560
	Pakistan Investment Bonds	2016	10 Years	9.6%	Half Yearly	96,577	-
	Pakistan Investment Bonds	2013	10 Years	8.0%	Half Yearly	4,437	-
						554,150	361,180
	Treasury Bills	2006	9 months	7.5%	At Maturity	-	14,424
		2006	9 months	8.5%	At Maturity	-	81,759
		2006	1 Year	7.5%	At Maturity	-	19,180
		2006	1 Year	8.0%	At Maturity	-	88,426
						-	203,789
						1,090,644	1,024,696
12.2	**Term Finance Certificates - held to maturity**						
	MCB Bank Limited	2008	5 Years	11.8%	Half Yearly	1,913	2,025
	Sui Southern Gas Company Limited	2006	5 Years	13.0%	Half Yearly	-	667
	Sui Southern Gas Company Limited	2007	5 Years	11.5%	Half Yearly	3,911	11,936
						3,911	12,603
	Orix Leasing Pakistan Limited	2006	4 Years	10.0%	Half Yearly	-	27,230
						5,824	41,858

12.3 The aggregate market value of Pakistan Investment Bonds, Treasury Bills and Term Finance Certificates as at 31 December 2006 was Rs. 564.226 million (2005 : Rs. 608.062 million).

12.4 Interest accrued but not received on investments in DSCs as at 31 December 2006 amounting to Rs. 382.772 million (2005: Rs. 305.497 million) has been included in the cost of investments, while calculating amortised cost.

12.5 **Statutory deposit**

13% ten years Pakistan Investment Bonds having a face value of Rs. 32.5 million have been deposited with the State Bank of Pakistan under section 29 of the Insurance Ordinance, 2000.

13. PREMIUMS DUE BUT UNPAID

	STATUTORY FUNDS						AGGREGATE	
	Life	Life (Non-participating)		Accident & Health		Pension	2006	2005
	(Participating)	Individual	Group	Individual	Group	Business Fund		
	(Rupees in thousand)							
Gross	6,188	30,729	7,609	-	11,003	-	**55,529**	61,136
Less: Loading (note 13.1)	1,417	8,253	-	-	-	-	**9,670**	4,603
	4,771	**22,476**	**7,609**	**-**	**11,003**	**-**	**45,859**	56,533

13.1 Loading represents an allocation of expected expenses to be incurred with respect to premiums outstanding.

14. SUNDRY RECEIVABLES

	STATUTORY FUNDS						AGGREGATE	
	Life	Life (Non-participating)		Accident & Health		Pension	2006	2005
	(Participating)	Individual	Group	Individual	Group	Business Fund		
	(Rupees in thousand)							
Advances to employees against expenses								
- executives	173	263	143	13	23	-	**615**	83
- others	347	527	287	26	44	1	**1,232**	533
	520	**790**	**430**	**39**	**67**	**1**	**1,847**	616
Deposits	1,724	2,624	1,430	128	220	4	**6,130**	770
Receivable against administrative services	762	1,160	632	57	97	2	**2,710**	2,411
Receivable from associated undertakings	447	680	370	33	57	2	**1,589**	535
Others	817	1,244	678	60	103	2	**2,904**	3,837
	4,270	**6,498**	**3,540**	**317**	**544**	**11**	**15,180**	8,169

15. LEASEHOLD IMPROVEMENTS, FURNITURE AND FIXTURES OFFICE EQUIPMENTS, COMPUTERS AND VEHICLES

Classification of assets	Leasehold improvements	Computers			Motor vehicles	Furniture & fixtures	Office equipments	Total
		IBM AS400	Personal computers	Sub total				
	(Rupees in thousand)							
As at 1 January 2005								
Cost	20,581	10,167	6,240	16,407	14,373	23,031	8,276	82,668
Accumulated depreciation	(10,650)	(10,067)	(4,831)	(14,898)	(7,537)	(11,738)	(3,674)	(48,497)
Net Book Value	9,931	100	1,409	1,509	6,836	11,293	4,602	34,171
Year ended 31 December 2005								
Opening net book value	9,931	100	1,409	1,509	6,836	11,293	4,602	34,171
Additions	172	-	166	166	83	1,642	429	2,492
Disposals								
- Cost	(892)	-	-	-	(2,038)	(232)	(33)	(3,195)
- Accumulated depreciation	738	-	-	-	2,038	83	23	2,882
	(154)	-	-	-	-	(149)	(10)	(313)
Depreciation charge	(1,922)	(79)	(807)	(886)	(3,159)	(2,092)	(775)	(8,834)
Closing net book value	8,027	21	768	789	3,760	10,694	4,246	27,516
As at 31 December 2005								
Cost	19,861	10,167	6,406	16,573	12,418	24,441	8,672	81,965
Accumulated depreciation	(11,834)	(10,146)	(5,638)	(15,784)	(8,658)	(13,747)	(4,426)	(54,449)
Net book value	8,027	21	768	789	3,760	10,694	4,246	27,516
Year ended 31 December 2006								
Opening net book value	8,027	21	768	789	3,760	10,694	4,246	27,516
Additions	472	3,713	1,846	5,559	3,557	1,934	744	12,266
Depreciation charge	(1,760)	(583)	(672)	(1,255)	(2,796)	(2,106)	(600)	(8,517)
Closing net book value	**6,739**	**3,151**	**1,942**	**5,093**	**4,521**	**10,522**	**4,390**	**31,265**
As at 31 December 2006								
Cost	20,333	13,880	8,252	22,132	15,975	26,375	9,416	94,231
Accumulated depreciation	(13,594)	(10,729)	(6,310)	(17,039)	(11,454)	(15,853)	(5,026)	(62,966)
Net book value	**6,739**	**3,151**	**1,942**	**5,093**	**4,521**	**10,522**	**4,390**	**31,265**
Annual rate of depreciation %	10%	20%	33%		33%	10%	10%	

15.1 Disposal of fixed assets

During the year, no disposal of fixed assets was made by the Company.

	AGGREGATE	
	2006	2005
	(Rupees in thousand)	

16. AUDITORS' REMUNERATION

Audit fee	475	475
Fee for review of half yearly accounts	75	75
Out of pocket expenses	125	250
	675	800

17. OTHER MANAGEMENT EXPENSES

	STATUTORY FUNDS						AGGREGATE	
	Life (Participating)	Life (Non-participating) Individual	Life (Non-participating) Group	Accident & Health Individual	Accident & Health Group	Pension Business Fund	2006	2005
	(Rupees in thousand)							
Vehicle and general repair and maintenance	481	2,828	1,593	437	687	-	6,026	8,353
Agency development	30	180	-	-	-	-	210	83
Books and subscriptions	3	15	9	2	4	-	33	377
Postage, telegraph and telephone	931	5,470	3,082	845	1,329	-	11,657	5,198
Utilities-electricity, water and gas	35	3,644	1,771	486	764	-	6,700	2,005
Entertainment	3	15	9	2	4	-	33	2,517
Insurance	48	285	160	44	69	-	606	422
Social security	64	377	212	58	92	-	803	22
Furniture and household appliances	46	273	153	42	66	-	580	396
Interest on policyholders' funds	149	-	-	-	-	-	149	173
Increase in loading on due premiums	737	4,330	-	-	-	-	5,067	(57)
Consultancy fee	107	632	356	98	153	-	1,346	559
Miscellaneous expenses	8	50	27	8	14	-	107	3,278
	2,642	18,099	7,372	2,022	3,182	-	33,317	23,326

18. OTHER INCOME

Return on saving accounts with banks	866	9,345	8,643	2,635	1,345	-	22,834	3,205
Gain on disposal of fixed assets	-	-	-	-	-	-	-	1,110
Interest on policy loans	-	2,642	-	-	-	-	2,642	413
Others	1,664	2,873	1,380	124	(144)	4	5,901	5,436
	2,530	14,860	10,023	2,759	1,201	4	31,377	10,164

19. TAXATION

	2006	2005
	(Rupees in thousand)	
Current - for the year	-	4,099
Prior year charge	-	1,967
Deferred	392	(7,432)
	392	(1,366)

20. EARNINGS PER SHARE - Basic and diluted

Profit after tax	40,442	18,616
	Number of shares	
Weighted average number of shares	32,500,000	32,500,000
	(Rupees)	
Earning per share - Basic and diluted	1.24	0.57

21. CASH AND CASH EQUIVALENTS

	SHARE HOLDERS' FUND	STATUTORY FUNDS						AGGREGATE	
		Life (Participating)	Life (Non-participating) Individual	Group	Accident & Health Individual	Group	Pension Business Fund	2006	2005
	(Rupees in thousand)								
Cash and others	-	71	108	59	5	8	-	251	909
Current and other accounts	-	15,292	13,260	4,544	435	328	1,162	35,021	48,084
	-	15,363	13,368	4,603	440	336	1,162	35,272	48,993

22. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND OTHER EXECUTIVES

	2006				2005			
	Chief Executive	Director	Executives	Total	Chief Executive	Director	Executives	Total
	(Rupees in thousand)							
Managerial remuneration	3,164	1,529	28,216	32,909	3,164	1,432	15,684	20,280
Bonus	264	127	1,210	1,601	264	115	699	1,078
Retirement benefits	580	217	2,887	3,684	570	407	1,542	2,519
Utilities	120	36	7,661	7,817	147	-	941	1,088
Telephone	93	50	-	143	97	-	30	127
Other benefits	90	66	376	532	90	-	458	548
	4,311	2,025	40,350	46,686	4,332	1,954	19,354	25,640
Number of persons, including those who worked part of the year	(Numbers)							
	1	1	28	30	1	1	17	19

Payment to non-executive director for consultancy services amounted to Rs. 10 thousand (2005: Rs. 15 thousand).

In addition to the above remuneration, the Chief Executive, and two executives have been provided with free furnished accommodation and Company maintained cars. Further, five executives have been provided with Company maintained cars and two executives and one Director have been provided with Company cars maintained by them.

23. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

23.1 Policyholders' liabilities

The general principles adopted by the Appointed Actuary to value the policyholders' liabilities of various classes of business are described below:

a) All classes of business except Universal Life Insurance, Group Insurance, Accident & Health Insurance and Pension, have been valued on the minimum valuation basis, prescribed by the SECP, which for the time being is the same as was in force at the time, the Insurance Ordinance 2000 was promulgated.

Valuation discount rate	3.75% pa
Mortality table	EFU 61-66
Valuation Method	Net level premium method for term greater than or equal to 20 years. For lower terms, combination of Net level premium method and full preliminary term method.

b) Universal Life and Pension policies have been valued at their full Account Values. No deduction has been made for surrender charges, if any. Death Benefit reserves have been provided.

c) Paid up and extended term insurances have been valued by net single premium method.

d) Group Life Insurance and Group A&H Insurances, Individual Accident & Health Policies, Extra premium and accident supplementary benefits to life policies have been valued by unearned premiums.

The principles adopted in the previous valuation as at 31 December 2005, were the same as those followed in this valuation. Hence there is no impact of any change in valuation basis.

Surrenders

For the purpose of conventional and annuity business, no provision has been made for lapses and surrenders. This gives prudence to the value placed on the liability by not taking any credits for the profits made on surrenders.

Claims provision

The calculation of Incurred But Not Reported claims reserve for Life, Accident and Health business lines has been based on the assumption that claims lag pattern would follow the trend experienced over the past few years.

The reserving basis has been formulated on the recent claims lag pattern and experience of the Company for each lines of business separately. Appropriate margins have been added to ensure that the reserve set aside is resilient to changes in experience.

23.2 Classification of investments

Investments are classified as held to maturity based on the assumption that the Company will be able to hold these investments till their maturity.

23.3 Provision for taxation

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on disputed issues in the past.

24. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

24.1 Financial Assets and Liabilities

	Interest/mark-up bearing					Non-interest/mark-up bearing					Total	
	Maturity upto one year	Maturity 1 to 3 year	Maturity 3 to 5 year	Maturity more than 5 year	Sub-total	Maturity upto one year	Maturity 1 to 3 year	Maturity 3 to 5 year	Maturity more than 5 year	Sub-total	2006	2005
	(Rupees in thousand)											
Financial Assets												
Cash and bank deposits	366,301	-	-	-	366,301	9,438	-	-	-	9,438	375,739	148,993
Loans secured against life insurance policies	27,687	-	-	-	27,687	-	-	-	-	-	27,687	17,614
Loans secured against other assets:												
To employees	27	375	646	-	1,048	-	-	-	-	-	1,048	969
To agents	148	1,802	318	-	2,268	-	-	-	-	-	2,268	3,568
Investments	180,782	465,414	255,033	195,239	1,096,468	-	-	-	-	-	1,096,468	1,066,554
Premiums due but unpaid	-	-	-	-	-	45,859	-	-	-	45,859	45,859	56,532
Amounts due from other insurers/reinsurers	-	-	-	-	-	13,717	-	-	-	13,717	13,717	22,359
Sundry receivables	-	-	-	-	-	13,332	-	-	-	13,332	13,332	7,553
Accrued interest	-	-	-	-	-	21,547	-	-	-	21,547	21,547	10,272
	574,945	467,591	255,997	195,239	1,493,772	103,893	-	-	-	103,893	1,597,665	1,334,415
Financial Liabilities												
Outstanding claims	-	-	-	-	-	139,814	-	-	-	139,814	139,814	127,956
Amounts due to other insurers/reinsurers	-	-	-	-	-	23,471	-	-	-	23,471	23,471	32,168
Amounts due to agents	-	-	-	-	-	4,796	-	-	-	4,796	4,796	8,639
Accrued expenses	-	-	-	-	-	24,854	-	-	-	24,854	24,854	18,097
Other creditors and accruals	-	-	-	-	-	18,526	-	-	-	18,526	18,526	17,623
Dividend	-	-	-	-	-	8,322	-	-	-	8,322	8,322	8,322
	-	-	-	-	-	219,963	-	-	-	219,963	219,963	212,805

24.2 The effective interest rates on financial assets are as follows:

	2006 %	2005 %
Investments	4.47-18.04	1.31-18.04
Loans secured against life insurance policies	9-11	9-11
Loans secured against other assets:		
To employee	9	12
To agents	9	12
Bank balances and short term deposits	1-14	1-10

24.3 Liquidity and interest rate risk

(a) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its funding requirements. To guard against this risk, the Company's assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and investments.

(b) Interest rate risk

The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities. The Company limits interest rate risk while monitoring changes in interest rates on its deposits and investments.

24.4 Financial risk management

Financial risk factors

The Company's activities are exposed to a variety of financial risks most notably credit risk, foreign exchange risk, market risk and reinsurance risk. The Company has established adequate procedures to manage each of these risks as explained below:

(a) Credit risk and concentration of credit risk exposure

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits the Company's exposure to credit risk through monitoring of counterparty's exposure. The management is of the view that it is not exposed to significant concentration of credit risk.

(b) Foreign exchange risk

Foreign currency risk arises mainly where receivables/payables exist due to transactions with foreign undertakings. The Company is not exposed to any significant foreign exchange risk.

(c) 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 effecting all securities traded in the market.

The Company is not exposed to any significant market risk as all its investments have been classified as held to maturity investments.

(d) Reinsurance risk

Reinsurance ceded do not relieve the Company from its obligation to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that reinsurer fails to meet the obligation under the reinsurance agreements.

In order to minimize the financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with foreign entities of sound creditability and financial standing.

25. TRANSACTIONS WITH RELATED PARTIES

25.1 Related parties comprise of holding company, associated companies, other companies with common directors, retirement benefit funds, directors and key management personnel.

25.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in the financial statements, are as follows:

	2006	2005
	(Rupees in thousand)	
Balances outstanding		
Payable to reinsurers	**10,773**	18,640
Loans to key management employees	**646**	7
Other related party receivable balances	**647**	1,751
Transactions during the year		
Reinsurance premium (expense)	**10,773**	11,351
General insurance premium (expense)	**1,113**	935
Group insurance claim (expense)	**1,942**	2,189
Group insurance premium charged	**1,025**	13,609
Charges for administrative services provided	**143**	84
Reimbursement of expense received	**4,116**	3,135
Remuneration paid to key management personnel	**28,032**	20,287
Contribution made to provident fund	**3,042**	2,360

25.3 There are no transactions with key management personnel other than under the terms of employment.

25.4 Transactions with related parties are carried out on commercial terms and conditions.

26. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

IAS- 1 Presentation of Financial Statements- amendments relating to capital disclosures	effective from accounting period beginning on or after 1 January 2007

The other new standards, amendments and interpretation that are mandatory for accounting periods beginning on or after 1 January 2007 are considered not to be relevant or have any significant effect to the Company's operations.

27. NON - ADJUSTING EVENTS AFTER BALANCE SHEET DATE

The Board of Directors in their meeting held on 03 April 2007 have proposed a cash dividend @ 5% amounting to Rs. 16.25 million.

These financial statements do not reflect the above appropriation which will be accounted for in the year in which this is approve.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 03 April 2007 by the Board of Directors of the Company.

29. CORRESPONDING FIGURES

Reclassification from	Reclassification to	Reasons for reclassification	(Rupees in '000)
Investments	Accrued interest	Better presentation	6,331
Deferred taxation	Taxation provision less payments	Classification error	7,040

CHAIRMAN & CHIEF EXECUTIVE DIRECTOR DIRECTOR

STATEMENT OF DIRECTORS

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

Section 46 (6)

a) In our opinion the annual statutory accounts of the American Life Insurance Company (Pakistan) Limited set out in the forms attached to the statement have been drawn up in accordance with the Ordinance and any rules made thereunder;

b) American Life Insurance Company (Pakistan) Limited has at all times in the year complied with the provisions of the Ordinance and the rules made thereunder relating to paid-up capital, solvency and reinsurance arrangements; and

c) As at December 31, 2006, American Life Insurance Company (Pakistan) Limited continues to be in compliance with the provisions of the Ordinance and the rules made thereunder relating to paid-up capital, solvency and reinsurance arrangements.

Section 52 (2)

d) In our opinion each statutory fund of American Life Insurance Company (Pakistan) Limited complies with the solvency requirements of Insurance Ordinance, 2000 and the Insurance Rules, 2002.

Chairman & Chief Executive | Director | Director

STATEMENT OF ACTUARY

[As per the requirement of section 52(2) of the Insurance Ordinance, 2000]

In my opinion :

a) the policyholder liabilities included in the balance sheet of American Life Insurance Company (Pakistan) Limited as at December 31, 2006 have been determined in accordance with the provisions of the Insurance Ordinance, 2000; and

b) each Statutory fund of the American Life Insurance Company (Pakistan) Limited complies with the solvency requirements of the Insurance Ordinance, 2000 as on 31 December 2006.

Syed Waqar Ahmed, CFA, FRM
Appointed Actuary

Date : April 03, 2007

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Twelfth Annual General Meeting of American Life Insurance Company (Pakistan) Limited will be held at Ball Room B, Pearl Continental Hotel, Karachi on Saturday, April 28, 2007 at 12.00 noon to transact the following business: -

Ordinary Business

1. To confirm the minutes of the last Annual General Meeting of the Company held on April 29, 2006.
2. To receive, consider and adopt the Annual Audited financial statements of the Company together with the Directors' and Auditors' report thereon for the year ended December 31, 2006.
3. To appoint auditors for the year ended December 31, 2007 and fix their remuneration. The retiring auditors M/s KPMG Taseer Hadi & Co, being eligible have offered themselves for re-appointment.
4. To approve and declare dividend for the year 2006 as recommended by the directors.

   Director have recommended final dividend of 5% (Rs. 0.5 per share) on the ordinary shares of the Company

Special Business

5. To approve the remuneration of the Chief Executive Officer.
6. To approve payments made to non-executive director on account of technical advisory services, in accordance with Article 65 of the Articles of Association of the Company.

By order of the Board
Asim Iftikhar
Company Secretary

April 5, 2007
Karachi

NOTES:

1. The Share Transfer Books of the Company will remain closed from April 22, 2007 to April 28, 2007 (both days inclusive).
2. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote on his/her behalf. A corporation being a member may, by means of a resolution of its directors, appoint a person who is not a member, as proxy or as its representative under section 162 of the Companies Ordinance 1984.
3. The instrument appointing a proxy, in order to be valid, must be deposited at the office of Share Registrar, M/s THK Associates (Pvt) Limited, Ground Floor, State Life Building-3, Ziauddin Ahmed Road, Karachi, duly signed, stamped and witnessed, not less than forty-eight hours before the time of meeting. A member shall not be entitled to appoint more than one proxy. If more than one instrument of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. Members whose shares are deposited with Central Depository Company of Pakistan Limited (CDC) are requested to bring their original Computerized National Identity Cards (CNIC) along with the participant's I.D. number and their account numbers in CDC to facilitate identification at the time of Annual General

Meeting. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting (unless it has been provided earlier).

5. Members are requested to promptly notify to M/s THK Associates (Pvt) Limited of any change in their address to ensure delivery of mail.

Statement in Respect of Special Business and Related Draft Resolution

Under Section 160 (1) (b) of the Companies Ordinance, 1984

This statement sets out the material facts concerning the special business to be transacted at the 12th Annual General Meeting of the Company to be held on April 28, 2007.

1. Approval of the Shareholders will be sought for the holding of office of profit by the Chief Executive as well as of the remuneration payable to him in accordance with his terms and conditions of service. For this purpose following resolution will be moved:

   "Resolved that:

   Approval is hereby given for the holding of office of profit with the Company by the Chief Executive, namely, Mr. Arif Sultan Mufti for payment of remuneration amounting to Rs. 4.3 million based on actual for the year ended December 31, 2006, and the remuneration amounting Rs. 5.5 million as estimated for the year ending December 31, 2007, together with other benefits in accordance with the rules of the Company."

2. Approval of Shareholders will be sought for the fee paid to Mr. Ehsan Ahmed Nomani on account of legal and technical advisory services amounting Rs. 10,000.