Balance Sheet
As at 31 December 2011

efu GENERAL

Rupees '000

	Note	2011	2010
Share capital and reserves			
Authorised capital			
150 000 000 (2010: 150 000 000)		1 500 000	1 500 000
Ordinary shares of Rs. 10 each			
Issued, subscribed and paid-up share capital	4	1 250 000	1 250 000
Reserves and retained earnings	5	8 745 869	8 341 171
		9 995 869	9 591 171
Underwriting provisions			
Provision for outstanding claims (including IBNR)		6 303 174	7 950 208
Provision for unearned premium		5 147 264	4 537 413
Premium deficiency reserve		-	57 029
Commission income unearned		233 744	162 567
Total underwriting provisions		11 684 182	12 707 217
Deferred liabilities			
Staff retirement benefits	6	44 805	40 847
Deferred taxation	7	58 646	-
		103 451	40 847
Creditors and accruals			
Premiums received in advance		5 475	10 310
Amounts due to other insurers / reinsurers		1 355 014	1 131 657
Accrued expenses		163 413	156 505
Agent balances		425 252	387 485
Unearned rentals		49 417	42 912
Other creditors and accruals	8	161 947	101 142
		2 160 518	1 830 011
Other liabilities			
Other deposits		377 536	320 126
Unclaimed dividends		56 482	52 297
		434 018	372 423
Total liabilities		14 382 169	14 950 498
Total equity and liabilities		24 378 038	24 541 669
Contingencies	9		

	Note	2011	2010
Cash and bank deposits			
Cash and other equivalents	10	3 974	2 396
Current and other accounts	11	806 822	870 872
Deposits maturing within 12 months		947 323	833 303
		1 758 119	1 706 571
Loans - secured considered good			
To employees		3 326	3 293
Investments	12	12 332 678	11 663 731
Investment properties	13	219 408	235 703
Deferred taxation	7	-	115 012
Other assets			
Premiums due but unpaid - net	14	2 098 992	1 937 676
Amounts due from other insurers / reinsurers		55 716	150 143
Salvage recoveries accrued		11 321	19 703
Accrued investment income	15	36 691	31 296
Reinsurance recoveries against outstanding claims		4 043 075	5 626 075
Taxation - payments less provision		76 027	105 125
Deferred commission expense		489 131	432 111
Prepayments	16	2 456 531	1 754 648
Security deposits		4 164	5 243
Other receivables	17	33 214	46 254
		9 304 862	10 108 274
Fixed assets - tangible & intangibles	18		
Land and buildings		249 180	214 528
Furniture, fixtures and office equipments		355 949	215 966
Vehicles		121 052	131 785
Computer softwares		22 241	42 948
Capital work-in-progress	18.3	11 223	103 858
		759 645	709 085
Total assets		24 378 038	24 541 669

The annexed notes 1 to 31 form an integral part of these financial statements.

MUNEER R. BHIMJEE
Director

RAFIQUE R. BHIMJEE
Director

HASANALI ABDULLAH
Managing Director & Chief Executive

SAIFUDDIN N. ZOOMKAWALA
Chairman

Karachi 10 March 2012

Profit and Loss Account
For the year ended 31 December 2011

Rupees '000

	Note	Fire & property damage	Marine, aviation & transport	Motor	Others	Treaty	Aggregate 2011	Aggregate 2010
Revenue account								
Net premium revenue	19	2 000 364	1 323 523	2 611 631	288 960	17	6 224 495	5 846 591
Net claims		(1 094 910)	(812 577)	(1 695 331)	(105 638)	904	(3 707 552)	(3 941 583)
Change in premium deficiency reserve		57 029	-	-	-	-	57 029	(2 129)
Management expenses	20	(351 032)	(232 257)	(552 319)	(58 250)	-	(1 193 858)	(1 134 685)
Net commission		(347 500)	(210 920)	(191 136)	62 792	(2)	(686 766)	(656 319)
Underwriting result		263 951	67 769	172 845	187 864	919	693 348	111 875
Investment income / (loss)							185 101	(357 955)
Rental income							86 846	83 513
Profit on deposits							110 924	87 232
Other income	21						23 017	38 778
Share of profit of an associate	12.1.2						243 918	151 114
Exchange gain							3 921	4 342
General and administration expenses	22						(505 531)	(478 662)
							148 196	(471 638)
Profit / (loss) before tax							841 544	(359 763)
Provision for taxation	23						(280 596)	(53 558)
Profit / (loss) after tax							560 948	(413 321)
Profit and loss appropriation account								
Balance at commencement of year							(321 731)	801 590
Profit / (loss) after tax for the year							560 948	(413 321)
							239 217	388 269
Dividend 2010 @ 12.5 % (2009 @ 40 %)							(156 250)	(460 000)
Issue of bonus shares							-	(100 000)
Transfer from / (to) general reserve							500 000	(150 000)
							343 750	(710 000)
Balance unappropriated profit / (loss) at end of year							582 967	(321 731)
Earnings / (loss) per share - basic and diluted	24				**(Rupees)**		4.49	(3.31)

The annexed notes 1 to 31 form an integral part of these financial statements.

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Managing Director & Chief Executive

SAIFUDDIN N. ZOOMKAWALA
Chairman

Karachi 10 March 2012

Statement of Comprehensive Income
For the year ended 31 December 2011

Rupees '000

	2011	2010
Profit / (loss) for the year	560 948	(413 321)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the year	560 948	(413 321)

The annexed notes 1 to 31 form an integral part of these financial statements.

MUNEER R. BHIMJEE	RAFIQUE R. BHIMJEE	HASANALI ABDULLAH	SAIFUDDIN N. ZOOMKAWALA
Director	*Director*	Managing Director & Chief Executive	*Chairman*

Karachi 10 March 2012

Statement of Changes in Equity
For the year ended 31 December 2011

Rupees '000

	Share capital	General reserve	Reserve for exceptional losses	Unappropriated profit / (loss)	Total
Balance as at 1 January 2010	1 150 000	8 500 000	12 902	801 590	10 464 492
Total comprehensive income for the year ended 31 December 2010					
Loss for the year				(413 321)	(413 321)
Transactions with owners, recorded directly in equity					
Dividend for the year ended 31 December 2009 @ 40 %				(460 000)	(460 000)
Issue of bonus shares	100 000			(100 000)	-
Transfer to general reserve in respect of 2009 and approved in 2010		150 000		(150 000)	-
Balance as at 31 December 2010	1 250 000	8 650 000	12 902	(321 731)	9 591 171
Balance as at 1 January 2011	1 250 000	8 650 000	12 902	(321 731)	9 591 171
Total comprehensive income for the year ended 31 December 2011					
Profit for the year				560 948	560 948
Transactions with owners, recorded directly in equity					
Dividend for the year ended 31 December 2010 @ 12.5 %				(156 250)	(156 250)
Transfer from general reserve in respect of 2010 and approved in 2011		(500 000)		500 000	-
Balance as at 31 December 2011	1 250 000	8 150 000	12 902	582 967	9 995 869

The annexed notes 1 to 31 form an integral part of these financial statements.

MUNEER R. BHIMJEE	RAFIQUE R. BHIMJEE	HASANALI ABDULLAH	SAIFUDDIN N. ZOOMKAWALA
Director	*Director*	Managing Director & Chief Executive	*Chairman*

Karachi 10 March 2012

Statement of Cash Flows
For the year ended 31 December 2011

Rupees '000

	2011	2010
Operating activities		
a) Underwriting activities		
Premiums received	11 881 334	10 084 393
Reinsurance premiums paid	(5 690 157)	(3 973 983)
Claims paid	(6 456 603)	(5 733 528)
Reinsurance and other recoveries received	2 779 461	1 827 872
Commissions paid	(1 126 176)	(967 562)
Commissions received	491 334	329 045
Management expenses paid	(1 103 887)	(1 043 580)
Net cash inflow from underwriting activities	775 306	522 657
b) Other operating activities		
Income tax paid	(77 839)	(40 658)
Other operating payments	(380 383)	(395 470)
Other operating receipts	117 301	54 113
Loans advanced	(711)	(1 380)
Loan repayments received	678	862
Net cash flow used in other operating activities	(340 954)	(382 533)
Total cash inflow from all operating activities	434 352	140 124
Investment activities		
Profit / return received	173 529	153 591
Dividends received	368 863	321 144
Rentals received	93 351	78 282
Payments for investments	(2 394 662)	(600 778)
Proceeds from disposal of investments	1 725 615	1 010 092
Fixed capital expenditure	(217 010)	(319 966)
Proceeds from disposal of fixed assets	19 574	22 710
Total cash (outflow) / inflow from investing activities	(230 740)	665 075
Financing activities		
Dividends paid	(152 064)	(448 234)
Net cash inflow from all activities	51 548	356 965
Cash at the beginning of the year	1 706 571	1 349 606
Cash at the end of the year	1 758 119	1 706 571
Reconciliation to profit and loss account		
Operating cash flows	434 352	140 124
Depreciation expense	(168 466)	(154 495)
Rental and investment income / (loss)	271 947	(274 442)
Profit on deposits	110 924	87 232
Other Income	23 017	38 778
Share of profit of an associate	243 918	151 114
(Decrease) / increase in assets other than cash	(992 409)	3 067 871
Increase / (decrease) in liabilities other than running finance	637 665	(3 469 503)
Profit / (loss) after taxation	560 948	(413 321)
Definition of cash		
Cash for the purposes of the statement of cash flows consists of:		
Cash and other equivalents	3 974	2 396
Current and other accounts	806 822	870 872
Deposits maturing within 12 months	947 323	833 303
	1 758 119	1 706 571

The annexed notes 1 to 31 form an integral part of these financial statements.

MUNEER R. BHIMJEE	RAFIQUE R. BHIMJEE	HASANALI ABDULLAH	SAIFUDDIN N. ZOOMKAWALA
Director	*Director*	Managing Director & Chief Executive	*Chairman*

Karachi 10 March 2012

Statement of Premiums
For the year ended 31 December 2011

Rupees '000

Class	Premiums				Reinsurance				Net premium revenue	
	Written	Unearned premium reserve		Earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense		
		Opening	Closing			Opening	Closing		2011	2010
Direct and facultative										
Fire and property damage	6 444 985	2 441 474	3 053 185	5 833 274	4 476 795	1 245 206	1 889 091	3 832 910	2 000 364	1 608 846
Marine, aviation and transport	2 111 208	384 018	490 635	2 004 591	763 267	174 940	257 139	681 068	1 323 523	999 111
Motor	2 539 407	1 264 942	1 180 811	2 623 538	11 984	85	162	11 907	2 611 631	3 006 534
Miscellaneous	947 050	446 979	422 633	971 396	661 468	315 047	294 079	682 436	288 960	234 248
Total	12 042 650	4 537 413	5 147 264	11 432 799	5 913 514	1 735 278	2 440 471	5 208 321	6 224 478	5 848 739
Treaty - proportional	17	-	-	17	-	-	-	-	17	(2 148)
Grand Total	12 042 667	4 537 413	5 147 264	11 432 816	5 913 514	1 735 278	2 440 471	5 208 321	6 224 495	5 846 591

The annexed notes 1 to 31 form an integral part of these financial statements.

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Chairman

Karachi 10 March 2012

Statement of Claims
For the year ended 31 December 2011

Rupees '000

Class	Claims: Paid	Claims: Outstanding Opening	Claims: Outstanding Closing	Claims expense	Reinsurance: Reinsurance and other recoveries received	Reinsurance: Reinsurance and other recoveries in respect of outstanding claims Opening	Reinsurance: Reinsurance and other recoveries in respect of outstanding claims Closing	Reinsurance: Reinsurance and other recoveries revenue	Net claims expense 2011	Net claims expense 2010
Direct and facultative										
Fire and property damage	2 955 950	4 888 635	3 614 205	1 681 520	1 811 822	4 001 319	2 776 107	586 610	1 094 910	1 340 680
Marine, aviation and transport	1 333 354	1 676 375	1 417 303	1 074 282	604 695	1 312 563	969 573	261 705	812 577	567 545
Motor	1 782 488	1 003 088	914 796	1 694 196	319	6 099	4 645	(1 135)	1 695 331	1 896 797
Miscellaneous	384 812	378 514	354 356	360 654	268 359	306 094	292 751	255 016	105 638	141 649
Total	6 456 604	7 946 612	6 300 660	4 810 652	2 685 195	5 626 075	4 043 076	1 102 196	3 708 456	3 946 671
Treaty - proportional	178	3 596	2 514	(904)	-	-	-	-	(904)	(5 088)
Grand Total	6 456 782	7 950 208	6 303 174	4 809 748	2 685 195	5 626 075	4 043 076	1 102 196	3 707 552	3 941 583

The annexed notes 1 to 31 form an integral part of these financial statements.

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Chairman

Karachi 10 March 2012

Statement of Expenses
For the year ended 31 December 2011

Rupees '000

Class	Commission: Paid or payable	Commission: Deferred Opening	Commission: Deferred Closing	Commission: Net expense	Other management expenses	Underwriting expenses	Commissions from reinsurers	Net underwriting expenses 2011	Net underwriting expenses 2010
Direct and facultative									
Fire and property damage	632 784	246 332	311 329	567 787	351 032	918 819	220 287	698 532	604 894
Marine, aviation and transport	252 803	42 731	45 680	249 854	232 257	482 111	38 934	443 177	336 549
Motor	196 521	86 659	91 970	191 210	552 319	743 529	74	743 455	846 777
Miscellaneous	81 833	56 389	40 152	98 070	58 250	156 320	160 862	(4 542)	3 218
Total	1 163 941	432 111	489 131	1 106 921	1 193 858	2 300 779	420 157	1 880 622	1 791 438
Treaty - proportional	2	-	-	2	-	2	-	2	(434)
Grand Total	1 163 943	432 111	489 131	1 106 923	1 193 858	2 300 781	420 157	1 880 624	1 791 004

Note: Commission from reinsurers is arrived at after taking impact of opening and closing unearned commission

The annexed notes 1 to 31 form an integral part of these financial statements.

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Chairman

Karachi 10 March 2012

Statement of Investment Income
For the year ended 31 December 2011

	2011	2010
	Rupees '000	
Income from non-trading investments		
Return on government securities	18 534	14 485
Return on other fixed income securities and deposits	42 620	34 031
Amortisation of premium relative to par	(3 296)	(4 087)
Dividend income	193 120	149 730
Gain on sale of non-trading investments	115 401	27 231
	366 379	221 390
Provision for impairment - available for sale - net	(180 566)	(577 860)
Investment related expenses	(712)	(1 485)
Net investment income / (loss)	185 101	(357 955)

The annexed notes 1 to 31 form an integral part of these financial statements.

MUNEER R. BHIMJEE	RAFIQUE R. BHIMJEE	HASANALI ABDULLAH	SAIFUDDIN N. ZOOMKAWALA
Director	*Director*	Managing Director & Chief Executive	*Chairman*

Karachi 10 March 2012

Notes to the Financial Statements
For the year ended 31 December 2011

1. Status and nature of business

EFU General Insurance Limited (the Company) was incorporated as a public limited company on 2 September 1932. The Company is listed on the Karachi and Lahore Stock Exchanges and is engaged in non-life insurance business comprising of fire & property, marine, motor, etc.

The registered office of the Company is situated in Islamabad while the principal place of business is located at EFU House, M.A. Jinnah Road, Karachi. The Company operates through 54 (2010: 56) branches in Pakistan including one each in Export Processing Zone (EPZ) and Jeddah, Saudi Arabia.

2. Basis of preparation

These financial statements have been prepared in accordance with the format prescribed under Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002].

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprises of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared on the historical cost basis except held for trading investments which have been measured at fair value and obligation under certain employee retirement benefits which are measured at present value.

2.3 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the Company's functional and presentation currency. All financial information presented in Pakistani Rupees has been rounded to the nearest thousand.

2.4 Use of judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The judgments, estimates and assumptions are based on historical experience, current trends and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the revision and future periods if the revision affects both current and future periods.

In particular, the matters involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

-	Provision for unearned premiums	(note 3.3)
-	Premium deficiency reserve	(note 3.4)
-	Provision for outstanding claims (including IBNR)	(note 3.6)
-	Employees' retirement benefits	(note 3.10)
-	Taxation	(note 3.11)
-	Impairment in value of investments	(note 3.13)
-	Useful lives of fixed assets	(note 3.16)
-	Premium due but unpaid	(note 3.21 & 14)

2.5 *Standards, amendments and interpretations to the published standards that are not yet effective*

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 01 January 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.

- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments may impact the financial statements of the Company which has not yet been determined.

- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments may impact the financial statements of the Company which has not yet been determined.

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments may impact the financial statements of the Company which has not yet been determined.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendments may affect the disclosures in the financial statements of the Company.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

3. Summary of significant accounting policies

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

3.1 Insurance contracts

Insurance contracts are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policy holders) by agreeing to compensate the policy holders if a specified uncertain future event (the insured event) adversely affects the policy holders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The Company underwrites non-life insurance contracts that can be categorised into Fire and Property Damage, Marine, Aviation and Transport, Motor, Miscellaneous and Treaty contracts. Contracts may be concluded for a fixed term of one year, for less than one year and in some cases for more than one year. However, most of the contracts are for twelve months duration. Insurance contracts entered into by the Company under which the contract holder is another insurer (inwards reinsurance) of a facultative nature are included within the individual category of insurance contracts, other than those which fall under Treaty. The insurance risk involved in these contracts is similar to the contracts undertaken by the Company as insurer.

Fire and Property insurance contracts mainly compensate the customers for damage suffered to their property. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Marine, Aviation and Transport class of business provides coverage against loss and damage to goods in transit by any means of conveyance, physical loss or damage to aircraft, ships, and liabilities to third parties and passengers arising from their use.

Motor insurance covers physical loss or damage to the vehicle and liabilities to third parties as provided under the requirements of the Motor Vehicle Ordinance, 1965.

All other insurances like cash in hand, cash in transit, personal accident, infidelity, public liabilities, health, crop, livestock, travel, bankers and other financial institutions packages, product liabilities, professional indemnity, bonds, workers compensation etc. are included under Miscellaneous.

3.2 Premium

For all the insurance contracts, premiums including administrative surcharge received/ receivable under a policy are recognised as written at the time of issuance of policy. Where premiums for a policy are payable in instalments, full premium for the duration of the policy is recognised as written at the inception of the policy and related assets set up for premiums receivable at a later date. Premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties levied on premiums.

3.3 Provision for unearned premiums

The unearned premium reserve is the unexpired portion of the premium including administrative surcharge which relates to business in force at the balance sheet date. Unearned premiums have been calculated by applying 1/24th method as specified in the SEC (Insurance) Rules, 2002.

3.4 Premium deficiency reserve (liability adequacy test)

At each balance sheet date, liability adequacy tests are performed separately for each class of business to ensure the adequacy of the unearned premium liability for that class is performed by actuary. It is performed by comparing the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other underwriting expenses, expected to be incurred after balance sheet date in respect of policies in force at balance sheet date with the carrying amount of unearned premium liability. Any deficiency is recognised by establishing a provision (premium deficiency reserve) to meet the deficit.

The expected future liability is estimated by reference to the experience during the expired period of the contracts, adjusted for significant individual losses which are not expected to recur during the remaining period of the policies, and expectations of future events that are believed to be reasonable.

The movement in the premium deficiency reserve is recognised as an expense or income in the profit and loss account for the year.

The expected ultimate net claim ratios for the unexpired periods of policies in force at balance sheet date for each class of business is as follows:

- Fire and property damage	55%
- Marine, aviation and transport	57%
- Motor	65%
- Others	48%

3.5 Claims

Claims are charged to income as incurred based on estimated liability for compensation owed under the insurance contracts. It includes related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

3.6 Provision for outstanding claims (including IBNR)

A liability for outstanding claims is recognised in respect of all claims incurred up to the balance sheet date which is measured at the undiscounted value of expected future payments. Provision for outstanding claims include amounts in relation to claims reported but not settled, claims incurred but not reported (IBNR) and expected claims settlement costs.

Reinsurance recoveries against outstanding claims are recognized as an asset and measured at the amount expected to be received.

3.6.1 Claims reported but not settled

Provision for liability in respect of claims reported but not settled at the balance sheet date is made on the basis of individual case estimates. The case estimates are based on the assessed amounts of individual losses and where loss assessments have not been carried out, the estimates are established in light of currently available information, past experience of similar claims and in some cases in relation to the sums insured. Case estimates are reviewed periodically to ensure that the recognised outstanding claim amounts are adequate to cover expected future payments including expected claims settlement costs and are updated as and when new information becomes available.

3.6.2 Claims incurred but not reported

The provision for claims incurred but not reported at balance sheet date (IBNR) is based on an analysis of the past claims reporting pattern experienced by the Company. The provision for IBNR has been accounted for on the basis whereby all claims incurred before 31 December 2010 but reported up to 31 December 2011 were aggregated and the ratio of such claims to outstanding claims at 31 December 2010 has been applied to outstanding claims except exceptional losses at 31 December 2011 to arrive at liability for IBNR. The analysis was carried out separately for each class of business.

3.7 Reinsurance contracts

Contracts entered into by the Company with reinsurers under which the Company cedes insurance risks assumed during normal course of its business and according to which the Company is compensated for losses on insurance contracts issued by the Company are classified as reinsurance contracts held.

Reinsurance premium is recognised as an expense at the time the reinsurance is ceded. Commission on reinsurance cessions are recognised in accordance with the policy of recognising premium revenue.

Reinsurance assets represent balances due from reinsurance companies and reinsurance recoveries against outstanding claims. Reinsurance recoveries are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Reinsurance liabilities represent balances due to reinsurance companies and are primarily premiums payable for reinsurance contracts and are recognised at the same time when reinsurance premiums are recognised as an expense.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expired.

An impairment review of reinsurance assets is performed at each balance sheet date. If there is an objective evidence that the asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account.

3.8 Commission

3.8.1 Commission expense

Commission expenses incurred in obtaining and recording policies is deferred and recognised as an expense in accordance with pattern of recognition of premium revenue by applying the 1/24th method.

3.8.2 Commission income

Commission from reinsurers is deferred and recognised as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates. Profit / commission, if any, under the terms of reinsurance arrangements is recognised when the Company’s right to receive the same is established.

3.9 Revenue recognition

3.9.1 Premium

The revenue recognition policy for premiums is given under note 3.2.

3.9.2 Investment income

Return on investments, profit and loss sharing accounts and bank deposits are recognised using effective interest rate method.

Profit or loss on sale of investments is recognised at the time of sale.

Dividend income is recognised when right to receive such dividend is established.

3.9.3 Rental income

Rental income on investment properties is recognised on straight line basis over the term of lease.

3.9.4 Commission from reinsurers

The revenue recognition policy for commission from reinsurer is given under note 3.8.

3.10 Employees' retirement benefits

3.10.1 Defined benefit plans

The Company operates the following employee defined benefit plans:

- Funded gratuity scheme

  The Company operates an approved gratuity fund for all employees who complete qualifying period of service.

- Funded pension scheme

  Defined benefit funded pension for all eligible officers.

These funds are administered by trustees. The pension plan is a career average salary plan and the gratuity plan is a final basic salary plan. The actuarial valuation of both the plans is carried out on a yearly basis using the Projected Unit Credit Method and contributions to the plans are made accordingly. The latest actuarial valuation, at 31 December 2011, uses a discount rate of 13% (2010: 14.25%) for defined benefit obligation and plan assets. Basic salary and pension increases to average 10.75% and 4.50% (2010: 12% and 5.75%) respectively per annum in the long term.

Actuarial gains and losses are recognised in profit and loss account in the year in which they arise.

3.10.2 Defined contribution plan

The Company contributes to a provident fund scheme which covers all permanent employees. Equal contributions are made both by the Company and the employees to the fund at the rate of 8.33% of basic salary.

3.11 Taxation

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in other comprehensive income or below equity, in which case it is recognised in other comprehensive income or below equity.

3.11.1 Current

Provision for current taxation is based on taxable income determined in accordance with the prevailing law for taxation of income and is calculated using enacted or substantively enacted rates of taxation after taking into account available tax credits and rebates, if any. The charge for the current taxation also includes adjustments where considered necessary, relating to prior years which arise from assessments framed / finalized during the year or required by any other reason.

3.11.2 Deferred

Deferred tax is recognised using the balance sheet liability method for all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is provided on temporary differences arising on investments in associates stated under equity method of accounting.

3.12 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and / or services received, whether or not billed to the Company.

Provisions are recognised when the Company has a legal or constructive obligation as a result of a past event 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. However, the provisions are reviewed at balance sheet date and adjusted to reflect current best estimates.

3.13 Investments

All investments are initially recognised at the fair value of the consideration given and include transaction costs except for held for trading in which case transaction costs are charged to the profit and loss account. 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. Trade date is the date when the Company commits to purchase or sell the investments.

3.13.1 Fair value through profit or loss - held for trading

Investments which are acquired with the intention to trade by taking advantage of short term market / interest rate movements are considered as held for trading. After initial recognition, these are measured at fair values with any resulting gains or losses recognised directly in the profit and loss account. Subsequent to initial recognition these are measured at fair value by reference to quoted market prices with the resulting gain or loss being included in net profit or loss for the period in which it arises.

Dividend income and entitlement of bonus shares are recognized when the Company's right to receive such dividend and bonus shares is established.

3.13.2 Available for sale

Investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rates are considered as available for sale. After initial recognition, these are stated at lower of cost or market value (if the fall in market value is other than temporary) in accordance with the requirements of SEC (Insurance) Rules, 2002.

A fall in market value is treated as other than temporary if there is a significant or prolonged decline in fair value of security below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Company evaluates among other factors, the normal volatility in share prices.

In case of fixed income securities where the cost is different from the redemption value, such difference is amortised uniformly between the date of acquisition and the date of maturity in determining “cost”.

3.13.3 Investment in associates

Entities in which the Company has significant influence but not control and which are neither its subsidiary nor joint ventures are associates and are accounted for by using the equity method of accounting.

Under equity method of accounting, the investments are initially recognised at cost; thereafter its carrying amount is increased or decreased for the Company’s share of post acquisition changes in the net assets of the associate and dividend distributions. Goodwill relating to an associate is included in carrying amount of the investment and is not amortised. The Company’s share of the profit and loss of the associate is accounted for in the Company’s profit and loss account, whereas changes in the associate’s equity which has not been recognised in the associates’ profit and loss account are recognised directly in the other comprehensive income of the Company.

After application of equity method, the carrying amount of investment in associate is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less cost to sell) with its carrying amount and loss, if any, is recognised in profit and loss account.

3.13.4 *Derivatives*

Derivative instruments held by the Company primarily comprise of future contracts in the capital market. These are initially recognized at fair value and are subsequently remeasured at fair value. The fair value of future contracts is calculated as being the net difference between the contract price and the closing price reported on the primary exchange of the future contracts. Derivatives with positive market values (unrealized gains) are included in assets and derivatives with negative market values (unrealized losses) are included in liabilities in the balance sheet. The resultant gains and losses are included in the profit and loss account.

3.14 Investment properties

The investment properties are accounted for under the cost model in accordance with International Accounting Standard (IAS) 40, Investment Property, where;

- Leasehold land is stated at cost.
- Building on leasehold land is depreciated to its estimated salvage value on straight line basis over its useful life at the rate of 5%.
- Installations forming a part of building on leasehold land but having separate useful lives are depreciated to their estimated salvage values on straight line basis over their useful lives at the rate of 10%.

Subsequent capital expenditures on existing properties and gains or losses on disposals are accounted for in the same manner as operating fixed assets.

3.15 Receivables and payables related to insurance contracts

Receivables and payables related to insurance contracts are recognised when due at cost which is the fair value of the consideration given less provision for impairment, if any. If there is objective evidence that the insurance receivable is impaired, as a result of one or more events that occurred after the initial recognition, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account.

3.16 Fixed assets

3.16.1 Tangibles

Fixed assets are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is calculated on the straight line basis using the following rates:

– Buildings	5%
– Furniture, fixtures and office equipments	10%
– Vehicles	20%
– Computers	30%

The assets' residual values, useful lives and method for depreciation are reviewed at each financial year end and adjusted if impact on depreciation is significant.

Depreciation on additions to fixed assets is charged from the month in which an asset is available for use, while no depreciation is charged for the month in which the asset is disposed off.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is possible that the future economic benefit associated with the item will flow to the Company and the cost of the item can be measured reliably. Normal repairs and maintenance are charged to profit and loss account currently.

Gains or losses on disposal of fixed assets are included in profit & loss account currently.

3.16.2 Intangibles

Material computer software licenses acquired are capitalised on the basis of cost incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years using the straight line method. Impairment losses, if any, are deducted from the carrying amount of the intangible assets.

Amortisation on additions to intangibles is charged from the month in which an asset is available for use, while no amortisation is charged for the month in which the asset is disposed off.

Cost associated with maintaining computer software programmes are recognised as an expense when incurred.

The assets' residual values, useful lives and method for amortisation are reviewed at each financial year end and adjusted if impact on amortisation is significant.

3.16.3 Capital work in progress

Capital work in progress is stated at cost less any impairment in value. It consists of advances made to suppliers in respect of tangible and intangible fixed assets.

3.17 Expenses of management

Expenses of management have been allocated to various revenue accounts on equitable basis.

3.18 Compensated absences

The liability towards compensated absences accumulated by the employees is provided in the period in which they are earned.

3.19 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash at bank in current and saving accounts, cash and stamps in hand and bank deposits.

3.20 Foreign currencies

Revenue transactions in foreign currencies are recorded at the rates prevailing on the date of the transactions. Income and expense amounts relating to foreign branches have been translated at the applicable exchange rates. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange prevailing on the balance sheet date. Exchange gains or losses, if any, are taken into profit and loss account.

3.21 Impairment

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if there is objective evidence that one or more events have had a negative effect on the estimated future cash flows of that asset.

The carrying amount of non financial assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such asset is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

All impairment losses are recognised in the profit and loss account. Provisions for impairment are reviewed at each balance sheet date and are adjusted to reflect the current best estimates. Changes in the provisions are recognised as income or expense.

3.22 Financial instruments

Financial instruments include cash and bank balances, loans to employees, investments, premiums due but unpaid, amount due from other insurers / reinsurers, accrued investment income, reinsurance recoveries against outstanding claims, security deposits, other receivables, outstanding claim liabilities, amount due to other insurers / reinsurers, accrued expenses, agents balances, other creditors, deposits and unclaimed dividends.

All the financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognised when the Company looses control of contractual rights that comprises 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 de-recognition of financial assets and financial liabilities are taken to income directly.

3.23 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the financial statements only when there is legally enforceable right to set off the recognised amount and the Company intends either to settle on a net basis or realise the assets and settle the liabilities simultaneously.

3.24 Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.25 Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses. The Company presents segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 as the primary reporting format.

The Company has four primary business segments for reporting purposes namely, fire & property, marine, motor and miscellaneous. The nature and business activities of these segments are disclosed in note no. 3.1.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

3.26 Dividend and bonus shares

Dividend to shareholders is recognised as liability in the period in which it is approved. Similarly, reserve for issue of bonus shares is recognised in the year in which such issue is approved.

4. Issued, subscribed and paid-up share capital

Number of shares '000 2011	Number of shares '000 2010		Rupees '000 2011	Rupees '000 2010
250	250	Ordinary shares of Rs. 10 each, fully paid in cash	2 500	2 500
		Ordinary shares of Rs. 10 each, issued as fully paid bonus shares		
124 750	114 750	- Opening balance	1 247 500	1 147 500
-	10 000	- Issued during the year	-	100 000
124 750	124 750		1 247 500	1 247 500
125 000	125 000		1 250 000	1 250 000

4.1 As at 31 December 2011, EFU Life Assurance Limited, an associated undertaking, held 8 515 316 (31 December 2010: 8 515 316) ordinary shares of Rs. 10 each.

5. Reserves and retained earnings

Rupees '000

	Note	2011	2010
General reserve		8 150 000	8 650 000
Reserve for exceptional losses	5.1	12 902	12 902
Retained earnings		582 967	(321 731)
		8 745 869	8 341 171

5.1 The reserve for exceptional losses was created prior to 1979 and was charged to income in accordance with the provisions of the repealed Income Tax Act, 1922 and has been so retained to date.

6. Staff retirement benefits

Rupees '000

	2011		2010	
	Pension	Gratuity	Pension	Gratuity
Obligation				
Obligation at beginning of year	154 301	220 958	144 769	209 772
Service cost	1 422	11 985	1 291	11 848
Interest cost	21 307	29 473	17 971	24 970
Benefits paid	(9 888)	(29 240)	(7 876)	(28 720)
Change in assumptions	-	-	(5 776)	2 802
Actuarial (gain) / loss	(561)	7154	3 922	286
Obligation at end of year	166 581	240 330	154 301	220 958
Plan assets				
Fair value at beginning of year	145 542	188 870	150 002	185 393
Expected return	19 819	26 159	19 730	23 097
Company contributions	333	32 088	345	24 379
Employee contributions	1 327	-	1 381	-
Benefits paid	(9 888)	(29 240)	(7 876)	(28 720)
Actuarial loss	(7 619)	(5 285)	(18 040)	(15 279)
Fair value at end of year	149 514	212 592	145 542	188 870
Actual return on plan assets	12 200	20 874	1 690	7 818
Reconciliation				
Plan assets	149 514	212 592	145 542	188 870
Obligation	(166 581)	(240 330)	(154 301)	(220 958)
Liability	(17 067)	(27 738)	(8 759)	(32 088)

Rupees '000

	2011		2010	
	Pension	Gratuity	Pension	Gratuity
Expenses				
Service cost	1 422	11 985	1 291	11 848
Interest cost	21 307	29 473	17 971	24 970
Expected return on plan assets	(19 819)	(26 159)	(19 730)	(23 097)
Net loss / (gain)	7 058	12 439	16 186	18 367
Employee contributions	(1 327)	-	(1 381)	-
Expense	8 641	27 738	14 337	32 088
(Liability) / asset				
Balance at beginning of year	(8 759)	(32 088)	5 233	(24 379)
Expense	(8 641)	(27 738)	(14 337)	(32 088)
Company contributions	333	32 088	345	24 379
Balance at end of year	(17 067)	(27 738)	(8 759)	(32 088)

Rupees '000

	Pension				Gratuity			
	2011		2010		2011		2010	
Fund investments								
Debt	62%	92 394	55%	80 035	79%	169 351	70%	132 550
Equity	37%	55 796	44%	63 430	20%	41 894	24%	44 901
Cash	1%	1 324	1%	2 077	1%	1 347	6%	11 419
	100%	149 514	100%	145 542	100%	212 592	100%	188 870

The expected charge to pension and gratuity fund for the year 2012 amounts to Rs. 22 million. The Company recognises its gains and losses in the year in which they arise. The following table shows obligation at the end of each year and the proportion thereof resulting from experience loss during the year. Similarly, it shows plan assets at the end of the year and proportion resulting from experience gain during the year.

Year	Rupees '000 Obligation	Plan assets	(Deficit)/ surplus	Loss / (Gain) on obligation	(Loss) / Gain on plan assets
2011	406 911	362 106	(44 805)	2%	(4%)
2010	375 259	334 412	(40 847)	1%	(10%)
2009	354 541	335 395	(19 146)	(9%)	(5%)
2008	340 400	311 075	(29 325)	(11%)	(37%)
2007	345 705	399 678	53 973	7%	27%

Rupees '000

	2011	2010
7. Deferred taxation		
Deferred tax (liability) / asset arising in respect of:		
- accelerated tax depreciation	(51 800)	(32 000)
- unutilised tax losses carried forward	4 173	151 525
- share of profit from associate	(11 019)	(4 513)
	(58 646)	115 012

	Rupees '000	
	2011	**2010**
8. Other creditors and accruals		
Federal insurance fee payable	4 837	6 744
Federal excise duty payable	88 550	86 522
Workers' welfare fund payable	16 831	-
Sundry creditors	51 729	7 876
	161 947	101 142

9. Contingencies

The income tax assessments of the Company have been finalised upto and including Tax Year 2007 (Financial year ending 31 December 2006), Tax year 2009 (Financial year ended 31 December 2008), Tax year 2010 (Financial year ended 31 December 2009) and Tax year 2011 (Financial year ended 31 December 2010).

For the Tax year 2008 the Additional Commissioner Audit Division II, Karachi had issued notice under section 122(9) of the Ordinance for passing an amended order on certain issues. However, company has filed a writ petition before the Honourable High Court of Sindh challenging the validity of the notice.

The Company has filed appeal for the Tax year 2009 and 2010 with Commissioner of Income Tax (appeals) in respect of disallowances for management expenses, provision for IBNR and proration of expenses. There could arise a contingent tax liability of Rs. 109 million if the matters are decided against the Company.

The Company has filed appeals with Income Tax Appellate Tribunal (ITAT) in respect of assessment years 1999-2000 and 2000-01 in respect of disallowance of management expenses, provision for gratuity and bonus. There could arise a contingent tax liability of Rs. 13 million if the matters are decided against the Company.

The department has filed an appeal for the Tax years 2005 to 2007 before Honourable Supreme Court against the decision of the Honourable High Court and there could arise a contingent tax liability of Rs. 37 million if the matters are decided against the Company.

No provision has been made in these financial statements for the above contingency as the management, based on tax adviser's opinion, is confident that the decision in this respect will be received in the favour of the Company.

	Rupees '000	
	2011	**2010**
10. Cash and other equivalents		
Cash in hand	3	-
Policy stamps in hand	3 971	2 396
	3 974	2 396
11. Current and other accounts		
Current accounts	137 776	306 314
Saving accounts	669 046	564 558
	806 822	870 872

11.1 The balances in saving accounts carry mark-up at the rates ranging from 5% to 12% per annum (2010: 5% to 11% per annum).

		Rupees '000	
		2011	**2010**
12. Investments			
Investment in associate	(note 12.1)	8 795 997	8 693 131
Available for sale	(note 12.2)	3 536 681	2 970 600
		12 332 678	11 663 731
12.1 Investment in associate			
Carrying amount	(note 12.1.2)	10 782 997	10 680 131
Provision for impairment		(1 987 000)	(1 987 000)
		8 795 997	8 693 131

12.1.1 Investment in associate comprises of investment in 35 918 640 (2010: 35 364 915) ordinary shares of EFU Life Assurance Limited. Market value of investment and the percentage of holding as at 31 December 2011 is Rs. 2 687 million and 42.26 % (2010: Rs. 2 668 million and 41.61%) respectively.

12.1.2 Movement of investment in associate:

	2011	2010
	Rupees '000	
Opening balance	10 680 131	10 690 884
Purchases during the year	37 802	9 301
Share in profit of associate	243 918	151 114
Dividend received	(178 854)	(171 168)
Closing balance	10 782 997	10 680 131

12.1.3 Summarised financial information in respect of associate based on its financial statements as at 31 December 2011 (2010: 31 December 2010) is set out below:

	2011	2010
	Rupees '000	
Total assets	1 771 113	1 620 689
Total liabilities	(38 473)	(41 414)
Net assets	1 732 640	1 579 275
Profit after tax	578 365	363 235
Company's share of net assets of its associate	732 214	657 070

12.1.4 The carrying amount of the investment in EFU Life Assurance Limited was tested for impairment based on value in use, in accordance with IAS 36 - Impairment of Assets. The value in use calculations were carried out by an independent actuary and are based on cash flow projections based on the budget and forecasts approved by the management up to ten years. These are then extrapolated till perpetuity using a steady long term expected growth rate of insurance business of 15% (2010: 15%) and value in use is determined by discounting cash flows using a discount rate of 18.5% (2010: 19.5%).

12.2 Available for sale

		2011	2010
		Rupees '000	
In related parties			
Equity securities	(note 12.2.1)	2 150 237	2 542 816
Provision for impairment – net of reversals	(note 12.2.2)	(2 029 676)	(2 024 420)
		120 561	518 396
Fixed income securities	(note 12.2.3)	30 451	30 463
Others			
Equity securities *	(note 12.2.1)	3 242 219	2 487 299
Provision for impairment – net of reversals	(note 12.2.2)	(612 421)	(437 110)
		2 629 798	2 050 189
Fixed income securities	(note 12.2.3)	755 871	371 552
		3 536 681	2 970 600

** including preference shares of Rs. 20 million (2010: Rs. 20 million)*

12.2.1 The market value of available for sale - equity securities as at 31 December 2011 is Rs. 2 663 million (2010: Rs. 2 796 million).

12.2.2 The impairment balance includes a further charge of Rs. 181 million which the Company has provided during the year on its available for sale – equity securities which are stated at lower of cost or market value (market value being taken as lower if the reduction is other than temporary).

12.2.3 *Fixed income securities*

Rupees '000

Name of investment	Maturity year	Effective yield %	Profit payment	2011	2010
Government securities					
10 Years Pakistan Investment Bonds	2012 - 2017	4.42–13.42	Half yearly	156 193	131 389
06 Months Treasury Bills	2012	11.84	On maturity	382 042	9 376

Market value of Government Securities amounted to Rs. 535 million (2010: Rs. 131 million).

The amount of Pakistan Investment Bonds includes Rs. 131 million (2010: Rs. 125 million) deposited with the State Bank of Pakistan as required by Section 29 of the Insurance Ordinance, 2000.

Rupees '000

Name of investment	Maturity year	Effective yield %	Profit payment	2011	2010
Commercial Paper					
Pak Electron Ltd.	2011	15.78	On maturity	-	8 935
Term Finance Certificates (TFCs) – quoted:					
In related parties					
Jahangir Siddiqui & Co. Ltd.– 5th Issue	2013	15.50	Half yearly	30 451	30 463
Others					
New Allied Electronics Ltd.	2012	17.03	Quarterly	4 481	4 481
Pakistan Mobile Comm. Ltd. – 3rd Issue	2013	14.67	Half yearly	12 480	20 800
Pakistan Mobile Comm. Ltd. – 6th Issue	2013	22.40	Half yearly	5 398	5 150
Askari Commercial Bank Ltd. – 2nd Issue	2013	13.31	Half yearly	35 957	35 990
United Bank Ltd. – 3rd Issue	2014	15.08	Half yearly	39 261	39 277
Allied Bank Ltd.	2014	13.55	Half yearly	30 108	30 184
Financial Receivable Securitization Co. Ltd.	2014	15.80	Half yearly	4 165	5 831
Engro Corporation Ltd.	2016	16.17	Half yearly	45 149	45 167
Agritech Ltd. – 3rd Issue (B)	2017	11.00	Half yearly	5 665	-
Agritech Ltd. – 3rd Issue (A)	2019	15.02	Quarterly	34 972	34 972
				217 636	221 852
Market value of TFCs amounted to Rs. 249 million (2010: Rs. 251 million).					
				786 322	402 015

12.2.4 As per the Company's accounting policy, available for sale investments are stated at lower of cost or market value. However, IAS 39 - Financial Instruments: Recognition and Measurement, requires that these instruments should be measured at their fair value. Accordingly, had these investments been measured at fair value, their carrying value as on 31 December 2011 would have been lower by Rs. 90 million (2010: higher by Rs. 216 million).

13. Investment properties

Rupees '000

2011

	Cost				Depreciation			Written down value
	As at 1 January	Addition	As at 31 December	Rate %	As at 1 January	For the year	As at 31 December	As at 31 December
Leasehold land	47 468	-	47 468		-	-	-	47 468
Buildings	356 388	212	356 600	5	171 990	17 828	189 818	166 783
Lifts and other installations	7 835	1 858	9 693	10	3 998	537	4 535	5 157
	411 691	2 070	413 761		175 988	18 365	194 353	219 408

2010

	Cost				Depreciation			Written down value
	As at 1 January	Addition	As at 31 December	Rate %	As at 1 January	For the year	As at 31 December	As at 31 December
Leasehold land	47 468	-	47 468		-	-	-	47 468
Buildings	345 370	11 018	356 388	5	154 409	17 581	171 990	184 398
Lifts and other installations	6 934	901	7 835	10	3 253	745	3 998	3 837
	399 772	11 919	411 691		157 662	18 326	175 988	235 703

13.1 The market value of land and buildings is estimated at Rs. 1 303 million (2010: Rs. 1 242 million). The valuations have been carried out by independent valuers.

Rupees '000

		2011	2010
14.	**Premium due but unpaid – net – unsecured**		
	Considered good	2 098 992	1 937 676
	Considered doubtful	1 093	1 093
		2 100 085	1 938 769
	Provision for doubtful balances	(1 093)	(1 093)
		2 098 992	1 937 676
15.	**Accrued investment income**		
	Return accrued on fixed income securities	13 394	9 602
	Dividend income	3 615	504
	Return on bank deposits	19 682	21 190
		36 691	31 296
16.	**Prepayments**		
	Prepaid reinsurance premium ceded	2 440 471	1 735 278
	Prepaid rent	11 006	12 517
	Others	5 054	6 853
		2 456 531	1 754 648
17.	**Other receivables**		
	Advances to employees	1 902	2 464
	Advances to suppliers and contractors	9 755	22 220
	Others	21 557	21 570
		33 214	46 254

18. Fixed assets – tangibles and intangibles Rupees '000

2011

	Cost					Depreciation / amortisation				Written down value
	As at 01 January	Additions	Disposals/ Adjustments	As at 31 December	Rate %	As at 01 January	For the year	Disposals/ Adjustments	As at 31 December	As at 31 December
Tangibles										
Leasehold land	5 580	-	-	5 580	-	-	-	-	-	5 580
Buildings	283 925	50 098	-	334 023	5	74 977	15 446	-	90 423	243 600
Furniture and fixtures	320 979	67 548	21 948	366 579	10	173 122	27 165	10 595	189 692	176 887
Office equipments	64 558	129 345	142	193 761	10	25 317	13 971	97	39 191	154 570
Computers	99 857	11 441	467	110 831	30	70 989	15 817	467	86 339	24 492
Vehicles	350 557	48 435	24 455	374 537	20	218 772	56 287	21 574	253 485	121 052
Intangibles										
Computer softwares	73 468	708	-	74 176	33	30 520	21 415	-	51 935	22 241
	1 198 924	307 575	47 012	1 459 487		593 697	150 101	32 733	711 065	748 422

2010

	Cost					Depreciation / amortisation				Written down value
	As at 01 January	Additions	Disposals/ Adjustments	As at 31 December	Rate %	As at 01 January	For the year	Disposals/ Adjustments	As at 31 December	As at 31 December
Tangibles										
Leasehold land	5 580	-	-	5 580	-	-	-	-	-	5 580
Buildings	231 120	52 805	-	283 925	5	62 185	12 792	-	74 977	208 948
Furniture and fixtures	294 026	27 139	186	320 979	10	150 348	22 848	74	173 122	147 857
Office equipments	56 029	8 728	199	64 558	10	19 862	5 520	65	25 317	39 241
Computers	69 793	30 285	221	99 857	30	52 120	19 090	221	70 989	28 868
Vehicles	330 457	55 845	35 745	350 557	20	192 127	54 367	27 722	218 772	131 785
Intangibles										
Computer softwares	13 037	60 431	-	73 468	33	8 969	21 551	-	30 520	42 948
	1 000 042	235 233	36 351	1 198 924		485 611	136 168	28 082	593 697	605 227

18.1 The market value of land and buildings is estimated at Rs. 1 007 million (2010: Rs. 896 million). The valuations have been carried out by independent valuers.

18.2 Details of tangible assets disposed off during the year are as follows:

	Rupees '000				
Mode of disposal	Original cost	Accumulated depreciation	Book value	Sale proceeds	Sold to
Furniture & fixtures (Negotiation)	791	455	336	400	Abdul Khalid Akhtar, Karachi
	720	342	378	400	Abdul Khalid Akhtar, Karachi
	715	262	453	47	Akram, Karachi
Written down value below Rs. 50,000	1 940	1734	206	358	Various
	4 166	2 793	1 373	1 205	
Office equipments (Negotiation)					
Written down value below Rs. 50,000	142	97	45	41	Various
	142	97	45	41	
Computers (Negotiation)					
Written down value below Rs. 50,000	467	467	-	63	Various
	467	467	-	63	
Vehicles (Negotiation)	1 102	110	992	870	Junaid Aslam, Lahore
	1 427	1 022	405	700	Asif Arif (employee), Karachi
	218	98	120	700	Austen B. Freitas (employee), Karachi
	155	93	62	500	D. H. Sidwa (employee), Karachi
	129	75	54	500	Khan M. Anwar Pasha (employee), Karachi
	124	66	58	450	Syed Ahmed A. Haq (employee), Karachi
	704	528	176	400	Shama Parveen, Karachi
	119	61	58	400	Iftikhar Ahmed Khan (employee), Karachi
	116	60	56	400	Muhammad Atif, Karachi
	122	67	55	400	Zahid Hussain, Karachi
	250	96	154	300	Adeel Ahmed (employee), Karachi
	383	319	64	215	Atif Anwar (employee), Karachi
	383	319	64	215	Danish, Karachi
	175	41	134	150	Nadeem Sheikh (employee), Karachi
	383	319	64	30	Masood Bin Shamsheer, Karachi
Written down value below Rs. 50,000	18 665	18 300	365	12 034	Various
	24 455	21 574	2 881	18 264	

Rupees '000

	2011	2010
18.3 Capital work-in-progress		
Buildings – improvements	11 223	68 108
Advances – to suppliers	-	35 750
	11 223	103 858
19. Net premium revenue		
Premium revenue (net of reinsurance)	5 955 013	5 566 506
Administrative surcharge	269 482	280 085
	6 224 495	5 846 591

Rupees '000

		2011	2010
20.	**Management expenses**		
	Salaries, wages and benefits (note no. 20.1)	749 920	692 696
	Bonus to staff	70 619	67 130
	Rent, rates and taxes	31 168	39 252
	Telephone	12 732	12 641
	Postage	6 747	6 965
	Gas and electricity	31 471	26 416
	Printing and stationery	24 253	24 634
	Travelling and entertainment	53 648	45 679
	Depreciation	78 106	71 584
	Repairs and maintenance	15 927	10 345
	Other expenses	119 267	137 343
		1 193 858	1 134 685

20.1 These include Rs. 14.41 million (2010: Rs. 13.60 million) being contribution for employees' provident fund.

Rupees'000

		2011	2010
21.	**Other income**		
	Gain on sale of fixed assets	15 274	14 442
	Interest on loan to employees	130	130
	Others	7 613	24 206
		23 017	38 778
22.	**General and administration expenses**		
	Salaries, wages and benefits (note no. 22.1)	168 238	187 410
	Bonus to staff	19 554	17 488
	Gratuity (note 6)	27 738	32 088
	Rent, rates and taxes	3 437	1 709
	Telephone	2 557	1 844
	Postage	1 069	1 307
	Gas and electricity	9 464	7 772
	Printing and stationery	5 000	4 414
	Travelling and entertainment	20 093	11 568
	Depreciation	90 360	82 911
	Repairs and maintenance	18 298	4 928
	Auditors' remuneration (note 22.2)	1 766	1 699
	Legal and professional charges	6 335	5 813
	Publicity	29 488	32 670
	Property management expenses	40 241	47 896
	Donations (note 22.3)	5 161	5 937
	Workers' welfare fund	16 831	-
	Other expenses	39 901	31 208
		505 531	478 662

22.1 These include Rs. 3.47 million (2010: Rs. 3.52 million) being contribution for employees' provident fund.

Rupees '000

22.2	**Auditors' remuneration**		
	Audit fee and other certifications (KPMG Taseer Hadi & Co.)	1 050	950
	Audit fee (Hyder Bhimji & Co.)	475	475
	Audit of financial statements of provident fund, gratuity and pension fund (Hyder Bhimji & Co.)	75	75
	Out of pocket expenses	166	199
		1 766	1 699

22.3 Donations

Donations include the following in whom a director is interested:

Name of director	Interest in donee	Name of donee	2011	2010
			Rupees '000	
Saifuddin N. Zoomkawala	President	Pakistan German Business Forum	-	30
	Board member	Shaukat Khanum Memorial Trust	250	250
	Board member	Sindh Institute of Urology and Transplantation	550	250
	Member Executive Committee	Saarc Chamber of Commerce & Industries	173	-
	Member	Institute of Business Administration	100	-
Saifuddin N. Zoomkawala and Jahangir Siddiqui	Board member	Fakhr-e-Imdad Foundation	-	350
Hasanali Abdullah	Board Member	Aga Khan Hospital and Medical College Foundation	60	-
	Chairman	The Insurance Association of Pakistan	-	40

23. Provision for taxation

	2011	2010
	Rupees '000	
For the year		
Current	106 937	95 227
Prior year	-	39 686
Deferred	173 659	(81 355)
	280 596	53 558

23.1 Reconciliation of tax charge

	%	%
Applicable tax rate	35.00	35.00
Tax effects of amounts that are:		
- minimum tax	7.73	16.96
- deductions not allowed	0.21	(0.58)
- taxed at reduced rates and exempt from tax	(9.60)	(25.46)
- effect of prior period tax charge	-	(11.03)
Average effective tax rate charged on income	33.34	14.89

24. Earnings / (loss) per share

24.1 Basic earnings / (loss) per share

	2011	2010
Profit / (loss) for the year (Rupees '000)	560 948	(413 321)
Weighted average number of ordinary shares (Numbers '000)	125 000	125 000
Earnings / (loss) per share (Rupees)	4.49	(3.31)

24.2 Diluted earnings per share

No figure for diluted earnings per share has been presented as the Company has not issued any instrument which would have an impact on earnings per share when exercised.

25. Remuneration of Chief Executive, Directors and Executives

The aggregate amount charged in the accounts for remuneration, including all benefits, to the Chief Executive, Directors and Executives of the Company are as follows:

Rupees '000

	2011				2010			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Managerial remuneration - including bonus	17 077	7 697	147 886	172 660	19 173	10 653	137 387	167 213
Retirement benefits	782	479	9 357	10 618	1800	959	8 325	11 084
Utilities	234	305	9 598	10 137	198	444	10 508	11 150
Medical expenses	1 897	688	4 058	6 643	902	1 305	4 185	6 392
Leave passage	-	470	1 499	1 969	797	-	1 243	2 040
Total	19 990	9 639	172 398	202 027	22 870	13 361	161 648	197 879
Number of persons	1	3	90	94	1	3	87	91

25.1 In addition, the Chairman, Chief Executive, certain Directors and certain Executives are provided with free use of Company cars and certain items of household furniture and fixtures in accordance with their entitlements. The Chief Executive is not given any rent allowance but is provided with maintained furnished accommodation.

Rupees '000

26. Segment reporting

	Fire and property damage		Marine, aviation & transport		Motor		Others		Treaty		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Corporate segment assets	5 842 469	6 458 038	1 658 914	1 934 409	368 150	380 850	1 269 174	1 127 689	-	-	9 138 707	9 900 986
Corporate unallocated assets											15 239 331	14 640 683
Total assets											24 378 038	24 541 669
Corporate segment liabilities	8 025 752	8 442 658	2 194 365	2 289 162	2 133 920	2 306 239	1 490 908	1 515 140	2 514	3 596	13 847 459	14 556 795
Corporate unallocated liabilities											534 710	393 703
Total liabilities											14 382 169	14 950 498
Capital expenditure											217 010	319 966
Segment depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Unallocated depreciation											168 466	154 494
Total depreciation											168 466	154 494

Location	External premium less reinsurance by geographical segments		Carrying amount of assets by geographical segments		Carrying amount of liabilities excluding branch account by geographical segments		Capital expenditure	
	2011	2010	2011	2010	2011	2010	2011	2010
Pakistan	6 208 953	5 834 984	24 262 812	24 407 978	14 303 004	14 800 184	217 010	319 966
EPZ *	14 542	11 607	85 812	102 757	61 387	132 463	-	-
Saudi Arabia **	-	-	29 414	30 934	17 778	17 851	-	-
Total	6 223 495	5 846 591	24 378 038	24 541 669	14 382 169	14 950 498	217 010	319 966

* This represents US Dollar Equivalent in Pak Rupees

** This represents US Dollar and Saudi Riyal equivalent in Pak Rupees

27. Management of insurance and financial risk

27.1 Insurance risk

The principal risk the Company faces under insurance contracts is the possibility that the insured event occurs, the uncertainty of the amount of the resulting claims i.e. the frequency and severity of claims and that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to minimise insurance risks with a balanced mix and spread of business classes and by observing underwriting guidelines and limits. The Company underwrites mainly property, motor, marine cargo and transportation and other miscellaneous business. These classes of insurance are generally regarded as short-term insurance contracts where claims are normally intimated and settled within a short time span, usually one year. This helps to mitigate insurance risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. For large risks, particularly in property segment of business, risk inspections are carried out before accepting the risks. Similarly, in case of large risks, annual renewals are also preceded by on-site surveys. Where needed, risk mitigation measures are identified and communicated to the clients to improve the risk to an acceptable level.

Reinsurance arrangements in place include treaty and facultative arrangements, on proportional and non-proportional basis and also include catastrophe cover. The effect of such reinsurance arrangements is that the Company may not suffer ultimate net insurance losses beyond the Company's risk appetite in any one year.

The Company's arrangement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor the operations of the Company are substantially dependent upon any single reinsurance contract. The Company obtains reinsurance cover only from companies with sound financial health.

27.1.1 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like political violence, environmental and economical, atmospheric disturbances, natural disasters, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

The Company monitors concentration of insurance risks primarily by class of business. The table below sets out the concentration of the claims and premium liabilities (in percentage terms) by class of business at balance sheet date:

	2011				**2010**			
Class	Gross claims liabilities	Net claims liabilities	Gross premium liabilities	Net premium liabilities	Gross claims liabilities	Net claims liabilities	Gross premium liabilities	Net premium liabilities
	%	%	%	%	%	%	%	%
Fire and property damage	57	37	59	43	62	38	54	43
Marine, aviation & transport	22	20	10	9	21	16	8	7
Motor	15	40	23	44	13	43	28	45
Others	6	3	8	4	4	3	10	5
	100	100	100	100	100	100	100	100

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk.

The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

The Company's class wise major gross risk exposure is as follows:

Rupees '000

Class	**2011**	**2010**
Fire and property damage	85 846 000	26 711 000
Marine, aviation and transport	73 960 000	72 670 000
Motor	35 000	29 000
Others	18 000 000	12 880 000

Since the Company operates in Pakistan only, hence, all the insurance risks relate to policies written in Pakistan.

27.1.2 Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the balance sheet date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extend to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the balance sheet date. The details of estimation of outstanding claims (including IBNR) are given under note 3.6.2.

27.1.3 Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance programs.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

27.1.4 Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The impact on the profit before tax and shareholders' equity of the changes in the claim liabilities net of reinsurance is analysed below. The sensitivity to changes in claim liabilities net of reinsurance is determined separately for each class of business while keeping all other assumptions constant.

Rupees '000

	Profit before tax		Shareholders' equity	
	2011	**2010**	**2011**	**2010**
Impact of change in claim liabilities by +10				
Fire and property damage	(83 810)	(88 732)	(54 477)	(57 676)
Marine, aviation and transport	(44 773)	(36 381)	(29 102)	(23 648)
Motor	(91 015)	(99 699)	(59 160)	(64 804)
Others	(6 161)	(7 242)	(4 005)	(4 707)
	(225 759)	(232 054)	(146 744)	(150 835)
Impact of change in claim liabilities by -10				
Fire and property damage	83 810	88 732	54 477	57 676
Marine, aviation and transport	44 773	36 381	29 102	23 648
Motor	91 015	99 699	59 160	64 804
Others	6 161	7 242	4 005	4 707
	225 759	232 054	146 744	150 835

27.1.5 Claim development

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year.

Claims which involve litigation and, in the case of Marine cargo, general average adjustments take longer for the final amounts to be determined. In addition, for the accident year 2010 we have also included losses on account of floods exceeding one year. Also, the passenger liability settlements on the Air Blue crash have been included for accident year 2010 as the passenger liability claims are continuing to be settled but still there are pending cases which have exceeded one year. All amounts are presented in gross numbers before re-insurance. Claims of last five years are given below:

Rupees ‘000

Accident year	2007	2008	2009	2010	2011
Estimate of ultimate claims costs:					
- At end of accident year	10 348	89 740	42 228	284 637	84 819
- One year later	8 072	80 696	59 667	2 737 321	-
- Two years later	8 072	29 982	58 685	-	-
- Three years later	9 724	247 594	-	-	-
- Four years later	11 132	-	-	-	-
Current estimate of cumulative claims	11 132	247 594	58 685	2 737 321	84 819
Cumulative payments to date	6 374	33 651	4 305	978 283	-
Liability recognized in the balance sheet	4 758	213 943	54 380	1 759 038	84 819

27.2 Financial risk

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (comprising of currency risk, interest rate risk and other price risk). The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board of Directors has overall responsibility for establishment and over sight of the Company's risk management framework. There are Board Committees and Management Committees for developing and monitoring the risk management policies.

27.2.1 Credit risk

Credit risk is the risk, which 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 management monitors exposure to credit risk through regular review of credit exposure, undertaking transactions with a large number of counter parties in various industries and by continually assessing the credit worthiness of counter parties.

Concentration of credit risk arises when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would affect their ability to meet contractual obligations in similar manner. Due to the nature of financial assets, the Company believes it is not exposed to any major concentration of credit risk.

The carrying amounts of the following financial assets represent the Company’s maximum exposure to credit risk:

Rupees ‘000

	2011	2010
Financial assets:		
Bank balances and deposits	1 754 145	1 704 175
Loan to employees	3 326	3 293
Investments (Term Finance Certificates)	248 087	252 315
Premiums due but unpaid – net – unsecured	2 098 992	1 937 676
Amount due from other insurers / reinsurers	55 716	150 143
Accrued investment income	36 691	31 296
Reinsurance recoveries against outstanding claims	4 043 075	5 626 075
Security deposits	4 164	5 243
Other receivables	33 214	46 254
	8 277 410	9 756 470

The credit quality of Company's bank balances and deposits can be assessed with reference to external credit ratings as follows:

Rupees '000

Rating	2011	2010
AAA	40 584	346 274
AA	1 430 444	1 211 860
A	282 724	146 042
BBB	393	-
	1 754 145	1 704 176

The credit quality of Company's investment in term finance certificates and commercial paper can be assessed with reference to external credit ratings as follows:

Rating	Short Term	Rating Agency	2011	2010
Term Finance Certificates				
Engro Corporation Limited	AA	PACRA	45 149	45 167
United Bank Limited – 3rd Issue	AA	JCR-VIS	39 261	39 277
Askari Bank Limited – 2nd Issue	AA-	PACRA	35 957	35 989
Agritech Limited – 3rd Issue (A)	D	PACRA	34 972	34 972
Jahangir Siddiqui & Co. Limited – 5th Issue	AA	PACRA	30 451	30 463
Allied Bank Limited	AA-	JCR-VIS	30 108	30 184
Pakistan Mobile Communications Limited – TFC III	A+	PACRA	12 480	20 800
Agritech Ltd. – 3rd Issue (B)	D	PACRA	5 665	-
Pakistan Mobile Communications Limited – TFC VI	A+	PACRA	5 398	5 151
New Allied Electronics Limited	D	JCR-VIS	4 481	4 481
Financial Receivable Securitization Co. Limited	A+	PACRA	4 165	5 831
			248 087	252 315
Commercial Paper				
Pak Electron Limited	A	PACRA	-	8 935
			248 087	261 250

The management monitors exposure to credit risk in premium receivable from customers through regular review of credit exposure and prudent estimates of provisions for doubtful receivables. As at 31 December 2011, the premium due but unpaid includes amount receivable within one year and above one year amounting to Rs. 1 808 million (2010: 1 649 million) and Rs. 292 million (2010: 289 million) respectively.

The credit quality of amount due from other insurers / reinsurers and claim recoveries from reinsurers can be assessed with reference to external credit ratings as follows:

Rupees '000

Rating	Amounts due from insurers / reinsurers	Reinsurance recoveries against outstanding claims	2011	2010
A or above (including Pakistan Reinsurance Company Limited)	22 371	3 889 165	3 911 536	5 561 434
BBB	11 406	80 096	91 502	92 823
Others	21 939	73 814	95 753	121 961
	55 716	4 043 075	4 098 791	5 776 218

As at 31 December 2011, the amount due from insurers / reinsurers includes amount receivable within one year and above one year amounting to Rs. 36 million (2010: 130 million) and Rs. 20 million (2010: 21 million) respectively.

27.2.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities. In respect of major loss event, there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected re-insurance recoveries.

The objective of the Company's liquidity management process is to ensure, as far as possible, that it will always have sufficient liquidity to meet its claim and other liabilities when due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Company's reputation. It includes measuring and monitoring the future cash flows on daily, monthly and quarterly basis, maintaining sufficient cash reserves in bank accounts and a portfolio of highly marketable financial assets that can be easily liquidated in the event of an unforeseen interruption to cash flows.

The table below provides the maturity analysis of the Company's liabilities as at balance sheet date. All liabilities are presented on a contractual cash flow basis except for the provision of outstanding claims (including IBNR), which are presented with their expected cash flows.

Rupees '000

31 December 2011

	Carrying amount	Up to one year	Greater than one year
Financial liabilities:			
Provision for outstanding claims (including IBNR)	6 303 174	6 303 174	-
Amounts due to other insurers / reinsurers	1 355 014	1 355 014	-
Accrued expenses	163 413	163 413	-
Agent balances	425 252	425 252	-
Other creditors and accruals	51 729	51 729	-
Other deposits	377 536	377 536	-
Unclaimed dividends	56 482	56 482	-
	8 732 600	8 732 600	-

31 December 2010

	Carrying amount	Up to one year	Greater than one year
Financial liabilities:			
Provision for outstanding claims (including IBNR)	7 950 208	7 950 208	-
Amounts due to other insurers / reinsurers	1 131 657	1 131 657	-
Accrued expenses	156 505	156 505	-
Agent balances	387 485	387 485	-
Other creditors and accruals	7 876	7 876	-
Other deposits	320 126	320 126	-
Unclaimed dividends	52 297	52 297	-
	10 006 154	10 006 154	-

27.2.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of change in market prices such as interest rates, foreign exchange rates and equity prices.

The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in Government securities, equity and term finance certificates markets. In addition, the Company actively monitors the key factors that affect the underlying value of these securities.

27.2.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company has securities and deposits that are subject to interest rate risk. The Company limits interest rate risk by monitoring changes in interest rates in the currencies in which its financial assets are denominated.

The information about Company's exposure to interest rate risk based on contractual reprising or maturity dates whichever is earlier is as follows:

Rupees '000

2011

	Interest / mark-up bearing					Non-interest / mark-up bearing	Total
	Effective yield %	Up to one year	Over one year to five years	Over five years	Sub total		
Financial assets							
Cash and other equivalents	5.0 - 12.0	1 754 145	-	-	1 754 145	3 974	1 758 119
Loans to employees	4.20	866	1 933	516	3 315	11	3 326
Investments	12.30	456 800	288 026	41 496	786 322	11 546 356	12 332 678
Premiums due but unpaid - net - unsecured		-	-	-	-	2 098 992	2 098 992
Premiums due from other insurers / reinsurers		-	-	-	-	55 716	55 716
Accrued investment income		-	-	-	-	36 691	36 691
Reinsurance recoveries against outstanding claims		-	-	-	-	4 043 075	4 043 075
Security deposits		-	-	-	-	4 164	4 164
Other receivables		-	-	-	-	33 215	33 215
		2 211 811	289 959	42 012	2 543 782	17 822 194	20 365 976
Financial liabilities							
Provision for outstanding claims (including IBNR)		-	-	-	-	6 303 174	6 303 174
Amount due to other insurers / reinsurers		-	-	-	-	1 355 014	1 355 014
Accrued expenses		-	-	-	-	163 413	163 413
Agent balances		-	-	-	-	425 252	425 252
Other creditors and accruals		-	-	-	-	51 729	51 729
Other deposits		-	-	-	-	377 536	377 536
Unclaimed dividends		-	-	-	-	56 482	56 482
		-	-	-	-	8 732 600	8 732 600
On-balance sheet sensitivity gap		2 211 811	289 959	42 012	2 543 782		
Total yield / mark-up rate risk sensitivity gap		2 211 811	289 959	42 012	2 543 782		

2010

	Interest / mark-up bearing					Non-interest / mark-up bearing	Total
	Effective yield %	Up to one year	Over one year to five years	Over five years	Sub total		
Financial assets							
Cash and other equivalents	4.0 - 14.0	1 704 175	-	-	1 704 175	2 396	1 706 571
Loans to employees	4.28	749	2 533	-	3 282	11	3 293
Investments	12.93	91 345	268 027	42 643	402 015	11 261 716	11 663 731
Premiums due but unpaid - net - unsecured		-	-	-	-	1 937 676	1 937 676
Premiums due from other insurers / reinsurers		-	-	-	-	150 143	150 143
Accrued investment income		-	-	-	-	31 296	31 296
Reinsurance recoveries against outstanding claims		-	-	-	-	5 626 075	5 626 075
Security deposits		-	-	-	-	5 243	5 243
Other receivables		-	-	-	-	46 254	46 254
		1 796 269	270 560	42 643	2 109 472	19 060 810	21 170 282
Financial liabilities							
Provision for outstanding claims (including IBNR)		-	-	-	-	7 950 208	7 950 208
Amount due to other insurers / reinsurers		-	-	-	-	1 131 657	1 131 657
Accrued expenses		-	-	-	-	156 505	156 505
Agent balances		-	-	-	-	387 485	387 485
Other creditors and accruals		-	-	-	-	7 876	7 876
Other deposits		-	-	-	-	320 126	320 126
Unclaimed dividends		-	-	-	-	52 297	52 297
		-	-	-	-	10 006 154	10 006 154
On-balance sheet sensitivity gap		1 796 269	270 560	42 643	2 109 472		
Total yield / mark-up rate risk sensitivity gap		1 796 269	270 560	42 643	2 109 472		

Sensitivity analysis

As on 31 December 2011, the Company had no financial instruments valued at fair value through profit or loss. For cash flow sensitivity analysis of variable rate instruments, a hypothetical change of 100 basis points in interest rates during the year would have decreased / increased profit for the year by the amounts shown below.

It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Actual results might differ from those reflected in the details specified below. The analysis assumes that all other variables remain constant.

	Change in basis points	Effect on profit and loss before tax	Effect on shareholder's equity
31 December 2011	100	9 171	5 961
	(100)	(9 171)	(5 961)
31 December 2010	100	8 169	5 310
	(100)	(8 169)	(5 310)

27.2.3.2 Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Company, at present is not materially exposed to currency risk as majority of the transactions are carried out in Pakistani Rupees.

27.2.3.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company's equity investments amounting to Rs. 2 750 million are susceptible to market price risk arising from uncertainty about the future value of investment securities. The Company limits market risk by diversifying its equity investment portfolio and by actively monitoring the developments in equity and money markets.

The Company also has strategic equity investments in its associate amounting to Rs. 8 796 million which is held for long term. The management is not concerned with short term price fluctuations with respect to its strategic investments provided that the underlying business and economic characteristic of the investee remain favourable.

The table below summarises Company's market price risk as of 31 December 2011 and 2010. It shows the effect of a 10% increase and 10% decrease in the market prices of equity investments as on those dates on Company's profit and equity.

Had all equity investments, other than associates, been measured at fair values as required by IAS 39, Financial Instruments: Recognition and Measurement, the impact of hypothetical change would be as follows:

Rupees '000

	Fair value	Price change	Estimated fair value	Effect on profit and loss before tax	Effect on shareholders' equity
31 December 2011	2 662 542	10 increase	2 928 796	-	266 254
		10 decrease	2 396 288	-	(266 254)
31 December 2010	2 795 880	10 increase	3 075 468	-	279 588
		10 decrease	2 516 292	-	(279 588)

27.3 Fair value

The fair value of all major financial assets are estimated to be not significantly different from their carrying values except for quoted investments, details of which are given in note no. 12 to these financial statements.

27.4 Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development in its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares. The Company currently meets minimum paid up capital requirements as required by Securities and Exchange Commission of Pakistan.

28. Non-adjusting event after the balance sheet date

The Board of Directors in its meeting held on 10 March 2012 have announced a cash dividend in respect of the year ended 31 December 2011 of Rs. 2.75 per share, 27.5% (2010: Rs. 1.25 per share, 12.5%). In addition, the Board of Directors has also approved the transfer from un-appropriated profit to general reserve amounting to Rs. 200 million (2010: Rs. 500 million transfers to un-appropriated profit from general reserve). These financial statements for the year ended 31 December 2011 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

29. Related party transactions

Related parties comprise of directors, major shareholders, key management personnel, associated companies, entities with common directors and employee retirement benefit funds. The transactions with related parties are carried out at commercial terms and conditions except for compensation to key management personnel which are on employment terms. The transactions and balances with related parties other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

	Rupees '000	
	2011	**2010**
Transactions		
Associated company		
Premiums written	9 143	8 141
Premiums paid	-	7 948
Claims paid	5 726	4 096
Claims lodged	2 367	4 681
Investments made	37 802	9 301
Bonus shares received	-	41 495
Dividends received	178 854	171 168
Bonus shares issued	-	6 812
Dividends paid	10 644	31 336
Expenses recovered	1 400	-
Key management personnel		
Premiums written	816	682
Claims paid	55	62
Bonus shares issued	-	17 901
Dividends paid	27 197	82 345
Compensation	115 754	115 519
Others		
Premiums written	44 739	157 883
Premiums paid	6 642	4 620
Claims paid	16 864	193 030
Claims lodged	5 313	3 963
Commissions paid	494	159
Investments made	150 000	11 606
Investments sold	205 115	38 181
Bonus shares issued	-	32 658
Bonus shares received	-	2 039
Dividends paid	44 347	130 558
Dividends received	-	21 821
Bank deposits	145	25 000
Expenses paid	-	63
Brokerage paid	1 313	1 062
Donations paid	-	880
Profit on TFC	4 691	4 916

	2011	2010
	Rupees '000	
Employees' funds		
Contributions to provident fund	17 874	17 115
Contributions to gratuity fund	32 088	24 379
Contributions to pension fund	333	345
Bonus shares issued	-	514
Dividends paid	805	2 366
Balances		
Associated company		
Balances receivable	-	3
Others		
Balances receivable	1 184	23 329
Balances payable	(390)	(93)
Deposits maturing within 12 months	215 500	70 500
Bank balances	5 525	13 945
Employees' funds payable		
EFU gratuity fund	(27 738)	(32 088)
EFU pension fund	(17 067)	(8 759)

The transactions and balances in the current year are disclosed as per IAS-24 (revised).

30. Number of employees

Number of employees as at 31 December 2011 was 1 236 (2010: 1 294).

31. Date of authorisation for issue of financial statements

These financial statements were authorised for issue by the Board of Directors in their meeting held on 10 March 2012.

MUNEER R. BHIMJEE	RAFIQUE R. BHIMJEE	HASANALI ABDULLAH	SAIFUDDIN N. ZOOMKAWALA
Director	*Director*	*Managing Director & Chief Executive*	*Chairman*