GLOBAL PRESENCE
LOCAL EXCELLENCE

Taher Moochhala (FCA)
Mustansir (Najeeb) Moochhala (FCA)
Hussaini Fakhruddin (FCA)
Muhammed Saleem (FCA)

Moochhala Gangat & Co
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

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

of **The Crescent Star Insurance Company Limited (the Company)** as at 31 December 2010 together with notes forming part thereof, for the year then ended.

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

Except as discussed in paragraphs below, we planned our audit in accordance with the auditing standards as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statement presentation

We report that:

According to circular No. 3 of 2007 dated 10 April 2007, issued by the Securities and Exchange Commission of Pakistan (SECP), all non-life insurance companies are required to have a minimum paid up capital of Rs. 250 million as at 31 December 2010. However, the paid up share capital of the company was Rs.121 million at the end of the current year.

Based on the abovementioned fact there exists a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto do not disclose this fact.

Furthermore we have been made to understand that the Company is in advanced stages of negotiations with another Insurance Company as regards amalgamation.

Accordingly, the effects of the above matters on the accompanying financial statements cannot presently be determined.

33. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarizes these risks and t

33.1 Insurance risk management

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount o unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims exceed the ca is greater than estimated. Insurance events are random, and the actual number and amount of claims will vary from year to ye

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expe in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insura risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical loca

(a) Frequency and severity of claims

Political, Environmental, economical and climatic changes give rise to more frequent and severe extreme events (for ex typhoons, river flooding, electric fluctuation, terrorism, war risk, damages occurring in inland transit, burglary, loss of cash in contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum ar

Insurance contracts which is divided into direct and facultative arrangements are further subdivided into four segments: Fi contracts is concentrated in the territories in which the Company operates, and there is a balance between commercial an underwrites insurance contract in Pakistan.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive clair

- The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amou has the ability to impose deductions and reject fraudulent claims. Insurance contracts also entitle the Company to pe are limited to the extent of sum insured on occurrence of the insured event.

- The Company has entered into reinsurance cover / arrangements, with local and foreign reinsurers having good credi in view the maximum exposure in respect of key zone aggregates, a number of proportional and nonproportiona catastrophe. The effect of such reinsurance arrangements is that the Company recovers the share of claims from re treaty capacity is very much in line with the risk management philosophy of the Company and market practice.

  In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with Securities and Excha

- The Company has claims departments dealing with the mitigation of risks surrounding claims incurred whether re assessment. The unsettled claims are reviewed individually at lest semi-annually and adjusted to reflect the latest info actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

(b) Sources of uncertainty in the estimation of future claims payments

Claims reported and otherwise are analyzed separately. The development of large losses / catastrophes is analyzed separ certainty about the estimated cost of claims including IBNR. However, the longer time needed to assess the emergence of a s

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation valu appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it comprises amount in relations to unpaid reported claims, claims incurred but not reported (IBNR), expected claims settlemen

Liability in respect of outstanding claims is based on the best estimate of the claims intimated or assessed. In calculating the combination of loss-ratio based estimates (where the ratio is defined as the ratio between the ultimate cost of insurance cl estimate based upon actual claims experience using predetermined basis where greater weights given to actual claims exper

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from previous periods. Claims are assessed on a case-by-case basis separately.

(C) Process used to decide on assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative s

The Company uses assumptions based on a mixture of internal and market data to measure its related claims liabilities. particular claim and screening of the actual insurance contracts carried out to derive data for the contracts held. The Co companies operate and the actual exposure years of claims. This information is used to develop related provision for outstan

The choice of selected results for each accident year of each class of business depends on an assessment of the techniqu Company determines the need for an IBNR or an unexpired risk liability to be held at each reporting date.

(d) Changes in assumptions

The Company did not changes its assumptions for the insurance contracts as disclosed in above (b) and (c).

(e) Sensitivity analysis

The analysis of exposure described in paragraph (c) above is also used to test the sensitivity of the selected assumptions to the relative severity of subsidence claims give past experience. the key material factor in the Company's exposure to subsic exposed.

The risk associated with the insurance contracts are complex and subject to a number of variables which complicate quantit claims development experience. This includes indications such as average claims cost, ultimate claims numbers and exp balance sheet is adequate. However, actual experience will differ from the expected outcome.

As the Company enters into short term insurance contracts, it does not assume any significant impact of changes in market claim incidence net of recoveries showing effect on underwriting results and equity is set out below.

	Underwriting results		
	2010	2009	2010
10% increase in loss / decrease			
Fire & Property	(243,116)	(656,657)	(158,026)
Marine & Transport	(106,606)	(184,727)	(69,294)
Motor	(1,495,564)	(2,588,504)	(972,117)
Miscellaneous	(264,216)	(17,672)	(171,740)
	(2,109,503)	(3,447,560)	(1,371,177)
10% decrease in loss / increase			
Fire & Property	243,116	656,657	158,026
Marine & Transport	106,606	184,727	69,294
Motor	1,495,564	2,588,504	972,117
Miscellaneous	264,216	17,672	171,740
	2,109,503	3,447,560	1,371,177

Concentration of insurance risk

A concentration of risk may also arise from a single insurance contract issued to a particular type of policyholder, within a g significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions

To optimize benefits from the principle of average and law of large of numbers, geographical spread of risk is of extreme im risks with reference to the geographical location, the most important of which is risk survey.

The concentration of risk by type of contracts is summarized below by reference to liabilities.

	Gross sum insured		Reinsurance		
	2010	2009	2010	2009	2010
					-- Rup
Fire & Property	23,955,548,795	31,326,544,431	12,970,587,700	17,534,111,300	10,984,961,095
Marine & Transport	13,307,099,968	15,078,314,636	6,654,842,325	7,641,815,712	6,652,257,643
Motor	1,000,396,454	1,551,714,058	-	-	1,000,396,454
Miscellaneous	108,553,187	320,818,023	77,544,690	198,903,798	31,008,497
	38,371,598,404	48,277,391,148	19,702,974,715	25,374,830,810	18,668,623,689

The net sum is reinsured under the non-proportional treaties (excess of loss). The Company's maximum exposure to a partic

Claims development tables

The following table shows the development of claims over a period of time on gross basis. The disclosure goes back to the and timing of the claims payments. For each class of business the uncertainty about the amount and timings of claims outstanding as at 31 December 2009.

Analysis on gross basis

Accident year	2008	2009	2010

Estimate of ultimate claims cost:			
At end of accident year	54,971,946	33,853,643	18,092,617
One year later	15,667,972	5,277,566	-
Two years later	9,410,457	-	-
Estimate of cumulative claims:	54,971,946	33,853,643	18,092,617
Cumulative payments to date	45,561,489	28,576,077	-
Liability recognized in the balance sheet	9,410,457	5,277,566	18,092,617

33.2 Financial risk management

The Board of Directors of the Company has overall responsibilities for the establishment and oversight of the Company's financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. T the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management poli activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and

The Audit Committee overseas how management monitors compliance with the Company's risk management policies and faced by the Company. The Company Audit Committee is assisted in its in its oversight role by in-house Internal Audit fun procedures, the result of which are reported to the Audit Committee.

33.2.1 Credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation monitoring credit exposures by undertaking transactions with a large number of counterparties in various industries and by co

33.2.1.1 Exposure to credit risk

Credit risk of the Company arises principally from the investments (except for the investment in government securities), P reduce the credit risk the Company has developed a formal approved process whereby credit limits are applied to its policyh towards the policyholders and other insurers / reinsurers and make provision against those balances considered doubtful of r

The carrying amount of financial assets represent the maximum credit exposure, as specified below:

	Note	2010
Cash and bank deposits	13 , 14 & 15	15,068,289
investments	16	24,539,151
Premium due but unpaid	18	46,455,305
Amounts due from other insurers / reinsurers	19	20,359,005
Accrued investment income		95,960

Reinsurance recoveries against outstanding claims		12,868,083
Sundry receivable	22	7,661,424
		127,047,217

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

	Rating
Habib Bank Limited	AA+
United Bank Limited	AA+
Muslim Commercial Bank Limited	AA+
National Bank Limited	AAA
Standard Chartered Bank (Pak) Limited	AAA
Bank Al-Falah Limited	AA
Bank of Punjab Limited	AA-
NIB Bank Limited	AA-
Faysal Bank Limited	AA
Soneri Bank Limited	AA-
My Bank Limited	A-
Silk Bank Limited	A-
Atlas Bank Limited	A-
Royal Bank of Scotland	AA
Habib Metropolitan Bank Limited	AA+
Askari Commercial Bank Limited	AA

The Company is exposed to credit risk in respect of investments made in term deposit receipt and quoted securities. The rating agencies whereas investment in liquid quoted securities are made.

Concentration of credit risk

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result, obligations in similar manner.

Age analysis of premium due but unpaid at the reporting date was:

	2010		
	Gross	**Impairment**	**Gross**

Upto 1 year	24,813,968	10,159,465	20,288,748
1-2 years	18,457,495	13,468,539	22,716,503
2-3 years	16,652,378	-	24,738,680
Over 3 years	10,159,468	-	11,453,894
Total	70,083,309	23,628,004	79,197,825

Amount due from other insurers / reinsurers reinsurance recoveries against outstanding claims

The Company enters into re-insurance / co-insurance arrangements with re-insurers / other insurers having sound credit rat requirements of circular no. 32 / 2009 dated 27 October 2009 issued by SECP which requires an insurance company to pl Poors with the balance being placed with entities rated at least 'BBB' by reputable ratings agency. An analysis of all reinsura due is as follows:

	Amount due from reinsurance	**Reinsurance recoveries against outstanding claims**	**Prepaid Reinsurance Premium ceded**	**2010**

A or above (including PRCL)	(22,225,684)	12,868,083	14,555,357	5,197,756
BBB	-	-	-	-
Total	(22,225,684)	12,868,083	14,555,357	5,197,756

Age analysis of amount due from other insurers / reinsureres at the reporting date was:

	2010		
	Gross	**Impairment**	**Gross**

Upto 1 year	3,496,351	-	9,521,447
1-2 years	2,798,103	-	4,022,003

2-3 years	1,024,992	-	3,039,240
Over 3 years	5,548,637	-	2,691,160
Total	12,868,083	-	19,273,850

In respect of the aforementioned insurance and reinsurance assets, the Company takes into account its past history / tr
impairment. Further, reinsurance recoveries are made when corresponding liabilities are settled.

33.2.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due, under bo Company's reputation. The Company ensures that it has sufficient cash on demand to meet expected operational requirer encashed. The following are the contractual maturities of financial liabilities, including interest payments and excluding the im

The following are the contractual maturities of financial liabilities:

	Carrying Amount
Non-Derivative Financial liabilities	
Provision for outstanding claims	32,780,640
Amount due to other insurers / reinsurers	25,895,752
Accrued expenses	1,476,699
Other creditor and accruals	2,233,393
Unclaimed dividend	418,209
	62,804,693

	Carrying Amount
Non-Derivative Financial liabilities	
Provision for outstanding claims	49,899,615
Amount due to other insurers / reinsurers	25,710,319
Accrued expenses	1,410,843
Other creditor and accruals	1,802,160
Unclaimed dividend	418,209
	79,241,146

33.2.3 Market risk

Markup risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the risk. However, the Company is exposed to interest rate risk and other price risk.

33.2.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cast flows of a financial instrument will fluctuate because of changes loss sharing accounts with reputable banks. At the balance sheet date the interest rate profit of the Company's interest bearin

	2010	2009	2010
	Effective interest rate (in %)		
Fixed rate instruments			
- Government securities	12%	12%	5,200,000
Variable rate instruments			
- PLS savings accounts	6%	4%	17,235

Fair value sensitivity analysis for fixed rate instruments

The Company does not account fixed rate financial assets at fair value through profit and loss. Therefore, a change in interes

Cash flow sensitivity analysis for variable rate instruments

The Company is not exposed to cash flow interest rate risk in respect of its deposits with banks because the amount is not m

33.2.3.2 Equity price risk

Equity price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of KSE Company's investments in equity securities and units of mutual funds. This arises from investments held by the Company diversification and selection of securities within specified limits set by internal risk management guidelines. A summary analy:

The Management monitors the fluctuations of prices of equity securities on regular basis. The Company also has necessary s

Market prices are subject to fluctuations and consequently the amount realized in the subsequent sale of an investment ma particular security may be affected by the relative quantity of the security being sold. The Company has no significant concen

Sensitivity analysis

The table below summarizes Company's equity price risk as of 31 December 2009 and 2008 and shows the effects of a hyp

reflect what could be considered to be the best or worst case scenarios. Indeed, results could be worse because of the natur

Sensitivity analysis of equity investment as at the reporting date is as follows:

- For available for sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income an

of 10% in equity prices at the reporting such increase is restricted to amount of cost of investment of such securities, i.e., Rs.

33.3 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties i

their fair values, except for certain equity and debt instruments, held whose fair values have been disclosed in their respectiv

34. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so

maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of cha

adjust the amount of dividend paid to shareholders or issue new shares.

35. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Company in its meeting held on ______

36. GENERAL

Figures have been rounded off to the nearest rupee.

M.H. Millwala **Director**	**Munir I. Millwala** **Chairman & CEO**	**Fayyaz F.Millwala** **Director**	**Hussaini I. Mi** **Directo**

the way the Company manages them.

ɔf the resulting claim. By the very nature of an insurance contract, this risk is random and therefore arrying amount of insurance liabilities. This could occur because the frequency or severity of claims ear from the level established.

ected outcome will be. In addition, a more diversified portfolio is less likely to be affected by change nce risks accepted and within each of these categories to achieve a sufficiently large population of

ation and type of industry covered.

xample fire, theft, steal, riot and strike, explosion, earthquake, atmospheric damage, hurricanes, safe and cash in transit, engineering losses and other events) and their consequences. For certain mount payable for claims in any policy year.

re & property, marine and travel, motor and miscellaneous. The insurance risk arising from these d personal properties / assets in the overall portfolio of insured properties / assets. The Company

ns handling.

nt of risk, industry and geography. The Company has the right to reprice the risk on renewal. It also ruse third parties for payment of some or all cost (for example, subrogation). The claims payments

it rating by reputable ratting agencies, to reduce its exposure to risks and resulting claims. Keeping al facultative reinsurance arrangements are place to protect the net account in case of a major einsurers thereby reducing its exposure to risk. The adequate event limit which is a multiple of the

ange Commission of Pakistan (SECP) on annual basis.

eported or not. This department investigates and settles all claims based on surveyor's report / ormation on the underlying facts, contractual terms and conditions, and other factors. The Company

ately. The shorter settlement period for claims allows the Company to achieve a higher degree of subsidence claim makes the estimation process more uncertain for these claims.

e, reinsurance and other recoveries. The Company takes all reasonable steps to ensure that it has t is likely that the final outcome may be different from the original liability established. The liability ts costs and a provision for unexpired risks at the end of the reporting period.

estimated cost of unpaid claims (both reported and not), the Company estimation techniques are a laims and insurance premiums earned in a prior financial years in relation to such claims) and an rience as time passes.

surveyor's assessment and information on the cost of settling claims with similar characteristics in sensitivity analysis. This exposure is geographically concentrated in the Pakistan only

Internal data is derived mostly from the Company's monthly claims reports, surveyor's report for ompany has reviewed the individual contracts and in particular the industry in which the insured ding claims (both reported and non-reported).

ie that has been most appropriate to observed historical developments. Through this analysis, the

o changes in the key underlying factors. Assumptions of different levels have been used to assess dence claims is the risk of more permanent changes in geographical location in which Company is

ative sensitivity analysis. The Company makes various assumptions and techniques based on past ected loss ratios. The Company considers that the liability for insurance claims recognized in the

conditions on unexpired risks. However, results of sensitivity testing assuming 10% change in the

	Shareholders' equity 2009
	--------------------- Rupees ------------------------
	(426,827)
	(120,073)
	(1,682,528)
	(11,487)
	(2,240,914)
	426,827
	120,073
	1,682,528
	11,487
	2,240,914

jeographical location or to types of commercial business. The Company minimizes its exposure to s.

portance. There are a number of parameters which are significant in assessing the accumulation of

Net
2009
ees ---
13,792,433,131
7,436,498,924
1,551,714,058
121,914,225
22,902,560,338

ular policy's claim under non-proportional treaties varies according to class of business.

e period when the earliest material claim arose for which there is still uncertainty about the amount payments is usually resolved within a year. Further, claims with significant uncertainties are not

Total
-------------------- Rupees --------------------------
106,918,206
-
-
106,918,206
74,137,566
32,780,640

risk management frame work. The Company has exposure to the following risks from its use of

he Company's risk management policies are established it identify and analyze the risks faced by cies and systems are reviewed regularly to reflect changes in market conditions and the Company's constructive control environment in which all employees understand their roles and obligations.

procedures, and reviews the adequacy of the risk management framework in relations to the risk ction. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and

and cause the other party to incur a financial loss. The Company attempts to control credit risk by ontinually assessing the credit worthiness of counterparties.

remium due but unpaid, amount due from other insurers / reinsurers, reinsurance recoveries. To olders and other insurers / reinsurers. The management continuously monitors the credit exposure ecovery.

2009
------------- Rupees ------------
18,061,687
30,019,607
51,160,336
14,619,522
98,763

19,273,850
7,162,633
140,396,398

Rating Agency
JCR-VIS
JCR-VIS
PACRA
JCR-VIS
PACRA
PACRA
PACRA
PACRA
PACRA
PACRA
PACRA
JCR-VIS
PACRA
PACRA
PACRA
PACRA

Company invests in term deposit receipt of banks having sound credit rating by recognized credit

any change in economic, political or other conditions would effect their ability to meet contractual

2009	
	Impairment
-------------------- Rupees --------------------------	
	14,568,650
	13,468,539
	-
	-
	28,037,189

tings accorded by reputed credit rating agencies. The Company is required to comply with with the
ace at least 80% of their outward treaty cessions with reinsurers rated 'A' or above by Standard &
nce assets relating to outward treaty cessions recognized by the rating of the entity from which it is

2009
---------- Rupees --
16,398,431
-
16,398,431

2009	
	Impairment
-------------------- Rupees --------------------------	
	-
	-

	-
	-
	-

ack record of recoveries and financial position of the counterparties while creating provision for

risk arises because of the possibility that the Company could be required to pay its liabilities earlier th normal and stresses conditions, without incurring unacceptable losses or risking damage to the ments. The Company also manages this risk by investing in deposit accounts that can be readily pact of netting agreements:

2010	
	Contractual cash flows upto one year
	------------- Rupees ------------
	(32,780,640)
	(25,895,752)
	(1,476,699)
	(2,233,393)
	(418,209)
	(62,804,693)

2009	
	Contractual cash flows upto one year
	------------- Rupees ------------
	(49,899,615)
	(25,710,319)
	(1,410,843)
	(1,802,160)
	(418,209)
	(79,241,146)

affect the Company's income or the value of its holdings of financial instruments. The objective of return. All transactions are carried in Pak Rupees thereof, the Company is not exposed to currency

s in market interest rates. Majority of interest rate exposure arises from balances held in profit and g financial instrument is:

	2009
	------------- Rupees ------------
	5,200,000
	17,333

t rates at the reporting date would not affect profit and loss account and equity of the Company.

aterial.

E-100 Index and the value of individuals shares. The equity price risk exposures arises from the for which prices in the future are uncertain. The Company policy is to manage price risk through sis of investments by industry sector is disclosed in note 17 to these financial statements.

skills for monitoring and managing the equity portfolio in line with fluctuations of the market.

ay significantly differ from the reported market value. Furthermore, amount realized in the sale of a tration of price risk.

othetical 10% decrease in market prices as at year end. The selected hypothetical change does not

e of equity markets in Company's equity investment portfolio.

d equity would have been lower by Rs. 2.54 million (2009: Rs. 2.914 million). However, an increase

2.54 million (2009: 2.914 million) as per the policy of the Company.

n an arm's length transaction. The carrying values of all financial assets and liabilities approximate

e notes to these financial statements.

that it can continue to provide returns for shareholders and benefits for other stakeholders and to

anges in economic conditions. In order to maintain or adjust the capital structure, the Company may

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Director's Report

I am pleased to present the annual report and audited accounts for the year ended 31st December 2010. It is my pleasure to inform that in spite of the many challenges the company has returned to profits in 2010. Our premium income though declined during the year straining the results, the improved claims experience has given us reasons to be confident of our business plan and future. The reinsurance arrangements with the existing AA rated re insurers were successfully renewed and company rating is maintained BBB- by JCR. The company conforms with solvency requirement rules.

The comparative operational details of the last three years are tabulated below.

	2010	**2009**	**2008**	**%**
Gross Premium	105,080,533	132,579,281	175,567,208	(20.74)
Net Premium	74,157,379	105,363,790	140,800,091	(29.62)
Investment Income	1,910,564	(25,008,889)	(9,010,802)	107.63
Profit/ (Loss) Before Tax	4,605,212	(43,378,915)	(37,399,074)	110.61
Profit/ (Loss) After Tax	3,744,026	(30,482,845)	(37,728,837)	112.28
Total Assets	214,605,828	237,776,231	286,698,340	(9.74)
Earning Per Share (EPS)	0.31	(2.52)	(3.14)	112.30

Operating Conditions:

The business and investment environment in the country is very challenging. Political and economic uncertainties make the task of capital requirements ever more daunting. The law and order situation is a big concern. Worst floods in country's recorded history were witnessed during 2010. Deaths, destruction to property, loss to agriculture, livestock and infrastructure in the rural areas resulted in unprecedented economic and financial burden for the economy. Growing unemployment in the country and dissatisfaction promises no easy sailings in the future. We hope and expect the government with the will and experience will seek to overcome the difficulties.

The results of 2010 as resulting from operations could have been better. The management expenses stood increased in percentage terms due to declining premium volumes. We will be doing our best to seek improvements in our business volumes. We of course in this period have made strategic changes and concentrated on areas needing improvements. We have restricted credits and sought increases in premium rates where was necessary. In a relatively uncertain environment we intend to continue with a cautious outlook.

Minimum Capital Requirement (MCR)/ Minimum Solvency Requirement (MSR):
The SECP directives of May 2008 were issued without providing us an opportunity to be heard. This was challenged by the company in the Sindh High Court. I am pleased to inform that the High Court upheld our appeal. The SECP action is declared unlawful. The High court ordered that we be heard. The SECP instead has preferred to file an appeal and we will do our best to make a successful defense.

Non availability of a congenial investment climate makes it difficult under existing circumstances for the company to make a successful Rights offer. An event subsequent to 2008 global economic meltdown has exposed the inadequacy and fallacy of MCR/MSR necessitating an immediate review. Growing financial indiscipline in our market prompts us to ask hard questions before moving forward.

The 2008 financial crisis has dawned new realities. The insurance industry in Pakistan is fairly established and tested over the years with relevant experience and expertise. Risk assessment needs for an industry with 60 successful years history was not proper. SECP bid to implement quick fix solution in shape of increased capital/solvency requirements for ensuring financial stability is ill conceived. An idea that failed the stress test and was demonstrated through global economic meltdown of 2008. Instead it has encouraged financial indiscipline in our market which needs to be now checked. Introduction of amendments without careful study and research is harmful for the industry's future. There is a need to review the minimum requirements so that its short comings are removed and stake holder’s confidence is restored.

Flaws highlighted:

America largest insurer namely AIG failed the stress of 2008 global economic meltdown and needed a financial bailout and is still reeling under. The company was purported to be the largest capitalised insurance company of North America. Studies have shown it was the financial indiscipline that brought it down. We see a similar fate being repeated here because of the inadequacies of the MCR/MSR. Our regulators have some how remained unmoved by the AIG episode of 2008. In our 2009 annual report we had suggested that a better basis would be the linking of the minimum requirement with premium underwritten.

The minimum capital and solvency margins for Insurance companies must be to a scale linked to premium underwritten, otherwise the minimum requirements are meaningless and do not serve the objective purpose. The idea is illogically conceived and the AIG event has exposed its fallacy. To continue with a fallacy is complacency, unacceptable. The minimum requirements for capital and solvency can not be the same for a company underwriting Rs 100 Million in risk premium income and a company doing Rs 1 Billion and a company doing Rs.10 Billion in premium income. The business of insurance is related to risk and financial stability and soundness must have an equation with risk volume underwritten. Risk needs differ from company to company with proportional and non proportional reinsurance treaties. Companies underwriting large complicated risks with high net retentions and risk accumulations under non proportional arrangements can not be compared or equated with companies underwriting small, medium sized risks under proportional treaties with AA rated re insurers.

We have explained our view point on the issue and stand firm. We will play the role expected of us. We are willing to debate the issue for working out desired changes that we consider necessary. We have a responsibility to our stakeholders and believe without financial discipline there is no future. Our views are long communicated to IAP for forwarding same to SECP.

We have requested SECP for two years extension for meeting minimum capital requirement which will give time to re draw the rules after discussions with all the stake holders. By giving the extension, SECP will do good to the industry. We hope, our request will be seen as genuine. We have strong reservations on the methodology adopted.

During the year we have been engaged in negotiations with a privately held dormant insurance company for its merger acquisition in to our company fold, essentially for making our company compliant of SECP minimum requirements. The negotiations though progressed and in advanced stage, have yet to be successfully concluded. We are optimistic of a favourable outcome but remain cautious.

The appropriation details are as follows.

Profit before tax	Rs. 4,605,212
Add: Provision for tax	(861,186)
Profit after tax	3,744,026
Un-appropriated (Loss)/Profit from last year	(68,100,026)
Balance Un-appropriated Loss at the end of the year	(64,356,000)

The value of investment provident fund maintained by the company based on latest audited financial statement as at 31st December 2009 is Rs...13,486,720.

Compliance with the Code of Corporate Governance:

The requirements of the code set out by the stock exchanges in the listing regulations, relevant for the year ended December 31, 2010, have been duly complied with. A statement to this effect is annexed with the report.

Statement of Directors responsibilities under the code of corporate governance:

The directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Governance for the followings:-

a) The financial statements, prepared by the Company, present fairly, its state of affair, the results of its operations, cash flows and changes in equity.
b) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes where made, have been adequately disclosed and accounting estimates area on the basis of prudent and reasonable judgement.
d) Financial statements have been prepared by the company in accordance with the International Accounting Standards, as applicable in Pakistan, requirement of Companies Ordinance.1984, Insurance Ordinance, 2000, and the Securities and

Exchange Commission (Insurance) Rules, 2002.

e) The system of internal control is sound, effectively implemented and monitored. The process of review will continue to strengthen the system for its effective implementation.
f) There is no significant doubt upon the Company's ability to continue as a going concern..

The Company has followed the best practices of corporate governance, as laid down in the listing regulations of the stock exchanges and there has been no material departure.

Board Meetings and Attendance:

During the year four meetings of the Board of directors were held and the number of meetings attended by each director is given hereunder:-

Name of Director	Number of Board Meetings Attended
Mr. Ardeshir Cowasjee	1
Mr. Abdul Razzak E. Jaffer	-
Mr. Qutubddin A. Millwala	4
Mr. Munir I. Millwala	4
Mr. Fida Hussain Samoo	4
Mr. Fayyaz F. Millwala	4
Mr. Hussainai I. Millwala	4
Mr. Mohammadi H. Millwala	3

Leave of absence was granted to directors unable to attend a meeting.

Auditors:

The present auditor M/s Moochhala Gangat & Company, Chartered Accountant retires and present themselves for re-appointment as external auditors for the year ended 31st December 2011.

Audit Committee:

The Company has an audit Committee, and had four meetings during the year 2010. The committee consists of the following members:

Mr. Hussaini I. Millwala	Chairman
Mr. Fida Hussain Samoo	Member
Mr. Qutubuddin A. Millwala	Member
Mr. Mohammadi H. Millwala	Member
Mr. Zoaib A. Quettawala	Member
Mr. Khuzaima Hakimi	Member
Mr. Fakhruddin A. Khetty	Member

STATEMENT OF ETHICS AND BEST BUSINESS PRACTICES

The Board has adopted "the Statement of Ethics and Business Practices" and circulated to all the directors and employees for their acknowledgement and acceptance.

Company Reporting:

The company reports to the shareholders 4 times a year with its 1st quarter, half-yearly, 3rd quarter and full year results, along with the director's reports on the operations and future outlook for the company. All reports are sent to the Stock Exchanges and to the registered shareholders at the address registered with the company.

Pattern of shareholding

A pattern of shareholding is shown separately.

On a lighter note since this is World Cup Cricket season, I am pleased to inform that the company Cricket team had a wonderful time last year with many successes under its belt. With cricket fever all around our team also participated in IAP conducted cricket Tournament amongst insurance companies in March of 2011. After scoring some initial success our boys failed to make it to the semis. Well we all wished they could bring home the IAP trophy. We all appreciate the team efforts and wish them good luck for future success.

Acknowledgement:

On conclusion, I thank the Board of Directors for their advice and support. In difficult times their cooperation is appreciated. We are playing a role expected of us in a difficult environment. My thanks are also for the general manager, officers, staff and the field force whose continued loyalty and devotion makes us ever more determined to succeed.
My thanks are for our re insurers namely Mitsui Sumitomo Re, Pak-Re and Korea Re for their continuing support. My thanks to the Securities and Exchange Commission of Pakistan for their cooperation and guidance. We appreciate their support that we have always received. We hope to resolve the current difficulties given the opportunity. Finally my thanks go out to our valuable clients and shareholders for having reposed their continuing trust in the company.

Munir I. Millwala
Chairman & CEO

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2010

This statement is being presented to comply with the Code of Corporate Governance contained Regulation No.37 of listing regulations of the stock exchange the purpose of establishing a framework of good governance, whereby a listed company/insurance company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors. At present the Board included six independent non-executive directors, including one non-executive director representing minority shareholders.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange has been defaulter by that stock exchange.
4. No casual vacancy has occurred in the year 2010.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees upon joining the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant accounting policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board

met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. An orientation course was conducted for the directors to apprise them of their duties and responsibilities in the previous year.
10. There was no new appointment of CFO, Company Secretary and head of Internal Audit during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
14. The Company has functioning the committees namely, Underwriting Committee, Claim Settlement Committee and Re-insurance Committee.
15. The Board has formed an audit committee. It comprises of three members, of whom all are non-executive directors including Chairman of the Board.
16. The meetings of the audit committee were held once in every quarter prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The internal audit department of the company is currently being organized.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality Control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold the shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountant (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountant (IFAC) guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

MUNIR I. MILLWALA
Chairman & CEO

THE CRESCENT STAR INSURANCE COMPANY LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2010

	Note	2010	2009
		------------- (Rupees) -------------	
Share Capital and Reserves			
Authorised share capital			
35,000,000 (2009: 35,000,000) ordinary shares			
of Rs. 10/- each		**350,000,000**	350,000,000
Issued, subscribed and paid up			
Share capital	7	**121,000,000**	121,000,000
Accumulated loss		**(64,356,000)**	(68,100,026)
Reserves	8	**26,264,833**	26,264,833
TOTAL EQUITY		**82,908,833**	79,164,807
Surplus on revaluation of Land	9	**21,107,500**	21,107,500
		104,016,333	100,272,307
Underwriting Provisions			
Provision for outstanding claims (including IBNR)		**32,780,640**	49,899,615
Provision for unearned premium		**42,305,005**	50,352,635
Premium deficiency reserve		**-**	730,044
Commission income unearned		**4,117,613**	6,237,030
		79,203,258	107,219,324
Creditors and Accruals			
Premiums received in advance		**1,362,185**	943,069
Amounts due to other insurers / reinsurers	10	**25,895,752**	25,710,319
Accrued expenses		**1,476,699**	1,410,843
Other creditors and accruals	11	**2,233,393**	1,802,160
		30,968,029	29,866,391
Other Liabilities			
Unclaimed dividend		**418,209**	418,209
TOTAL LIABILITIES		**110,589,496**	137,503,924
TOTAL EQUITY AND LIABILITIES		**214,605,829**	**237,776,231**
CONTINGENCIES AND COMMITMENT	12	-	-

The annexed notes from 1 to 36 form an integral part of these financial statements.

Munir I. Millwala	M.H. Millwala	Fayyaz F.Millwala	Hussaini I.Millwala
Chairman & CEO	Director	Director	Director

THE CRESCENT STAR INSURANCE COMPANY LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2010

		Note	2010	2009
			------------- (Rupees) -------------	
Cash and Bank Deposits				
	Cash and other equivalents	13	**49,493**	23,112
	Current and other accounts	14	**8,273,599**	10,862,451
	Deposits maturing within 12 month	15	**6,745,197**	7,176,124
			15,068,289	18,061,687
Investments		16	**29,739,152**	35,219,607
Deferred tax		17	**13,543,178**	13,543,178
Current Assets – Others				
	Premiums due but unpaid	18	**46,455,305**	51,160,336
	Amounts due from other insurers / ı	19	**20,359,005**	14,619,522
	Salvage recoveries accrued		**243,000**	261,000
	Accrued investment income		**95,960**	98,763
	Reinsurance recoveries against outstanding clair		**12,868,083**	19,273,850
	Deferred commission expense		**7,672,633**	9,253,067
	Taxation - net	20	**3,517,317**	3,992,819
	Prepayments	21	**14,555,357**	19,881,848
	Sundry receivables	22	**7,661,424**	7,162,633
			113,428,083	125,703,839
Fixed Assets				
	Tangible	23		
	Freehold land		**27,500,000**	27,500,000
	Furniture and fixtures		**3,374,256**	3,529,564
	Office equipment		**1,678,914**	1,764,910
	Computers and related equipment		**587,606**	781,369
	Motor vehicles		**9,500,174**	10,905,410
	Intangible	24		
	Computer software		**186,177**	766,667
			42,827,127	45,247,920
TOTAL ASSETS			**214,605,828**	237,776,231

The annexed notes from 1 to 36 form an integral part of these financial statements.

Munir I. Millwala	M.H. Millwala	Fayyaz F.Millwala	Hussaini I.Millwala
Chairman & CEO	Director	Director	Director

THE CRESCENT STAR INSURANCE COMPANY LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	Fire & Property	Marine & Transport	Motor	Miscellaneous	2010 Aggregate	2009 Aggregate
		Rupees					
Revenue Account							
Net premium revenue		24,650,273	16,272,819	24,649,805	8,584,482	**74,157,379**	105,363,790
Net claims		(2,431,162)	(1,066,062)	(14,955,645)	(2,642,156)	**(21,095,026)**	(34,475,597)
Premium deficiency reserve		-	-	730,044	-	**730,044**	3,016,839
Expenses	25	(8,684,685)	(5,121,737)	(6,012,474)	(2,449,527)	**(22,268,423)**	(38,947,940)
Net commission		(1,064,457)	6,551	(4,014,019)	(617,518)	**(5,689,443)**	(8,817,986)
Underwriting result		**12,469,969**	**10,091,571**	**397,710**	**2,875,281**	**25,834,531**	26,139,106
Investment gain / (loss) - net						**1,910,564**	(25,008,889)
Loss on sale of fixed assets						**(159)**	(538,951)
Profit on sale of fixed assets						**500,783**	161,024
Other income	26					**4,432,369**	210,118
General and administrative expenses	27					**(28,072,876)**	(44,341,323)
						(21,229,319)	(69,518,022)
Profit / (loss) before tax						**4,605,212**	(43,378,916)
Provision for taxation	28					**(861,186)**	12,896,071
Profit / (loss) after tax						**3,744,026**	(30,482,845)
Profit and loss appropriation account							
Balance at commencement of the year						**(68,100,026)**	(37,617,181)
Profit / (loss) after tax for the year						**3,744,026**	(30,482,845)
Balance of accumulated loss at end of the year						**(64,356,000)**	(68,100,026)
Earning / (loss) per share (basic and diluted) – rupees	29					**0.31**	(2.52)

The annexed notes from 1 to 36 form an integral part of these financial statements.

Munir I. Millwala	M.H. Millwala	Fayyaz F.Millwala	Hussaini I.Millwala
Chairman & CEO	Director	Director	Director

Because of the significance of the matters discussed in the above paragraphs, we are unable to form an opinion as to whether:

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

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

c) the financial statement together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31st December 2010 and of the profit, its changes in equity and cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan and give the information required to be disclosed by the Insurance Ordinance, 2000, and the Companies Ordinance, 1984.

In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Moochhala Gangat & Co.
Chartered Accountants

Name of the audit engagement partner:
Mr. Hussaini Fakhruddin

Karachi