

## ***CONTENTS***

|  |          |
|--|----------|
| Company Information.....   | 02       |
| Offices.....   | 03       |
| Mission Statement.....   | 05       |
| Statement of Ethics & Business Practices .....   | 06       |
| Notice of Annual General Meeting .....   | 07       |
| Directors' Report .....  | 08       |
| Operational Results & Financial Strength .....   | 15       |
| Statement of Compliance with the Code of Corporate Governance .....  | 16       |
| Review Report to the Members on Statement of Compliance<br>with best practices of Code of Corporate Governance ..... | 19       |
| Independent Auditor's Report to the Members .....  | 20       |
| Balance Sheet .....  | 22       |
| Profit and Loss Account .....  | 24       |
| Statement of Comprehensive Income .....  | 25       |
| Statement of Changes in Equity .....   | 26       |
| Statement of Cash Flows .....  | 27       |
| Statement of Premiums .....  | 29       |
| Statement of Claims .....  | 30       |
| Statement of Expenses .....  | 31       |
| Statement of Investment Income .....   | 32       |
| Notes to the Financial Statements.....   | 33       |
| Pattern of Shareholding .....  | 73       |
| Proxy Form .....   | Attached |

## ***COMPANY INFORMATION***

### **BOARD OF DIRECTORS**

Air Vice Marshal ( R ) M.Ikramullah Bhatti  
Air Commodore ( R ) Zafar Iqbal Mir  
Air Commodore ( R ) Tanweer Muhammad Sheikh  
Shahid Hameed  
Imran Hafeez  
Hammad Ahmed Butt  
Syed Hamza Gillani

### **CHIEF EXECUTIVE OFFICER**

Asif Suleman

### **EXECUTIVE DIRECTOR**

Muhammad Ehsan

### **CHIEF FINANCIAL OFFICER**

Tariq Rafi Khan

### **COMPANY SECRETARY**

Tariq Rafi Khan

### **AUDITORS**

Anjum Asim Shahid Rehman  
Chartered Accountants

### **LEGAL ADVISOR**

Shaukat Law Associates

### **REGISTERED OFFICE**

10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi.

### **HEAD OFFICE**

10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi.

### **SHARE REGISTRAR**

M/s Corplink (Pvt) Ltd  
Wings Arcade, 1-K, Commercial, Model Town, Lahore.

# ***OFFICES***

## **Head Office**

10th Floor, Shaheen Complex  
M.R. Kayani Road, Karachi - 74200  
UAN. # (021) 111-765-111  
Tel. # 32630370-75, 32213950-51, Fax # 32626674  
E-mail: [sihifc@cyber.net.pk](mailto:sihifc@cyber.net.pk)  
URI: [www.shaheeninsurance.com](http://www.shaheeninsurance.com)

## **Lahore**

Zonal Head - Mr. Navced Butt

14 Askari Villas, Main Shami Road, Lahore Cantt.  
Tel. #(042)36667008,36675243,36681107,36689541  
UAN: 111-765-111 Fax # (042) 36669819  
E-mail: [Ihr\\_zone@shaheeninsurance.com](mailto:Ihr_zone@shaheeninsurance.com)

## **Islamabad**

Zonal Head - Mr. Khalid Sarwar

H. # 46, Khayban-e-Suhurwardy, G-6/4, Islamabad  
Tel. #(051)2829590, 2873204,2829552  
Fax # (051) 2829515  
E-mail: [Isb@shaheeninsurance.com](mailto:Isb@shaheeninsurance.com)

## **Karachi**

### **Progressive Plaza Branch**

Branch Manager - Mr. Sohail Najam Kidwai  
705, 7th Floor, Progressive Plaza,  
Beaumont Road, Near P.I.D.C  
Tel. # (021) 35653041-2, 35658251-2  
Fax # (021) 35653043  
E-mail: [ppb@shaheeninsurance.com](mailto:ppb@shaheeninsurance.com)

### **Plaza Branch**

Branch Managers-Mr. Mustufa Zafar Dada  
Room No. 112, 1st Floor, Plot No. G-7, Block-9,  
The Plaza Kehkashan Clifton Karachi.  
Tel#(021)35308351-52,35308359  
Fax# (02 I) 35308353

## **Lahore**

Branch Manager Mr. Shoaib Ansar

Office # 6, 6th floor, Shaheen Complex  
opp: PTV Station 38, Abboft Road,  
Lahore  
Tel# 042-36370384, 363710741, 36370742  
Fax# 042-36370385

## **Faisalabad**

Branch Manager - Mr. Akhtar Rao

2nd Floor, Sitara Towers, Bilal Chowk  
Civil Lines, Faisalabad  
Tel. # (041 )2614112, 2621370, 2630644-5  
Fax#(041)2631514  
E-mail: [fsd@shaheeninsurance.com](mailto:fsd@shaheeninsurance.com)

## **Peshawar**

Branch Manager - Mr. Muhammad Shoaib Khan

6th Floor, State Life Building  
34 - The Mall, Peshawar Cantt.  
Tel. # (091) 5273122, Fax # (091) 5273106  
E-mail: psw@shaheeninsurance.com

## **Rawalpindi Branch**

Branch Manager - Mr. Mujahid Raza

House No. 02-A/2, Block 'A', Near 6th Road,  
Satellite Town, Rawalpindi  
Tel#(051)4581354,4581355,4580096  
Fax # (051) 4581353  
E-mail: rwp@shaheeninsurance.com

## **Mirpur Azad Kashmir**

Branch Manager - Mr. Sikandar

Shaheen House  
House No. 81, Sector F-2,  
Mirpur Azad Kashmir  
Tel# (05827) 434559  
E-mail: mpajk@shaheeninsurance.com

## **Sargodha**

Branch Manager - Mr. Nadeem Awan

2nd Floor, New Biga Paint Near old ABL Branch,  
University Road Sargodha  
Mobile # 0300-8602723

## **Multan**

Branch Manager - Mr. Arshad Mehmood Khan

Shalimar Colony near Madrasa Khair-ul-Muarif  
Bosan Road Multan.  
Tel # (061) 6750001-3  
Fax# 061-6750004  
E-mail: mul@shaheeninsurance.com

## **Hyderabad**

Branch Manager - Syed Shaukat Ali

Upper 2nd Floor  
H # 75, Soldier Bazar  
Tel. # (022) 2720487  
Fax # (022) 2720489  
E-mail: hyd@shaheeninsurance.com

## **Sialkot**

Branch Manager - Mr. Muhammad Mujahid Ali

104, First Floor, Kareem Plaza, Defence  
Road, Near Allama Iqbal Town, Sialkot  
Tel.# (052) 3250982, 3550131  
Fax.# (052) 3257412  
E-mail: sil@shaheeninsurance.com

## ***MISSION STATEMENT***

Our mission is to continuously improve our selves to become a leading, profitable Company, meeting the needs of our customers and enhancing the value of our shareholders' Investment.

We will accomplish this by using the strengths of our people and the application of innovative science for the development of new insurance products and services that are high in quality and competitive in price.

## ***STATEMENT OF ETHICS AND BUSINESS PRACTICES***

The interest of the Policyholder is supreme. We shall endeavour our utmost to render the best possible services to our clients and shall give them no cause for complaint relating to claims settlement or otherwise.

It is because the reinsurers provide underwriting capacity to the Company, it shall be our endeavor to ensure that reinsurers make profit on our business ceded to them.

It is the officers and staff members who carry on with the day to day work load. It is they who are involved in running the affairs of the Company within the policy framework laid down by the Board of Directors. As far as permissible by the financial resources available to the Company they shall be duly recompensed.

Observance of business ethics and profit generation are only two sides of the same coin. One is complementary to the other. By observing business ethics to the utmost extent possible we hope to generate due margin of profit so as to pay dividend to the shareholders after having paid tax to the public exchequer and to build up free reserves for purpose of enhancing the financial strength of our Company.

## ***NOTICE OF ANNUAL GENERAL MEETING***

NOTICE IS HEREBY given that 17th Annual General Meeting of Shaheen Insurance Company Limited will be held on Monday , April 30, 2012 at Dreamworld Resort , Adjacent Block R, Gulshan-e-Maymar Super Highway, Karachi at 3:30 P.M. to transact the following;

### **Ordinary Business**

1. To confirm the minutes of the Annual General Meeting held on April 30, 2011.
2. To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2011 together with the Directors' and Auditors' report thereon.
3. To appoint auditors for the year ended December 31, 2012 and to fix their remuneration.
4. To transact any other business with the permission of the Chair.

By the Order of Board

Asif Suleman  
Chief Executive Officer  
Karachi, April 09, 2012

Notes :

1. The share transfer books of the Company will remain closed from April 24, 2012 to April 30, 2012 (both days inclusive).
2. CDC Shareholders are requested to bring their original National Identity Cards, Account number, Sub-Account number and participant number in Central Depository System for identification purpose for attending the meeting. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.
3. A member entitle to attend and vote at the Meeting may appoint another person on his/her behalf as his/her proxy to attend, speak and vote, and a proxy so appointed shall have such right with respect to attending, speaking and voting at the Meeting as are available to the Members. Proxy forms must be deposited at the Company's Registered Office not less than 48 hours before the time for holding the Meeting.
4. Shareholders are requested to intimate any change in their addresses immediately.

## ***DIRECTORS' REPORT***

The Directors of your Company take pleasure in presenting to you the 17th Annual Report along with the audited financial statements for the year ended December 31, 2011.

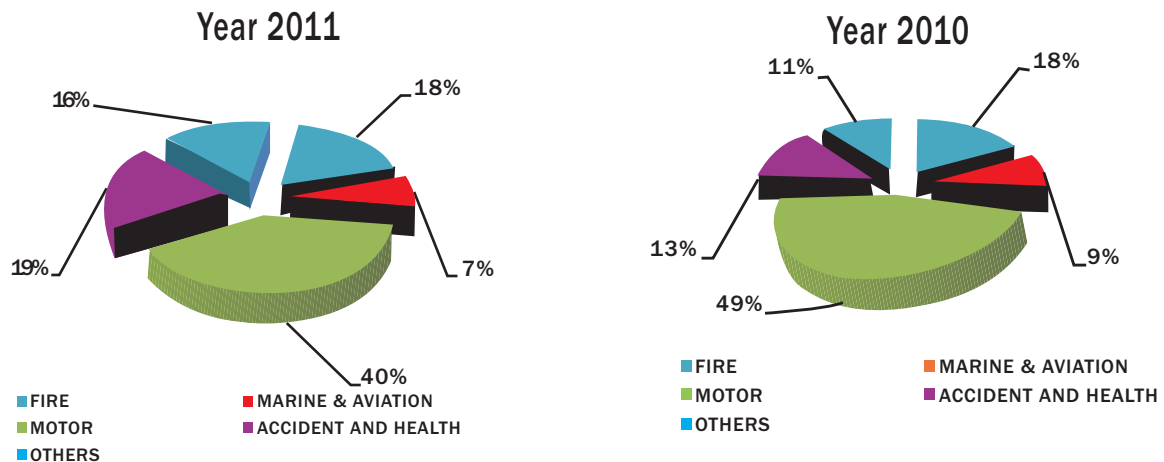
### **GENERAL ECONOMIC REVIEW**

The year 2011 remained burdened with challenges, which impacted the macroeconomic landscape of the country. In the second half of the year, record floods impacted nearly half of the Sindh province and caused significant damage to the fragile economy. Fortunately, your company has not been impacted with any major claims related to the floods. Continuing severe shortages of power and gas and worsening law and order situation in the country has made significant damage to the economic prosperity. As a consequence, The government is not expected to achieve planned GDP growth of 4.2% and this is now forecast to be as low as 3.5%, which coupled with inflation over 12% presents a very challenging economic environment.

The general insurance sector of Pakistan grew by 9.5% in the year 2010 compared with the 2.34% growth achieved in 2009. In 2011 the growth in premiums is expected to around 10% which means negative growth net of inflation for the 4th year running. There is no prospect that economy of Pakistan in 2012 will grow with rapid pace and there are serious apprehensions that impact of last year challenges will continue in 2012.

### **UNDERWRITING RESULTS**

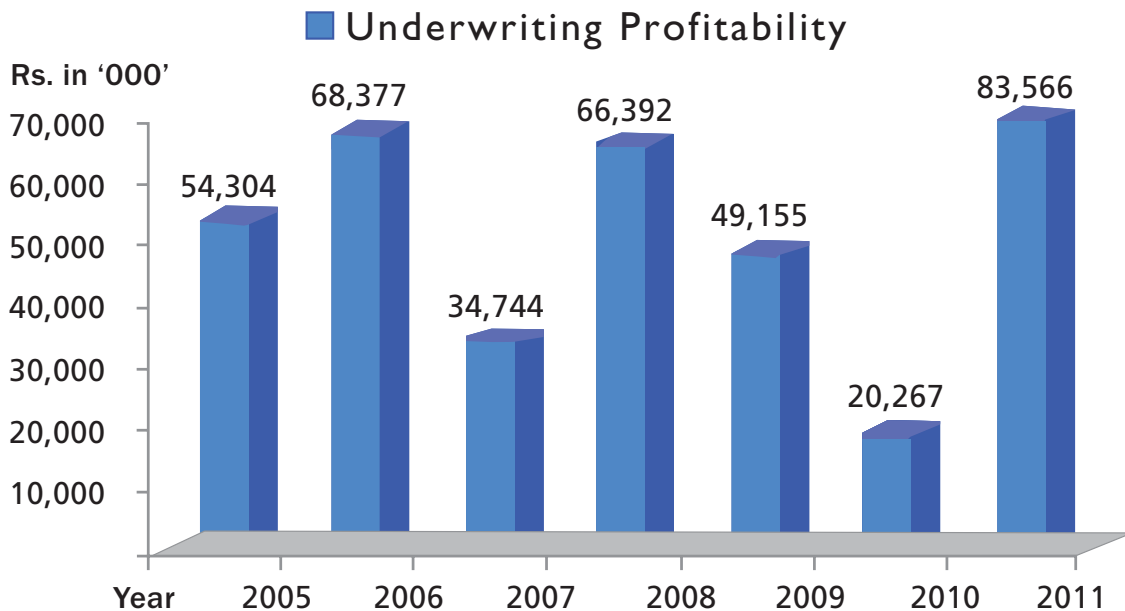
The Directors are pleased to report that despite the difficult economic and business conditions, during the year 2011 your Company has achieved a healthy growth of 16.8% in premiums underwritten to reach PKR 644.3 million as compared to PKR 553.0 million in the year 2010. The net premium revenue of the company increased by 15.71% to PKR 482.9 million as compared to 417.4 million during the corresponding period. Your Company continued to grow in existing as well as in new market segments. As a strategic decision by management, your company's continued to decrease its Motor portfolio which stands at 40.3% of the total portfolio for the year 2011 as compared to 49.18% during the corresponding period.



During the year your company has opened another branch in Lahore to cater corporate clients which has resulted in increase in non motor business.

Underwriting profitability of your Company for the period under review has increased by 3.12 times to reach at PKR 83.6 million as compared to PKR 20.3 million for the year 2010. This substantial increase was made possible by the excellent claim management and controlling underwriting expenses. Due to efficient claims management your Company has reduced the net claims to net premium ratio to 51.2% as compared to 63.0% for the year 2010.





#### SEGMENTS AT A GLANCE

##### **Fire and property damage**

The Fire & Property portfolio contributed gross premium of PKR114.3 million which equals 18% of the total gross premium written by the Company. Premium in this class of business has increased by 17% mainly due to business deals with new clients.

The underwriting profit of this class of business has also shown a substantial increase of 97% to reach at PKR 23.4 million as compared to PKR 11.9 million in corresponding period.

##### **Marine, aviation and transport**

Marine and aviation portfolio of your Company has shown a decline of 13% mainly due to your Company's stoppage of underwriting one of its largest aviation client due to our client's insistence on reinsuring with certain reinsurers having less than satisfactory credit ratings. However, our other than aviation marine business registered an increase of 30% as compared to corresponding period.

The underwriting profits of our marine portfolio has also shown a substantial growth of 7.2 times to reach at PKR 16.4 million as compared to a loss of PKR 2.3 million during the corresponding period.

##### **Motor**

Motor portfolio contributes 40% of the total business of your Company. Management of your Company has adopted the policy to decrease the Motor portfolio in last three years strategically to achieve a better portfolio mix. However, at current levels of 40% management of your Company believes we have the right mix of liquidity and profitability which will bear fruit for the Company in periods to come.

Underwriting profits of the motor business of your Company has shown a substantial increase of 4.3 times to reach at PKR 42.4 million as compared to PKR 7.9 million during the corresponding period.

##### **Accident and health**

In 2011, management of your company continued to increase its accident and health business showing a substantial increase of 71% as compared to last year. Accident and health business contributed 19.5% of the total premium written by the company in 2011. Management will continue to increase premium in this class of business by careful and prudent underwriting.

Underwriting results of health and accident business of the company shows a loss of PKR 9.8 million as compared to a profit of 0.3 million during the corresponding period. This loss is mainly attributable to increase in Unearned Premium Reserve of this class of business by 60% which amounted to PKR 16.6 million which will be released to profit and loss account of periods to come under the revenue recognition policy of the Company.

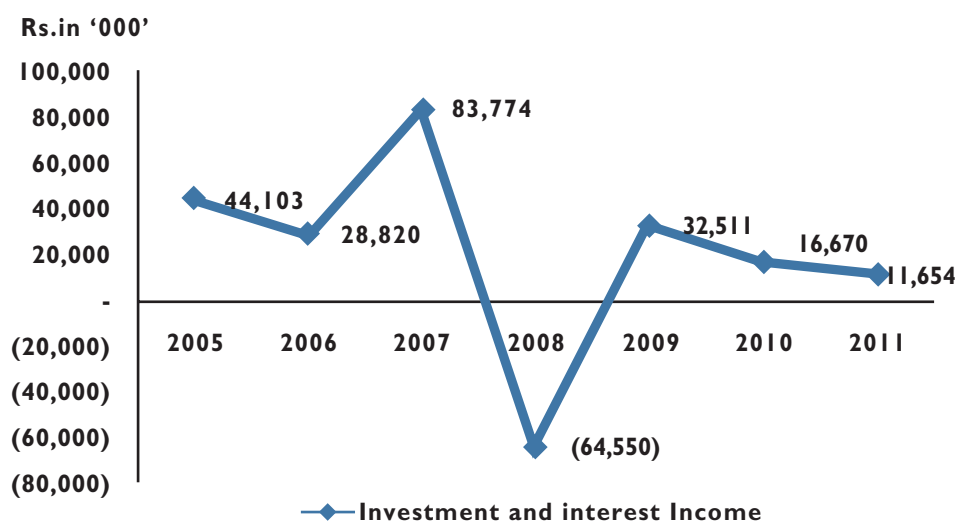
### Miscellaneous

For miscellaneous lines which include engineering, contracts, machinery breakdown and cash business, gross premiums increased by 66% to reach at PKR 101.5 million as compared to PKR 61.1 million for the corresponding period.

Underwriting results of this line of business also showed a substantial increase of 4.5 times to reach at PKR 13.5 million as compared to PKR 2.4 million for the corresponding period.

### INVESTMENTS

During the year investment income of your Company decreased by 30% to reach at PKR 11.6 million as compared to PKR 16.6 million during the previous year. This decline is mainly due to strategic shift of investment focus from short term markets into long term property markets.



Market value of 'available for sale' investments of the Company stood at PKR 40 million as compared to the cost of PKR 39.1 million. However, this unrealized gain has not been recorded in the current period's financial statements.

Favorable difference between the fair value and carrying value of the investment properties stands at PKR. 64.9 million as at December 31 2011 as against PKR 62.9 million at the end of year 2010. However, this has not been recognized in the profit and loss account as the same is not allowed under accounting regulations for non life insurance companies issued by the Securities and Exchange Commission of Pakistan.

During the year, the Company carried out reverse repo transactions upon maturity, the transaction was settled through acquisition of property under construction at a value of Rs. 101,039,922, which has been classified under 'capital work in progress' (refer note 20 to the financial statements). The agreements and other legal formalities in respect of this settlement and sale of the said property are being finalized. Construction work in respect of such property has been stopped due to certain unavoidable circumstances. Our external auditors have qualified their opinion on the above stated reasons. However, directors are confident that the legal formalities will be completed in due course and construction work will start once again at full pace.

### CREDIT RATING

It's a matter of great satisfaction that the Pakistan Credit Rating Agency Limited has re-affirmed the Insurer Financial Strength Rating of your Company during the year under review at 'A - ' (single A minus)

## **DIVIDEND PAYMENT TO THE SHAREHOLDERS**

Due to further increase in paid up capital requirements in sight directors of your Company has decided to retain the maximum profits in the business and have recommended no dividends to be paid at this point of time.

## **EARNING PER SHARE**

Basic and Diluted Earning per Share of the Company for the year ended December 31, 2011 is PKR 0.79 per share (December 31, 2010: Loss per Share PKR 1.38)

## **CONTRIBUTORY PROVIDENT FUND**

The value of investments including accrued income of provident fund on the basis of un-audited accounts as on December 31, 2011 is as follows:

|                               |                       |
|-------------------------------|-----------------------|
| Units of KASB Fund Limited    | Rupees 2.270 million  |
| Bank deposits in PLS accounts | Rupees 21.652 million |

## **STATUTORY PAYMENTS ON ACCOUNT OF TAXES, DUTIES ETC.**

There are no statutory payments on account of taxes, duties, levies and charges which are outstanding except in the ordinary course of business and disclosed in the financial statements.

## **AUDIT COMMITTEE**

During the year under review four meetings of the audit committee were held which were attended by all the members of the committee. The Audit committee of the Company comprises the following members:

|  |            |
|--|------------|
| 1. Air Vice Marshal R. Muhammad IkramullahBhatti | (Chairman) |
| 2. Mr. Shahid Hameed                             | (Member)   |
| 3. Mr. Imran Hafeez                              | (Member)   |

## **MATERIAL CHANGES**

Shaheen Foundation and First Capital Securities Corporation Limited have entered into Share Purchase Agreement dated 28 February 2011 with Hollard Insurance Company Limited for acquisition of Hollard's entire Shareholding of 6,345,296 shares of Rs. 10 each (31.73% of the total existing paid up capital of Shaheen Insurance Company Limited). Subject to the completion of legal formalities, as per the terms and conditions of Share Purchase Agreement, Shaheen Foundation and First Capital Securities Corporation will acquire the entire 6,345,296 shares of Hollard Insurance Company Limited in the following proportion:

|                                       |                  |
|---------------------------------------|------------------|
| Shaheen Foundation:                   | 3,164,141 shares |
| First Capital Securities Corporation: | 3,181,155 shares |

## **INCREASE IN PAID UP CAPITAL**

Due to restrictions on issue of right shares within one year of an earlier right issue under rule 5(i) of the Companies (Issue of Capital) Rules, 1996, and due to above referred restructuring in the shareholding of the sponsor groups and the time involved in finalizing the details your Company was not able to inject fresh capital to meet the minimum paid up capital requirements of PKR 300 million as laid down by circular 3 of 2007 of the Securities and Exchange Commission of Pakistan at the year ended December 31, 2011. However, In order to meet the minimum paid up capital requirement, the Board of Directors of the Company in their meeting held on November 24, 2011 has decided to issue the right shares at 20% at par value i.e. 1 for every 5 ordinary shares held by the member of the Company to comply with the requirements of aforementioned circular. The Company has already started the process of right issue. The Company applied to the SECP for exemption from rule 5(i) of the Companies (Issue of Capital) Rules, 1996, which prohibits right issue of shares within one year of previous right issue on the grounds of compliance with the statue. On February 1, 2012 SECP granted the said exemption and as per plan of issue of shares as approved by KSE on March 21, 2012 allotment of shares will be done on May 29, 2012. Our external auditors have modified audit report without qualifying their opinion on this matter.

## KEY OPERATIONAL AND FINANCIAL DATA

Following is the summary of key operational and financial data of the Company for last six years:

|                          | Rs. In Millions |          |         |          |         |         |
|--------------------------|-----------------|----------|---------|----------|---------|---------|
|                          | 2011            | 2010     | 2009    | 2008     | 2007    | 2006    |
| Reserve and earning      | 265.464         | 196.295  | 225.253 | 207.787  | 279.540 | 219.333 |
| Investment Income        | 11.654          | 20.162   | 32.511  | (64.649) | 83.774  | 28.819  |
| Gross Premium written    | 644.325         | 553.084  | 596.327 | 701.245  | 746.419 | 671.328 |
| Net Premium Revenue      | 482.963         | 417.389  | 481.636 | 575.731  | 570.800 | 565.327 |
| Net Claims               | 247.642         | 263.041  | 267.997 | 333.832  | 369.997 | 352.571 |
| Profit after Tax         | 19.244          | (28.958) | 17.466  | (71.753) | 60.207  | 50.979  |
| Dividend declared -cash  | -               | -        | -       | -        | -       | -       |
| Dividend declared -bonus | -               | -        | 14.28%  | -        | 75%     | -       |

## STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The corporate laws, rules and regulations framed here-under spell out the overall functions of the Board of Directors of the Company. The Board is fully aware of its corporate responsibilities as envisaged under the Code of Corporate Governance, prescribed by the Securities and Exchange Commission of Pakistan and is pleased to certify that:

- 1) The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- 2) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984 and Insurance Ordinance, 2000.
- 3) The Company has consistently followed appropriate accounting policies in preparation of the financial statements and accounting estimates are on the basis of prudent and reasonable judgment.
- 4) Financial statements have been prepared by the Company in accordance with the requirements of S.R.O. 938 issued by the SECP in December 2002, Insurance Ordinance, 2000, Companies Ordinance, 1984 and approved accounting standards as applicable to insurance companies in Pakistan.
- 5) The Board has established a system of internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal control given in the code.
- 6) The fundamentals of the Company are strong and there is no doubt about its ability to continue as a going concern.
- 7) The Company has followed the best practices of the Corporate Governance as laid down in the Listing Regulations of the stock exchanges and there has been no material departure therefrom.
- 8) The Company has at all times in the year, except as otherwise stated in the annexed financial statements, complied with and as at the date of the statement, the Company continues to be in compliance with the provisions of the Insurance Ordinance, 2000 and rules framed there under.

## BOARD OF DIRECTORS

During the year under review upon completion of term of office all seven members of the Board of Directors retired and following new seven members were elected in the Extra Ordinary General Meeting of the shareholders of the Company on June 10, 2011.

1. Air Vice Marshal R. M. Ikramullah Bhatti
2. Air Commodore R. Tanweer Muhammad Shaikh
3. Air Commodore R Zafar Iqbal Mir
4. Mr. Shahid Hameed
5. Mr. Imran Hafeez
6. Mr. Syed Hamza Gillani
7. Mr. Hammad Ahmed Butt

During the year six meetings of the Board of Directors were held and position of attendance by each director is explained below:

| Name of Director                         | No. of meetings held during the tenure | No. of meetings attended |
|--|--|--------------------------|
| Air Vice Marshal R. M. Ikramullah Bhatti | 6                                      | 6                        |
| Air Commodore R Tanweer M. Shaikh        | 3                                      | 3                        |
| Air Commodore R Zafar Iqbal Mir          | 6                                      | 6                        |
| Mr. Shahid Hameed                        | 6                                      | 6                        |
| Mr. Imran Hafeez                         | 3                                      | 3                        |
| Mr. Syed Hamza Gillani                   | 3                                      | 3                        |
| Mr. Hammad Ahmed Butt                    | 3                                      | 3                        |
| Mr. Ian Howell Ross                      | 3                                      | 0                        |
| Mr. Brooks Mparutsa                      | 3                                      | 0                        |
| Mr. Ahmed Bilal                          | 3                                      | 3                        |
| Mr. Mohammad Naveed Tariq                | 3                                      | 3                        |

Leave of absence was granted in case the directors were not able to attend the Board meeting.

## PATTERN OF SHAREHOLDING

A statement of pattern of shareholding is separately shown in the report.

## TRADING IN COMPANY'S SHARES

No trading in the shares of the Company was carried out by the Directors, CEO, CFO, Company Secretary, their spouses or minor children except for following:

| Name of Director                         | Purchase | Sale | Rights Subscribed |
|--|----------|------|-------------------|
| Air Vice Marshal R. M. Ikramullah Bhatti | -        | -    | 142               |
| Air Commodore R Zafar Iqbal Mir          | -        | -    | 142               |
| Mr. Shahid Hameed                        | -        | -    | 125               |
| Air Commodore R Tanweer M. Shaikh        | 500      | -    | -                 |
| Mr. Imran Hafeez                         | 500      | -    | -                 |
| Mr. Syed Hamza Gillani                   | 500      | -    | -                 |
| Mr. Hammad ahmed Butt                    | 500      | -    | -                 |

## **FUTURE OUTLOOK OF THE COMPANY**

Going forward, achieving macroeconomic stability remains a key challenge for Pakistan. Continued power and gas shortages with high borrowing cost and worsening law and order situation are expected to place further pressure on business environment in Pakistan. Viewing difficult period ahead, your Company is well geared up to increase its market share gradually year on year basis. Management of your Company will focus on steady topline growth in all segments of the current business as well as working on innovative ideas to offer new value added products to its clients in personal lines of business.

## **ACKNOWLEDGEMENTS**

We would like to record our appreciation for the continued guidance and support being extended to us by the regulators, namely Securities and Exchange Commission of Pakistan. We are much obliged to the State Bank of Pakistan for providing full support, particularly, in the matter of remittances of foreign exchange in respect of aviation business.

We also appreciate and acknowledge the role of our reinsurers and Singaporemarket brokers for their valued support to us.

Most of all we are also grateful to our customers for their continued trust and confidence which has made it possible for us to achieve these results. We would also like to convey our profound gratitude to the management and staff at all levels for their loyalty, devotion and hard work.

For and on behalf of the Board



**M. Ikramullah Bhatti**  
**Air Vice Marshal (Retd.)**  
**Chairman**  
Karachi : 9 April, 2012

## **OPERATIONAL RESULTS AND FINANCIAL STRENGTH**

*From 2002 to 2011*

Rupees in '000

|                                     | 2011    | 2010     | 2009    | 2008     | 2007    | 2006    | 2005    | 2004    | 2003    | 2002    |
|-------------------------------------|---------|----------|---------|----------|---------|---------|---------|---------|---------|---------|
| 1 Gross Direct Premium              | 664,326 | 553,084  | 596,327 | 701,245  | 746,419 | 671,328 | 670,609 | 641,164 | 395,302 | 231,500 |
| <b>Increase %</b>                   | 20.11   | (7.25)   | (14.96) | (6.05)   | 11.19   | 0.11    | 4.59    | 62.20   | 70.76   | 97.43   |
| 2 Net Premium                       | 482,963 | 417,389  | 481,636 | 575,732  | 570,800 | 565,327 | 527,103 | 376,765 | 276,649 | 128,396 |
| <b>Increase %</b>                   | 15.71   | (13.34)  | (16.34) | 0.86     | 0.97    | 7.25    | 39.90   | 36.19   | 115.47  | 69.78   |
| <b>% to 11</b>                      | 193.19  | 208.69   | 240.82  | 328.99   | 326.17  | 565.33  | 658.88  | 470.96  | 345.81  | 160.50  |
| 3 Claims Incurred                   | 247,643 | 263,041  | 267,997 | 333,832  | 369,997 | 352,571 | 353,150 | 273,807 | 126,816 | 59,891  |
| <b>% to 2</b>                       | 51.28   | 63.02    | 55.64   | 57.98    | 64.82   | 62.37   | 67.00   | 72.67   | 45.84   | 46.65   |
| 4 Commission                        | 64,419  | 68,272   | 104,711 | 115,711  | 105,860 | 87,891  | 69,613  | 33,430  | 12,523  | 2,552   |
| <b>% to 2</b>                       | 13.34   | 16.36    | 21.74   | 20.10    | 18.55   | 15.55   | 13.21   | 8.87    | 4.53    | 1.99    |
| 5 Management Expenses               | 87,336  | 65,809   | 59,773  | 62,105   | 59,303  | 56,488  | 49,623  | 49,093  | 23,741  | 12,393  |
| <b>% to 1</b>                       | 13.15   | 11.90    | 10.02   | 8.86     | 7.95    | 8.41    | 7.40    | 7.66    | 6.01    | 5.35    |
| <b>% to 2</b>                       | 18.08   | 15.77    | 12.41   | 10.79    | 10.39   | 9.99    | 9.41    | 13.03   | 8.58    | 9.65    |
| 6 Interest & Dividend Income        | 11,654  | 16,671   | 100,650 | (64,649) | 83,774  | 28,820  | 44,103  | 26,851  | 12,623  | 6,832   |
| <b>% to 22</b>                      | 14.92   | 5.70     | 32.44   | (18.86)  | 18.06   | 7.06    | 13.46   | 10.84   | 7.80    | 6.40    |
| 7 Other Income                      | 6,004   | 6,145    | 2,291   | 1,734    | 1,324   | 9,061   | 129     | 10,728  | 2,629   | 1,115   |
| 8 Provision for Taxation            | 5,954   | 5,557    | 3,536   | 7,906    | 2,854   | 8,371   | 2,464   | 5,456   | 11,135  | 6,580   |
| 9 Profit/(Loss) before Tax          | 25,199  | (23,476) | 21,002  | (63,847) | 63,061  | 59,350  | 57,852  | 17,326  | 31,780  | 22,989  |
| 10 Profit/(Loss) after Tax          | 19,245  | (29,033) | 17,466  | (71,753) | 60,207  | 50,979  | 55,388  | 11,870  | 20,645  | 16,409  |
| <b>% to 2</b>                       | 3.98    | (6.96)   | 3.63    | (12.46)  | 10.55   | 9.02    | 10.51   | 3.15    | 7.46    | 12.78   |
| 11 Paid-up Capital                  | 250,000 | 200,000  | 200,000 | 175,000  | 175,000 | 100,000 | 80,000  | 80,000  | 80,000  | 80,000  |
| 12 General Reserve                  | 20,000  | 20,000   | 20,000  | 20,000   | 20,000  | 20,000  | 20,000  | 20,000  | 20,000  | -       |
| 13 Reserve for Unexpired Risks      | 225,848 | 187,664  | 169,764 | 221,456  | 267,567 | 225,820 | 212,175 | 211,456 | 73,306  | 51,359  |
| 14 Unappropriated Profit            | (4,535) | (23,780) | 5,253   | 12,787   | 84,540  | 99,333  | 48,354  | 12,966  | 1,095   | 12,450  |
| 15 Capital Available for Shares     | 265,465 | 196,220  | 225,252 | 207,787  | 279,540 | 219,333 | 148,354 | 112,966 | 101,095 | 92,450  |
| 16 Total Net Outstanding Claims     | 123,688 | 126,179  | 93,004  | 113,117  | 126,661 | 98,646  | 85,384  | 90,509  | 47,077  | 20,405  |
| <b>% to 2</b>                       | 25.61   | 30.23    | 19.31   | 19.65    | 22.19   | 17.45   | 16.20   | 24.02   | 17.02   | 15.89   |
| 17 Other Liabilities                | 125,882 | 78,010   | 89,947  | 78,628   | 84,593  | 61,251  | 96,287  | 78,053  | 64,558  | 27,185  |
| 18 Total Equity & Liabilities       | 832,521 | 717,706  | 729,670 | 755,242  | 871,716 | 674,977 | 635,735 | 614,669 | 447,918 | 204,091 |
| 19 Land & Properties                | 169,893 | 39,302   | 39,839  | 34,296   | 6,164   | 6,701   | 16,794  | 17,331  | 21,714  | 8,851   |
| <b>% to 2</b>                       | 35.18   | 9.42     | 8.27    | 5.96     | 1.08    | 1.19    | 3.19    | 4.60    | 7.85    | 6.89    |
| 20 Cash & Bank Balances             | 26,324  | 136,970  | 132,727 | 166,841  | 235,860 | 197,362 | 155,720 | 135,302 | 59,794  | 49,239  |
| <b>% to 2</b>                       | 5.45    | 32.82    | 27.56   | 28.98    | 41.32   | 34.91   | 29.54   | 35.91   | 21.61   | 38.35   |
| 21 Investment                       | 51,782  | 155,721  | 177,520 | 175,907  | 227,940 | 211,114 | 172,032 | 112,466 | 102,059 | 57,536  |
| 22 Total Cash & Investment          | 78,106  | 292,691  | 310,247 | 342,748  | 463,800 | 408,476 | 327,752 | 247,768 | 161,853 | 106,775 |
| 23 O/S Premium                      | 305,080 | 166,083  | 134,056 | 114,417  | 155,426 | 84,586  | 131,929 | 131,272 | 106,322 | 66,635  |
| <b>% to 1</b>                       | 45.92   | 30.03    | 22.48   | 16.32    | 20.82   | 12.60   | 19.67   | 20.47   | 26.90   | 28.78   |
| 24 Fixed Assets                     | 43,721  | 25,741   | 16,468  | 24,277   | 39,422  | 24,084  | 21,995  | 27,540  | 14,759  | 13,589  |
| <b>% to 2</b>                       | 9.05    | 6.17     | 3.42    | 4.22     | 6.91    | 4.26    | 4.17    | 7.31    | 5.33    | 10.58   |
| 25 Total Assets                     | 832,521 | 717,706  | 729,670 | 755,242  | 871,716 | 674,977 | 635,735 | 614,669 | 447,918 | 204,091 |
| 26 Break-up Value Per Share         | 10.62   | 9.81     | 11.26   | 11.87    | 15.97   | 21.93   | 18.54   | 14.12   | 12.64   | 11.56   |
| 27 Earning Per Share<br>(After Tax) | (0.79)  | (1.45)   | 0.87    | (3.59)   | 3.44    | 5.10    | 6.92    | 1.46    | 2.58    | 2.05    |

## ***STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE***

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges, where Shaheen Insurance Company Limited (the Company) is listed and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(I)/2003 by the Securities and Exchange Commission of Pakistan (the Codes) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present all the directors are non-executive directors other than the Chief Executive Officer of the Company.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Company.
3. All the resident directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or a Non Banking Finance Company (NBFC) and none of them is a member of any stock exchange.
4. During the year all seven members of the board completed their term in office and an election was carried out to elect a new seven member board of directors. No casual vacancy occurred in the Board of Directors during the year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and the employees of the Company.
6. The Board has developed and approved a mission statement and overall corporate strategy and is in process of developing the significant policies and a complete record of the particulars of these significant policies.



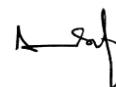
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. A Chief Executive Officer was appointed by the Board of Directors during the year. His remuneration and terms and conditions of employment have been approved by the Board of Director.
8. All the meetings of the Board were presided over by the Chairman and the Board met atleast once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board has established a system internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal controls given in the code.
10. An orientation course was arranged for the directors of the company to update them about their duties and responsibilities. All the directors attended the course.
11. There was no new appointment of Chief Financial Officer and Company Secretary and Head of Internal Auditor during the year. The remuneration and the terms and conditions of the employment of Chief Financial Officer, Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer, have been approved by the Board of Directors.
12. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
14. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed underwriting, claim settlement and reinsurance & co-insurance committees.

17. The Company has formed an audit committee comprising of three members. All the members are non-executive directors including the Chairman of the committee.
18. The meetings of the audit committee were held once every quarter prior to the approval of interim and final results of the Company, as required by the Code. There was no change in terms of reference of the committee which was formed and advised to the committee for compliance in previous years.
19. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors along with pricing methods for transactions carried out on terms equivalent to those that prevails in the arm's length transactions.
20. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel who are involved in the internal audit function on a full time basis.
21. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
22. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
23. We confirm that all other material principles contained in the Code have been complied with.



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**M. Ikramullah Bhatti**  
Air Vice Marshall (Retd.)  
Chairman



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**Asif Suleman**  
Chief Executive Officer

Dated: 9 April, 2012  
Karachi

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

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended December 31, 2011 prepared by the Board of Directors of Shaheen Insurance Company Limited (the Company) to comply with the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Company's corporate governance procedures and risk.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code.

**Date: 9 April, 2012  
Karachi**

**Anjum Asim Shahid Rahman  
Chartered Accountants  
Shahzada Saleem Chughtai**

***INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
SHAHEEN INSURANCE COMPANY LIMITED***

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) statement of cash flows;
- (vi) statement of premiums;
- (vii) statement of claims;
- (viii) statement of expenses; and
- (ix) statement of investment income

of **Shaheen Insurance Company Limited** (the Company) as at **December 31, 2011** together with the notes forming part thereof, for the year then ended.

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

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

- 1) During the year, the Company carried out reverse repo transactions with a related party, against shares of another related party. However, upon maturity, the transaction was settled through acquisition of property under construction at a value of Rs. 101,039,922, which has been classified under 'capital work in progress' (refer note 20 to the financial statements).

The agreements in respect of this settlement and sale of the said property have not been executed, in the absence of which, we are unable to ascertain rights of the Company associated with the said property. Further, valuation report provided to us by the management indicates that the construction work in respect of such property has been stopped since 2010, therefore, exact market value of the property cannot be ascertained. Consequently, we are also unable to conclude on exact value of this property.

In our opinion:

- (a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;
- (b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;
- (c) except for the effects of the matter stated in paragraph 1) above, the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at December 31, 2011 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- (d) No zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

We draw attention to note 31 to these financial statements, which fully explain the matter that the Company has not complied with minimum paid-up capital requirement of Rs. 300 million as at December 31, 2011. However, as stated in aforesaid note, the Company is in the process of issue of further shares by way of right issue to comply with the aforesaid requirement. Our opinion is not qualified on this matter.

**Date: 9 April, 2012**  
**Karachi**

**Anjum Asim Shahid Rahman**  
Chartered Accountants  
**Shahzada Saleem Chughtai**

## ***BALANCE SHEET***

|   | Note | 2011                      | 2010                      |
|---|------|---------------------------|---------------------------|
|   |      | ----- Rupees -----        |                           |
| <b>Share Capital and Reserves</b>   |      |                           |                           |
| Authorised share capital<br>30,000,000 (2010: 30,000,000) ordinary shares<br>of Rs. 10 each | 5.1  | <u>300,000,000</u>        | <u>300,000,000</u>        |
| Paid-up share capital   | 5.2  | <u>250,000,000</u>        | <u>200,000,000</u>        |
| Accumulated loss  |      | <u>(4,535,102)</u>        | <u>(23,780,007)</u>       |
| General reserve   |      | <u>20,000,000</u>         | <u>20,000,000</u>         |
| <b>Shareholders' equity</b>   |      | <b>265,464,898</b>        | <b>196,219,993</b>        |
| <b>Underwriting Provisions</b>  |      |                           |                           |
| Provision for outstanding claims<br>(including IBNR)  | 4.4  | <u>146,407,523</u>        | <u>185,190,944</u>        |
| Provision for unearned premiums   |      | <u>282,506,788</u>        | <u>245,048,397</u>        |
| Commission income unearned  |      | <u>12,260,024</u>         | <u>13,236,622</u>         |
| <b>Total underwriting provisions</b>  |      | <b>441,174,335</b>        | <b>443,475,963</b>        |
| <b>Creditors and Accruals</b>   |      |                           |                           |
| Premiums received in advance  |      | <u>9,044,804</u>          | <u>8,425,048</u>          |
| Amounts due to other insurers / reinsurers  | 6    | <u>46,792,721</u>         | <u>29,395,613</u>         |
| Accrued expenses  | 7    | <u>2,250,243</u>          | <u>9,866,168</u>          |
| Agents balances   |      | <u>35,112,971</u>         | <u>17,646,088</u>         |
| Taxation - Provisions less payments   |      | <u>402,025</u>            | <u>-</u>                  |
| Deferred gain on disposal of assets under<br>sale and leaseback                             |      | <u>-</u>                  | <u>183,048</u>            |
| Other creditors and accruals  | 8    | <u>28,162,722</u>         | <u>11,022,354</u>         |
|   |      | <b>121,765,786</b>        | <b>76,538,319</b>         |
| <b>Borrowings</b>   |      |                           |                           |
| Liabilities against assets subject<br>to finance lease                                      | 9    | <u>3,717,845</u>          | <u>1,072,822</u>          |
| <b>Other Liabilities</b>  |      |                           |                           |
| Dividends payable - unclaimed   |      | <u>398,934</u>            | <u>398,934</u>            |
| <b>TOTAL LIABILITIES</b>  |      | <u><b>567,056,600</b></u> | <u><b>521,486,038</b></u> |
| <b>TOTAL EQUITY AND LIABILITIES</b>   |      | <u><b>832,521,498</b></u> | <u><b>717,706,031</b></u> |
| <b>CONTINGENCIES AND COMMITMENTS</b>  | 10   |                           |                           |

The annexed notes from 1 to 34 form an integral part of these financial statements.

## AS AT 31 DECEMBER 2011

|  | Note | 2011               | 2010               |
|--|------|--------------------|--------------------|
|  |      | ----- Rupees ----- |                    |
| <b>Cash and Bank Deposits</b>              |      |                    |                    |
| Cash and other equivalents                 | 11   | 115,874            | 46,984             |
| Current and other accounts                 |      | 26,207,941         | 136,923,235        |
|  |      | 26,323,815         | 136,970,219        |
| <b>Loans - secured and considered good</b> |      |                    |                    |
| To employees                               | 12   | 2,774,059          | 2,136,673          |
| <b>Investments</b>                         |      |                    |                    |
|  | 13   | 51,782,068         | 155,721,299        |
| <b>Investment Properties</b>               |      |                    |                    |
|  | 14   | 29,303,165         | 4,551,912          |
| <b>Current Assets - Others</b>             |      |                    |                    |
| Premium due but unpaid                     | 15   | 305,080,051        | 166,082,545        |
| Amounts due from other                     |      |                    |                    |
| insurers / reinsurers                      | 16   | 71,538,937         | 28,463,767         |
| Accrued investment income                  | 17   | 30,045             | 89,921             |
| Reinsurance recoveries against             |      |                    |                    |
| outstanding claims                         |      | 22,719,570         | 59,012,056         |
| Taxation - payments less provision         |      | -                  | 1,137,729          |
| Deferred commission expense                |      | 47,749,478         | 37,330,920         |
| Advances, deposits and prepayments         | 18   | 88,017,883         | 65,717,735         |
| Sundry receivables                         | 19   | 2,891,763          | -                  |
|  |      | 538,027,727        | 357,834,673        |
| <b>Fixed Assets</b>                        |      |                    |                    |
|  | 20   |                    |                    |
| <b>Tangible and Intangible</b>             |      |                    |                    |
| <b>Owned</b>                               |      |                    |                    |
| Furniture, fixtures and office equipment   |      | 12,591,694         | 6,824,620          |
| Motor vehicles                             |      | 26,546,696         | 18,326,761         |
| Intangible-computer software               |      | 969,712            | -                  |
| Capital work-in-progress                   |      | 140,589,930        | 34,750,008         |
|  | 20.1 | 180,698,032        | 59,901,389         |
| <b>Leased</b>                              |      |                    |                    |
| Motor vehicles                             | 20.1 | 3,612,632          | 589,866            |
| <b>TOTAL ASSETS</b>                        |      | <b>832,521,498</b> | <b>717,706,031</b> |

*M. Gnanam - maha.*

**Chairman**

*[Signature]*

**Director**

*[Signature]*

**Director**

*[Signature]*

**Chief Executive Officer**

## **PROFIT AND LOSS ACCOUNT**

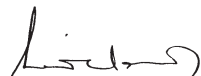
*FOR THE YEAR ENDED DECEMBER 31, 2011*

|   |    | Fire and<br>property<br>damage | Marine,<br>aviation and<br>transport | Motor             | Accident<br>and<br>Health | Miscellaneous     | 2011<br>Aggregate    | 2010<br>Aggregate |
|---|----|--------------------------------|--------------------------------------|-------------------|---------------------------|-------------------|----------------------|-------------------|
| Note  |    | ----- Rupees -----             |                                      |                   |                           |                   |                      |                   |
| <b>Revenue account</b>  |    |                                |                                      |                   |                           |                   |                      |                   |
| Net premium revenue   |    | 54,224,662                     | 29,799,854                           | 257,452,245       | 107,769,267               | 33,717,405        | <b>482,963,432</b>   | 417,388,615       |
| Net claims  |    | (2,422,476)                    | (2,917,549)                          | (144,497,268)     | (91,270,871)              | (6,534,561)       | <b>(247,642,725)</b> | (263,040,912)     |
| Management expenses   | 21 | (15,495,435)                   | (5,750,215)                          | (35,300,537)      | (17,033,403)              | (13,756,282)      | <b>(87,335,872)</b>  | (65,808,956)      |
| Net commission  |    | (12,940,442)                   | (7,030,367)                          | (35,249,563)      | (9,267,660)               | 68,876            | <b>(64,419,156)</b>  | (68,272,173)      |
| <b>Underwriting result</b>                                    |    | <u>23,366,309</u>              | <u>14,101,723</u>                    | <u>42,404,877</u> | <u>(9,802,667)</u>        | <u>13,495,438</u> | <b>83,565,679</b>    | 20,266,574        |
| Investment income   |    |                                |                                      |                   |                           |                   | <b>11,654,388</b>    | 16,670,759        |
| Rental income   |    |                                |                                      |                   |                           |                   | <b>2,095,272</b>     | 2,085,233         |
| Other income  | 22 |                                |                                      |                   |                           |                   | <b>6,003,739</b>     | 6,145,169         |
| General and administration expenses                           | 21 |                                |                                      |                   |                           |                   | <b>(78,119,917)</b>  | (68,087,805)      |
| Impairment of non-trading<br>investments (available-for-sale) |    |                                |                                      |                   |                           |                   | -                    | (556,000)         |
| <b>Profit / (Loss) before tax</b>                             |    |                                |                                      |                   |                           |                   | <b>25,199,161</b>    | (23,476,070)      |
| Provision for taxation - current                              | 23 |                                |                                      |                   |                           |                   | <b>(5,954,256)</b>   | (5,556,867)       |
| <b>Profit / (Loss) after tax</b>                              |    |                                |                                      |                   |                           |                   | <b>19,244,905</b>    | (29,032,937)      |
| <b>Profit and loss appropriation account:</b>                 |    |                                |                                      |                   |                           |                   |                      |                   |
| <b>Balance at commencement of the year</b>                    |    |                                |                                      |                   |                           |                   | <b>(23,780,007)</b>  | 5,252,930         |
| Profit / (Loss) after tax for the year                        |    |                                |                                      |                   |                           |                   | <b>19,244,905</b>    | (29,032,937)      |
| Balance of accumulated loss at end of the<br>year             |    |                                |                                      |                   |                           |                   | <b>(4,535,102)</b>   | (23,780,007)      |
| <b>Earnings / (loss) per share<br/>basic and diluted</b>      | 24 |                                |                                      |                   |                           |                   | <b>0.79</b>          | (1.38)            |

The annexed notes from 1 to 34 form an integral part of these financial statements.



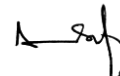
**Chairman**



**Director**



**Director**



**Chief Executive Officer**



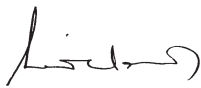
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

|   | Note | 2011               | 2010                |
|---|------|--------------------|---------------------|
|   |      | ----- Rupees ----- | -----               |
| Profit / (Loss) for the year                            |      | 19,244,905         | (29,032,937)        |
| Other comprehensive income for the year                 |      | -                  | -                   |
| <b>Total comprehensive income / (loss) for the year</b> |      | <b>19,244,905</b>  | <b>(29,032,937)</b> |

The annexed notes from 1 to 34 form an integral part of these financial statements.



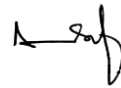
Chairman



Director



Director



Chief Executive Officer

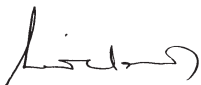
**STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED DECEMBER 31, 2011

|  | Paid-up<br>share capital | Revenue reserves   |                       | Total              |
|--|--------------------------|--------------------|-----------------------|--------------------|
|  |                          | General<br>reserve | Accumulated<br>(loss) |                    |
|  | Rupees                   |                    |                       |                    |
| Balance as at January 01, 2010                                     | 200,000,000              | 20,000,000         | 5,252,930             | 225,252,930        |
| <i>Changes in equity for the year ended<br/>December 31, 2010</i>  |                          |                    |                       |                    |
| Total comprehensive loss for the<br>year ended December 31, 2010   | -                        | -                  | (29,032,937)          | (29,032,937)       |
| <hr/>  |                          |                    |                       |                    |
| Balance as at December 31, 2010                                    | 200,000,000              | 20,000,000         | (23,780,007)          | 196,219,993        |
| <i>Changes in equity for the year ended<br/>December 31, 2011</i>  |                          |                    |                       |                    |
| Total comprehensive income for the<br>year ended December 31, 2011 | -                        | -                  | 19,244,905            | 19,244,905         |
| Issue of right shares during the year                              | 50,000,000               | -                  | -                     | 50,000,000         |
| <b>Balance as at December 31, 2011</b>                             | <b>250,000,000</b>       | <b>20,000,000</b>  | <b>(4,535,102)</b>    | <b>265,464,898</b> |

The annexed notes from 1 to 34 form an integral part of these financial statements.



Chairman



Director



Director



Chief Executive Officer

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2011

|  | 2011                 | 2010                |
|--|----------------------|---------------------|
|  | ----- Rupees -----   |                     |
| <b>OPERATING ACTIVITIES</b>  |                      |                     |
| <i>a) Underwriting activities</i>                                    |                      |                     |
| Premiums received  | 507,915,119          | 503,917,088         |
| Reinsurance premiums paid  | (148,856,821)        | (120,532,783)       |
| Claims paid  | (371,176,061)        | (324,059,358)       |
| Reinsurance and other recoveries received                            | 121,042,401          | 94,193,107          |
| Commissions paid   | (84,846,103)         | (85,065,223)        |
| Commissions received   | 27,475,272           | 25,910,730          |
| Other underwriting receipts  | 16,487,600           | 15,033,906          |
| Net cash flows from underwriting activities                          | 68,041,407           | 109,397,467         |
| <i>b) Other operating activities</i>                                 |                      |                     |
| Income tax paid  | (4,414,502)          | (4,318,719)         |
| Management and administrative expenses paid                          | (183,340,550)        | (134,573,717)       |
| Loans advanced - net   | (637,386)            | (746,369)           |
| Net cash flows used in other operating activities                    | (188,392,438)        | (139,638,805)       |
| <b>Total cash outflows from all operating activities</b>             | <b>(120,351,031)</b> | <b>(30,241,338)</b> |
| <b>INVESTING ACTIVITIES</b>  |                      |                     |
| Profit / Return received   | 19,809,427           | 32,030,158          |
| Rentals received   | 2,095,266            | 2,095,266           |
| Payments for investments   | (37,105,195)         | (270,441,970)       |
| Proceeds from disposal of investments                                | 104,000,578          | 288,534,112         |
| Fixed capital expenditure  | (132,841,308)        | (19,856,470)        |
| Proceeds from disposal of fixed assets                               | 4,927,000            | 3,468,500           |
| <b>Total cash (outflows) / inflows from all investing activities</b> | <b>(39,114,232)</b>  | <b>35,829,596</b>   |
| <b>FINANCING ACTIVITIES</b>  |                      |                     |
| Financial charges paid   | (385,671)            | (282,692)           |
| Payments of finance lease liability                                  | (795,470)            | (1,061,981)         |
| Issue of right shares  | 50,000,000           | -                   |
| <b>Total cash inflows / (outflows) from all financing activities</b> | <b>48,818,859</b>    | <b>(1,344,673)</b>  |
| <b>Net cash flows (used in) / from all activities</b>                | <b>(110,646,404)</b> | <b>4,243,585</b>    |
| Cash and cash equivalents at the beginning of year                   | 136,970,219          | 132,726,634         |
| <b>Cash and cash equivalents at the end of year</b>                  | <b>26,323,815</b>    | <b>136,970,219</b>  |

**STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED DECEMBER 31, 2011

|   | Note | 2011                     | 2010                       |
|---|------|--------------------------|----------------------------|
|   |      | ----- Rupees -----       | -----                      |
| <b>Reconciliation to profit and loss account</b>          |      |                          |                            |
| Operating cash flows                                      |      | (120,351,031)            | (30,241,338)               |
| Depreciation on fixed assets                              | 20.1 | (11,883,839)             | (8,337,257)                |
| Depreciation on investment property                       | 13.8 | (1,297,161)              | (537,416)                  |
| Gain on disposal of fixed assets                          | 22   | 3,785,940                | 1,222,425                  |
| Amortisation of gains on assets under sale and lease back | 22   | 183,048                  | 366,042                    |
| Taxes paid  |      | 4,414,502                | 4,318,719                  |
| Financial charges   | 21   | (385,671)                | (282,692)                  |
| (Decrease) / Increase in assets other than cash           |      | 181,819,852              | (3,891,305)                |
| (Increase) / Decrease in liabilities                      |      | (42,523,514)             | (17,068,850)               |
| Investment and other income                               |      | 11,437,035               | 30,975,602                 |
| Provision for tax   | 23   | (5,954,256)              | (5,556,867)                |
| <b>(Loss) / Profit after taxation</b>                     |      | <u><u>19,244,905</u></u> | <u><u>(29,032,937)</u></u> |

**Definition of cash**

Cash comprises of cash in hand, policy stamps, cheques in hand, bank balances and other deposits which are readily convertible to cash and which are used in the cash management function on a day-to-day basis.

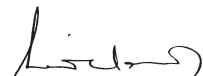
Cash for the purpose of the Statement of Cash Flows consists of:

|                                    | 2011                     | 2010                      |
|------------------------------------|--------------------------|---------------------------|
|                                    | ----- Rupees -----       | -----                     |
| <b>Cash and other equivalents</b>  |                          |                           |
| - Cash in hand                     | 75,874                   | 23,924                    |
| - Policy stamps in hand            | 40,000                   | 23,060                    |
|                                    | <u>115,874</u>           | <u>46,984</u>             |
| <b>Current and saving accounts</b> |                          |                           |
| - Current accounts                 | 9,212,736                | 38,868,594                |
| - Savings accounts                 | 16,995,205               | 98,054,641                |
|                                    | 26,207,941               | 136,923,235               |
|                                    | <u><u>26,323,815</u></u> | <u><u>136,970,219</u></u> |

The annexed notes from 1 to 34 form an integral part of these financial statements.



**Chairman**



**Director**



**Director**



**Chief Executive Officer**

**STATEMENT OF PREMIUMS**  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Business underwritten inside Pakistan**

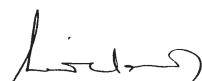
| Class                          | Premium written<br>(Note 26)<br>a | Unearned premium reserve |                    | *Premium earned<br>d=a+b-c | Reinsurance ceded<br>e | Prepaid reinsurance premium ceded |                   | Reinsurance expense<br>h=e+f-g | 2011 Net premium revenue<br>i=d-h | 2010 Net premium revenue |
|--------------------------------|-----------------------------------|--------------------------|--------------------|----------------------------|------------------------|-----------------------------------|-------------------|--------------------------------|-----------------------------------|--------------------------|
|                                |                                   | Opening<br>b             | Closing<br>c       |                            |                        | Opening<br>f                      | Closing<br>g      |                                |                                   |                          |
| ----- Rupees -----             |                                   |                          |                    |                            |                        |                                   |                   |                                |                                   |                          |
| <b>Direct and facultative</b>  |                                   |                          |                    |                            |                        |                                   |                   |                                |                                   |                          |
| Fire and property damage       | 114,318,506                       | 44,186,526               | 57,352,764         | 101,152,268                | 49,134,418             | 24,126,470                        | 26,333,282        | 46,927,606                     | <b>54,224,662</b>                 | 55,561,707               |
| Marine, aviation and transport | 42,422,560                        | 21,951,389               | 5,293,162          | 59,080,787                 | 17,970,618             | 13,047,456                        | 1,737,141         | 29,280,933                     | <b>29,799,854</b>                 | 13,188,578               |
| Motor                          | 260,431,832                       | 122,165,587              | 119,518,966        | 263,078,454                | 5,868,000              | 2,692,209                         | 2,934,000         | 5,626,209                      | <b>257,452,245</b>                | 259,376,375              |
| Accident and health            | 125,664,952                       | 27,825,454               | 44,498,815         | 108,991,591                | 1,621,071              | -                                 | 398,747           | 1,222,324                      | <b>107,769,267</b>                | 64,995,154               |
| Miscellaneous                  | 101,487,798                       | 28,919,441               | 55,843,081         | 74,564,158                 | 48,584,752             | 17,517,462                        | 25,255,461        | 40,846,753                     | <b>33,717,405</b>                 | 24,266,801               |
| <b>Total</b>                   | <b>644,325,648</b>                | <b>245,048,397</b>       | <b>282,506,788</b> | <b>606,867,257</b>         | <b>123,178,859</b>     | <b>57,383,597</b>                 | <b>56,658,631</b> | <b>123,903,825</b>             | <b>482,963,432</b>                | <b>417,388,615</b>       |

\* This includes administrative surcharge collected from customers along with premium but have not been deferred as this surcharge is levied to recover the administrative cost relating to policies issued during the year.

The annexed notes from 1 to 34 form an integral part of these financial statements.



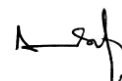
**Chairman**



**Director**



**Director**

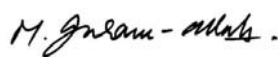


**Chief Executive Officer**

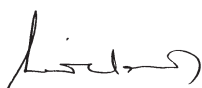
**STATEMENT OF CLAIMS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

| Business underwritten inside Pakistan | Class                          | Claims paid<br>a   | Outstanding claims |                    | Claims expense<br>d=a+c-b | Reinsurance and other recoveries received<br>e | Reinsurance and other recoveries in respect of outstanding claims |                   | Reinsurance and other recoveries revenue<br>h=e+g-f | 2011 Net claims expense<br>i=d-h | 2010 Net claims expense |
|---------------------------------------|--------------------------------|--------------------|--------------------|--------------------|---------------------------|--|---|-------------------|---|----------------------------------|-------------------------|
|                                       |                                |                    | Opening            | Closing            |                           |  | Opening   | Closing           |   |                                  |                         |
|                                       |                                |                    | b                  | c                  |                           |  | f   | g                 |   |                                  |                         |
| ----- Rupees -----                    |                                |                    |                    |                    |                           |  |   |                   |   |                                  |                         |
| <b>Direct and facultative</b>         |                                |                    |                    |                    |                           |  |   |                   |   |                                  |                         |
|                                       | Fire and property damage       | 35,769,244         | 23,190,231         | 14,283,747         | 26,862,760                | 30,743,787                                     | 16,199,161  | 9,895,658         | 24,440,284  | 2,422,476                        | 8,096,370               |
|                                       | Marine, aviation and transport | 9,610,838          | 10,198,116         | 3,602,935          | 3,015,657                 | 5,934,863                                      | 7,679,602   | 1,842,847         | 98,108  | 2,917,549                        | 5,675,286               |
|                                       | Motor                          | 185,683,269        | 107,491,361        | 107,914,140        | 186,106,048               | 47,784,959                                     | 6,176,179   | -                 | 41,608,780  | 144,497,268                      | 184,179,980             |
|                                       | Accident and health            | 91,419,393         | 2,150,387          | 2,208,451          | 91,477,457                | 204,000  | -   | 2,586             | 206,586   | 91,270,871                       | 51,427,621              |
|                                       | Miscellaneous                  | 48,693,317         | 42,160,849         | 18,398,250         | 24,930,718                | 36,374,792                                     | 28,957,114  | 10,978,479        | 18,396,157  | 6,534,561                        | 13,661,655              |
|                                       | <b>Total</b>                   | <b>371,176,061</b> | <b>185,190,944</b> | <b>146,407,523</b> | <b>332,392,640</b>        | <b>121,042,401</b>                             | <b>59,012,056</b>   | <b>22,719,570</b> | <b>84,749,915</b>                                   | <b>247,642,725</b>               | <b>263,040,912</b>      |

The annexed notes from 1 to 34 form an integral part of these financial statements.



**Chairman**



**Director**



**Director**



**Chief Executive Officer**

**STATEMENT OF EXPENSES**  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Business underwritten inside Pakistan**

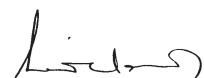
| Class                          | Commissions<br>paid or<br>payable | Deferred Commission |                   | Net<br>Commission<br>expense | Other<br>Management<br>expenses<br>(Note 21) | Underwriting<br>expense | *Commission<br>from<br>reinsurers | 2011                            | 2010                            |
|--------------------------------|-----------------------------------|---------------------|-------------------|------------------------------|--|-------------------------|-----------------------------------|---------------------------------|---------------------------------|
|                                |                                   | Opening             | Closing           |                              |  |                         |                                   | Net<br>underwriting<br>expenses | Net<br>underwriting<br>expenses |
|                                | a                                 | b                   | c                 | d=a+b-c                      | e  | f=d+e                   | g                                 | h=f-g                           |                                 |
| ----- Rupees -----             |                                   |                     |                   |                              |  |                         |                                   |                                 |                                 |
| <b>Direct and facultative</b>  |                                   |                     |                   |                              |  |                         |                                   |                                 |                                 |
| Fire and property damage       | 32,452,979                        | 11,974,116          | 17,147,051        | 27,280,044                   | 15,495,435                                   | 42,775,479              | 14,339,602                        | <b>28,435,877</b>               | 35,579,416                      |
| Marine, aviation and transport | 10,066,930                        | 4,257,750           | 1,627,695         | 12,696,985                   | 5,750,215                                    | 18,447,200              | 5,666,618                         | <b>12,780,582</b>               | 9,786,146                       |
| Motor                          | 35,433,484                        | 16,638,444          | 16,821,798        | 35,250,130                   | 35,300,537                                   | 70,550,667              | 567                               | <b>70,550,100</b>               | 67,295,451                      |
| Accident and health            | 11,797,780                        | 2,205,215           | 4,368,638         | 9,634,357                    | 17,033,403                                   | 26,667,760              | 366,697                           | <b>26,301,063</b>               | 13,236,998                      |
| Miscellaneous                  | 12,561,813                        | 2,255,395           | 7,784,296         | 7,032,912                    | 13,756,282                                   | 20,789,194              | 7,101,788                         | <b>13,687,406</b>               | 8,183,118                       |
| <b>Total</b>                   | <b>102,312,986</b>                | <b>37,330,920</b>   | <b>47,749,478</b> | <b>91,894,428</b>            | <b>87,335,872</b>                            | <b>179,230,300</b>      | <b>27,475,272</b>                 | <b>151,755,028</b>              | <b>134,081,129</b>              |

\* Commission from reinsurers is arrived at after taking the impact of the opening and closing balances of unearned commission.

The annexed notes from 1 to 34 form an integral part of these financial statements.



**Chairman**



**Director**



**Director**



**Chief Executive Officer**

## **STATEMENT OF INVESTMENT INCOME**

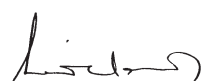
*FOR THE YEAR ENDED DECEMBER 31, 2011*

|  | Note | 2011              | 2010              |
|--|------|-------------------|-------------------|
| ----- Rupees -----   |      |                   |                   |
| <b>Income from trading investments</b>   |      |                   |                   |
| Capital loss on sale of held for trading investments-net                       |      | (8,425,341)       | (798,792)         |
| Dividend income  |      | 1,166,499         | 1,241,375         |
|  |      | (7,258,842)       | 442,583           |
| <b>Income from non-trading investments</b>                                     |      |                   |                   |
| <i>Held-to-maturity</i>  |      |                   |                   |
| Return on other fixed income securities  |      | 159,873           | 354,234           |
| <i>Available-for-sale</i>  |      |                   |                   |
| Dividend income  |      | 8,334,441         | 10,903,115        |
|  |      | 8,494,314         | 11,257,349        |
| <b>Gain on sale of non-trading investments (available-for-sale)</b>            |      | 310,915           | 344,440           |
| <b>Unrealized gain / (loss) on revaluation of held-for-trading investments</b> |      | 4,238,644         | (8,217,814)       |
| <b>Income from reverse repo transactions in listed equity securities</b>       | 13.7 | 8,179,651         | 15,373,661        |
| <b>Investment related expenses</b>   | 13.8 | (2,310,294)       | (2,529,460)       |
| <b>Net investment income</b>   |      | <b>11,654,388</b> | <b>16,670,759</b> |

The annexed notes from 1 to 34 form an integral part of these financial statements.



Chairman



Director



Director



Chief Executive Officer



## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011**

### **1 STATUS AND NATURE OF BUSINESS**

Shaheen Insurance Company Limited (the Company) was incorporated under the Companies Ordinance, 1984, as a Public Company in March 1995 and obtained the certificate for commencement of business in July 1995. It was registered with the Controller of Insurance in November 1995 to carry out non-life insurance business comprising fire, marine, motor, aviation, engineering, transportation, etc. The Company is listed on all the stock exchanges in Pakistan.

Its registered office is located at Shaheen Commercial Complex, Karachi.

### **2 BASIS OF PREPARATION**

These financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan (SECP) through Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002], vide S.R.O. 938 dated December 12, 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 comprise 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.

The SECP has allowed the insurance companies to defer the application of International Accounting Standard 39 (IAS 39) "Financial Instruments, recognition and measurement" in respect of valuation of "available-for-sale" investments. Accordingly, the requirements of IAS 39, to the extent allowed by the SECP as aforesaid, have not been considered in the preparation of these financial statements.

#### **2.2 Application of new and revised International Financial Reporting Standards (IFRSs)**

##### **2.2.1 New / revised standards and interpretations to existing standards effective from current period or earlier adopted**

Following standards, interpretations and amendments became effective during the year. However, these amendments to IFRSs and interpretations did not have any material effect on the Company's financial statements.

- IFRS 2 (Amendments) "Share-based Payments - Group cash-settled share-based payment transactions".

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

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 01, 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 are not likely to have an impact on financial statements of the Company.

- Amendments to IAS 12 - deferred tax on investment property (effective for annual periods beginning on or after January 01, 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 amendments are not relevant to the financial statements of the Company.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 01, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize 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 recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The amendments are not likely to have an impact on financial statements of the Company.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 01, 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 January 01, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments are not likely to have an impact on financial statements of the Company.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 01, 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 are not likely to have an 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 January 01, 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 are not likely to have an impact on financial statements of the Company.
- Disclosures - Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after July 01, 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. The amendments are not likely to have an impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) - (effective for annual periods beginning on or after January 01, 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 are not likely to have an impact on 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 January 01, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The interpretation is not relevant to the financial statements of the Company.

### **3 BASIS OF MEASUREMENT**

These financial statements have been prepared under the historical cost convention, except that 'held-to-maturity' investments which are stated at amortised cost and investment 'at fair value through profit or loss - held-for-trading investments' which are stated at fair value. These financial statements have been prepared on accrual basis of accounting except for cash flow information which has been prepared on cash basis.

#### **3.1 Use of critical accounting estimates and judgments**

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements 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 on going 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 period of the revision and future periods if the revision affects both current and future periods.

Significant areas where assumptions and estimates were exercised in application of accounting policies relate to:

##### **Classification of investments**

In classifying investments as "held-for-trading" the Company has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements.

In classifying investments as "held-to-maturity" the Company has determined financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity.

The investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale.

**Provision for outstanding claims (including IBNR)**

The Company records claims based on the amount of claim lodged by the insured. However, the settlement of all the claims is made based on the surveyor's assessment appointed for ascertainment of the Company's liability. The surveyor's assessment could differ significantly with the claims lodged by the insured, and accordingly amount of claims settled could materially differ with the amount of liability accrued.

The provision of claims incurred but not reported (IBNR) is made on the basis of actuarial valuation. The actuarial valuation is made on the basis of past trend and pattern of reporting of claims. The actual amount of IBNR may materially differ from the actuarial estimates.

**Additional provision for unexpired risks**

Additional provision for unexpired risks is based on actuarial valuation for class wise insurance business. The actuary considers the trends of gross and net loss ratio of the Company. Accordingly the actual results may differ with the assumption (based on historical trend) used by the actuary.

**Reinsurance recoveries against outstanding claims**

Reinsurance recoveries are accrued on the basis of share of reinsurers in outstanding claims including IBNR as stated above. The recoveries are finalized when the amounts of outstanding claims are finalized based on surveyor's assessment. Therefore, reinsurance recoveries booked against settled claims could proportionately differ with the amount of reinsurance recoveries accrued against outstanding claims at the balance sheet date.

**Income taxes**

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Company's future taxable profits are taken into account.

**Impairment - (available-for-sale)**

The Company determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in prices. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the investee, industry, sector performance, changes in technology and operational and financial cash flows.

**Impairment of other assets, including premium due but unpaid**

The Company also considers the need for impairment provision against other assets, including the premium due but unpaid and the provision required there against. While assessing such a requirement, various factors including the delinquency in the account and financial position of the insured are considered.

**Fixed assets, investment properties and depreciation / amortization**

The Company carries the investment properties at their respective cost. The fair values are determined by the independent valuation experts and such valuations are carried out every year to determine the recoverable amount.

In making estimates of the depreciation / amortization method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

The assets residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

The Company also reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the charge for depreciation and impairment.

### **3.2 Functional and presentation currency**

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency and have been rounded off to the nearest rupees.

### **3.3 Foreign currency translations**

Foreign currency transactions during the year are recorded at the exchange rate approximating those ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange which approximates those prevailing on the balance sheet date. Gains and losses on translations are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

## **4 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 consistently to all years presented.

### **4.1 Insurance Contracts**

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (the insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

- Fire and property
- Marine, aviation and transport
- Motor
- Accident and health
- Miscellaneous

These contracts are normally one year insurance contracts except marine and some contracts of fire and property and miscellaneous class. Normally all marine insurance contracts and some fire and property contracts are of three months period. In miscellaneous class, some engineering insurance contracts are of more than one year period, whereas, normally travel insurance contracts expire within one month time.

These contracts are provided to all types of customers based on assessment of insurance risk by the Company. Normally personal insurance contracts e.g. vehicle, travel, personal accident, etc. are provided to individual customers, whereas, insurance contracts of fire and property, marine, aviation and transport, accident and health and other commercial line products are provided to commercial organizations.

Fire and property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. 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.

Marine insurance covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident.

Accident and health insurance covers unforeseen cash flows and financial hardships arising due to ailments, accidents and other natural causes necessitating hospitalization

Other various types of insurance are classified in miscellaneous category which includes mainly engineering, terrorism, worker compensation, and travel insurances etc.

The Company also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward. The insurance risk involved in these contracts is similar to the contracts undertaken by the Company as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts.

#### **4.2 Premium income and provision for unearned premiums**

Premium under a policy is recognized at the time of the issuance of insurance policy. Revenue from premiums is recognized after taking into account the unearned portion of premium which is calculated using the 1/24th method except for premium revenue relating to Marine which is calculated using the 1/6th method. The unearned portion of premium income is recognized as a liability. Under this method, the liability for above unearned premium is equal to 1/24 of the premiums relating to policies commencing in the first month of financial year, 3/24 of the premiums relating to policies commencing in the second month of the financial year, and so on.

#### **4.3 Reinsurance contracts held**

These are contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognizes the entitled benefits under the contracts as various reinsurance assets.

#### **4.4 Provision for outstanding claims including incurred but not reported (IBNR)**

A liability for outstanding claims is recognized in respect of all claims incurred as at the balance sheet date which represents the estimates of the claims intimated or assessed before the end of the accounting year and are measured at the undiscounted value of expected future payments.

Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs. Provision for IBNR of Rs. 0.396 million (2010: Rs. 0.775million) is made for the cost of settling claims incurred but not reported at the balance sheet date on the basis of actuarial valuation. The latest valuation was carried out as of December 31, 2011.

The actuary uses statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The method used is the chain-ladder method which involves the analysis of historic claims development factors and the selection of estimated development factors based on the historic pattern. The selected development factors are then applied to cumulative claims data for each accident year. Study of claim lag pattern is conducted annually to account for any changes in experience. The development factors are based on these studies and are updated accordingly. Adequate margins are also built in to compensate for any adverse deviations in claims experience.

The actuary recommends that month wise factor based on an analysis of the past claims reporting pattern be applied to estimation of provision for IBNR. The historic chain-ladder method is used for determination of month wise factor for each class of business. Accordingly, provision has been made based on IBNR factors applied on incurred claims recommended by the actuary.

#### **4.5 Reinsurance recoveries against outstanding claims**

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

#### **4.6 Commission expense and deferred commission expense**

Commission incurred in obtaining and recording policies is recognized as expense after taking into account the proportion of deferred commission expense which is calculated using 1/24th method.

#### **4.7 Claims expense**

General insurance claims include all claims occurring during the year, whether reported or not, 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 the previous years.

The Company recognizes liability in respect of all claims incurred upto the balance sheet date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract. The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. Provision for IBNR is based on the actuarial valuation which takes in to account the past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date.

#### **4.8 Administrative surcharge**

Administrative surcharge is included in the profit and loss account (as premium revenue) at the time the policies are issued.

#### **4.9 Receivables and payables related to insurance contracts**

Receivables and payables relating to insurance contracts are recognized when due. These include premiums due but unpaid, premiums received in advance and claims payable to insurance contract holders. These are recognized at cost, which is the fair value of the consideration given less provision for impairment, if any.

If there is an objective evidence that any premiums due but unpaid is impaired, the Company reduces the carrying amount of the insurance receivable and recognizes the loss in the profit and loss account.

#### **4.10 Reinsurance expense and prepaid reinsurance premium ceded**

Reinsurance premium is recognized as expense after taking into account the proportion of deferred premium expense which is calculated using 1/24th method. The deferred portion of premium expense is recognized as a prepayment.

#### **4.11 Commission income and unearned commission income**

Commission from reinsurers is recognized as income after taking into account the unearned portion of commission which is calculated using the 1/24th method (in accordance with the pattern of recognition of reinsurance premium). The unearned portion of commission is recognized as liability.

#### **4.12 Premium deficiency reserve**

The Company is required under SEC (Insurance) Rules, 2002 to maintain a provision in respect of premium deficiency for the individual class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve (PDR) is recognised in the profit and loss account for the year.

The requirement for additional provision for unexpired risks is determined on the basis of an actuarial valuation. The latest valuation was carried out as of December 31, 2011. Based on the actuarial valuation so carried out, the Company is not required to make any provision for PDR in respect of any class of business. The actuary determines adequacy of liability of premium deficiency by carrying out analysis of the Company's loss ratio of expired periods. For this purpose average loss ratio of last six years inclusive of claim settlement cost but excluding major exceptional claims are taken into consideration to determine ultimate loss ratio to be applied on unearned premium.

#### **4.13 Claim and salvage recoveries**

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised and are measured at the amount expected to be received. Claims expenses are reported net-off reinsurance in the profit and loss account.



Salvage value recoverable is recognised only if a firm and irrevocable contract and price thereon have been agreed with the buyer.

#### **4.14 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 services received, whether or not billed to the Company.

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

#### **4.15 Operating fixed assets**

##### **Tangibles**

##### **Owned**

Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is charged over the estimated useful life of the asset on a systematic basis to income applying straight line method at rates given in note 20.1 to these financial statements.

Depreciation is charged from the month the asset is available for intended use. No depreciation is charged from the month of disposal of the asset.

The assets' residual value, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Gains and losses on disposal of fixed assets are taken to profit and loss account currently.

Expenditure incurred subsequent to the initial acquisition of asset is capitalised only when it increases the future economic lives embodied in the items of fixed assets. All other expenditure is recognised in the profit and loss account as an expense.

##### **Leased**

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment losses, if any. Finance charge on lease obligation is recognised in the profit and loss account over the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding balance.

Depreciation on assets subject to finance lease is recognised in the same manner as owned assets.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortized over the lease term.

## **Intangibles**

These are stated at cost less accumulated amortisation and impairment loss, if any. Amortisation is charged over the estimated useful life of the asset on a systematic basis to income applying the straight line method at the rates specified in note 20.1 to the financial statements.

Software development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Company.

The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amounts.

## **Capital work in progress**

Capital work in progress is stated at cost less any impairment in value.

### **4.16 Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for 'investments at fair value through profit or loss - held-for-trading investments' in which case the transaction costs are charged to the profit and loss account.

All purchase and sale of investments that require delivery within the required 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. These are recognised and classified as follows:

#### **4.16.1 Investments at fair value through profit or loss - held-for-trading**

Quoted investments which are acquired principally for the purpose of generating profit from short-term fluctuations in price or are part of the portfolio in which there is a recent actual pattern of short-term profit taking are classified as held-for-trading.

Subsequent to initial recognition these are re-measured at fair value by reference to quoted market prices with the resulting gain or loss being included in profit or loss of the period in which it arises.

#### **4.16.2 Held-to-maturity**

Investments with fixed maturity, where the management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost. Premium paid or discount availed on the acquisition of held-to-maturity investment is deferred and amortised over the term of investment using the effective yield method.

Profit on held-to-maturity instruments is recognised on a time proportion basis taking into account the effective yield on the investments.

These are reviewed for impairment at each reporting period and losses arising, if any, are charged to the profit and loss account of the period in which they arise.

#### **4.16.3 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, changes in interest rates or equity prices are classified as available-for-sale. These are valued as follows:

##### **Quoted**

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirement of the S.R.O. 938 issued by the SECP in December 2002. The Company uses Stock Exchange quotations at the balance sheet date to determine the market value of listed shares and closed-end mutual funds. Further more, market value of open-ended mutual funds is determined by using MUFAP rates at the balance sheet date.

Had the Company adopted International Accounting Standard (IAS) 39 "Financial instruments-recognition and measurement" in respect of recognition of gain / (loss) on measurement of available-for-sale securities directly into equity, the investments of the Company would have been higher by Rs. 0.937 (2010: Rs. 0.527) million and the net equity would have increased by the same amount.

##### **Unquoted**

Unquoted investments are recorded at cost less impairment (if any) in accordance with the above requirement.

#### **4.16.4 Recognition / de-recognition of investments**

Investments are recognised / derecognised by the Company on the date it commits to purchase / sell the investments.

#### **4.17 Securities under repurchase / resale agreements**

Transactions of purchase under resale (reverse-repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not recognized in the financial statements as investments, as the Company does not obtain control over the assets. Amounts paid under these agreements are included in the financial statements as balance receivables for securities purchased under resale arrangements in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from the date of reverse repurchase transaction and accrued over the period of the reverse-repo agreement.

Transactions of sale under repurchase (repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not derecognized from the financial statements and continue to be recognized as investments and measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the period of the repo agreement.

#### **4.18 Investment properties**

Investment properties are accounted for under the cost model in accordance with International Accounting Standard 40, Investment Property, and S.R.O. 938 issued by SECP. Accordingly;

- Premises is depreciated so as to write-off the assets over their expected economic lives under the straight line method at rates given in note 14 to these financial statements.
- Subsequent capital expenditures on existing properties and gains or losses on disposals are accounted for in the same manner as operating fixed assets.

#### **4.19 Other receivables**

These are stated at cost less impairment losses, if any. Full provision is made against the impaired debts.

#### **4.20 Retirement benefits-Defined Contribution Plan (Provident Fund)**

The Company operates a contributory provident fund scheme for its permanent employees. Contribution to the fund is made by the employees and the Company at the rate of 10 % of their basic salaries.

#### **4.21 Taxation**

##### **Current**

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted.

##### **Deferred**

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

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

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

#### **4.22 Financial instruments**

Financial instruments carried on the balance sheet include cash and bank deposits, loans, premiums due but unpaid, amount due from other insurers / reinsurers, premium and claim reserves retained by cedants, accrued investment income, reinsurance recoveries against outstanding claims, security deposits, investments, sundry receivables, amount due to other insurers / reinsurers, accrued expenses, provision for outstanding claims including incurred but not reported, agent's balances, liabilities against assets subject to finance lease, other creditors and accruals and other payables.

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. At the time of initial recognition all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Any gain or loss on de-recognition of financial assets and financial liabilities are taken to income directly.

#### **4.23 Revenue recognition**

##### **Underwriting result**

The earned premium less reinsurance, claims, commission and allocable expenses of management are reflected in the profit and loss account as the underwriting result for each class of insurance business undertaken.

##### **Investment income**

Profit on held-to-maturity instruments is recognised on a time proportion basis taking into account the effective yield on the instruments. The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the profit and loss account over the term of the investment.

Dividend income is recognised when the right to receive the same is established.

Entitlement of bonus shares is recognised when the right to receive the same is established by increasing the number of shares to which the Company is entitled without giving any monetary effect in the financial statements either in terms of cost or value thereof which is in accordance with the requirement of the Institute of Chartered Accountants of Pakistan (ICAP) Technical Release-15.

Gains / Losses on sale of investments are recognised in the profit and loss account at the time of sale.

##### **Return on bank accounts, term finance certificates and certificates of investments**

Return on bank accounts, term finance certificates and certificates of investments are accounted for on accrual basis.

##### **Income from investment properties**

Rental income from investment properties is recognised on time proportion basis.

#### **4.24 Expenses of management**

These are allocated to various classes of business in proportion to the respective net premium revenue for the year. Expenses not allocable to the underwriting business are charged as administrative expenses.

#### **4.25 Off setting**

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

#### **4.26 Impairment**

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. In addition impairment on available-for-sale investments and reinsurance assets are recognised as follows:

##### **- Available-for-sale**

The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

##### **- Reinsurance assets**

The Company determines the impairment of the reinsurance assets by looking at objective evidence, as a result of an event that occurred after initial recognition of the reinsurance assets, which indicates that the Company may not be able to recover amount due from reinsurer under the terms of reinsurance contract. In addition, the Company also monitors the financial ratings of its reinsurers on each reporting date.

#### **4.27 Provisions**

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **4.28 Segment reporting**

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for 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 five primary business segments for reporting purposes namely fire, marine, motor, accident and health and miscellaneous.

Fire insurance segment provides insurance covers against damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation and impact.

Marine insurance segment provides coverage against cargo risk, war risk and damages occurring in inland transit.

Motor insurance provides comprehensive vehicle coverage and indemnity against third party loss.

Accident and health insurance provides cover against loss due to accidental injury or sickness.

Miscellaneous insurance provides cover against loss of cash in safe and cash in transit, money, engineering losses and others coverage.

Assets and liabilities that are directly attributable to segments have been assigned to them while the assets and liabilities pertaining to two or more segments have been allocated to segments on a net premium revenue 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. Depreciation and amortisation are allocated to a particular segment on the basis of premium earned.

#### **4.29 Cash and cash equivalents**

Cash and cash equivalents include cash, cheques and policy stamps in hand and balance with banks in current, saving and deposit accounts.

#### **4.30 Amount due to other insurers / reinsurers**

Liabilities for other insurers / reinsurers are carried at cost which is the fair value of consideration to be paid in the future for services.

#### **4.31 Premiums due but unpaid**

These are recognized at cost, which is the fair value of the consideration to be received less provision for impairment, if any.

#### **4.32 Amount due from other insurers / reinsurers**

Amount due from other insurers / reinsurers are carried at cost less provision for impairment, if any. Cost represents the fair value of consideration to be received in the future for services rendered.

#### **4.33 Dividend distributions and appropriations**

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

#### **4.34 Earnings / (Loss) per share**

Earnings / (Loss) per share is calculated by dividing the profit / (loss) after tax for the year by the weighted average number of shares outstanding during the year.

#### **4.35 Related parties transactions**

All transactions with related parties are carried out by the Company at arm's length prices or as otherwise disclosed.

## 5 PAID-UP SHARE CAPITAL

### 5.1 Authorised share capital

| 2011              | 2010       |                                | 2011               | 2010        |
|-------------------|------------|--------------------------------|--------------------|-------------|
| Number of shares  |            |                                | ----- Rupees ----- |             |
| <b>30,000,000</b> | 30,000,000 | Ordinary shares of Rs. 10 each | <b>300,000,000</b> | 300,000,000 |

### 5.2 Issued, subscribed and paid-up capital - (refer note 31)

| 2011              | 2010       |  | 2011               | 2010        |
|-------------------|------------|--|--------------------|-------------|
| Number of shares  |            |  | ----- Rupees ----- |             |
| <b>8,000,000</b>  | 8,000,000  | Ordinary shares of Rs. 10 each fully paid in cash                | <b>80,000,000</b>  | 80,000,000  |
| <b>12,000,000</b> | 12,000,000 | Ordinary shares of Rs. 10 each issued as fully paid bonus shares | <b>120,000,000</b> | 120,000,000 |
|                   |            | Ordinary shares of Rs. 10 each issued as right shares            |                    |             |
| -                 | -          | As at January 01,  | -                  | -           |
| <b>5,000,000</b>  | -          | Issued during the year   | <b>50,000,000</b>  | -           |
| <b>5,000,000</b>  | -          |  | <b>50,000,000</b>  | -           |
| <b>25,000,000</b> | 20,000,000 |  | <b>250,000,000</b> | 200,000,000 |

#### 5.2.1 At December 31, 2011, 23.79 million (2010: 19.46 million) shares of the Company are held by associated companies / undertakings. Details of these holdings are as follows:

|  | 2011              | 2010       |
|--|-------------------|------------|
|  | Number of shares  |            |
| Shaheen Foundation, Pakistan Air Force       | <b>6,586,979</b>  | 4,098,921  |
| Central Non Public Fund, Pakistan Air Force  | <b>2,500,000</b>  | 2,500,000  |
| The Hollard Company Limited, South Africa    | <b>6,345,296</b>  | 6,345,296  |
| First Capital Mutual Fund                    | <b>1,216,794</b>  | 1,362,563  |
| First Capital Securities Corporation Limited | <b>1,993,275</b>  | -          |
| First Capital Equities Limited               | <b>1,721,963</b>  | 2,016,000  |
| Worldcall Telecom Limited                    | <b>3,136,963</b>  | 3,136,963  |
| Pace Pakistan Limited                        | <b>294,037</b>    | -          |
| WTL Services (Private) Limited               | <b>2,108</b>      | -          |
|  | <b>23,797,415</b> | 19,459,743 |

Shaheen Foundation, Pakistan Air Force and First Capital Securities Corporation Limited have entered into Share Purchase Agreement dated February 28, 2011 with Hollard Insurance Company Limited for acquisition of Hollard's entire Shareholding of 6,345,296 shares of Rs. 10 each (25.38% of the total existing paid up capital of Shaheen Insurance Company Limited) in the following proportion. Securities and Exchange Commission of Pakistan (SECP) vide letter dated November 21, 2011 allowed relaxation to execute such transaction.



|  |  |                             |
|--|--|-----------------------------|
|  |  | <b>Number of<br/>shares</b> |
| Shaheen Foundation Pakistan Air Force        |  | <b>3,164,141</b>            |
| First Capital Securities Corporation Limited |  | <b>3,181,155</b>            |
|  |  | <b><u>6,345,296</u></b>     |

The above referred transaction will be closed after completion of legal formalities in due course.

|   |      |                          |                          |
|---|------|--------------------------|--------------------------|
| <b>6 AMOUNTS DUE TO OTHER INSURERS / REINSURERS</b> |      | <b>2011</b>              | <b>2010</b>              |
|   | Note | -----                    | -----                    |
|   |      | <b>Rupees</b>            |                          |
| Foreign companies                                   |      | <b>21,334,856</b>        | 18,159,578               |
| Local companies                                     |      | <b>25,457,865</b>        | 11,236,035               |
|   |      | <b><u>46,792,721</u></b> | <b><u>29,395,613</u></b> |

#### **7 ACCRUED EXPENSES**

|   |     |                         |                         |
|---|-----|-------------------------|-------------------------|
| Staff bonus payable                     |     | -                       | 6,449,880               |
| Accrued salaries                        |     |                         |                         |
| Advisory fee payable to a related party | 7.1 | <b>301,947</b>          | 1,858,907               |
| Accrual against utilities               |     | <b>1,108,296</b>        | 802,658                 |
| Others                                  |     | <b>840,000</b>          | 754,723                 |
|   |     | <b><u>2,250,243</u></b> | <b><u>9,866,168</u></b> |

**7.1** This represents amount payable to First Capital Investment Limited - related party.

#### **8 OTHER CREDITORS AND ACCRUALS**

|   |     |                          |                          |
|---|-----|--------------------------|--------------------------|
| Amount payable to policy holders in respect of cancelled policies |     | <b>5,207,026</b>         | 886,474                  |
| Federal excise duty payable                                       | 8.1 | <b>18,333,360</b>        | 5,883,025                |
| Withholding tax payable   | 8.2 | <b>1,891,592</b>         | 451,917                  |
| Workers welfare fund payable                                      | 8.3 | <b>815,074</b>           | 815,074                  |
| Unearned rental income  |     | <b>331,158</b>           | 331,158                  |
| Payable to provident fund   |     | <b>418,976</b>           | 874,631                  |
| Payable for dealing in marketable securities                      |     | -                        | 697,617                  |
| Others  | 8.4 | <b>1,165,538</b>         | 1,082,458                |
|   |     | <b><u>28,162,722</u></b> | <b><u>11,022,354</u></b> |

**8.1** Subsequent to the year-end, amount of Rs. 17.878 million (2010: Rs. 4.79 million) was paid by the Company.

**8.2** Subsequent to the year-end, this amount was paid by the Company.

**8.3** This will be paid with return of total income for the current year.

**8.4** This includes Rs. 1.15 million payable to First Capital Equities Limited - related party in respect of capital work in progress.

#### **9 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

**9.1** Details are as follows:

|                 | 2011                   |                              |                  | 2010                   |                                      |                  |
|-----------------|------------------------|------------------------------|------------------|------------------------|--------------------------------------|------------------|
|                 | Minimum lease payments | Financial charges for future | Present value    | Minimum lease payments | Financial charges for future periods | Present value    |
|                 | ----- Rupees -----     |                              |                  |                        |                                      |                  |
| Within one year | 1,950,240              | 286,031                      | 1,664,209        | 1,143,037              | 70,215                               | 1,072,822        |
| After one year  | 2,832,411              | 778,775                      | 2,053,636        | -                      | -                                    | -                |
|                 | <u>4,782,651</u>       | <u>1,064,806</u>             | <u>3,717,845</u> | <u>1,143,037</u>       | <u>70,215</u>                        | <u>1,072,822</u> |

The total lease rentals due under the various lease agreements are Rs. 4.782 million (2010: Rs. 1.143 million) and are payable in equal monthly installments till 2015. Taxes, repairs and insurance costs are to be borne by the Company. Financing rate of 21% per annum (2010: 17% per annum) has been used as the discounting factor. Purchase option can be exercised by the Company, paying 20% to 30% of the leased amount of respective vehicles.

## 10 CONTINGENCIES AND COMMITMENTS

### 10.1 CONTINGENCIES

**10.1.1** The income tax assessments of the Company have been finalised up to and including the assessment year 2002-03 (financial year ended December 31, 2001), while returns have been filed for the financial years ended December 31, 2002 to December 31, 2010 which under the Income Tax Ordinance, 2001 are considered to be deemed assessments unless amended.

However, the assessment for tax year 2004, 2006 and 2007 have been amended by the taxation officer, against which the Company has preferred an appeal before the Commissioner Inland Revenue (Appeal). The demand raised of Rs. 2.045 million for the tax year 2004, Rs. 9.993 million for the tax year 2006, and Rs. 14.486 million for tax year 2007 against the apportionment of expenses and reverse repo.

During the year 2010, Commissioner Inland Revenue (Appeals) has passed the order, in which the order of the taxation officer was confirmed for the tax year 2004, 2006 and 2007. Against the order of the Commissioner Inland Revenue (Appeal), the Company has preferred an appeal before the Appellate Tribunal Inland Revenue which is pending adjudication. However, the management and tax advisor of the Company are confident of a favourable outcome from appellate proceedings and provisions already created in the financial statements are sufficient to accommodate the increase of this tax demand.

| 10.2 COMMITMENTS                    | Note | 2011               | 2010     |
|-------------------------------------|------|--------------------|----------|
|                                     |      | ----- Rupees ----- |          |
| Capital work in progress-intangible |      | <u>1,700,000</u>   | <u>-</u> |

## 11 CASH AND BANK DEPOSITS

### Cash and other equivalents

|   |                |               |
|---|----------------|---------------|
| - Cash in hand                          | 75,874         | 23,924        |
| - Policy stamps and bond papers in hand | <u>40,000</u>  | <u>23,060</u> |
|   | <u>115,874</u> | <u>46,984</u> |

|                                    | Note | 2011       | 2010        |
|------------------------------------|------|------------|-------------|
| ----- Rupees -----                 |      |            |             |
| <b>Current and saving accounts</b> |      |            |             |
| - Current accounts                 |      | 9,212,736  | 38,868,594  |
| - Saving accounts                  | 11.1 | 16,995,205 | 98,054,641  |
|                                    |      | 26,207,941 | 136,923,235 |
|                                    |      | 26,323,815 | 136,970,219 |

11.1 These carry profit rates ranging between 0.5% to 8% (2010: 0.5% to 11%) per annum.

| 12                 | LOANS - secured and considered good     | Note | 2011      | 2010      |
|--------------------|---|------|-----------|-----------|
| ----- Rupees ----- |   |      |           |           |
|                    | Due from executive                      |      | 201,667   | -         |
|                    | Due from employees other than executive | 12.1 | 2,572,392 | 2,136,673 |
|                    |   |      | 2,774,059 | 2,136,673 |

12.1 This represents mark-up free loans to the employees of the Company in accordance with the terms of their employment and are secured against their retirement benefits. These loans are recoverable in monthly installments over a period of less than two years.

### 13 INVESTMENTS

| 13.1                      | Type of investments  | Note   | 2011       | 2010        |
|---------------------------|--|--------|------------|-------------|
| ----- Rupees -----        |  |        |            |             |
| <b>Held-to-maturity</b>   |  |        |            |             |
|                           | Certificate of Investments                                     | 13.2   | 644,068    | 582,721     |
|                           | Term Finance Certificates - listed                             | 13.3   | 545,000    | 1,795,000   |
|                           |  |        | 1,189,068  | 2,377,721   |
|                           | <b>At fair value through profit or loss - Held-for-trading</b> | 13.4   | 11,530,272 | 22,818,839  |
| <b>Available-for-sale</b> |  |        |            |             |
|                           | Investments in ordinary shares of listed companies             | 13.5   | -          | 762,000     |
|                           | Units / Certificates of mutual funds                           | 13.6   | 39,062,728 | 129,762,739 |
|                           |  | 13.6.2 | 39,062,728 | 130,524,739 |
|                           |  |        | 51,782,068 | 155,721,299 |

13.2 This represents investment in Certificates of Investments issued by SME Leasing Limited carrying mark-up at the rate of 11.50% (2010: 11.5%) per annum maturing on May 23, 2012 (2010: May 23, 2011).

### 13.3 Term Finance Certificates - listed

| 2011                   | 2010  |  | Note   | 2011               | 2010             |
|------------------------|-------|--|--------|--------------------|------------------|
| Number of certificates |       |  |        | ----- Rupees ----- |                  |
| -                      | 1,000 | Standard Chartered Bank (Pakistan) Limited - 2nd issue                                 |        | -                  | 1,250,000        |
| 109                    | 109   | Invest Capital Investment Bank Limited (formerly Al-Zamin Leasing Corporation Limited) | 13.3.1 | <b>545,000</b>     | 545,000          |
|                        |       |  |        | <b>545,000</b>     | <b>1,795,000</b> |

**13.3.1** This represents listed term finance certificates (face value of Rs. 5,000 each) and carrying mark-up rate equal to five years Pakistan Investment Bond rate plus 2% per annum, receivable semi-annually in arrears with floor of 12% per annum and cap of 15.75% per annum. The principal amount is due on maturity in September 2013.

At December 31, 2011, the market value of Term Finance Certificates (TFCs) was Rs. 0.409 million (2010: Rs. 1.671 million), based on the rates quoted by Mutual Funds Association of Pakistan under SECP Circular 1 dated January 6, 2009.

### 13.4 At fair value through profit or loss - Held-for-trading - quoted shares

The details of investments in ordinary shares of face value of Rs. 10 each is as follows:

| 2011             | 2010    | Name of the investee entity          | 2011  | 2010      |
|------------------|---------|--------------------------------------|---|-----------|
| Number of shares |         |                                      | Carrying (market) value<br>----- Rupees ----- |           |
|                  |         | <b>Chemicals</b>                     |   |           |
| 420,000          | -       | Nimir Industrial Chemical Limited    | 978,600                                       | -         |
| -                | 481,099 | Fatima Fertilizer Company Limited    | -   | 5,426,797 |
|                  |         | <b>Banks</b>                         |   |           |
| 860,000          | 710,000 | KASB Bank Limited                    | 946,000                                       | 1,782,100 |
| -                | 475,000 | Mybank Limited                       | -   | 1,334,750 |
| 35,000           | 72,000  | Askari Bank Limited                  | 351,050                                       | 1,273,680 |
| -                | 110,000 | Bank of Punjab                       | -   | 1,079,100 |
| -                | 108,000 | Faysal Bank Limited                  | -   | 1,683,720 |
| -                | 90,000  | Soneri Bank Limited                  | -   | 747,900   |
| 500,885          | -       | Summit Bank Limited                  | 861,522                                       | -         |
| 393,376          | -       | Bank Alfalah Limited                 | 4,425,480                                     | -         |
|                  |         | <b>Financial Services</b>            |   |           |
| -                | 90,000  | Jahangir Siddiqui Co. Limited        | -   | 981,000   |
|                  |         | <b>Non-Life Insurance</b>            |   |           |
| -                | 67,500  | Pakistan Reinsurance Company Limited | -   | 1,096,875 |
|                  |         | <b>Electricity</b>                   |   |           |
| 85,000           | -       | Hub Power Company Limited            | 2,907,000                                     | -         |
| 57,000           | -       | Pakgen Power Limited                 | 641,820                                       | -         |

| 2011                  | 2010    | Name of the investee entity      | 2011                    | 2010              |
|-----------------------|---------|----------------------------------|-------------------------|-------------------|
| Number of shares      |         |                                  | Carrying (market) value |                   |
|                       |         |                                  | ----- Rupees -----      |                   |
| <b>Personal Goods</b> |         |                                  |                         |                   |
| 10,000                | 101,500 | Nishat Mills Limited             | 418,800                 | 6,513,255         |
| -                     | 93,000  | Azgard Nine Limited              | -                       | 898,380           |
| -                     | 87      | Prosperity Weaving Mills Limited | -                       | 1,282             |
|                       |         |                                  | <b>11,530,272</b>       | <b>22,818,839</b> |

### 13.5 Available-for-sale - quoted shares

The details of investments in ordinary shares of face value of Rs. 10 each is as follows:

| 2011             | 2010    | Name of the investee entity                               | 2011               | 2010    |
|------------------|---------|---|--------------------|---------|
| Number of shares |         |   | Cost               |         |
|                  |         |   | ----- Rupees ----- |         |
| <b>Banks</b>     |         |   |                    |         |
| -                | 200,000 | Summit Bank Limited<br>(formerly Arif Habib Bank Limited) | -                  | 762,000 |

### 13.6 Available-for-sale investments - mutual funds

| 2011                   | 2010      | Name of the fund                   | 2011               | 2010               |
|------------------------|-----------|------------------------------------|--------------------|--------------------|
| Number of certificates |           |                                    | Cost               |                    |
|                        |           |                                    | ----- Rupees ----- |                    |
| <b>Closed-end fund</b> |           |                                    |                    |                    |
| -                      | 75,000    | Pakistan Strategic Allocation Fund | -                  | 171,000            |
| -                      | 142,948   | PICIC Growth Fund                  | -                  | 1,667,225          |
| -                      | 638,462   | First Capital Mutual Fund          | -                  | 2,518,719          |
|                        |           |                                    | -                  | 4,356,944          |
| <b>Open-end fund</b>   |           |                                    |                    |                    |
| 526,631                | 492,235   | Pakistan Income Fund               | 27,131,960         | 25,350,633         |
| 44,165                 | 218,242   | Pakistan Cash Management Fund      | 2,233,928          | 10,848,012         |
| 4,783                  | 78,190    | Faysal Saving Growth Fund          | 493,677            | 8,342,682          |
| 83,180                 | 2,417,416 | ABL Income Fund                    | 835,585            | 24,295,343         |
| -                      | 105,687   | MCB Cash Management Optimizer Fund | -                  | 10,769,971         |
| -                      | 26,030    | Atlas Money Market Fund            | -                  | 13,180,837         |
| -                      | 106,605   | IGI Income Fund                    | -                  | 11,065,131         |
| -                      | 103,865   | JS Cash Fund                       | -                  | 10,629,591         |
| -                      | 1,011,399 | NIT Government Bond Fund           | -                  | 10,617,278         |
| 645                    | 586       | Atlas Islamic Income Fund          | 336,173            | 306,317            |
| 78,650                 | -         | Pakistan Strategic Allocation Fund | 616,012            | -                  |
| 13,806                 | -         | PICIC Cash Fund                    | 1,472,516          | -                  |
| 53,546                 | -         | Lakson Money Market Fund           | 5,388,203          | -                  |
| 5,456                  | -         | HBL Money Market Fund              | 554,674            | -                  |
|                        |           |                                    | <b>39,062,728</b>  | <b>125,405,795</b> |
|                        |           |                                    | <b>39,062,728</b>  | <b>129,762,739</b> |

13.6.1 These units are pledged with the State Bank of Pakistan under the provisions of Insurance Ordinance, 2000 (XXXIX of 2000).

13.6.2 Market value of available-for-sale securities is Rs. 40.00 million (2010: Rs. 130.946 million)

13.7 This represents income from first Capital Equities Limited - related party.

13.8 Investment related expenses (refer the statement of investment income)

|   | Note   | 2011                    | 2010                    |
|---|--------|-------------------------|-------------------------|
|   |        | ----- Rupees -----      |                         |
| Brokerage commission - related party                    | 13.8.1 | 920,586                 | 1,186,236               |
| Federal Excise Duty, Capital Value Tax and other levies |        | 92,547                  | 189,265                 |
| Investment advisory fees - related party                |        | -                       | 616,543                 |
| Depreciation on investment properties                   | 14     | <u>1,297,161</u>        | <u>537,416</u>          |
|   |        | <u><u>2,310,294</u></u> | <u><u>2,529,460</u></u> |

13.8.1 This represents brokerage commission to first Capital Equities Limited - related party.

14 INVESTMENT PROPERTIES - at cost less accumulated depreciation

|                 |      | 2011                |                           |                     |                     |                  |                      |                      |              |
|-----------------|------|---------------------|---------------------------|---------------------|---------------------|------------------|----------------------|----------------------|--------------|
|                 |      | Cost                |                           | Depreciation        |                     |                  | Written down         |                      | Depreciation |
|                 |      | As at               | Additions/<br>(Deletions) | As at               | As at               | For the          | As at                | value as at          | rate         |
|                 |      | January 01,<br>2011 | December 31,<br>2011      | January 01,<br>2011 | January 01,<br>2011 | year             | December 31,<br>2011 | December 31,<br>2011 | %            |
| Note            |      | ----- Rupees -----  |                           |                     |                     |                  |                      |                      |              |
| Shop premises   | 14.1 | 7,900,000           | 26,048,414                | 33,948,414          | 4,345,000           | 1,154,745        | 5,499,745            | 28,448,669           | 5            |
| Office premises | 14.1 | 2,848,320           | -                         | 2,848,320           | 1,851,408           | 142,416          | 1,993,824            | 854,496              | 5            |
|                 |      | <u>10,748,320</u>   | <u>26,048,414</u>         | <u>36,796,734</u>   | <u>6,196,408</u>    | <u>1,297,161</u> | <u>7,493,569</u>     | <u>29,303,165</u>    |              |

|                 |  | 2010                |                           |                     |                     |                |                      |                      |              |
|-----------------|--|---------------------|---------------------------|---------------------|---------------------|----------------|----------------------|----------------------|--------------|
|                 |  | Cost                |                           | Depreciation        |                     |                | Written down         |                      | Depreciation |
|                 |  | As at               | Additions/<br>(Deletions) | As at               | As at               | For the        | As at                | value as at          | rate         |
|                 |  | January 01,<br>2010 | December 31,<br>2010      | January 01,<br>2010 | January 01,<br>2010 | year           | December 31,<br>2010 | December 31,<br>2010 | %            |
| Note            |  | ----- Rupees -----  |                           |                     |                     |                |                      |                      |              |
| Shop premises   |  | 7,900,000           | -                         | 7,900,000           | 3,950,000           | 395,000        | 4,345,000            | 3,555,000            | 5            |
| Office premises |  | 2,848,320           | -                         | 2,848,320           | 1,708,992           | 142,416        | 1,851,408            | 996,912              | 5            |
|                 |  | <u>10,748,320</u>   | <u>-</u>                  | <u>10,748,320</u>   | <u>5,658,992</u>    | <u>537,416</u> | <u>6,196,408</u>     | <u>4,551,912</u>     |              |

14.1 Shop and Office Premises (leasehold properties) have been valued under the market value basis by Masud Associates (Private) Limited and M.J. Surveyors (Private) Limited. Market value of shop and office premises based on the valuations as of March 01, 2012, May 25, 2011 and February 02, 2012 amounted to Rs. 55.3 million, 25.9 million and 13 million (2010: February 21, 2011 and February 14, 2011 amounted to Rs.55 million and Rs. 12.53 million) respectively.

14.2 The addition in shop premises represents property purchase from Fisrt Capital Securities Corporation Limited - related party.

| <b>15 PREMIUMS DUE BUT UNPAID</b>      | Note | 2011                | 2010         |
|--|------|---------------------|--------------|
|  |      | ----- Rupees -----  |              |
| Considered good                        | 15.1 | <b>305,080,051</b>  | 166,082,545  |
| Considered Doubtful                    |      | <b>13,742,644</b>   | 13,742,644   |
|  |      | <b>318,822,695</b>  | 179,825,189  |
| Provision against doubtful receivables | 15.2 | <b>(13,742,644)</b> | (13,742,644) |
|  |      | <b>305,080,051</b>  | 166,082,545  |

**15.1 Premium due from related parties includes the following:**

|  |                    |             |
|--|--------------------|-------------|
| Ever Green Water Valley (Private) Limited    | <b>1,891,096</b>   | 865,451     |
| First Capital Equities Limited               | <b>6,778,099</b>   | 5,301,792   |
| First Capital Investment (Private) Limited   | <b>199,544</b>     | 91,045      |
| First Capital Securities Corporation Limited | <b>1,688,229</b>   | 1,484,083   |
| Media Times Private Limited                  | <b>21,871,026</b>  | 15,142,914  |
| Northway Investments Limited                 | <b>153,310</b>     | 153,310     |
| Pace Baraka Properties Limited               | <b>5,765,887</b>   | 7,174,457   |
| Pace Pakistan Limited                        | <b>59,855,486</b>  | 35,148,941  |
| Pace Woodlands (Private) Limited             | <b>1,044,688</b>   | 1,006,292   |
| SAPS Cargo International                     | <b>19,108</b>      | 10,712      |
| Shaheen Air Port Services (SAPS)             | <b>4,665,026</b>   | 2,150,020   |
| Shaheen Foundation, PAF                      | <b>46,622</b>      | 113,755     |
| Shaheen Knitwear                             | <b>10,922</b>      | -           |
| Total Media Limited                          | <b>28,605</b>      | 28,605      |
| Trident Construct (Private) Limited          | <b>3,347,730</b>   | 2,027,316   |
| World Press (Private) Limited                | <b>1,974,142</b>   | 1,685,019   |
| Worldcall Cable (Private) Limited            | <b>1,316</b>       | 58,091      |
| Worldcall Services (Private) Limited         | <b>6,752,841</b>   | 2,082,233   |
| Worldcall Telecom Limited                    | <b>99,518,496</b>  | 62,068,045  |
|  | <b>215,612,173</b> | 136,592,081 |

| <b>15.2 Reconciliation of provision against doubtful receivables</b> | 2011               | 2010       |
|--|--------------------|------------|
|  | ----- Rupees ----- |            |
| Balance as on 1 January  | <b>13,742,644</b>  | 13,742,644 |
| Charge for the year  | -                  | -          |
| Balance as on 31 December  | <b>13,742,644</b>  | 13,742,644 |

**16 AMOUNTS DUE FROM OTHER INSURERS / REINSURERS**

|                           |                   |            |
|---------------------------|-------------------|------------|
| Considered good - foreign | <b>31,610,384</b> | 8,301,787  |
| - local                   | <b>39,928,553</b> | 20,161,980 |
|                           | <b>71,538,937</b> | 28,463,767 |

|   | Note   | 2011<br>----- Rupees ----- | 2010                     |
|---|--|----------------------------|--------------------------|
| <b>17 ACCRUED INVESTMENT INCOME</b>                       |  |                            |                          |
| Mark-up accrued on term finance certificates              |  | 22,029                     | 89,921                   |
| Profit accrued on certificates of investments             |  | <u>8,016</u>               | <u>-</u>                 |
|   |  | <u><b>30,045</b></u>       | <u><b>89,921</b></u>     |
| <b>18 ADVANCES, DEPOSITS AND PREPAYMENTS</b>              |  |                            |                          |
| Security deposits   |  | 8,707,256                  | 3,621,460                |
| Prepaid reinsurance premium ceded                         |  | 56,658,631                 | 57,383,597               |
| Prepayments   | 18.1   | 22,582,443                 | 4,090,281                |
| Others  |  | <u>69,553</u>              | <u>622,397</u>           |
|   |  | <u><b>88,017,883</b></u>   | <u><b>65,717,735</b></u> |
| <b>18.1</b>   | This includes Rs. 4.15 million (2010: Nil) in respect of security deposits of rent to Shaheen Foundation, Pakistan Air Force - related party.  |                            |                          |
| <b>18.2</b>   | This includes Rs. 21.69 million (2010: 2.53 million) in respect of prepayment of rent to Shaheen Foundation, Pakistan Air Force-related party. |                            |                          |
| <b>19 SUNDRY RECEIVABLES - unsecured, considered good</b> |  | 2011                       | 2010                     |
|   | Note   | ----- Rupees -----         |                          |
| Receivable:   |  |                            |                          |
| -against Federal Insurance Fee                            |  | 478,071                    | -                        |
| - against trading in marketable securities                | 19.1   | <u>2,413,692</u>           | <u>-</u>                 |
|   |  | <u><b>2,891,763</b></u>    | <u><b>-</b></u>          |
| <b>19.1</b>   | This represents amount receivable from First Capital Equities Limited - related party.   |                            |                          |
| <b>20 FIXED ASSETS</b>                                    |  | 2011                       | 2010                     |
|   | Note   | ----- Rupees -----         |                          |
| Operating fixed assets                                    | 20.1   | 43,720,734                 | 25,741,247               |
| Capital work-in-progress                                  | 20.4   | <u>140,589,930</u>         | <u>34,750,008</u>        |
|   |  | <u><b>184,310,664</b></u>  | <u><b>60,491,255</b></u> |



20.1 Operating fixed assets - at cost less accumulated depreciation

|  | 2011                   |                                    |                         |                             |                           |                         |  | Depreciation /Amortization rate % |
|--|------------------------|------------------------------------|-------------------------|-----------------------------|---------------------------|-------------------------|--|-----------------------------------|
|  | COST                   |                                    |                         | DEPRECIATION / AMORTIZATION |                           |                         | Written down value as at December 31, 2011 |                                   |
|  | As at January 01, 2011 | Additions/ (Deletions) / *Transfer | As at December 31, 2011 | As at January 01, 2011      | For the year              | As at December 31, 2011 |  |                                   |
| ----- Rupees -----                     |                        |                                    |                         |                             |                           |                         |  |                                   |
| <b>Tangible</b>                        |                        |                                    |                         |                             |                           |                         |  |                                   |
| <i>- Owned</i>                         |                        |                                    |                         |                             |                           |                         |  |                                   |
| Furniture and fixtures                 | 11,626,011             | 3,373,871                          | 14,999,882              | 8,295,608                   | 796,803                   | 9,092,411               | 5,907,471                                  | 10                                |
| Office and electrical equipment        | 9,503,310              | 1,305,365<br>(69,000)              | 10,739,675              | 7,875,271                   | 789,055<br>(69,000)       | 8,595,326               | 2,144,349                                  | 15 - 20                           |
| Computer equipment                     | 11,021,548             | 4,279,136                          | 15,300,684              | 9,155,370                   | 1,605,440                 | 10,760,810              | 4,539,874                                  | 33.3                              |
| Furniture, fixtures & office equipment | 32,150,869             | 8,958,372<br>(69,000)              | 41,040,241              | 25,326,249                  | 3,191,298<br>(69,000)     | 28,448,547              | 12,591,694                                 |                                   |
| Motor vehicles                         | 37,752,787             | 16,768,500<br>(4,062,715)          | 50,458,572              | 19,426,026                  | 7,407,505<br>(2,921,655)  | 23,911,876              | 26,546,696                                 | 20                                |
|  | 69,903,656             | 25,726,872<br>(4,131,715)          | 91,498,813              | 44,752,275                  | 10,598,803<br>(2,990,655) | 52,360,423              | 39,138,390                                 |                                   |
| <i>- Leased</i>                        |                        |                                    |                         |                             |                           |                         |  |                                   |
| Motor vehicles                         | 3,538,706              | 4,003,000<br>(3,538,706)           | 4,003,000               | 2,948,840                   | 980,234<br>(3,538,707)    | 390,368                 | 3,612,632                                  | 20                                |
| <b>Intangible</b>                      |                        |                                    |                         |                             |                           |                         |  |                                   |
| Computer software                      | 2,000,000              | 1,274,514                          | 3,274,514               | 2,000,000                   | 304,802                   | 2,304,802               | 969,712                                    | 33.3                              |
|  | 75,442,362             | 31,004,386<br>(7,670,421)          | 98,776,327              | 49,701,115                  | 11,883,839<br>(6,529,361) | 55,055,593              | 43,720,734                                 |                                   |

Motor vehicles include three vehicles amounting to Rs. 4.50 million which have been transferred from salvage recoveries during the year at market value after the settlement of related claims.

|  | 2010                   |                           |                         |                        |                          |                         |  | Depreciation rate % |
|--|------------------------|---------------------------|-------------------------|------------------------|--------------------------|-------------------------|--|---------------------|
|  | COST                   |                           |                         | DEPRECIATION           |                          |                         | Written down value as at December 31, 2010 |                     |
|  | As at January 01, 2010 | Additions/ (Deletions)    | As at December 31, 2010 | As at January 01, 2010 | For the year             | As at December 31, 2010 |  |                     |
| ----- Rupees -----                     |                        |                           |                         |                        |                          |                         |  |                     |
| <b>Tangible</b>                        |                        |                           |                         |                        |                          |                         |  |                     |
| <i>- Owned</i>                         |                        |                           |                         |                        |                          |                         |  |                     |
| Furniture and fixtures                 | 10,035,261             | 1,590,750                 | 11,626,011              | 7,615,598              | 680,010                  | 8,295,608               | 3,330,403                                  | 10                  |
| Office and electrical equipment        | 9,004,510              | 498,800                   | 9,503,310               | 7,168,680              | 706,591                  | 7,875,271               | 1,628,039                                  | 15 - 20             |
| Computer equipment                     | 9,028,128              | 1,993,420                 | 11,021,548              | 8,202,720              | 952,650                  | 9,155,370               | 1,866,178                                  | 33.3                |
| Furniture, fixtures & office equipment | 28,067,899             | 4,082,970                 | 32,150,869              | 22,986,998             | 2,339,251                | 25,326,249              | 6,824,620                                  |                     |
| Motor vehicles                         | 26,351,799             | 15,773,500<br>(4,372,512) | 37,752,787              | 16,734,014             | 4,818,449<br>(2,126,437) | 19,426,026              | 18,326,761                                 | 20                  |
|  | 54,419,698             | 19,856,470<br>(4,372,512) | 69,903,656              | 39,721,012             | 7,157,700<br>(2,126,437) | 44,752,275              | 25,151,381                                 |                     |
| <i>- Leased</i>                        |                        |                           |                         |                        |                          |                         |  |                     |
| Motor vehicles                         | 3,538,706              | -                         | 3,538,706               | 1,769,283              | 1,179,557                | 2,948,840               | 589,866                                    | 33.3                |
| <b>Intangible</b>                      |                        |                           |                         |                        |                          |                         |  |                     |
| Computer software                      | 2,000,000              | -                         | 2,000,000               | 2,000,000              | -                        | 2,000,000               | -  | 33.3                |
|  | 59,958,404             | 19,856,470<br>(4,372,512) | 75,442,362              | 43,490,295             | 8,337,257<br>(2,126,437) | 49,701,115              | 25,741,247                                 |                     |

## 20.2 Disposal of operating fixed assets

| Particulars of the assets                         | Cost             | Written down value | Sale proceeds    | Gain / (Loss) on disposal | Mode of disposal | Sold to         | Address  |
|---|------------------|--------------------|------------------|---------------------------|------------------|-----------------|--|
| <b>Vehicles</b>                                   |                  |                    |                  |                           |                  |                 |  |
| Suzuki Cultus - NV 474                            | 860,000          | 731,000            | 805,000          | 74,000                    | Negotiation      | M. Nadeem       | Grace line, Chaklala, Rawalpindi.                              |
| Suzuki Cultus - ADK 221                           | 633,130          | -                  | 450,000          | 450,000                   | Negotiation      | Asher Hussain   | House No.206/3-F, Marton Quarter, Karachi.                     |
| Toyota Corolla - AHY 717                          | 750,000          | 187,500            | 525,000          | 337,500                   | Negotiation      | Nazia Shah      | House No.6 Sarfaraz Rafiq Road, Lahore.                        |
| Coure - LZC 1874                                  | 325,000          | 135,663            | 250,000          | 114,337                   | Negotiation      | Abdul Rauf      | House No. 1006-C, Mantazabad, Multan.                          |
| Coure - LED 6705                                  | 474,000          | 63,200             | 520,000          | 456,800                   | Negotiation      | Zohaib Saecd    | House No. 737, Street 71, 1-8/3, Gulshan Iqbal, Karachi.       |
| Honda Civic - ALY 840                             | 1,211,569        | -                  | 600,000          | 600,000                   | Negotiation      | Omer Zuberi     | Flat No. L-3/4, Maymar Plaza, Block I, Gulshan Iqbal, Karachi. |
| Honda Civic - LEA 06-5300                         | 1,115,569        | -                  | 600,000          | 600,000                   | Negotiation      | Naveed Butt     | House No.10/A, Walton Road, Lahore.                            |
| Honda Civic - KW-485                              | 1,211,569        | -                  | 600,000          | 600,000                   | Negotiation      | Khalid Sarwar   | House No. 721, G-9/3, Islamabad.                               |
| Suzuki Khyber - AAZ-035                           | 354,825          | -                  | 140,000          | 140,000                   | Negotiation      | Noman Hussain   | House No. L-89, North Karachi, Sector S-C/4, Karachi.          |
| Suzuki Cultus - AEG-383                           | 522,000          | -                  | 365,000          | 365,000                   | Negotiation      | Imran Ali Shah  | House No. 283, Sector G-8/2, Islamabad.                        |
| Other assets with book value less than Rs. 50,000 | 212,760          | 23,697             | 72,000           | 48,303                    | Negotiation      | Various parties |  |
|   | <u>7,670,422</u> | <u>1,141,060</u>   | <u>4,927,000</u> | <u>3,785,940</u>          |                  |                 |  |
| 2010  | <u>4,372,512</u> | <u>2,246,075</u>   | <u>3,468,500</u> | <u>1,222,425</u>          |                  |                 |  |

20.3 Fixed assets includes fully depreciated items amounting to Rs. 37.053 (2010: Rs. 20.15) million.

## 20.4 CAPITAL WORK IN PROGRESS

|                           | Note   | 2011               |                  | 2010               |                   |
|---------------------------|--------|--------------------|------------------|--------------------|-------------------|
|                           |        | Tangible           | Intangible       | Total              | Total             |
| Balance as on January 01  |        | 34,750,008         | -                | 34,750,008         | 34,750,008        |
| Additions during the year | 20.4.1 | 101,039,922        | 4,800,000        | 105,839,922        | -                 |
| Balance as on December 31 |        | <u>135,789,930</u> | <u>4,800,000</u> | <u>140,589,930</u> | <u>34,750,008</u> |

20.4.1 Tangibles represents property acquired from pace pakistan Limited - related party.

20.4.2 Tangibles represents exchange of property with First Capital Equities Limited - related party against receivable from investment in reverse repo transaction on maturity.

## 21 MANAGEMENT AND GENERAL AND ADMINISTRATION EXPENSES

|  | Note | 2011                |                                     |                    | 2010                |                                     |                    |
|--|------|---------------------|-------------------------------------|--------------------|---------------------|-------------------------------------|--------------------|
|  |      | Management expenses | General and administration expenses | Total              | Management expenses | General and administration expenses | Total              |
|  |      | ----- Rupees -----  |                                     |                    |                     |                                     |                    |
| Salaries and other benefits                          |      | 55,992,005          | 27,625,793                          | 83,617,798         | 41,190,206          | 28,881,879                          | 70,072,085         |
| Provident fund contribution                          |      | -                   | 3,192,755                           | 3,192,755          | -                   | 2,631,420                           | 2,631,420          |
| Rent   | 21.1 | 9,175,137           | 4,795,572                           | 13,970,709         | 7,519,219           | 3,830,140                           | 11,349,359         |
| Utilities  |      | 6,722,323           | 5,775,305                           | 12,497,628         | 5,898,005           | 4,302,920                           | 10,200,925         |
| Repair and maintenance                               |      | 2,386,174           | 1,588,898                           | 3,975,072          | 1,465,437           | 1,450,056                           | 2,915,493          |
| Legal and professional charges                       |      | 372,000             | 2,312,158                           | 2,684,158          | 133,240             | 2,173,834                           | 2,307,074          |
| Auditors' remuneration                               | 21.2 | -                   | 840,000                             | 840,000            | -                   | 765,000                             | 765,000            |
| Depreciation   | 20.1 | -                   | 11,883,839                          | 11,883,839         | -                   | 8,337,257                           | 8,337,257          |
| Insurance expenses                                   |      | 30,325              | 228,650                             | 258,975            | -                   | 144,949                             | 144,949            |
| Bank charges   |      | 84,044              | 110,226                             | 194,270            | 250,717             | 49,591                              | 300,308            |
| Financial charges on assets subject to finance lease |      | -                   | 385,671                             | 385,671            | -                   | 282,692                             | 282,692            |
| Advertisement and sales promotion                    |      | 12,950              | 2,058,785                           | 2,071,735          | 20,660              | 1,109,865                           | 1,130,525          |
| Travelling and entertainment                         |      | 8,850,175           | 7,941,909                           | 16,792,084         | 6,368,411           | 6,163,602                           | 12,532,013         |
| Printing and stationery                              |      | 2,915,974           | 4,044,705                           | 6,960,679          | 2,295,332           | 4,289,070                           | 6,584,402          |
| Newspaper and periodicals                            |      | 80,835              | 244,955                             | 325,790            | 74,466              | 78,385                              | 152,851            |
| Fee and subscription                                 |      | 76,400              | 3,399,156                           | 3,475,556          | 42,396              | 3,225,910                           | 3,268,306          |
| Miscellaneous  |      | 637,530             | 1,691,539                           | 2,329,070          | 550,867             | 371,235                             | 922,102            |
|  |      | <u>87,335,872</u>   | <u>78,119,916</u>                   | <u>165,455,789</u> | <u>65,808,956</u>   | <u>68,087,805</u>                   | <u>133,896,761</u> |

**21.1** This amount includes Rs. 4.05 million (2010: 3.14 million) rent expense to Shaheen Foundation, Pakistan Air Force - related party.

**21.2 Auditors' remuneration**

|  | Note | 2011<br>----- Rupees ----- | 2010           |
|--|------|----------------------------|----------------|
| Annual audit fee   |      | 475,000                    | 425,000        |
| Interim review fee   |      | 150,000                    | 150,000        |
| Certification fees and review of statement of compliance with code of corporate governance |      | 125,000                    | 115,000        |
| Out of pocket expenses   |      | 90,000                     | 75,000         |
|  |      | <u>840,000</u>             | <u>765,000</u> |

**22 OTHER INCOME**

|   |      |                  |                  |
|---|------|------------------|------------------|
| Gain on sale of fixed assets  | 20.2 | 3,785,940        | 1,222,425        |
| Other administrative expenses recovered from policy holders         |      | 436,575          | 444,430          |
| Exchange gain   |      | 12,839           | 65,245           |
| Return on saving accounts   | 22.1 | 1,585,337        | 4,047,027        |
| Amortisation of gain on disposal of assets under sale and leaseback |      | 183,048          | 366,042          |
|   |      | <u>6,003,739</u> | <u>6,145,169</u> |

**22.1** This amount has been reclassified from income on held-to-maturity investments for better presentation purposes.

**23 TAXATION**

|  | Note | 2011<br>----- Rupees ----- | 2010                |
|--|------|----------------------------|---------------------|
| Current  |      | <u>5,954,256</u>           | <u>5,556,867</u>    |
| Relationship between tax expense and accounting profit is as follows:      |      |                            |                     |
| Profit / (Loss) before taxation  |      | <u>25,199,161</u>          | <u>(23,476,070)</u> |
| Tax charge at enacted tax rate of 35% (2010: 35%)                          |      | 8,819,707                  | (8,216,625)         |
| Tax effect of expense that are not allowable in determining taxable income |      | 56,688                     | 2,448,046           |
| Tax effect of dividend and rental income taxable at lower tax rate         |      | (2,934,053)                | (3,597,422)         |
| Tax effect of application of minimum tax rate                              |      | (4,829,634)                | 4,173,886           |
| Deferred tax asset on losses not recognised                                | 23.1 | 4,986,766                  | 10,354,641          |
| Others   |      | (145,218)                  | 394,340             |
|  |      | <u>5,954,256</u>           | <u>5,556,867</u>    |

**23.1** Deferred tax asset on deductible temporary differences amounting to Rs. 10.134 million (2010: Rs. 26.043 million) has not been recognised in view of the uncertainty about its realisation.

**24 PROFIT / (LOSS) EARNINGS PER SHARE - basic and diluted**

|   | Note | 2011<br>----- Rupees ----- | 2010                |
|---|------|----------------------------|---------------------|
| Profit / (Loss) after tax for the year              |      | <u>19,244,905</u>          | <u>(29,032,937)</u> |
| Weighted average of number of shares of Rs. 10 each |      | <u>24,246,940</u>          | <u>20,970,342</u>   |
| Profit / (Loss) Earnings per share of Rs. 10 each   | 24.2 | <u>0.79</u>                | <u>(1.38)</u>       |

**24.1** Diluted profit / earnings per share has not been presented as the Company does not have any convertible instruments as at December 31, 2011 and December 31, 2010 which would have any effect on the profit / earnings per share if the option to convert is exercised.

24.2 Earnings per share for the prior period presented has been adjusted for the effect of bonus element in the right shares issued by the Company during the year.

## 25 REMUNERATION TO THE CHIEF EXECUTIVE AND EXECUTIVES

|                         | Chief Executive Officer |                  | Executives        |                  | Total             | Total             |
|-------------------------|-------------------------|------------------|-------------------|------------------|-------------------|-------------------|
|                         | 2011                    | 2010             | 2011              | 2010             | 2011              | 2010              |
|                         | ----- Rupees -----      |                  |                   |                  |                   |                   |
| Managerial remuneration | 2,550,284               | 2,531,652        | 16,282,818        | 9,094,760        | 18,833,102        | 11,626,412        |
| Provident fund          | 159,996                 | 159,996          | 700,857           | 431,070          | 860,853           | 591,066           |
|                         | <b>2,710,280</b>        | <b>2,691,648</b> | <b>16,983,675</b> | <b>9,525,830</b> | <b>19,693,955</b> | <b>12,217,478</b> |
| Number of persons       | <b>1</b>                | <b>1</b>         | <b>12</b>         | <b>8</b>         | <b>13</b>         | <b>9</b>          |

No performance bonuses were granted to employees during the year. In addition to the above, these executives are also entitled to the Company maintained vehicles.

The Company does not have any other employee whose annual basic salary exceeds Rs. 0.5 million. No amounts have been paid by the Company to its any director other than chief executive officer.

## 26 PREMIUM WRITTEN

Premium written constitute direct and facultative business and administrative surcharge (which is also included in net premium revenue), class-wise details of which are as follows:-

|                          | 2011                     |                                |                    |                     |                    |                    |
|--------------------------|--------------------------|--------------------------------|--------------------|---------------------|--------------------|--------------------|
|                          | Fire and property damage | Marine, aviation and transport | Motor              | Accident and Health | Miscellaneous      | Total              |
|                          | ----- Rupees -----       |                                |                    |                     |                    |                    |
| Direct                   | 100,370,544              | 39,753,815                     | 247,364,202        | 125,378,651         | 94,350,753         | 607,217,965        |
| Facultative              | 12,652,576               | 1,289,507                      | 1,995,378          | -                   | 5,116,177          | 21,053,638         |
| Administrative surcharge | 1,295,386                | 1,379,238                      | 11,072,252         | 286,301             | 2,020,868          | 16,054,045         |
|                          | <b>114,318,506</b>       | <b>42,422,560</b>              | <b>260,431,832</b> | <b>125,664,952</b>  | <b>101,487,798</b> | <b>644,325,648</b> |
|                          | 2010                     |                                |                    |                     |                    |                    |
|                          | Fire and property damage | Marine, aviation and transport | Motor              | Accident and Health | Miscellaneous      | Total              |
|                          | ----- Rupees -----       |                                |                    |                     |                    |                    |
| Direct                   | 86,881,918               | 47,806,098                     | 260,774,573        | 73,109,667          | 56,105,209         | 524,677,465        |
| Facultative              | 8,959,805                | 51,383                         | 160,485            | -                   | 4,645,592          | 13,817,265         |
| Administrative surcharge | 1,586,745                | 1,180,441                      | 11,130,967         | 259,069             | 432,254            | 14,589,476         |
|                          | <b>97,428,468</b>        | <b>49,037,922</b>              | <b>272,066,025</b> | <b>73,368,736</b>   | <b>61,183,055</b>  | <b>553,084,206</b> |

## 27 SEGMENT REPORTING

Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirement of Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The following table presents information regarding segment assets, liabilities as at December 31, 2011 and December 31, 2010, unallocated capital expenditures and non-cash expenses during the current and last year:

|                                   | Fire & Property Damage |             | Marine, Aviation & Transport |            | Motor       |             | Accident and Health |            | Miscellaneous |            | Total              |                    |
|-----------------------------------|------------------------|-------------|------------------------------|------------|-------------|-------------|---------------------|------------|---------------|------------|--------------------|--------------------|
|                                   | 2011                   | 2010        | 2011                         | 2010       | 2011        | 2010        | 2011                | 2010       | 2011          | 2010       | 2011               | 2010               |
| ----- Rupees -----                |                        |             |                              |            |             |             |                     |            |               |            |                    |                    |
| <b>SEGMENT ASSETS</b>             |                        |             |                              |            |             |             |                     |            |               |            |                    |                    |
| Segment assets                    | 122,755,402            | 105,881,617 | 43,326,201                   | 37,705,973 | 349,107,212 | 275,662,910 | 141,984,410         | 64,885,134 | 87,140,967    | 72,159,457 | 744,314,192        | 556,295,091        |
| Unallocated corporate assets      |                        |             |                              |            |             |             |                     |            |               |            | 88,207,306         | 161,410,940        |
| Total assets                      |                        |             |                              |            |             |             |                     |            |               |            | <u>832,521,498</u> | <u>717,706,031</u> |
| <b>SEGMENT LIABILITIES</b>        |                        |             |                              |            |             |             |                     |            |               |            |                    |                    |
| Segment liabilities               | 92,425,223             | 84,775,419  | 16,464,680                   | 36,520,338 | 289,667,800 | 274,461,957 | 72,752,211          | 41,202,187 | 86,605,545    | 78,618,478 | 557,915,459        | 515,578,379        |
| Unallocated corporate liabilities |                        |             |                              |            |             |             |                     |            |               |            | 9,141,142          | 5,907,659          |
| Total liabilities                 |                        |             |                              |            |             |             |                     |            |               |            | <u>567,056,601</u> | <u>521,486,038</u> |
| Capital expenditure               | 3,481,793              | 2,642,896   | 1,912,971                    | 627,464    | 16,528,438  | 12,338,810  | 6,917,079           | 3,091,652  | 2,164,106     | 1,155,647  | 31,004,386         | 19,856,470         |
| Depreciation / Amortisation       | 1,334,555              | 1,109,689   | 733,233                      | 263,457    | 6,335,275   | 5,180,771   | 2,651,284           | 1,298,111  | 829,492       | 485,228    | 11,883,839         | 8,337,257          |

## 28 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The Company is exposed to variety of financial risks: market risk (comprising interest rate risk, currency risk and other price risk), liquidity risk and credit risk that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The board of directors has overall responsibility for establishment and oversight of the Company's risk management framework. There are board committees and management committees for developing risk management policies and its monitoring.

### 28.1 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and other equity prices. The Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies.

#### 28.1.1 Interest rate risk exposure

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 invests in securities and has deposits that are subject to interest / mark-up rate risk. The Company limits interest / mark-up rate risk by monitoring changes in interest / mark-up rates in the currencies in which its cash and investments are denominated.

The Company's interest / mark-up sensitivity and liquidity positions based on the contractual and maturity dates, whichever is earlier are as follows:

|   | Note | Effective interest<br>%<br>per annum | 2011   |  |                                     |                   | Non-interest /<br>mark-up bearing<br>financial<br>instruments | Total              |
|---|------|--------------------------------------|--|--|-------------------------------------|-------------------|---|--------------------|
|   |      |                                      | Interest / mark-up bearing financial instruments |  |                                     | Sub total         |   |                    |
|   |      |                                      | Maturity<br>up to one<br>year                    | Maturity over<br>one year to<br>five years | Maturity more<br>than five<br>years |                   |   |                    |
| Rupees  |      |                                      |  |  |                                     |                   |   |                    |
| <b>Financial assets</b>                               |      |                                      |  |  |                                     |                   |   |                    |
| Cash and bank deposits                                | 11   | 0.5 - 8                              | 16,995,205                                       | -  | -                                   | 16,995,205        | 9,328,610   | 26,323,815         |
| Loans to employees                                    | 12   |                                      | -  | -  | -                                   | -                 | 2,774,059   | 2,774,059          |
| Investments   | 13   | 11.5 - 15                            | 644,068  | 545,000                                    | -                                   | 1,189,068         | 50,593,000  | 51,782,068         |
| Premiums due but unpaid                               | 15   |                                      | -  | -  | -                                   | -                 | 305,080,051   | 305,080,051        |
| Amounts due from other insurers / reinsurers          | 16   |                                      | -  | -  | -                                   | -                 | 71,538,937  | 71,538,937         |
| Accrued investment income                             | 17   |                                      | -  | -  | -                                   | -                 | 30,045  | 30,045             |
| Reinsurance recoveries against<br>outstanding claims  |      |                                      | -  | -  | -                                   | -                 | 22,719,570  | 22,719,570         |
| Security deposits                                     | 18   |                                      | -  | -  | -                                   | -                 | 8,707,256   | 8,707,256          |
| Sundry receivables                                    | 19   |                                      | -  | -  | -                                   | -                 | 2,891,763   | 2,891,763          |
|   |      |                                      | 17,639,273                                       | 545,000                                    | -                                   | 18,184,273        | 473,663,291   | 491,847,564        |
| <b>Financial liabilities</b>                          |      |                                      |  |  |                                     |                   |   |                    |
| Provision for outstanding claims                      |      |                                      | -  | -  | -                                   | -                 | 146,407,523   | 146,407,523        |
| Amounts due to other insurers / reinsurers            | 6    |                                      | -  | -  | -                                   | -                 | 46,792,721  | 46,792,721         |
| Accrued expenses                                      | 7    |                                      | -  | -  | -                                   | -                 | 2,250,243   | 2,250,243          |
| Agents balances                                       |      |                                      | -  | -  | -                                   | -                 | 35,112,971  | 35,112,971         |
| Other creditors and accruals                          | 8    |                                      | -  | -  | -                                   | -                 | 27,831,564  | 27,831,564         |
| Liabilities against asset subject to<br>finance lease | 9    | 21                                   | 1,664,209  | 2,053,636                                  | -                                   | 3,717,845         | -   | 3,717,845          |
|   |      |                                      | 1,664,209  | 2,053,636                                  | -                                   | 3,717,845         | 258,359,022   | 262,112,867        |
| Interest risk sensitivity gap                         |      |                                      | <b>15,975,064</b>                                | <b>(1,508,636)</b>                         | <b>-</b>                            | <b>14,466,428</b> | <b>215,268,269</b>  | <b>229,734,697</b> |
| Cumulative interest risk sensitivity gap              |      |                                      | <b>15,975,064</b>                                | <b>14,466,428</b>                          | <b>14,466,428</b>                   |                   |   |                    |
| <b>Off balance sheet item</b>                         |      |                                      |  |  |                                     |                   |   |                    |
| Commitments for capital expenditure                   |      |                                      |  |  |                                     |                   |   | <b>1,700,000</b>   |

|  |                         | 2010                           |  |                               |            |             |  |             |  |
|--|-------------------------|--------------------------------|--|-------------------------------|------------|-------------|--|-------------|--|
|  |                         | Effective Interest % per annum | Interest / mark-up bearing financial instruments |                               |            |             | Non-interest / mark-up bearing financial instruments | Total       |  |
| Note   | Maturity up to one year |                                | Maturity over one year to five years             | Maturity more than five years | Sub total  |             |  |             |  |
| ----- Rupees -----                                 |                         |                                |  |                               |            |             |  |             |  |
| <b>Financial assets</b>                            |                         |                                |  |                               |            |             |  |             |  |
| Cash and bank deposits                             | 11                      | 0.5 - 14.5                     | 98,054,641                                       | -                             | -          | 98,054,641  | 38,915,578   | 136,970,219 |  |
| Loans to employees                                 | 12                      |                                | -  | -                             | -          | -           | 2,136,673  | 2,136,673   |  |
| Investments  | 13                      | 10.75 - 19.4                   | 1,832,721  | 545,000                       | -          | 2,377,721   | 153,343,578  | 155,721,299 |  |
| Premiums due but unpaid                            | 15                      |                                | -  | -                             | -          | -           | 166,082,545  | 166,082,545 |  |
| Amounts due from other insurers / reinsurers       | 16                      |                                | -  | -                             | -          | -           | 28,463,767   | 28,463,767  |  |
| Accrued investment income                          | 17                      |                                | -  | -                             | -          | -           | 89,921   | 89,921      |  |
| Reinsurance recoveries against outstanding claims  |                         |                                | -  | -                             | -          | -           | 59,012,056   | 59,012,056  |  |
| Security deposits                                  | 18                      |                                | -  | -                             | -          | -           | 3,621,460  | 3,621,460   |  |
| Sundry receivables                                 | 19                      |                                | -  | -                             | -          | -           | -  | -           |  |
|  |                         |                                | 99,887,362                                       | 545,000                       | -          | 100,432,362 | 451,665,578  | 552,097,940 |  |
| <b>Financial liabilities</b>                       |                         |                                |  |                               |            |             |  |             |  |
| Provision for outstanding                          |                         |                                | -  | -                             | -          | -           | 185,190,944  | 185,190,944 |  |
| Amounts due to other insurers / reinsurers         | 6                       |                                | -  | -                             | -          | -           | 29,395,613   | 29,395,613  |  |
| Accrued expenses                                   | 7                       |                                | -  | -                             | -          | -           | 9,866,168  | 9,866,168   |  |
| Agents balances                                    |                         |                                | -  | -                             | -          | -           | 17,646,088   | 17,646,088  |  |
| Other creditors and accruals                       | 8                       |                                | -  | -                             | -          | -           | 10,691,196   | 10,691,196  |  |
| Liabilities against asset subject to finance lease | 9                       | 17                             | 1,072,822  | -                             | -          | 1,072,822   | -  | 1,072,822   |  |
|  |                         |                                | 1,072,822  | -                             | -          | 1,072,822   | 252,790,009  | 253,862,831 |  |
| Inter risk sensitivity gap                         |                         |                                | 98,814,540                                       | 545,000                       | -          | 99,359,540  | 198,875,569  | 298,235,109 |  |
| Cumulative interest risk sensitivity gap           |                         |                                | 98,814,540                                       | 99,359,540                    | 99,359,540 |             |  |             |  |
| <b>Off balance sheet item</b>                      |                         |                                |  |                               |            |             |  |             |  |
| Commitments for capital expenditure                |                         |                                |  |                               |            |             |  | -           |  |

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax and equity based upon average balances and rates:

|                          | Increase / (decrease) in basis points | Effect on         |                 |
|--------------------------|---------------------------------------|-------------------|-----------------|
|                          |                                       | Profit before tax | Equity          |
| ----- Rupees -----       |                                       |                   |                 |
| <b>December 31, 2011</b> | <b>100</b>                            | <b>144,664</b>    | <b>94,032</b>   |
|                          | <b>(100)</b>                          | <b>(144,664)</b>  | <b>(94,032)</b> |
| December 31, 2010        | 100                                   | 993,595           | 645,837         |
|                          | (100)                                 | (993,595)         | (645,837)       |

### 28.1.2 Foreign Currency Risk

Foreign currency risk is the risk that the fair value or 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 Pak Rupees.

### 28.1.3 Other Price Risk

Other price risk is the risk that the fair value of 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 listed securities are susceptible to market price risk arising from uncertainties about the future value of investment securities. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity and term finance certificates (TFCs). In addition, the Company actively monitors the key factors that affect stock, money market and TFCs market.

The following table summarizes the Company's other price risk as of December 31, 2011 and 2010. It shows the effects of an estimated increase of 5% in the market prices as on those dates. A decrease of 5% in the fair values of the quoted securities would affect profit and equity of the Company in a similar but.

|                          | Fair value        | Price change | Effect on fair value |
|--------------------------|-------------------|--------------|----------------------|
| <b>December 31, 2011</b> | <b>40,409,437</b> | <b>+5%</b>   | <b>2,020,472</b>     |
|                          |                   | <b>- 5%</b>  | <b>(2,020,472)</b>   |
| December 31, 2010        | 131,854,188       | +5%          | 6,592,709            |
|                          |                   | - 5%         | (6,592,709)          |

## 28.2 Liquidity Risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under normal circumstances. To guard against the risk, the Company has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The table below summarizes the maturity profile of the Company's financial liabilities. The contractual maturities of these liabilities at the year end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. Financial liabilities not having a contractual maturity are assumed to mature on the expected date on which these liabilities will be settled.

| FINANCIAL LIABILITIES                      | 2011               |                       |                    |                    | 2010               |                       |                    |                    |
|--|--------------------|-----------------------|--------------------|--------------------|--------------------|-----------------------|--------------------|--------------------|
|  | Carrying amount    | Contracted cash flows | Upto one year      | More than one year | Carrying amount    | Contracted cash flows | Upto one year      | More than one year |
|  | Rupees             |                       |                    |                    |                    |                       |                    |                    |
| Provision for outstanding claims           | 146,407,523        | 146,407,523           | 146,407,523        | -                  | 185,190,944        | 185,190,944           | 185,190,944        | -                  |
| Amounts due to other insurers / reinsurers | 46,792,721         | 46,792,721            | 46,792,721         | -                  | 29,395,613         | 29,395,613            | 29,395,613         | -                  |
| Accrued expenses                           | 2,250,243          | 2,250,243             | 2,250,243          | -                  | 9,866,168          | 9,866,168             | 9,866,168          | -                  |
| Agent balances                             | 35,112,971         | 35,112,971            | 35,112,971         | -                  | 17,646,088         | 17,646,088            | 17,646,088         | -                  |
| Other creditors and accruals               | 27,831,564         | 27,831,564            | 27,831,564         | -                  | 10,691,196         | 10,691,196            | 10,691,196         | -                  |
| Obligation under finance lease             | 3,717,845          | 4,782,651             | 1,950,240          | 2,832,411          | 1,072,822          | 1,143,037             | 1,143,037          | -                  |
|  | <b>262,112,867</b> | <b>263,177,673</b>    | <b>260,345,262</b> | <b>2,832,411</b>   | <b>253,862,831</b> | <b>253,933,046</b>    | <b>253,933,046</b> | <b>-</b>           |

## 28.3 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 Company attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counterparties in various industries and by continually assessing the credit worthiness.

### 28.3.1 Concentration of credit risk

Concentration of credit risk arises when a number of counter parties 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 a similar manner. The Company manages concentration of credit risk through diversification of activities among individuals, groups and industry segment.

The Company is exposed to major credit risk on bank balances and deposits, term finance certificates, certificate of investments, premiums receivable from customers and co-insurers, sundry receivables and on commission and claim recoveries from re-insurers.

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

|   | Note | 2011               | 2010               |
|---|------|--------------------|--------------------|
|   |      | ----- Rupees ----- |                    |
| Bank deposits                                     | 11   | 26,207,941         | 136,923,235        |
| Investments                                       | 13   | 1,189,068          | 2,377,721          |
| Premiums due but unpaid                           | 15   | 305,080,051        | 179,825,189        |
| Amounts due from other insurers / reinsurers      | 16   | 71,538,937         | 28,463,767         |
| Accrued investment income                         | 17   | 30,045             | 89,921             |
| Reinsurance recoveries against outstanding claims |      | 22,719,570         | 59,012,056         |
| Sundry receivables                                | 19   | 2,891,763          | -                  |
|   |      | <b>429,657,375</b> | <b>406,691,889</b> |

The Company did not hold any collateral against the above during the year.

The age analysis of receivables net off provision is as follows:

|              |                    |                    |
|--------------|--------------------|--------------------|
| Upto 1 year  | 268,559,731        | 176,089,049        |
| 1 - 2 years  | 80,058,553         | 28,121,049         |
| 2 - 3 years  | 27,004,721         | 3,652,006          |
| Over 3 years | 995,983            | 426,852            |
|              | <b>376,618,988</b> | <b>208,288,956</b> |

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

| Bank                                       | Rating  | Rating agency | 2011               | 2010               |
|--|---------|---------------|--------------------|--------------------|
|  |         |               | ----- Rupees ----- |                    |
| Standard Chartered Bank (Pakistan) Limited | AAA/A1+ | PACRA         | 545,432            | 1,009,960          |
| Allied Bank Limited                        | AA/A1+  | PACRA         | 60,603             | 733,562            |
| Bank Al Falah Limited                      | AA/A1+  | PACRA         | 521,935            | 2,200,270          |
| NIB Bank Limited                           | AA-/A1+ | PACRA         | 2,503              | 549,503            |
| Silk Bank Limited                          | A-      | JCR-VIS       | 167,472            | 60,436             |
| MCB Bank Limited                           | AA+/A1+ | PACRA         | 950,998            | 95,080,303         |
| Faysal Bank Limited                        | AA/A1+  | PACRA         | 63,093             | 50,253             |
| Bank Al Habib Limited                      | AA+/A1+ | PACRA         | 438,937            | 856,791            |
| SAMBA Bank Limited                         | A+      | JCR VIS       | 304,217            | 304,267            |
| HSBC Bank Middle East Limited              | BBB+    | MOODY'S       | 243,914            | 603,265            |
| JS Bank Limited                            | A/A1    | PACRA         | 22,269,292         | 34,975,129         |
| The Punjab Provincial Co-operative Bank    | N/A     | N/A           | 629,545            | 499,496            |
| Habib Metropolitan Bank Limited            | AA+/A1+ | PACRA         | 10,000             | -                  |
|  |         |               | <b>26,207,941</b>  | <b>136,923,235</b> |

|   |               | 2011             | 2010             |
|---|---------------|------------------|------------------|
| ----- Rupees -----  |               |                  |                  |
| The credit quality of the Company's exposure in TFCs and COIs can be assessed as follows: |               |                  |                  |
|   | <b>Rating</b> |                  |                  |
| Standard Chartered Bank Pakistan Limited  | AAA           | -                | 1,250,000        |
| Invest Capital Investment Bank Limited<br>(formerly Al-Zamin Leasing Corporation Limited) | A             | <b>545,000</b>   | 545,000          |
| SME Leasing Limited   |               | <b>644,068</b>   | 582,721          |
|   |               | <b>1,189,068</b> | <b>2,377,721</b> |

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 disclosed in note 15.

The credit quality of premium receivable from co-insurer, and for commission and claim recoveries from reinsurer can be assessed from external ratings disclosed in note 30.

## 29 INSURANCE RISK

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty in the amount of compensation to the insured. Generally most insurance contracts carry the insurance risk for a period of one year.

The Company accepts insurance through issuance of general insurance contracts. For these general insurance contracts the most significant risks arise from fire, atmospheric disturbance, earthquake, terrorist activities and other catastrophes. For health insurance contracts, significant risks arise from epidemics.

The Company's risk exposure is mitigated by employing a comprehensive framework to identify, assess, manage and monitor risk. This framework includes implementation of underwriting strategies which aim to ensure that the underwritten risks are well diversified in terms of type and amount of the risk. Adequate reinsurance is arranged to mitigate the effect of the potential loss to the Company from individual to large or catastrophic insured events. Further, the Company adopts strict claim review policies including active management and prompt pursuing of the claims, regular detailed review of claim handling procedures and frequent investigation of possible false claims to reduce the insurance risk.

### Geographical concentration of insurance risk

To optimize benefits from the principle of average and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location, the most important of which is risk survey.

Risk surveys are carried out on a regular basis for the evaluation of physical hazards associated with the commercial / industrial / residential occupation of the insured. Details regarding the fire separation / segregation with respect to the manufacturing processes, storage, utilities, etc. are extracted from the layout plan of the insured facility. Such details are formed part of the reports which are made available to the underwriters / reinsurance personnel for their evaluation. Reference is made to the standard construction specifications as laid down by Insurance Association of Pakistan (IAP). For instance, the presence of Perfect Party Walls, Double Fire Proof Iron Doors, physical separation between the buildings within an insured's premises. It is basically the property contained within an area which is separated by another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area.

Address look-up and geocoding is the essential field of the policy data interphase of IT systems. It provides instant location which is dependent on data collection provided under the policy schedule. All critical underwriting information is punched into the IT system/application through which a number of MIS reports can be generated to assess the concentration of risk.

The ability to manage catastrophic risk is tied to managing the density of risk within a particular area. A risk management solution is implemented to help assess and plan for risk in catastrophic scenarios. It provides a way to better visualize the risk exposures so the Company determines the appropriate amount of reinsurance coverage to protect the business portfolio.

For marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea / air / inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are entered into the IT system. The reinsurance module of the IT system is designed to satisfy the requirements as laid down in the proportional treaty agreement.

Shipment declarations are also endorsed on the policies. Respective reinsurance cessions are automatically made upon the posting of policy documents.

The voyage cards so maintained for the particular set of policies for a single vessel voyage are automatically logged into the system showing actual gross, treaty and net exposure, both in terms of sums insured and premiums.

#### Frequency and severity of claims

Risk associated with general insurance contracts includes the reasonable possibility of significant loss as well as the frequent occurrence of the insured events. This has been managed by having in place underwriting strategy, reinsurance arrangements and proactive claim handling procedures.

The reinsurance arrangements against major risk exposure include excess of loss, surplus arrangements, stop loss and catastrophic coverage. The objective of having such arrangements is to mitigate adverse impacts of severe losses on the Company's net retentions. As the motor reinsurance arrangements are on excess of loss basis, therefore the reinsurance coverage against the Company's risk exposures on motor business is not quantifiable.

The concentration of risk by type of contract is summarized below by reference to liabilities:

| Class                    | 2011                   |                       | 2010                  |                       | 2011                  |  | 2010                  |  |
|--------------------------|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|--|-----------------------|--|
|                          | Gross sum insured      |                       | Reinsurance           |                       | Net                   |  | Net                   |  |
| ----- Rupees -----       |                        |                       |                       |                       |                       |  |                       |  |
| Fire and property damage | 50,522,688,414         | 48,416,439,034        | 36,518,831,284        | 20,708,346,923        | 14,003,857,130        |  | 27,708,092,111        |  |
| Marine and transport     | 30,858,604,339         | 22,343,997,053        | 17,474,351,271        | 12,924,953,088        | 13,384,253,068        |  | 9,419,043,965         |  |
| Aviation                 | 431,700,000            | 592,627,500           | 408,500,000           | 436,202,000           | 23,200,000            |  | 156,425,500           |  |
| Miscellaneous            | 21,421,226,200         | 15,391,029,666        | 11,235,383,424        | 7,558,100,583         | 10,185,842,776        |  | 7,832,929,083         |  |
|                          | <b>103,234,218,953</b> | <b>86,744,093,253</b> | <b>65,637,065,979</b> | <b>41,627,602,594</b> | <b>37,597,152,974</b> |  | <b>45,116,490,659</b> |  |

### **Uncertainty in the estimation of future claims payment**

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events that occur during the term of the insurance contract including the event reported after the expiry of the insurance contract term.

An estimated amount of the claim is recorded immediately on the intimation to the Company. The estimation of the amount is based on management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. For the estimation of provision of claims incurred but not reported (IBNR), the Company follows the recommendation of actuary to apply month wise factor based on analysis of the past claim reporting pattern. For this purpose, the claim chain-ladder method is used for each class of business. The month wise factor is applied on claims incurred to determine the amount of IBNR.

There are several variable factors which affect the amount and timing of recognized claim liabilities. The Company takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from initial recognized amount. Similarly, the provision for IBNR is based on historic reporting pattern of the claims; hence, actual amount of IBNR may differ from the amount estimated.

### **Key assumptions**

The principal assumption underlying the liability estimation of IBNR and PDR is that the Company's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc. The internal factors such as portfolio mix, policy conditions and claim handling procedures are further used in this regard.

The assumed net off reinsurance loss ratios for each class of business are as follows:

| <b>Class</b>                   | <b>2011</b>                   | <b>2010</b> |
|--------------------------------|-------------------------------|-------------|
|                                | <b>Assumed Net Loss Ratio</b> |             |
| Fire and property              | <b>24%</b>                    | <b>25%</b>  |
| Marine, aviation and transport | <b>32%</b>                    | <b>30%</b>  |
| Motor                          | <b>79%</b>                    | <b>83%</b>  |
| Accident and health            | <b>93%</b>                    | <b>91%</b>  |
| Miscellaneous                  | <b>57%</b>                    | <b>50%</b>  |

### **Sensitivities**

As the Company enters into short term insurance contracts, it does not assume any significant impact of changes in market conditions on unexpired risks. However, some results of sensitivity testing are set out below, showing an impact on (loss) / profit before tax net of reinsurance:

|                                | Pre-tax loss        |                     | Shareholders' equity |                     |
|--------------------------------|---------------------|---------------------|----------------------|---------------------|
|                                | 2011                | 2010                | 2011                 | 2010                |
| <b>10% increase in loss</b>    | ----- Rupees -----  |                     |                      |                     |
| Fire and property damage       | (242,248)           | (809,637)           | (157,461)            | (526,264)           |
| Marine, aviation and transport | (291,755)           | (567,529)           | (189,641)            | (368,894)           |
| Motor                          | (14,449,727)        | (18,417,998)        | (9,392,322)          | (11,971,699)        |
| Accident and health            | (9,127,087)         | (5,142,762)         | (5,932,607)          | (3,342,795)         |
| Miscellaneous                  | (653,456)           | (1,366,166)         | (424,746)            | (888,008)           |
|                                | <b>(24,764,273)</b> | <b>(26,304,091)</b> | <b>(16,096,777)</b>  | <b>(17,097,659)</b> |
| <b>10% decrease in loss</b>    |                     |                     |                      |                     |
| Fire and property damage       | 242,248             | 809,637             | 157,461              | 526,264             |
| Marine, aviation and transport | 291,755             | 567,529             | 189,641              | 368,894             |
| Motor                          | 14,449,727          | 18,417,998          | 9,392,322            | 11,971,699          |
| Accident and health            | 9,127,087           | 5,142,762           | 5,932,607            | 3,342,795           |
| Miscellaneous                  | 653,456             | 1,366,166           | 424,746              | 888,008             |
|                                | <b>24,764,273</b>   | <b>26,304,091</b>   | <b>16,096,777</b>    | <b>17,097,659</b>   |

### Claim development

The development of claims against insurance contracts issued is not disclosed as uncertainty about the amount and timing of claim settlement is usually resolved within a year.

## 30 REINSURANCE RISK

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

To minimize its exposure to significant losses from reinsurer insolvencies, the Company obtains reinsurance rating from a number of reinsurers, who are dispersed over several geographical regions.

An analysis of all reinsurance assets recognised by the rating of the entity from which it is due are as follows:

| Rating                               | Amount due from other insurers / reinsurers | Reinsurance recoveries against outstanding claims | Other reinsurance assets | 2011               | 2010               |
|--------------------------------------|---|---|--------------------------|--------------------|--------------------|
|                                      |   |   |                          | ----- Rupees ----- |                    |
| A- or above including                |   |   |                          |                    |                    |
| Pakistan Reinsurance Company Limited | 62,151,410                                  | 18,089,151  | 56,536,139               | 136,776,700        | 129,246,702        |
| BBB                                  | 9,375,251                                   | 4,030,086   | 122,492                  | 13,527,829         | 15,600,342         |
| Others                               | 12,376                                      | 600,333   | -                        | 612,709            | 12,376             |
|                                      | <b>71,538,937</b>                           | <b>22,719,570</b>                                 | <b>56,658,631</b>        | <b>150,917,138</b> | <b>144,859,420</b> |

## 31 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 to the shareholders and benefits to other stakeholders and to 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 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 Securities and Exchange Commission of Pakistan (SECP) through its Circular No. 03 dated April 04, 2007 requires the minimum paid up capital for Insurance Companies to be raised to Rs. 300 million by the year ending December 31, 2011.

|                         | <b>2008</b>        | <b>2009</b> | <b>2010</b> | <b>2011</b> |
|-------------------------|--------------------|-------------|-------------|-------------|
|                         | ----- Rupees ----- |             |             |             |
| Minimum paid up capital | 160,000,000        | 200,000,000 | 250,000,000 | 300,000,000 |

In order to meet the minimum paid up capital requirement, Board of Directors of the Company in their meeting held on November 24, 2011 has decided to issue the right shares at 20% at par value i.e. 1 for every 5 ordinary shares held by the member of the Company to comply with the requirements of aforementioned circular. The Company has already started the process of right issue. The Company applied to the SECP for exemption from Issue of Capital Rules, 1996, which prohibits right issue of shares within one year of previous right issue on the grounds of compliance with the statute. On February 1, 2012 SECP granted the said exemption and as per plan of issue of shares as approved by KSE on March 21, 2012 allotment of shares will be done on May 29, 2012.

### 32 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transactions. Consequently, difference may arise between the carrying values and the fair value estimates.

The fair value of all the financial instruments are estimated to be not significantly different from their carrying values except for the following investments:

|   | <u>Carrying value</u> |             | <u>Market value</u> |             |
|---|-----------------------|-------------|---------------------|-------------|
|   | <b>2011</b>           | 2010        | <b>2011</b>         | 2010        |
|   | ----- Rupees -----    |             |                     |             |
| <b>Available-for-sale investments</b>   |                       |             |                     |             |
| - equity shares and closed-end mutual funds<br>(Based on the rates quoted on the stock exchanges)                           | -                     | 5,118,944   | -                   | 5,380,909   |
| - mutual funds<br>(Based on the quoted redemption rates)  | <b>39,062,728</b>     | 125,405,795 | <b>40,000,687</b>   | 125,564,655 |
| <b>Held-to-maturity investments</b>   |                       |             |                     |             |
| - term finance certificates<br>(Based on the average of rates quoted by MUFAP as per circular No. 1 dated January 06, 2009) | <b>545,000</b>        | 1,795,000   | <b>408,750</b>      | 1,670,624   |

### 33 TRANSACTIONS WITH RELATED PARTIES

The Company has related party relationship with its employee provident fund, key management personnel, entities indicated in note 5 to the financial statements and companies with common directors.

Transactions with related parties during the year and balances with them as at the year-end are as follows:

| <i>Transactions and balances with associated companies</i>  |      | 2011                | 2010         |
|---|------|---------------------|--------------|
| Note  |      | ----- Rupees -----  |              |
| <b>Insurance premium</b>  |      |                     |              |
| Balance at beginning of the year  |      | <b>136,592,081</b>  | 73,710,751   |
| Gross insurance premium written (including government levies, administrative surcharge and policies stamps) |      | <b>149,871,643</b>  | 133,611,679  |
| Received / Adjusted during the year   |      | <b>(70,851,551)</b> | (70,730,349) |
| Balance at end of the year  | 15.1 | <b>215,612,173</b>  | 136,592,081  |
|   |      | <b>2011</b>         | <b>2010</b>  |
|   |      | ----- Rupees -----  |              |
| <b>Insurance claim expense</b>  |      |                     |              |
| Outstanding claims at beginning of the year   |      | <b>16,799,137</b>   | 16,168,937   |
| Gross claim expense for the year  |      | <b>69,925,805</b>   | 67,986,445   |
| Claim paid during the year  |      | <b>(70,427,420)</b> | (67,356,245) |
| Outstanding claims at end of the year   | 33.1 | <b>16,297,522</b>   | 16,799,137   |
| <i>Other transactions during the year with associated companies</i>   |      |                     |              |
| Rental expense  | 21.1 | <b>4,050,461</b>    | 3,143,289    |
| Income from reverse repo transactions in listed equity securities   | 13.7 | <b>8,179,651</b>    | 15,373,661   |
| Brokerage, commission and advisory expenses   | 13.8 | <b>920,586</b>      | 1,802,779    |
| Purchase of Investment Property   | 14.2 | <b>26,048,414</b>   | -            |
| Advertisement expenses  |      | <b>1,774,585</b>    | 368,710      |
| <i>Other balances with associated companies</i>   |      |                     |              |
| Sundry receivables  | 19   | <b>2,413,692</b>    | -            |
| Premium received in advance   |      | <b>917,676</b>      | 266,160      |
| Rent paid in Advance  | 18.2 | <b>21,690,272</b>   | 4,035,364    |
| Security deposit  | 18.1 | <b>4,147,200</b>    | -            |
| Other creditors and accruals  | 8    | <b>-</b>            | 697,617      |
| Advisory fee payable  | 7    | <b>301,947</b>      | 1,858,907    |
| Advance for the purchase of office premises   | 20   | <b>135,789,930</b>  | 34,750,008   |
| <i>Transactions during the year with other related parties (key management personnel)</i>                   |      |                     |              |
| Contribution to the provident fund  | 33.4 | <b>3,192,755</b>    | 2,631,420    |
| Remuneration of key management personnel  | 33.5 | <b>19,693,955</b>   | 12,217,478   |
| <i>Balances with other related parties (key management personnel)</i>                                       |      |                     |              |
| Payable to the provident fund   | 8    | <b>418,976</b>      | 874,631      |
| Receivable from the provident fund  |      | <b>-</b>            | 143,785      |

**33.1 Outstanding claims - related parties**

|  | 2011               | 2010              |
|--|--------------------|-------------------|
|  | ----- Rupees ----- |                   |
| Ever Green Water Valley (Private) Limited    | 42,500             |                   |
| First Capital Equities Limited               | 437,999            | 453,053           |
| First Capital Investment (Private) Limited   | 10,500             | 75,000            |
| First Capital Securities Corporation Limited | 12,000             | 99,500            |
| Hawk Advertising                             | 35,000             | 35,000            |
| Media Times (Private) Limited                | 909,150            | 1,028,393         |
| Pace Baraka Properties Limited               | 48,500             | 49,500            |
| Pace Pakistan Limited                        | 1,743,000          | 872,267           |
| Shaheen Aero Traders                         | 12,000             | -                 |
| Shaheen Air Port Services (SAPS)             | 133,499            | 100,000           |
| Shaheen Foundation, PAF                      | 134,101            | 151,226           |
| Shaheen Knitwear                             | 37,000             | -                 |
| Trident Construct (Private) Limited          | 167,000            | 1,000             |
| World Press (Private) Limited                | 429,999            | 27,535            |
| Worldcall Services (Private) Limited         | 35,000             | 17,899            |
| Worldcall Telecom Limited                    | 12,110,274         | 13,888,764        |
|  | <u>16,297,522</u>  | <u>16,799,137</u> |

33.2 Insurance and claim related transactions with related parties are carried in normal course of business.

**33.3 Premium received in advance - related parties**

|                                | 2011               | 2010           |
|--------------------------------|--------------------|----------------|
|                                | ----- Rupees ----- |                |
| First Capital Equities Limited | -                  | 94,102         |
| Media Times (Private) Limited  | 58,376             | -              |
| Pace Pakistan Limited          | 395,430            | 169,797        |
| Worldcall Telecom Limited      | 459,176            | -              |
| Others                         | 4,694              | 2,261          |
|                                | <u>917,676</u>     | <u>266,160</u> |

33.4 Contribution to the provident fund is in accordance with the Company's staff services rules.

33.5 Remuneration to the key management personnel are in accordance with the terms of their employment.

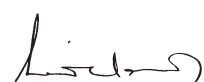
33.6 Other transactions are at agreed terms.

**34 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 April 09, 2012.



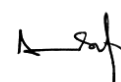
Chairman



Director



Director



Chief Executive Officer



***PATTERN OF SHARE HOLDING***  
HELD BY THE SHARE HOLDERS AS AT 31ST DECEMBER, 2011

| No. Of Share Holders | Share Holding |         | Total Shares Held |
|----------------------|---------------|---------|-------------------|
|                      | From          | To      |                   |
| 194                  | 1             | 100     | 4,344             |
| 105                  | 101           | 500     | 27,422            |
| 63                   | 501           | 1000    | 41,093            |
| 114                  | 1001          | 5000    | 188,724           |
| 10                   | 5001          | 10000   | 69,775            |
| 1                    | 10001         | 15000   | 12,499            |
| 3                    | 20001         | 25000   | 67,249            |
| 1                    | 90001         | 95000   | 93,835            |
| 1                    | 290001        | 295000  | 294,037           |
| 1                    | 295001        | 300000  | 300,000           |
| 1                    | 395001        | 400000  | 400,000           |
| 1                    | 1215001       | 1220000 | 1,216,794         |
| 1                    | 1720001       | 1725000 | 1,721,963         |
| 1                    | 1990001       | 1995000 | 1,993,027         |
| 1                    | 2495001       | 2500000 | 2,500,000         |
| 1                    | 3135001       | 3140000 | 3,136,963         |
| 1                    | 6345001       | 6350000 | 6,345,296         |
| 1                    | 6585001       | 6590000 | 6,586,979         |
| 501                  |               |         | 25,000,000        |

***CATEGORIES OF SHARE HOLDERS AS REQUIRED UNDER C.C.G***  
***AS ON 31ST DECEMBER, 2011***

| Name  | Holding    | % AGE   |
|---|------------|---------|
| Associated Companies  | 23,797,415 | 95.1896 |
| Directors,CEO their Spouse & Minor Children                                   | 4,051      | 0.0162  |
| Insurance Companies   | 6,345,296  | 25.3812 |
| Share Held by the General Public  | 787,770    | 3.1511  |
| Share Holders Holding 10% or more of Total Capital                            | 18,569,238 | 74.2770 |
| Joint Stock Companies   | 316,929    | 1.2677  |
| Banks,Development Finance Institutions,<br>Non Banking Financial Institutions | 93,835     | 0.3753  |

***NAME OF SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL***  
***As on 31st December, 2011***

| Name  | Holding   | % AGE |
|---|-----------|-------|
| Shaheen Foundation, Pakistan Air Force      | 6,586,979 | 26%   |
| Central Non Public Fund, Pakistan Air Force | 2,500,000 | 10%   |
| The Hollard Company Limited, South Africa   | 6,345,296 | 25%   |
| Worldcall Telecom Limited                   | 3,136,963 | 13%   |

**Information as required under Code of Corporate Governance Categories of Shareholders as at December 31, 2011**

| Name  | Holding    | % AGE  |
|---|------------|--------|
| <b><u>Directors, CEO, their Spouse &amp; Minor Children</u></b> |            |        |
| Mr. M.Ikramullah Bhatti   | 713        | 0.0029 |
| Mr.Zafar Iqbal Mir  | 625        | 0.0025 |
| Mr. Tanweer Muhammad Sheikh                                     | 500        | 0.0020 |
| Mr.Shahid Hameed  | 713        | 0.0029 |
| Mr.Syed Hamza Gillani   | 500        | 0.0020 |
| Mr. Imran Hafeez  | 500        | 0.0020 |
| Mr. Hammad Ahmed Butt   | 500        | 0.0020 |
| Mr.Asif Suleman (CEO)   | Nil        | Nil    |
|   | 4,051      | 0.0162 |
| <b><u>Associated Companies</u></b>                              |            |        |
| Shaheen Foundation, Pakistan Air Force                          | 6,586,979  | 26.35  |
| Central Non Public Fund, Pakistan Air Force                     | 2,500,000  | 10.00  |
| The Hollard Company Limited, South Africa                       | 6,345,296  | 25.38  |
| First Capital Mutual Fund                                       | 1,216,794  | 4.87   |
| First Capital Securities Corporation Limited                    | 1,993,275  | 7.97   |
| First Capital Equities Limited                                  | 1,721,963  | 6.89   |
| Worldcall Telecom Limited                                       | 3,136,963  | 12.55  |
| Pace Pakistan Limited   | 294,037    | 1.18   |
| WTL Services (Private) Limited                                  | 2,108      | 0.01   |
|   | 23,797,415 | 95.19  |

## ***PROXY FORM***

I/ We \_\_\_\_\_ of \_\_\_\_\_  
being a  
Member(s) of Shaheen Insurance Company Limited, and holders of \_\_\_\_\_  
Ordinary shares as per Registered Folio No. \_\_\_\_\_ and / or CDC  
Participant I.D. No. \_\_\_\_\_ and Sub Account No. \_\_\_\_\_ do  
Hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or  
Failing him/her \_\_\_\_\_ of \_\_\_\_\_  
who is also a member of the Company vide Registered Folio No. \_\_\_\_\_ to  
attend and vote for me / us and on my / our behalf at the 17th Annual General Meeting of the Company to be held  
at Dreamworld Resort, Adjacent Block R, Gulshan-e-Maymar Super Highway, Karachi on April 30, 2012 at 3:30  
P.M. and at any adjournment thereof

Signed by : \_\_\_\_\_

Witness : \_\_\_\_\_



Date : \_\_\_\_\_

**Note:**

1. A member entitled to attend and vote at the meeting may appoint in writing another member as his / her proxy to attend and vote instead of him / her at the meeting. If the member is a corporation, its common seal should be affixed on the instrument.
  
2. This form of proxy in order to be effective, must be deposited duly completed, at 10th Floor Shaheen Complex M.R. Kayani Road, Karachi not less than 48 hours before the time of holding of the meeting.
  
3. CDC shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.
  
4. A proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.

