

# Contents

→	Company Information	01
→	Vision and Mission Statements	02
→	Statement of Ethics and Business Practices	03
→	Directors' Report	04
→	Key Financial highlights	10
→	Pattern of Share Holding	11
→	Auditors' Review Report on Code of Corporate Governance	14
→	Statement of Compliance with the Code of Corporate Governance	15
→	Auditors' Report on Financial Statements	16
→	Financial Statements	17
→	Notice of Annual General Meeting	54
→	Branch Network	55
→	Proxy Form	56

## Company Information

### Board of Directors

Mr. Mohammed Basheer Janmohammed  
(Chairman)  
Mr. Yameen Kerai  
Mr. Shahid Sattar  
Mr. Tufail Jawed Ahmad  
Mr. Rizwan Abbas  
Mr. Muhammad Riaz  
Mr. Abdul Qadir  
Mr. Ghulam Muhammad

### Board Audit Committee

Mr. Yameen Kerai  
Mr. Ghulam Muhammad  
Mr. Rizwan Abbas  
Mr. Muhammad Riaz

### Managing Director & Chief Executive Officer

Mr. Ahmed Salahuddin

### CFO & Company Secretary

Mr. Muhammad Haneed

### Auditors

A.F. Ferguson & Co.  
Chartered Accountants

### Legal Advisor

Syed Ali Hyder

### Bankers

NIB Bank Limited  
Habib Metropolitan Bank Limited

### Shares Registrar

FAMCO Associates (Pvt.) Ltd.  
State Life Building # 1-A, 1st floor  
I.I. Chundrigar Road Karachi Pakistan.

### Credit Rating

Single A Minus "A-" by JCR-VIS

### Registered & Head Office

8th Floor, Shaheen Complex,  
M.R. Kayani Road, Karachi  
Tel # (92-213) 2219555-60  
Fax # (92-213) 2219561

## Vision Statement

PICIC Insurance shall emerge as the leading insurance and risk management services organization in Pakistan. We are in the business of providing solutions to mitigate insurable risk exposure of our clients. We shall do this on the basis of thorough risk evaluation and product knowledge.

## Mission Statement

PICIC Insurance shall fully satisfy the needs and expectations of all its stakeholders:

- We shall put the interest of our clients first and ensure that they make informed decisions with respect to the products and services that we offer them.
- We shall give our employees a congenial work environment and shall give them opportunities for personal growth and development strictly on the basis of merit.
- We shall strive to continually provide above average returns to our shareholders.
- We shall support the development of the communities in which we live and work.

## Statement of Ethics and Business Practices

1. It is the responsibility of all directors, officers and employees of the company to carry out their assigned duties in compliance with all applicable legal requirements and company policies. Beyond compliance with strictly legal aspects involved, all directors, officers and employees are expected to conduct themselves with honesty, integrity and professionalism in the discharge of their assigned responsibilities. Except as otherwise permitted by company policies, all assets of the company shall be used for legitimate business purposes. All directors, officers and employees shall protect the company assets and ensure their efficient use.

Each director, officer and employee of the company must avoid any activities that could involve, or lead to involvement in any unlawful practice, as well as any actions that may jeopardize or impair the confidence or respect in which the company are held by their customers, regulators and the general public. All directors, officers and employees must comply completely with all applicable law, rules, and regulations.

2. The company policy statement regarding conflicts of interest requires all directors, officers and employees to avoid situations in which their personal interests conflict with the interests of the company. Prior to engaging in any conduct or activity that may result in a conflict of interest, the facts and circumstances of the proposed conduct or activity must be disclosed to the company.
3. Directors, officers, and employees shall not take for themselves personal opportunities that are discovered through the use of the corporate property, information, or position; shall not use corporate property, information or position for personal gain; and shall not compete with the company. All directors, officer, and employees owe a duty to the company to advance the legitimate business interests of the company.
4. Directors, officers, and employees shall endeavor to deal fairly with the company customers, suppliers, competitors, and employees. No one should take unfair advantage through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.
5. Directors, officers, and employees frequently have access to confidential information concerning the company, business and the businesses of customers, agents, policyholders and other employees. Safeguarding confidential information is absolutely essential. Confidential information includes, but is not limited to all non-public information that might be of use to competitors, or harmful to the company or its customers, if disclosed. Directors, officers, and employees shall not disclose confidential information except when disclosure is authorized or legally mandated. Directors, officers, and employees shall not access, or use, confidential information unless it is relevant to the performance of their job and they have proper authorization. Except for information routinely provided to industry bureaus and agencies, vendors or other representatives of the Company, in accordance with the Company policies and procedures, no director, officer, or employee may disclose confidential information of any type to anyone, except person within the company who has a clear business need to know.
6. Accuracy and reliability in the preparation and maintenance of all books and records is not only mandated by law, it is of critical importance to the company decision making process and to the proper discharge of the company legal, financial and reporting obligations. All business records expenses accounts, vouchers, bills, payroll and services records and other reports must be prepared with care and honestly, and maintained in accordance with the company policy.
7. The company is an equal opportunity employer, and does not discriminate against employees or applicants for employment on the basis of race, color, religion, sex, sexual orientation, national origin, age, physical or mental disability. The company complies with all applicable laws and regulations in the hiring, treatment and termination of all employees, and endeavors to maintain a working environment that is conducive to professional growth accomplishment and satisfaction, and free from any type of hostility or harassment.

## Directors' Report



The Directors would like to present the annual report together with the audited financial statements of PICIC Insurance Limited (PIL) for the year ended 31 December 2011.

### Message from the Chairman

PIL has delivered positive results in 2011 despite challenging conditions for the insurance industry. These include a weak economic environment, political uncertainty as well as reducing interest rates. This outcome is due to the continued and timely guidance of the Board of Directors to the management and staff of the Company, to whom I would like to extend my thanks and appreciation. During the year we are pleased to state that JCR-VIS has maintained the insurer financial strength rating of the Company to 'A-' with stable outlook, which signifies good credit quality. PIL remains positive in terms of its outlook for over the next 12 months. The Board will continue to revisit its strategy and objectives in line with the changing market conditions and industry practices. We realize that further improvements are required in the near future and we will continue to make the necessary changes whenever considered appropriate.

### Economy and Regulatory changes

Pakistan had a volatile economy throughout the year. This has been a tough phase for the country due to relatively low GDP growth, high inflation, higher fiscal deficit and deterioration in the external account. The ongoing financial crisis in Pakistan is continuing to affect underwriting in all classes of business. Consequently in 2011 there was further softening in premium rates and tightening of terms and conditions. At the same time terms and conditions in the reinsurance market have begun to tighten as well. Despite these difficult circumstances, due to the competitive environment, so far this has had very little impact on original rates for direct business.

### Corporate Social Responsibility

PIL is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and "No Smoking Zone", and providing a safe and healthy work environment;
- business ethics, requiring all staff members to sign and comply with the Company's "Statement of Ethics and Business Practices";
- amicable staff relations, recognition of merit and performance, and ongoing opportunities for learning and growth of staff, both on the job training and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc;
- pays to employees a remuneration that enables them to meet their needs and provides employees the opportunity to improve their skills and capabilities;
- respects employees' freedom of association.

## Financial Highlights

The comparative financial highlights of PIL for the year ended 31 December 2011 are as follows:

	2011	2010	Variance
	(Rupees in thousand)		%
Gross Premium Written	694,665	549,629	26.4
Net Premium Revenue	224,914	166,770	34.9
Net Claims including IBNR	(143,668)	(91,135)	57.6
Premium Deficiency reversal / (expense)	489	(1,301)	(137.6)
Management Expenses charged to Revenue Accounts	(84,735)	(79,417)	6.7
Net Commission earned	22,981	9,973	130.4
Profit from underwriting business	19,981	4,890	308.6
Investment Income	28,277	26,675	6.0
Gain on disposal of fixed assets	709	115	516.5
Other income	7,408	2,716	172.8
Other expenses	(47,951)	(29,306)	63.6
Profit before Taxation	8,424	5,090	65.5
Taxation	3,346	(63)	(5,411.1)
Profit after Taxation	11,770	5,027	134.1
Earnings per share (Rupees)	0.34	0.14	

## Performance Review

Over the past couple of years, through dedication, cultivating key customer relationships and strong underwriting criteria, the Company has positioned itself to take advantage of confidence returning to the market. Gross written premium was Rs.695 million (26.4% up on Rs.550 million in 2010). The Company's network has continued to grow and existing relationships have strengthened in the past 12 months.

Net premium stood at Rs.225 million as against Rs.167 million in 2010 being 35% higher than in the previous year. This was both due to higher gross premium written during the year 2011 as well as higher growth in classes of business where the Company has higher retention. For 2011, the level of net claims is Rs.144 million, against Rs.91 million in 2010. The net loss ratio is 64% in 2011 as compared to 55% in 2010. The net commission for the year 2011 has increased to Rs.23 million as compared to Rs.10 million in 2010. While gross premium, net premium and net commission have shown significant growth, the Company has suffered losses in Marine, aviation and transport and Credit & surety ship while Fire and property, Motor, Accident & Health and Miscellaneous classes have been profitable. Total expenses in the year 2011 were restricted to Rs.133 million despite high inflation. The Company adopts a conservative investment strategy with a primary objective of preserving capital, maintaining liquidity and generating a stable income over the longer term, yielding a total investment income of Rs.28 million in 2011 as against Rs.27 million in 2010. As a result of the above stated factors, the Company has posted net profit after tax of Rs.12 million in 2011 as against Rs.5 million in 2010.

Comparative Insurance portfolio mix, in terms of gross premium written in the year 2011 was as follows:

Line of Business	2011		2010	
	Amount (Rupees in million)	Portfolio Mix Percentage	Amount (Rupees in million)	Portfolio Mix Percentage
Fire and property	186.6	26.9	133.7	24.3
Marine, aviation and transport	117.5	16.9	112.4	20.5
Motor	218.5	31.5	136.5	24.8
Accident & health	47.1	6.8	36.4	6.6
Credit and surety ship	54.1	7.8	69.3	12.6
Miscellaneous	70.9	10.1	61.3	11.2
<b>Total</b>	<b>694.7</b>	<b>100</b>	<b>549.6</b>	<b>100</b>

The Company's diversified portfolio helps to manage the risks associated with the varying cycles across different lines of business. Motor and Fire were the dominant line contributing 31.5% and 26.9% respectively followed by Marine (16.9%). However, the Fire class was dominant line in the underwriting result generating underwriting profit of Rs.13 million followed by Motor (Rs.8 million). No significant growth in gross premium in Marine class of business compared to the previous year.

### **Claim Settlement**

Prompt settlement of claims and customer satisfaction is management's top priority. PIL endeavors to indemnify the losses of the insured promptly. This is the most important element which builds the image of an insurance company in the eyes of its valued clients and consolidates goodwill which is critical for an insurance business.

### **Reinsurance Treaties**

The Company has strong reinsurance arrangements with some of the world's best "A" rated companies. As risk underwriting capacities for traditional lines of business have increased further in 2011, the Company will now be able to underwrite larger risks. We are thankful to all our reinsurers for their unwavering support and continued cooperation.

### **Insurer Financial Strength Rating**

JCR VIS has maintained the Insurer Financial Strength Rating of the Company during the year under review to (Single A minus) 'A-' with stable outlook, which signifies good credit quality.

### **Human Resource (HR) Initiatives**

The Management is of firm belief that HR is vital for the success of any organization. In today's competitive environment, we foresee an acute shortage of professionals particularly in the insurance industry and realize that it is important to place emphasis on retaining and developing existing staff and implementing effective performance reviews. The Company's continued focus on equal opportunity employment goes a long way in maintaining a pool of employees with knowledge, experience and skills in their respective fields and employees remain the Company's most valuable assets.

### **External Audit**

The auditors M/s A.F.Ferguson & Co., Chartered Accountants retire at the conclusion of the Annual General Meeting. Being eligible, they have offered themselves for re-appointment. The Board on the recommendation of the Audit Committee has proposed their re-appointment.

### **Internal Audit**

The Company's Board follows closely the activities of the Internal Audit Department as a service to all levels of Management. The main objective of the independent Internal Audit Department is to provide reasonable assurance to the Board and Management that the existing systems of internal control are adequate and operating satisfactorily. Internal Audit Department adds value to the Company's operations by acting as internal consultant in making suggestions and recommendations for improved operational performance.

### **Statement of Corporate and Financial Reporting Framework**

The corporate laws, rules and regulations framed thereunder spell out the overall function of the Board of Directors of the company. The Board is fully aware of its corporate responsibilities envisaged under the Code of Corporate Governance, prescribed by the Securities and Exchange Commission of Pakistan and adopted by the Stock Exchanges for all listed companies, 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.
3. The Company has followed consistently appropriate accounting policies in the preparation of the financial statements. Changes wherever made, have been adequately disclosed and accounting estimates are on the basis of prudent and reasonable judgment
4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom, if any, has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored. Such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss. The process used by the Board to review the effectiveness of the system of internal control include, inter-alia, the following:

- A Board Audit Committee (BAC) is in place. It reviews the approach adopted by the Company's internal audit department and the scope of and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material weaknesses that have been identified. Further, the BAC discusses the actions to be taken in areas of concern with the relevant executives. The BAC consists of four members. All the members including the Chairman of the BAC are non-executive directors. During the year 2011, 5 meetings of BAC were held and attendance was as follows:

Name of member	No. of meetings attended
Yameen Kerai (The Chairman)	5
Ghulam Muhammad	4
Rizwan Abbas	3
Muhammad Riaz	3

Leave of absence was granted to the members who could not attend the meeting.

- An organizational structure has been established, which supports clear lines of communication and tiered levels of authority with delegation of responsibility and accountability.
  - There is an annual budgeting and strategic planning process. Financial forecasts are prepared and these strategies are reviewed during the year to reflect significant changes in the business environment.
6. There is no doubt upon the Company's ability to continue as a going concern.
  7. The Directors of your Company feel that preservation of capital for future growth is very important, therefore no dividend is declared for the current year.
  8. The Company has followed the best practices of the Code of Corporate Governance as laid down in the listing regulations of the stock exchanges and there is no material departure there from.
  9. Key operating and financial data for last six years is shown at page # 10.
  10. The value of investments including accrued income of provident fund and gratuity fund on the basis of unaudited financial statements as at 31 December 2011 is Rs.33 million and Rs.23 million respectively.
  11. The related parties transactions are approved or ratified by the Board Audit Committee and the Board of Directors.



12. All the major decisions relating to the investments / disinvestments of funds, change in the policy of underwriting, if any, are taken by the Board of directors.
13. Decisions regarding appointment of CEO, CFO and Company Secretary, if any, and fixing or changing of remuneration are taken and approved by the Board.
14. Outstanding taxes and duties are given in the financial statements.

### Board of Directors

The Board of Directors have always been a source of guidance and inspiration. They have contributed immensely in terms of their experience and practical advice. I would like to place on record my appreciation and gratitude for their valued participation and wisdom.

The elected eight directors in the Annual General Meeting of the Company held on 05 April 2011 for a period of 3 years. The Board of Directors comprises of Non-Executive Directors. During the year under review six meetings were held and attended as follows:

Name	No. of meetings eligible to attend during the tenure	No. of meetings attended
Mr. Mohammed Basheer Janmohammed (The Chairman)	6	6
Mr. Yameen Kerai	6	6
Mr. Shahid Sattar	6	3
Mr. Habib Yousuf Habib**	5	3
Mr. Rizwan Abbas	6	3
Mr. Muhammad Riaz	6	5
Mr. Abdul Qadir**	5	4
Mr. Ghulam Muhammad**	5	5
Mr. Muhammad Rafiq Tumbi*		
Mr. Ahmed Salahuddin*		

\* Resigned on 05 April 2011

\*\* Appointed on 05 April 2011

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

### Pattern of Shareholding

A statement showing the pattern of shareholding is attached with this report.

### Trading of Company's Share

No trading in the shares of the Company was carried out by the Directors, CEO, CFO and Executives or their spouses or minor children, if any.

**Certificate of the Directors and Principal Officer under Section 46(6) of the Insurance Ordinance, 2000**

We certify that:

- (a) in our opinion the annual statutory accounts of the Company set out in the forms attached to the statements have been drawn up in accordance with the Ordinance and rules made there under;
- (b) the Company has at all times in the year complied with the provisions of the Ordinance and the rules made there under relating to paid-up capital, solvency and reinsurance arrangements; and
- (c) as at the date of the statement, the Company continues to be in compliance with the provisions of the Ordinance and the rules made there under relating to paid-up-capital, solvency and reinsurance arrangements.

**Future growth**

Our success in winning new business and therefore creating growth gives us great confidence that the areas of activity in which we have chosen to operate are the right ones for the Company. The prevailing economic conditions around the Country and the soft insurance markets will of course present challenges. We have, however, taken clear and decisive action to develop and grow each of our activities.

**Acknowledgement**

The Board of Directors would like to express its sincere appreciation to the Company's valued clients, reinsurers, brokers, business partners and other stakeholders. The Board would also like to thank the Securities and Exchange Commission of Pakistan, the Stock Exchanges and the Central Depository Company for their continued guidance and support. It would not have been possible to achieve any of this without the dedication and commitment of the Company's employees; therefore they deserve special recognition on behalf of the Board.

**Mohammed Basheer Janmohammed**  
Chairman

**Ahmed Salahuddin**  
MD & Chief Executive Officer

Karachi: 27 March 2012

## Key Financial Highlights

	2011	2010	2009	2008	2007	2006	2005
	(Rupees in thousand)						
Paid up share Capital	350,000	350,000	350,000	350,000	200,000	200,000	200,000
Accumulated (loss) / profit	(107,393)	(119,163)	(124,190)	(141,044)	(87,792)	26,101	(2,042)
Investment Income	3,441	6,221	7,901	(3,296)	19,235	10,076	460
Return on bank balances	24,836	20,454	19,435	11,243	14,191	13,930	10,808
Total Assets	1,066,732	919,922	731,089	704,236	643,841	606,359	446,719
Gross Premiums Written	694,665	549,629	493,968	443,110	473,858	448,955	259,698
Net Premium Revenue	224,914	166,770	199,656	227,853	303,401	236,993	92,828
Profit / (loss) from underwriting business	19,981	4,890	10,942	(18,738)	(97,520)	29,103	4,377
Net Claims	143,668	91,135	106,295	154,262	268,258	134,592	49,831
Profit / (loss) before Taxation	8,424	5,090	16,854	(50,417)	(94,195)	36,917	3,311
Provision for Taxation	3,346	(63)	-	(2,835)	302	8,774	1,743
Profit / (loss) after Taxation	11,770	5,027	16,854	(53,252)	(93,893)	28,143	1,568
Earning / (loss) per share (in Rupees)	0.34	0.14	0.48	(1.79)	(4.69)	1.41	0.08
Dividend (in Percentage)	-	-	-	-	-	10.00	-

## Pattern of Holding of Shares

Pattern of holding of the shares held by the Shareholders of PICIC Insurance Limited as at 31 December 2011

Number of shareholders	Shareholding		Number of shares held
	From	To	
2,241	1	100	61,307
752	101	500	187,440
238	501	1,000	187,852
291	1,001	5,000	626,932
53	5,001	10,000	396,779
21	10,001	15,000	258,778
9	15,001	20,000	159,692
7	20,001	25,000	156,229
4	25,001	30,000	108,487
7	30,001	35,000	232,810
2	35,001	40,000	76,732
2	45,001	50,000	98,022
1	60,001	65,000	61,375
1	85,001	90,000	87,701
1	105,001	110,000	106,379
1	165,001	170,000	165,565
1	205,001	210,000	209,711
2	275,001	280,000	555,253
1	425,001	430,000	428,305
1	650,001	655,000	653,810
1	710,001	715,000	711,646
1	855,001	860,000	855,790
1	1,010,001	1,015,000	1,010,967
1	1,305,001	1,310,000	1,309,420
1	2,520,001	2,525,000	2,520,246
1	2,655,001	2,660,000	2,656,012
1	3,895,001	3,900,000	3,895,970
1	6,720,001	6,725,000	6,720,797
1	10,495,001	10,500,000	10,499,993
<b><u>3,645</u></b>			<b><u>35,000,000</u></b>

## Information as required under the Code of Corporate Governance

As at 31 December 2011

Shareholders' category	Number of shareholders	Number of shares held
<b>Associated Companies, Undertakings and Related Parties</b>		
PICIC Benovelent Fund - 2	1	44
NIB Bank Limited	1	10,499,993
Excel Insurance Company Limited	1	6,720,797
<b>Directors, CEO, Executives &amp; their spouses &amp; minor children</b>		
Mohammed Riaz Moosani	1	1,018
Rizwan Abbas	1	875
Abdul Qadir	1	500
Ghulam Muhammad	1	279,490
Chief Executive Officer	1	385
Executives	1	10,000
<b>Public Sector Companies and Corporations</b>	2	4,751,760
<b>Banks, Development Finance Institutions, Non-Banking Finance Institutions</b>	16	22,489
<b>Modarabas and Mutual Funds</b>	11	500
<b>Insurance Companies</b>	9	4,980
<b>Shareholders holding 10% or more voting interest</b>		
NIB Bank Limited	1	10,499,993
Excel Insurance Company Limited	1	6,720,797
State Life Insurance Corporation of Pakistan	1	3,895,970

## Category of Shareholding

As at 31 December 2011

S.No	Shareholders category	No.of shareholders	No.of shares	%
1	Associated Companies, Undertakings and Related Parties	3	17,220,834	49.20
2	Directors, CEO, Executives and their spouses and minor children	6	292,268	0.84
3	Public Sector Companies and Corporations	2	4,751,760	13.58
4	Banks, Development Finance Institutions, Non-Banking Finance Institutions	16	22,489	0.06
5	Others	126	6,418,003	18.34
6	Modarabas and Mutual Funds	11	500	0.00
7	Insurance Companies	9	4,980	0.01
8	Individuals	3,472	6,289,166	17.97
<b>TOTALS</b>		<b><u>3,645</u></b>	<b><u>35,000,000</u></b>	<b><u>100.00</u></b>

## **Auditors' Review Report to the Members on Statement of Compliance with the best Practices of the Code of Corporate Governance**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of PICIC Insurance Limited (the Company) for the year ended December 31, 2011 to comply with Regulation No. 35 of Chapter XI contained in the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

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

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

Regulation 35 (xiii a) of the Listing Regulations requires 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 arms' length prices 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 the above 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 prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2011.

**Karachi : March 30, 2012**

**A.F. Ferguson & Co.**  
Chartered Accountants

## Statement of Compliance with the best Practices of the Code of Corporate Governance

For the year ended 31 December 2011

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in chapter XI of the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges, 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 Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors (the Board).
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 have given declaration 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 or a Non-Banking Financial Institution or being a member of a stock exchange, has been declared as defaulter by that stock exchange.
4. There was one casual vacancy at the beginning of the period under review which was duly filled within the stipulated time. No other casual vacancy occurred on the Board during the period under review.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the Directors and employees of the Company.
6. The Board has developed and adopted a vision / mission statement, overall corporate strategy, whereas, complete documentation for the significant policies of the Company will be finalized and approved in due course of time.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. No new appointment of Chief Executive Officer was made during the period under review.
8. The meetings of the Board were presided over by the Chairman and the Board met six times during the year. 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 comprises of senior corporate executives and professionals who are fully aware of their duties and responsibilities under the relevant laws applicable to the Company and the provisions of the Code of Corporate Governance. Further, the management is planning to carry out an orientation course for atleast one director in the near future.
10. No new appointments of the Chief Executive Officer, Chief Financial Officer and Company Secretary were made during the year. However, any changes to the remuneration, terms and conditions of employment of Chief Financial Officer and Company Secretary have been determined by the Chief Executive Officer which was approved by the Board.
11. 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.
12. The financial statements of the Company were duly endorsed by the Chief Executive Officer and the Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises four members, of whom all are non-executive directors including the Chairman of the Audit Committee.
16. The meetings of the Audit Committee were held five times during the year. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has outsourced the internal audit function to M/s Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 the ICAP.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines as applicable in Pakistan in this regard.
20. The related party transactions have been placed before the audit committee and approved by the Board of Directors with necessary justifications for non-arm's length transactions, if any, and pricing methods for transactions that were made on terms equivalent to those that prevail in the arm's length transactions only if such terms can be substantiated.
21. We confirm that all other material principles contained in the Code have been complied with.

**(Ahmed Salahuddin)**  
MD & Chief Executive Officer  
Karachi: 27 March 2012



## Auditors' Report to the Members

We have audited the annexed financial statements comprising of:

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

of **PICIC Insurance Limited** 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 management to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan and the 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 International Standards on Auditing as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000;
- (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;
- (c) 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 its financial performance and its cash flows for the year then ended, in accordance with the approved accounting standards as applicable in Pakistan, and 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 (XVIII of 1980).

### ***Emphasis of matter paragraph***

We draw attention to note 15 to the accompanying financial statements which describes the matter relating to recognition of deferred acquisition costs as an asset. Our opinion is not qualified in respect of this matter.

### ***Other matter***

The financial statements of the Company for the year ended December 31, 2010 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated February 19, 2011.

### **A.F. Ferguson & Co.**

Chartered Accountants

**Engagement Partner: Rashid A. Jafer**

Karachi : March 30, 2012

# Balance Sheet

As at 31 December 2011



	Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)		Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)
<b>Share capital and reserves</b>				<b>Cash and bank deposits</b>	11		
Authorised share capital				Cash and other equivalents		410	129
[50,000,000 (December 31, 2010: 50,000,000)]				Current and other accounts		65,863	67,760
Ordinary shares of Rs.10 each]		<u>500,000</u>	<u>500,000</u>	Deposits maturing within 12 months		<u>170,000</u>	<u>150,000</u>
						236,273	217,889
Paid-up share capital				<b>Investments</b>	12	54,182	50,654
[35,000,000 (December 31, 2010: 35,000,000)]				<b>Deferred Taxation</b>	13	3,430	-
Ordinary shares of Rs.10 each]	7	350,000	350,000	<b>Current Assets - Others</b>			
Accumulated loss		<u>(107,393)</u>	<u>(119,163)</u>	Premiums due but unpaid	14	347,096	248,161
		242,607	230,837	Amounts due from other insurers / reinsurers		111,521	119,853
				Accrued interest		2,051	9,858
<b>Underwriting provisions</b>				Reinsurance recoveries against outstanding claims		44,464	53,713
Provision for outstanding claims (including IBNR)		115,046	128,089	Taxation - payments less provision		18,557	14,649
Provision for unearned premium		348,802	220,972	Deferred commission expense		31,199	20,621
Provision for premium deficiency		812	1,301	Deferred acquisition costs	15	50,613	34,547
Commission income unearned		<u>28,723</u>	<u>23,138</u>	Prepayments	16	154,715	141,734
		493,383	373,500	Sundry and other receivables		<u>4,099</u>	-
						764,315	643,136
<b>Creditors and accruals</b>				<b>Fixed assets</b>	17		
Amounts due to other insurers / reinsurers		223,073	228,581	<b>Tangible</b>			
Other creditors and accruals	8	95,201	78,171	Furniture and fixture		142	621
Accrued expenses		6,165	2,822	Office equipment		756	482
Unclaimed dividend		<u>195</u>	<u>195</u>	Computer equipment		1,529	1,221
		324,634	309,769	Motor vehicles		5,893	5,559
				<b>Intangible</b>			
<b>Borrowings</b>				Computer software		212	360
Obligation under musharakah agreement	9	6,108	5,816			8,532	8,243
				<b>TOTAL LIABILITIES</b>		<u>824,125</u>	<u>689,085</u>
				<b>TOTAL EQUITY AND LIABILITIES</b>		<u>1,066,732</u>	<u>919,922</u>
				<b>Contingencies</b>	10		
				<b>TOTAL ASSETS</b>		<u>1,066,732</u>	<u>919,922</u>

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed  
Chairman

Yameen Kerai  
Director

Muhammad Riaz  
Director

Ahmed Salahuddin  
MD & Chief Executive Officer

# Profit and Loss Account

For the year ended 31 December 2011



Note	Fire and property	Marine, aviation and transport	Motor	Accident and health	Credit and surety ship	Miscellaneous	Aggregate		
							2011	2010	
<b>(Rupees in thousand)</b>									
<b>Revenue account</b>									
	37,921	24,175	122,376	21,524	2,500	16,418	224,914	166,770	
	(15,393)	(15,948)	(84,835)	(16,528)	-	(10,964)	(143,668)	(91,135)	
	-	113	-	100	89	187	489	(1,301)	
	22,528	8,340	37,541	5,096	2,589	5,641	81,735	74,334	
Management expenses	18	(25,113)	(16,690)	(19,591)	(5,533)	(8,277)	(9,531)	(84,735)	(79,417)
Net commission		15,947	6,637	(9,719)	1,898	3,918	4,300	22,981	9,973
		(9,166)	(10,053)	(29,310)	(3,635)	(4,359)	(5,231)	(61,754)	(69,444)
<b>Underwriting results</b>									
		13,362	(1,713)	8,231	1,461	(1,770)	410	19,981	4,890
Net investment income							3,441	6,221	
Return on bank balances							24,836	20,454	
Gain on disposal of fixed assets							709	115	
Other income	22						7,408	2,716	
							56,375	34,396	
General and administrative expenses	19						(46,245)	(28,788)	
Financial charges							(1,007)	(178)	
Other charges	20						(699)	(340)	
<b>Profit before tax</b>							8,424	5,090	
<b>Taxation</b>									
- Current	21						(81)	(63)	
- Prior							(3)	-	
- Deferred							3,430	-	
							3,346	(63)	
<b>Profit after taxation</b>							11,770	5,027	
<b>Earnings per share - basic and diluted (Rupee)</b>									
	23						0.34	0.14	

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed  
Chairman

Yameen Kerai  
Director

Muhammad Riaz  
Director

Ahmed Salahuddin  
MD & Chief Executive Officer

## Statement of Changes in Equity

For the year ended 31 December 2011



	Paid - up share capital	Accumulated loss	Total
	(Rupees in thousand)		
<b>Balance as at January 01, 2010</b>	350,000	(124,190)	225,810
Net profit for the year	-	5,027	5,027
<b>Balance as at December 31, 2010</b>	<u>350,000</u>	<u>(119,163)</u>	<u>230,837</u>
Net profit for the year	-	11,770	11,770
<b>Balance as at December 31, 2011</b>	<u><u>350,000</u></u>	<u><u>107,393</u></u>	<u><u>242,607</u></u>

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed  
Chairman

Yameen Kerai  
Director

Muhammad Riaz  
Director

Ahmed Salahuddin  
MD & Chief Executive Officer

# Statement of Cash Flows

For the year ended 31 December 2011



	2011	2010
	(Rupees in thousand)	
<b>OPERATING ACTIVITIES</b>		
<b>a) Underwriting activities</b>		
Premiums received	599,070	572,049
Reinsurance premiums paid	(345,798)	(349,173)
Claims paid	(310,122)	(188,207)
Reinsurance and other recoveries received	162,660	97,851
Commissions paid	(50,003)	(51,986)
Commission received	72,892	54,110
Net cash inflow from underwriting activities	128,699	134,644
<b>b) Other operating activities</b>		
Income tax paid	(3,992)	(2,577)
General management expenses paid	(142,774)	(96,790)
Operating receipts - net	9,051	9,073
Bank and other charges	(527)	(237)
Net cash used in other operating activities	(138,242)	(90,531)
<b>Total cash (used in) / generated from operating activities</b>	<b>(9,543)</b>	<b>44,113</b>
<b>INVESTMENT ACTIVITIES</b>		
Profit / return received	32,658	15,291
Dividend received	796	629
Payments for investments	(40,446)	(69,998)
Proceeds from redemption of investments	39,548	70,053
Proceeds from disposal of fixed assets	743	161
Fixed capital expenditure	(3,110)	(2,322)
<b>Total cash generated from investing activities</b>	<b>30,189</b>	<b>13,814</b>
<b>FINANCING ACTIVITIES</b>		
Payments under musharakah agreement	(2,262)	(1,048)
<b>Total cash used in financing activities</b>	<b>(2,262)</b>	<b>(1,048)</b>
<b>Net cash inflow from all activities</b>	<b>18,384</b>	<b>56,879</b>
<b>Cash at the beginning of the year</b>	<b>217,889</b>	<b>161,010</b>
<b>Cash at the end of the year</b>	<b>236,273</b>	<b>217,889</b>
<b>Reconciliation to profit and loss account</b>		
Operating cash flows	(9,543)	44,113
Provision for Workers' Welfare Fund	(172)	(103)
Depreciation / amortisation	(4,334)	(3,800)
Gain on disposal of fixed assets	709	115
Financial charges	(1,007)	(178)
Investment income	3,441	6,221
Return on bank balances	24,836	20,454
Increase in assets other than cash	112,465	93,823
Increase in liabilities	(3,327)	(129,317)
Increase in unearned premium	(114,728)	(26,301)
Increase in deferred tax assets	3,430	-
Profit after taxation	11,770	5,027
<b>Definition of cash</b>		
Cash comprises of cash in hand and at banks, stamps in hand and short term placements with banks		
<b>Cash for the purpose of statement of cash flows consists of:</b>		
<b>Cash and other equivalents</b>		
- cash in hand	-	-
- stamps in hand	410	129
<b>Current and other accounts</b>	410	129
- current accounts	43,944	12,950
- saving accounts	21,919	54,810
<b>Deposits maturing within 12 months</b>	65,863	67,760
	170,000	150,000
	236,273	217,889

The annexed notes 1 to 32 form an integral part of these financial statements.

**Mohammed Basheer Janmohammed**  
Chairman

**Yameen Kerai**  
Director

**Muhammad Riaz**  
Director

**Ahmed Salahuddin**  
MD & Chief Executive Officer

## Statement of Premiums

For the year ended 31 December 2011



### Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2011	2010
<b>(Rupees in thousand)</b>										
<b>Direct and facultative</b>										
1. Fire and property	186,638	56,932	74,914	168,656	148,066	43,281	60,612	130,735	37,921	30,048
2. Marine, aviation and transport	117,497	33,047	38,084	112,460	93,190	28,144	33,049	88,285	24,175	21,548
3. Motor	218,488	76,997	166,435	129,050	7,889	17,141	18,356	6,674	122,376	98,268
4. Accident and health	47,110	14,591	24,701	37,000	2,587	14,028	1,139	15,476	21,524	3,636
5. Credit and surety ship	54,038	16,682	14,971	55,749	52,374	15,345	14,470	53,249	2,500	4,090
6. Miscellaneous	70,894	22,723	29,697	63,920	50,428	18,833	21,759	47,502	16,418	9,180
<b>Total</b>	<b>694,665</b>	<b>220,972</b>	<b>348,802</b>	<b>566,835</b>	<b>354,534</b>	<b>136,772</b>	<b>149,385</b>	<b>341,921</b>	<b>224,914</b>	<b>166,770</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

**Mohammed Basheer Janmohammed**  
Chairman

**Yameen Kerai**  
Director

**Muhammad Riaz**  
Director

**Ahmed Salahuddin**  
MD & Chief Executive Officer

## Statement of Claims

For the year ended 31 December 2011



### Business underwritten inside Pakistan

Class	Claims paid	Outstanding claims		Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	Net claims	
		Opening	Closing			Opening	Closing		2011	2010
(Rupees in thousand)										
<b>Direct and facultative</b>										
1. Fire and property	62,976	20,493	26,143	68,626	47,852	17,173	22,554	53,233	15,393	6,014
2. Marine, aviation and transport	26,935	10,047	17,477	34,365	14,508	6,385	10,294	18,417	15,948	7,039
3. Motor	97,742	65,255	54,106	86,593	3,889	2,416	285	1,758	84,835	71,218
4. Accident and health	28,303	9,144	1,555	20,714	11,980	9,144	1,350	4,186	16,528	531
5. Credit and surety ship	22,372	-	-	22,372	22,372	-	-	22,372	-	-
6. Miscellaneous	71,794	23,150	15,765	64,409	62,059	18,595	9,981	53,445	10,964	6,333
<b>Total</b>	<b>310,122</b>	<b>128,089</b>	<b>115,046</b>	<b>297,079</b>	<b>162,660</b>	<b>53,713</b>	<b>44,464</b>	<b>153,411</b>	<b>143,668</b>	<b>91,135</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

**Mohammed Basheer Janmohammed**  
Chairman

**Yameen Kerai**  
Director

**Muhammad Riaz**  
Director

**Ahmed Salahuddin**  
MD & Chief Executive Officer

## Statement of Expenses

For the year ended 31 December 2011



### Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission		Net commission expense	Other management expenses	Underwriting expense	Commission from reinsurers	Net underwriting expense	
		Opening	Closing					2011	2010
<b>(Rupees in thousand)</b>									
<b>Direct and facultative</b>									
1. Fire and property	25,749	8,711	10,292	24,168	25,113	49,281	40,115	9,166	15,013
2. Marine, aviation and transport	12,148	2,473	3,580	11,041	16,690	27,731	17,678	10,053	11,658
3. Motor	18,150	6,280	13,872	10,558	19,591	30,149	839	29,310	25,356
4. Accident and health	218	267	134	351	5,533	5,884	2,249	3,635	4,864
5. Credit and surety ship	894	694	583	1,005	8,277	9,282	4,923	4,359	5,979
6. Miscellaneous	6,481	2,196	2,738	5,939	9,531	15,470	10,239	5,231	6,574
<b>Total</b>	<b>63,640</b>	<b>20,621</b>	<b>31,199</b>	<b>53,062</b>	<b>84,735</b>	<b>137,797</b>	<b>76,043</b>	<b>61,754</b>	<b>69,444</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

**Mohammed Basheer Janmohammed**  
Chairman

**Yameen Kerai**  
Director

**Muhammad Riaz**  
Director

**Ahmed Salahuddin**  
MD & Chief Executive Officer



## Statement of Investment Income

For the year ended 31 December 2011



	2011	2010
	(Rupees in thousand)	
<b>Income from investments classified as investments at fair value through profit or loss</b>		
Net gain / (loss) on redemption / sale of investments	488	(78)
Net unrealised (loss) / gain on revaluation of investments	(2,221)	1,218
Dividend income	811	629
Return on government securities	4,374	4,468
	<hr/>	<hr/>
	3,452	6,237
Investment related expenses	(11)	(16)
<b>Net investment income</b>	<hr/> <hr/>	<hr/> <hr/>
	3,441	6,221

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed  
Chairman

Yameen Kerai  
Director

Muhammad Riaz  
Director

Ahmed Salahuddin  
MD & Chief Executive Officer

# Notes to the Financial Statements

For the year ended 31 December 2011



## 1. STATUS AND NATURE OF BUSINESS

PICIC Insurance Limited (the Company) was incorporated on April 23, 2004 under the Companies Ordinance, 1984 as a public limited company and registered as a non-life insurance company by the Securities and Exchange Commission of Pakistan (SECP) under the Insurance Ordinance, 2000. It is engaged in providing all classes of non-life insurance business. The Company is listed on the Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at Shaheen Complex, M.R. Kayani Road, Karachi. The Company operates with 6 (2010: 6) branches in Pakistan.

## 2. BASIS OF PRESENTATION

These financial statements have been prepared on the format issued by the SECP through SEC (Insurance) Rules, 2002 vide SRO 938 dated December 12, 2002.

## 3. 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 (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002 and directives issued by the SECP. Wherever the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 the SEC (Insurance) Rules, 2002 or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002 or said directives prevail.

The SECP has allowed the insurance companies to defer the application of International Accounting Standard (IAS) - 39 "Financial Instruments: Recognition and Measurement" in respect of valuation of investments classified as available-for-sale. However, the Company has no investments in available-for-sale category as of the balance sheet date.

## 4. ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention except for investments and certain staff retirement benefits which are carried at fair value and at present value respectively.

## 5. SIGNIFICANT ACCOUNTING POLICIES

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

### 5.1.1 New and amended standards and interpretation that are effective in the current year:

The following revised standards and amendments to existing standards have been published and are mandatory for the Company's accounting period beginning on or after January 1, 2011:

- IFRS 7, Financial Instruments (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Company's financial statements, other than certain additional disclosures.
- IAS 1, Presentation of financial statements (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment does not have any significant impact on the Company's financial statements.

IAS 24 (revised), 'Related party disclosures' issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government - related entities to disclose details of all transactions with the government and other government - related entities. The revised standard does not have any significant effect on the Company's financial statements.

- IFRIC 14 (amendments), 'Prepayments of a minimum funding requirement'. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning January 1, 2011. The amendment does not have any significant impact on the Company's financial statements.

There are other new and amended standards and interpretations that are mandatory for accounting periods beginning on or after January 1, 2011 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

#### **5.1.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:**

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning January 1, 2011 and not early adopted:

IAS 19, 'Employee benefits' was amended in June 2011 applicable for periods beginning on or after January 1, 2013. The impact on the Company will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in other comprehensive income as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / asset. The management is yet to assess the full impact of the amendments.

There are other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2012 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

#### **5.2 Premium**

Premium received / receivable under a policy is recognised as written from the date of attachment of the policy to which it relates. Premium income under a policy is recognised over the period of insurance as a difference between the total premium written and provision for unearned premium as mentioned in note 5.4.2 of the financial statements.

Premium income also includes administrative surcharge that represents documentation and other charges recovered by the Company from policy holders in respect of policies issued, at the rate of 5% of the premium written restricted to a maximum of Rs. 2,000 per policy.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any. If there is objective evidence that the receivable is impaired, the Company reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the profit and loss account.

#### **5.3 Reinsurance ceded**

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted insurance business being reinsured.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for outstanding claims or settled claims associated with the reinsurance policies and are in accordance with the related reinsurance contract.

Reinsurance assets are not offset against related insurance liabilities. Income or expenses from reinsurance contract are not offset against expenses or income from related insurance contracts.

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

The Company assesses its reinsurance assets for impairment on the balance sheet date. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account.

#### **5.4 Underwriting provisions**

Underwriting provisions in respect of the insurance contracts entered into by the Company are accounted for as under:

##### **5.4.1 Provision for outstanding claims**

The liability in respect of outstanding claims is based on the estimates of the claims intimated or assessed before the end of the accounting year. In addition, conforming to the requirements of the SEC (Insurance) Rules, 2002, a provision is made on an estimated basis for the claims which may have been incurred in the current reporting period but have not been reported to the Company as of the balance sheet date (IBNR), after taking into consideration the expected recoveries and settlement costs. Any difference between the provision at the balance sheet date and settlements in the following years is included in the financial statements of that year.

##### **5.4.2 Provision for unearned premium**

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage and is recognized as a liability by the Company. This liability is calculated as follows:

- For marine cargo business as a ratio of unexpired period to the total period of policy applied on the gross premium of the individual policies; and
- For other classes / line of business, by applying 1/24th method as allowed by the SEC (Insurance) Rules, 2002.

##### **5.4.3 Premium deficiency reserve**

The Company is required as per SEC (Insurance) Rules, 2002, to maintain a provision in respect of premium deficiency for the class of business where the unearned premium reserve is not adequate to meet the expected future liability for claims and other expenses expected to be incurred after balance sheet date in respect of unexpired policies in that class of business at the balance sheet date. The premium deficiency, if any, is recognized as an expense in the profit and loss account.

##### **5.4.4 Unearned commission income**

Commission income and other forms of revenue (apart from recoveries) from reinsurers are deferred and recognised as a liability and are recognised in the profit and loss account as revenue in accordance with the pattern of recognition of reinsurance premiums.

#### **5.5 Other creditors and accruals**

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

#### **5.6 Provision**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, 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 regularly reviewed and adjusted to reflect the current estimate.

#### **5.7 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments.

#### **5.8 Financial assets**

##### **5.8.1 Classification**

The Company classifies its financial assets into the following categories: 'at fair value through profit or loss' , 'available for sale' , 'held to maturity' and 'loans and receivables'. The classification is determined at initial recognition and depends on the purpose for which the financial assets were acquired.

This includes an amount of Rs 13.045 million (2010: Rs 11.4 million) due from related parties.

##### **At fair value through profit or loss**

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by the management.

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

These are non-derivative financial assets, which are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or changes in price.

##### **Held to maturity**

These are non-derivative financial assets with fixed or determinable payments and fixed maturity, in respect of which the Company has the positive intention and ability to hold to maturity.

##### **Loans and receivables**

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

##### **5.8.2 Initial recognition and measurement**

Investments other than those categorised into 'financial assets at fair value through profit or loss' category are initially recognised at fair value which includes transaction costs which are directly attributable to the acquisition of the securities. Investments classified as 'financial assets at fair value through profit or loss' are initially recognised at fair value and transaction costs are expensed in the profit and loss account. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the settlement date.

### **5.8.3 Subsequent measurement**

Investments classified as 'financial assets at fair value through profit or loss' are subsequently measured at their fair values and gains and losses arising from changes in fair value are included in the profit and loss account. Available for sale investments are subsequently measured at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002. In case of quoted equity securities, the market value is determined by using Stock Exchange quotations at the balance sheet date. However, in case of Government securities the market value is determined using rates announced by the Financial Market Association. Investments classified as held to maturity are subsequently measured at amortised cost less any impairment losses, taking into account any discount or premium on acquisition by using the effective interest rate method.

### **5.8.4 Impairment against financial assets**

The Company assesses at each balance sheet date whether there is an objective evidence that the financial asset or a group of financial assets is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, as the case may be, is taken to the profit and loss account. For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash outflows, discounted at the original effective interest rate.

### **5.8.5 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

### **5.9 Reinsurance recoveries against outstanding claims**

These are recognised as assets at the same time as the claims which gives rise to the right of recovery are recognised as liabilities and are measured at the amount expected to be recovered after considering an impairment in relation thereto.

### **5.10 Deferred commission expense and deferred acquisition costs**

Commission and other acquisition costs incurred in obtaining and recording policies of insurance and re-insurance are deferred and recognized as an asset on acquisition of the related policies. Accordingly, these costs are charged to the profit and loss account as an expense based on the pattern of recognition of related premium revenue.

### **5.11 Prepaid reinsurance**

Reinsurance expense is recognised evenly in the period of indemnity. The portion of reinsurance contribution not recognised as an expense is shown as a prepayment.

### **5.12 Sundry receivables**

These are recognised at cost, which is the fair value of the consideration receivable less impairment, if any.

### **5.13 Fixed assets**

#### **Owned assets**

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future

economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditure are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation on additions is charged for the full year in which an asset is available for use and no depreciation is charged on the assets disposed off or retired during the year.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal, if any, of assets are included in income currently.

#### **Assets subject to finance lease**

The assets under finance lease are recorded at an amount equal to fair value of the leased assets at inception of the lease or, if lower, at the present value of minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease.

Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on outstanding liability.

Depreciation is charged to income on leased assets applying the straight-line method on a basis similar to owned assets.

#### **Intangible assets**

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over the estimated useful lives. The useful lives and amortisation method are reviewed and adjusted, if appropriate, at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment losses, if any.

Amortisation on additions / deletions during the year is charged for the full year for which the asset remained in use. Amortisation on additions is charged for the full year in which an asset is available for use and no depreciation is charged on the assets disposed off or retired during the year.

#### **Impairment**

The carrying values of the Company's fixed assets are reviewed at each financial year end for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

#### **5.14 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

#### **5.15 Financial instruments**

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expires or is transferred along with the risk and reward of ownership of the asset. Financial

liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

#### **5.16 Off-setting of financial assets and financial liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off and the Company intends either to settle the assets and liabilities on a net basis or to realise the asset and settle the liability simultaneously.

#### **5.17 Revenue recognition**

Premium income under a policy is recognized over the period of insurance from the date of inception of the policy to which it relates till its expiry in case of marine cargo business whereas for all other cases premium income is recognized as a difference between total premium written and provision for unearned premium using 1/24<sup>th</sup> method as mentioned in note 5.4.2 to the financial statements.

Commission income is being taken to the profit and loss account, on a time proportionate basis, in accordance with the pattern of recognition of reinsurance premium to which they relate.

Administrative surcharge recovered by the Company from policy holders is included in income currently.

Return on bank balances and government securities is recognised on an accrual basis.

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

Gain / loss on sale / redemption of investments is included in the profit and loss account in the period of sale / redemption.

#### **5.18 Taxation**

##### **Current**

Provision for current taxation is based on taxable income at the current rate of taxation after taking into account rebates and tax credits available, if any.

##### **Deferred**

Deferred tax is recognized using the balance sheet liability method on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that the taxable profits will be available against which these can be utilized.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

#### **5.19 Staff benefits**

##### **Defined contribution plan**

The Company operates an approved provident fund scheme for its permanent employees who have completed the minimum qualifying period of service. Equal monthly contributions to the fund are made both by the Company and employees at the rate of 10% of the basic salary.



### **Defined benefit plan**

The Company operates an approved funded gratuity scheme for all permanent employees who have completed minimum prescribed period of service under the scheme. Contributions are made to the scheme on the basis of independent actuarial valuation using the Projected Unit Credit method.

Actuarial gain or loss is recognized as income or expense when the cumulative unrecognized actuarial gain or loss at the end of the previous reporting period exceeds 10% of the higher of the present value of the defined benefit obligation or the fair value of plan assets at that date. The gain or loss is recognized over the expected average remaining working lives of the employees participating in the plan.

### **Compensated absences**

The Company accounts for the liability in respect of employees' compensated absences in the period in which they are earned.

#### **5.20 Premiums due but unpaid**

These are recognised at cost, which is the fair value of the consideration receivable, less provision for impairment, if any.

#### **5.21 Amount due from / to other insurers / reinsurers**

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

#### **5.22 Management expenses**

These are allocated to various classes of business in proportion to the respective gross premium written for the year.

#### **5.23 Dividends and appropriations to reserves**

Dividends and appropriations to reserves are recorded in the period in which these are approved.

#### **5.24 Foreign currencies transactions**

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

#### **5.25 Earnings per share**

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

## 6. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

	Note
Underwriting provisions	5.4
Classification of investments	5.8 & 12
Reinsurance recoveries against outstanding claims	5.9
Deferred acquisition costs	5.10 & 18
Useful lives of assets and methods of depreciation	5.13 & 17
Deferred taxation	5.18 & 21
Defined benefit plan	5.19 & 8.1

## 7. SHARE CAPITAL

### Authorised share capital

2011 (Number of shares)	2010 (Number of shares)		2011 (Rupees in thousand)	2010 (Rupees in thousand)
<u>50,000,000</u>	<u>50,000,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>500,000</u>	<u>500,000</u>

### Paid-up share capital

Issued, subscribed and fully paid-up:

2011 (Number of shares)	2010 (Number of shares)		2011 (Rupees in thousand)	2010 (Rupees in thousand)
<u>35,000,000</u>	<u>35,000,000</u>	Ordinary shares of Rs. 10 each fully paid in cash	<u>350,000</u>	<u>350,000</u>

As at December 31, 2011, 10,499,993 (2010:10,499,993) ordinary shares were held by NIB Bank Limited, an associate of the Company.

## 8. OTHER CREDITORS AND ACCRUALS

	Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)
Commission payable		58,217	37,954
Federal excise duty payable		22,345	14,317
Federal insurance fee payable		1,460	920
Security deposits		4,087	2,258
Payable to gratuity fund	8.1	3,244	15,053
Provision for compensated absences		1,577	3,348
Others		4,271	4,321
		<u>95,201</u>	<u>78,171</u>

**8.1 Payable to gratuity fund**

	2011	2010
	(Rupees in thousand)	
Opening balance	15,053	11,690
Charge for the year	3,191	3,363
Contributions	(15,000)	-
Closing balance	<u>3,244</u>	<u>15,053</u>

The benefits under the gratuity scheme are payable on retirement at the age of sixty years, resignation, or earlier cessation of service. The benefit is equal to one month's last basic salary drawn for each year of eligible service. The minimum qualifying period for eligibility under the plan is five years of continuous service.

The information provided below has been obtained from the actuarial valuation carried out as at December 31, 2011. The following significant assumptions have been used for valuation of this scheme:

	2011	2010
	(%)	
Valuation discount rate	12.5	14
Salary increase rate	11.5	12
Expected return on plan assets	12.5	12.5

**Reconciliation of payable to gratuity fund**

Present value of defined benefit obligation	18,176	12,719
Fair value of plan assets	(23,023)	(7,192)
Unrecognised actuarial loss	8,091	9,526
	<u>3,244</u>	<u>15,053</u>

**Movement in present value of defined benefit obligations**

Opening balance	12,719	11,598
Current service cost	3,543	3,038
Interest cost	1,739	1,702
Benefits paid	(595)	-
Actuarial loss / (gain)	770	(3,619)
Closing balance	<u>18,176</u>	<u>12,719</u>

**Movement in fair value of plan assets**

Opening balance	7,192	6,365
Expected return on plan assets	1,174	847
Contributions	15,000	-
Benefits paid	(595)	-
Actuarial gain / (loss)	252	(20)
Closing balance	<u>23,023</u>	<u>7,192</u>

**Charge for the year**

Current service cost	3,543	3,038
Interest cost	1,739	1,702
Expected return on plan assets	(1,174)	(847)
Actuarial gain recognised	(917)	(530)
	<u>3,191</u>	<u>3,363</u>

**Actual return on plan assets**

	<u>1,426</u>	<u>867</u>
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**Plan assets comprise the following:**

	2011		2010	
	(Rupees in thousand)	%	(Rupees in thousand)	%
Term deposit receipts	20,188	87.69	7,192	100
Bank deposits	2,835	12.31	-	-
<b>Total</b>	<b>23,023</b>	<b>100</b>	<b>7,192</b>	<b>100</b>

**4 year data on deficit of the plan (before actuarial gains and losses) is as follows:**

	2011	2010	2009	2008
	(Rupees in thousand)			
<b>Historical information</b>				
Present value of defined benefit obligations	(18,176)	(12,719)	(11,598)	(9,315)
Fair value of plan assets	23,023	7,192	6,365	5,748
<b>Surplus / (Deficit)</b>	<b>4,847</b>	<b>(5,527)</b>	<b>(5,233)</b>	<b>(3,567)</b>

**4 year data on experience adjustments is as follows:**

	2011	2010	2009	2008
	(Rupees in thousand)			
Experience (loss) / gain on obligations	(770)	3,619	2,437	1,367
Experience gain / (loss) on plan assets	252	(20)	(245)	(39)
	<b>(518)</b>	<b>3,599</b>	<b>2,192</b>	<b>1,328</b>

Expected contribution to the plan for the year ending December 31, 2012 is Rs 2.867 million (2011: Rs 2.894 million).

**9. OBLIGATION UNDER MUSHARAKAH AGREEMENT**

	2011	2010
	(Rupees in thousand)	
Opening balance	5,816	-
Obtained during the year	1,547	6,017
	7,363	6,017
Repaid during the year	(1,255)	(201)
<b>Closing Balance</b>	<b>6,108</b>	<b>5,816</b>

	2011		2010	
	Minimum lease payments	Present value	Minimum lease payments	Present value
(Rupees in thousand)				
Not later than one year	2,433	1,513	2,168	1,203
Later than one year and not later than five years	5,836	4,595	6,148	4,613
	8,269	6,108	8,316	5,816
Less: Amount representing future finance charges	2,161	-	2,500	-
	6,108	6,108	5,816	5,816
Less: Current portion	2,433	1,513	2,168	1,203
	<b>3,675</b>	<b>4,595</b>	<b>3,648</b>	<b>4,613</b>

**9.1** This represents obligation under Musharakah Agreement with a Modaraba for purchase of vehicles. The share of the Modaraba in the musharakah asset is payable in monthly installments and mark up rate on this arrangement ranges between 18.24% to 18.40% per annum (December 31, 2010: Ranges between 17.83% to 18% per annum).

## 10. CONTINGENCIES

The tax assessment of the Company has been finalised upto and including the tax year 2011. The tax returns filed are to be taken as deemed assessment in terms of Section 120 of the Income Tax Ordinance, 2001. However, while finalising the tax audit for the tax year 2007, the Taxation Officer had disallowed certain expenses claimed by the Company and raised a demand of Rs 3.175 million. The Company has filed an appeal before the Commissioner of Income Tax (Appeals) against the impugned order which is pending adjudication. The management, based on the advice of its tax advisor, is confident of a favourable outcome and accordingly, no provision in this respect has been made in these financial statements.

During the year ended 2009, the Taxation Officer had passed an order along with notice of demand under section 161/205 of the Income Tax Ordinance, 2001, on alleged default of non-deduction of withholding tax on payments of insurance premium to non-resident reinsurer for tax year 2009. The tax authorities had filed a writ petition against the Company along with other insurance companies in the High Court of Sindh. The petition has been dismissed by the Court and favorable outcome has been given in favor of the Company along with other insurance companies. The Company had also filed an appeal with the Commissioner Income Tax Appeals which is pending adjudication, to date. The tax impact of the above amounts to Rs 5.48 million against which no provision has been made in these financial statements, as the Company is confident of a favorable outcome.

	Note	2011	2010
(Rupees in thousand)			
<b>11. CASH AND BANK DEPOSITS</b>			
Cash and other equivalents			
- cash in hand		-	-
- stamps in hand		410	129
		<u>410</u>	<u>129</u>
Current and other accounts			
- current accounts	11.1	43,944	12,950
- saving accounts	11.2	21,919	54,810
		65,863	67,760
Deposits maturing within 12 months - Term deposit receipts	11.3	170,000	150,000
		<u>236,273</u>	<u>217,889</u>

11.1 This includes balance of Rs 43.929 million (2010: Rs 12.93 million) with a commercial bank (related party).

11.2 These carry interest rate of 10% (2010: 9% to 11 %) per annum and include balance of Rs. 21.902 million (2010: Rs 54.79 million) with a commercial bank (related party).

11.3 This represents term deposits with a commercial bank carrying interest rate of 11.5% (2010: 11% to 13%) per annum and will mature by March 2012.

	Note	2011	2010
(Rupees in thousand)			
<b>12. INVESTMENTS</b>			
<b>Designated at fair value through profit and loss account</b>			
Mutual funds	12.1	2,853	207
Listed shares	12.2	13,298	13,677
Government Securities	12.3	38,031	36,770
		<u>54,182</u>	<u>50,654</u>

**12.1 Mutual funds**

	2011	2010		2011	2010
	No. of Units		Name of Entity	(Rupees in thousand)	
	65,587	65,587	Golden Arrow Selected Stocks Fund Limited-closed end fund	178	207
	26,659	-	PICIC Cash Fund - open end fund	2,675	-
				<u>2,853</u>	<u>207</u>

**12.2 Listed shares**

	No. of shares			2011	2010
	10,312	9,375	Arif Habib Corporation Limited	146	233
	35,000	35,000	Azgard Nine Limited	100	339
	2,812	2,812	Fatima Fertilizer Company Limited	64	32
	17,250	15,000	GlaxoSmithKline Limited	1,157	1,323
	12,100	11,000	Habib Bank Limited	1,284	1,342
	5,500	5,000	MCB Bank Limited	740	1,142
	12,500	10,000	National Bank of Pakistan	513	769
	10,000	10,000	Nishat Mills Limited	405	641
	10,000	10,000	Oil and Gas Development Company Limited	1,516	1,708
	41,540	26,400	Pakistan Petroleum Limited	6,992	5,732
	2,000	2,000	Shell Pakistan Limited	381	416
				<u>13,298</u>	<u>13,677</u>

**12.3 Government Securities - Market treasury bills**

These securities have been deposited with the State Bank of Pakistan in compliance with the requirements of section 29 of the Insurance Ordinance, 2000. These carry rate of return of 12.49% (December 31, 2010: 12.78%) per annum and will mature in August 2012.

**13. DEFERRED TAXATION**

The Company has an aggregate amount of Rs 108.523 million (2010: Rs 112.750 million) in respect of tax losses as at December 31, 2011 on which deferred tax assets amounting to Rs 37.983 million is available to the Company. The management carries out periodic assessment to assess the benefit of these losses whether the Company would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax asset amounting to only Rs 3.430 million (2010: Rs Nil). The amount of this benefit has been determined based on the financial projections for the future periods. The determination of future taxable profit is most sensitive to certain key assumptions such as gross premium written, reinsurance ceded, net claim expenses, investment returns, net commission expense and related expenses. Any significant change in the key assumptions may have an effect on the realisability of the deferred tax asset.

	Note	2011	2010
		(Rupees in thousand)	
<b>14. PREMIUMS DUE BUT UNPAID - UNSECURED</b>			
Considered good	14.1	347,096	248,161
Considered doubtful		18,502	25,910
		365,598	274,071
Provision for doubtful recovery	14.2	(18,502)	(25,910)
		<u>347,096</u>	<u>248,161</u>

14.1 This includes an amount of Rs 13.045 million (2010: Rs 11.4 million) due from related parties.

	2011	2010
	(Rupees in thousand)	
<b>14.2</b> The movement for provision of doubtful recovery is as follow:		
Opening balance	25,910	25,910
Charge for year	-	-
Reversal	(7,408)	-
Closing balance	<u>18,502</u>	<u>25,910</u>

## 15. DEFERRED ACQUISITION COSTS

The Company follows a policy of apportioning its management expenses between the earned and unearned portion of premium written by charging as expense the portion relating to the earned portion and carrying forward as deferred acquisition costs the portion relating to the unearned portion of premium written.

Based on an onsite inspection of the Company under section 59A of the Insurance Ordinance, 2000 the SECP issued a show cause notice to the Company on January 20, 2011 in respect of recognition of management expenses as deferred acquisition costs.

After hearing the management arguments, the SECP in its order dated March 20, 2012 has advised that the management expenses currently being deferred by the Company should not be deferred in future in entirety and should be charged in the profit and loss account in the period in which they are incurred based on their nature.

In accordance with the directives of the SECP the management of the Company is currently carrying out an exercise to identify expenses which need to be charged to the profit and loss account and those which can be deferred. Based on the results of this exercise management will revisit its accounting treatment of allocation of expenses in the financial statements for the year ending December 31, 2012.

16. PREPAYMENTS	2011	2010
	(Rupees in thousand)	
Prepaid reinsurance premium ceded	149,385	136,772
Others	5,330	4,962
	<u>154,715</u>	<u>141,734</u>

## 17. FIXED ASSETS

Description	2011									
	Cost			Accumulated depreciation / amortization				Written down value		Rate (%)
	At the beginning of the year	Additions	Disposals	At the end of the year	At the beginning of the year	Charge for the year	Disposals	At the end of the year	At the end of the year	
	(Rupees in thousand)									
<b>Tangible-Owned</b>										
Furniture and fixture	7,378	-	-	7,378	6,757	479	-	7,236	142	20
Office equipment	4,408	777	(216)	4,969	3,926	469	(182)	4,213	756	20
Computer equipment	8,108	1,383	(373)	9,118	6,887	1,075	(373)	7,589	1,529	33.33
Motor vehicles	4,634	605	(1,186)	4,053	4,423	309	(1,186)	3,546	507	20
	<u>24,528</u>	<u>2,765</u>	<u>(1,775)</u>	<u>25,518</u>	<u>21,993</u>	<u>2,332</u>	<u>(1,741)</u>	<u>22,584</u>	<u>2,934</u>	
<b>Tangible - Under Musharakah agreement</b>										
Motor vehicles	6,685	1,719	-	8,404	1,337	1,681	-	3,018	5,386	20
	<u>31,213</u>	<u>4,484</u>	<u>(1,775)</u>	<u>33,922</u>	<u>23,330</u>	<u>4,013</u>	<u>(1,741)</u>	<u>25,602</u>	<u>8,320</u>	
<b>Intangible</b>										
Computer software	4,290	173	-	4,463	3,930	321	-	4,251	212	33.33
<b>Total</b>	<u>35,503</u>	<u>4,657</u>	<u>(1,775)</u>	<u>38,385</u>	<u>27,260</u>	<u>4,334</u>	<u>(1,741)</u>	<u>29,853</u>	<u>8,532</u>	
	2010									
Description	Cost			Accumulated depreciation / amortization				Written down value		Rate (%)
	At the beginning of the year	Additions	Disposals	At the end of the year	At the beginning of the year	Charge for the year	Disposals	At the end of the year	At the end of the year	
	(Rupees in thousand)									
<b>Tangible-Owned</b>										
Furniture and fixture	7,709	-	(331)	7,378	6,561	498	(302)	6,757	621	20
Office equipment	4,244	178	(14)	4,408	3,348	590	(12)	3,926	482	20
Computer equipment	6,739	1,815	(446)	8,108	6,450	883	(446)	6,887	1,221	33.33
Motor vehicles	4,782	39	(187)	4,634	4,366	229	(172)	4,423	211	20
	<u>23,474</u>	<u>2,032</u>	<u>(978)</u>	<u>24,528</u>	<u>20,725</u>	<u>2,200</u>	<u>(932)</u>	<u>21,993</u>	<u>2,535</u>	
<b>Tangible - Under Musharakah agreement</b>										
Motor vehicles	-	6,685	-	6,685	-	1,337	-	1,337	5,348	20
	<u>23,474</u>	<u>8,717</u>	<u>(978)</u>	<u>31,213</u>	<u>20,725</u>	<u>3,537</u>	<u>(932)</u>	<u>23,330</u>	<u>7,883</u>	
<b>Intangible</b>										
Computer software	4,000	290	-	4,290	3,667	263	-	3,930	360	33.33
<b>Total</b>	<u>27,474</u>	<u>9,007</u>	<u>(978)</u>	<u>35,503</u>	<u>24,392</u>	<u>3,800</u>	<u>(932)</u>	<u>27,260</u>	<u>8,243</u>	

17.1 The depreciation / amortisation charge for the year has been allocated as follows:

	Note	2011	2010
(Rupees in thousand)			
Management expenses	18	3,005	3,091
General and administrative expenses	19	1,329	709
		<u>4,334</u>	<u>3,800</u>

17.2 Cost of fully depreciated fixed assets that are still in the Company's use, as at December 31, 2011, amounted to Rs 19.506 million (2010: Rs 21.1 million).

17.3 There are no disposals of fixed assets during the year having written down value of more than Rs. 50,000.

	Note	2011	2010
(Rupees in thousand)			
<b>18. MANAGEMENT EXPENSES</b>			
Salaries, wages and other benefits	18.1	81,614	64,889
Rent, rates and taxes		7,039	5,542
Depreciation / amortisation	17.1	3,005	3,091
Utilities		2,645	2,161
Repairs and maintenance		-	1,299
Travelling and conveyance		1,726	1,721
Printing and stationery		842	746
Entertainment		-	597
Vehicle running expenses		1,606	1,145
Advertisement		-	421
Computer charges		-	806
Communication		2,013	2,087
Survey Fee		199	757
Others		112	669
		<u>100,801</u>	<u>85,931</u>
Add: Opening deferred acquisition costs		<u>34,547</u>	<u>28,033</u>
		135,348	113,964
Less: Closing deferred acquisition costs		<u>50,613</u>	<u>34,547</u>
		<u>84,735</u>	<u>79,417</u>

18.1 This includes an amount of Rs. 5.129 million (2010: Rs. 5.9 million) in respect of staff retirement benefits.



<b>19. GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>(Rupees in thousand)</b>			
Salaries, wages and other benefits	19.1	25,974	15,546
Rent, rates and taxes		1,830	3,377
Depreciation / amortisation	17.1	1,329	709
Utilities		816	1,326
Repairs and maintenance		1,509	303
Travelling and conveyance		205	-
Printing and stationery		763	-
Entertainment		774	-
General office expenses		1,215	1,064
Vehicle running expenses		1,193	182
Advertisement		579	90
Computer charges		1,428	454
Communication		339	54
Books and periodicals		893	840
Auditors' remuneration	19.2	760	775
Legal and professional charges		4,780	3,335
Others		1,858	733
		<u>46,245</u>	<u>28,788</u>

**19.1** This includes an amount of Rs. 1.714 million (2010: Rs. 0.6 million) in respect of staff retirement benefits.

<b>19.2 Auditors' remuneration</b>	<b>2011</b>	<b>2010</b>
<b>(Rupees in thousand)</b>		
Audit fee	400	350
Half yearly review	150	150
Regulatory return and CCG	100	100
Taxation	-	75
Out of pocket expenses	110	100
	<u>760</u>	<u>775</u>

<b>20. OTHER CHARGES</b>	<b>2011</b>	<b>2010</b>
Contribution to Workers' Welfare Fund	172	103
Exchange loss	296	-
Bank charges	231	237
	<u>699</u>	<u>340</u>

## **21. TAXATION**

**21.1** No provision for current taxation for the year has been made in these financial statements as the Company had brought forward aggregate tax losses as at December 31, 2011 amounting to Rs 108.523 million (2010: 112.750 million) against which taxable income for the current year has been set off except for the tax charge in respect of tax liability against dividend income.

**21.2** Current tax charge has only been recorded in respect of dividend income which has been treated as a separate block of income. The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Company has accumulated losses in prior periods which have been used to set off taxable profits for the current year except for dividend income earned during the year.

- 21.3 Under section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Company has filed the returns of income for the tax years from 2005 to 2011 on due dates. These returns were deemed completed under the provisions of the prevailing income tax law as applicable in Pakistan during the relevant accounting years.

22. OTHER INCOME	2011	2010
	(Rupees in thousand)	
Exchange gain	-	239
Service income from co-insurer arrangements	-	2,477
Reversal of excess provision against premium due but unpaid	7,408	-
	<u>7,408</u>	<u>2,716</u>

23. EARNINGS PER SHARE - basic and diluted

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares as at the year end as follows:

	2011	2010
	(Rupees in thousand)	
Profit after tax for the year	<u>11,770</u>	<u>5,027</u>
	(Number in thousand)	
Weighted average number of shares of Rs 10 each	<u>35,000</u>	<u>35,000</u>
	(Rupee)	
Basic earnings per share of Rs 10 each	<u>0.34</u>	<u>0.14</u>

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

24. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

- 24.1 Aggregate amounts charged in the financial statements for remuneration, including all benefits to the Chief Executive Officer, Directors, and Executives of the Company are as follows:

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees in thousand)					
Managerial remuneration	9,056	-	38,748	9,056	-	27,046
Leave Fare Assistance	1,472	-	-	1,061	-	-
Housing and utilities	109	-	227	152	-	77
Medical expenses	224	-	832	183	-	366
Others	284	-	214	183	-	163
	<u>11,145</u>	<u>-</u>	<u>40,021</u>	<u>10,635</u>	<u>-</u>	<u>27,652</u>
Number of persons	<u>1</u>	<u>8</u>	<u>15</u>	<u>1</u>	<u>6</u>	<u>11</u>

- 24.2 The Chief Executive Officer and one other executive are also provided with the Company maintained cars.

## 25. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of associated entities having directors in common, major shareholders, directors and key management personnel. The transactions with related parties, other than remuneration of key management personnel (which is disclosed in note 24.1) are as follows:

Transactions	2011	2010
	(Rupees in thousand)	
Premium written	18,786	18,717
Claims paid	38,593	2,686
Return on bank balances	6,338	4,665
Bank charges	231	163
Contribution for staff provident fund	3,652	2,935
Contribution to gratuity fund	15,000	-
Charge in respect of gratuity fund	3,191	3,363
<b>Balances outstanding at year end</b>		
Bank deposits	65,831	67,724
Investments	2,675	-
Payable to gratuity fund	3,244	15,053
Premiums due but unpaid	13,045	11,429

## 26. SEGMENT REPORTING

26.1 The Company's business is organized and managed separately according to the nature of services provided with the following segments:

- Fire and property insurance provides coverage against damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation and other related perils.
- Marine, aviation and transport insurance provides coverage against cargo risk, war risk, damages occurring in inland transit and other related perils.
- Motor insurance provides comprehensive car coverage, indemnity against third party loss and other related coverage.
- Accident and health insurance provides coverage against personal accident, hospitalization and other medical benefits.
- Credit and surety ship insurance provides coverage against failure of fulfillment of guarantees by policy holders or default on receipt of debts due.
- Miscellaneous insurance provides coverage against burglary, loss of cash in safe and cash in transit, engineering losses, travel and other coverage.

## 26.2 Segment results

2011						
Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and Surety ship	Miscellaneous	Total
(Rupees in thousand)						
Net premium revenue	37,921	24,175	122,376	21,524	2,500	224,914
Net claims	(15,393)	(15,948)	(84,835)	(16,528)	-	(143,668)
Premium deficiency expense	-	113	-	100	89	489
	22,528	8,340	37,541	5,096	2,589	81,735
Management expenses	(25,113)	(16,690)	(19,591)	(5,533)	(8,277)	(84,735)
Net commission	15,947	6,637	(9,719)	1,898	3,918	22,981
	(9,166)	(10,053)	(29,310)	(3,635)	(4,359)	(61,754)
Segment results	13,362	(1,713)	8,231	1,461	(1,770)	19,981
Net investment income						3,441
Return on bank balances						24,836
Gain on disposal of fixed assets						709
Other income						7,408
						56,375
General and administrative expenses						(46,245)
Financial charges						(1,007)
Other charges						(699)
Profit before taxation						8,424
2010						
Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and Surety ship	Miscellaneous	Total
(Rupees in thousand)						
Net premium revenue	30,048	21,548	98,268	3,636	4,090	166,770
Net claims	(6,014)	(7,039)	(71,218)	(531)	-	(91,135)
Premium deficiency expense	-	(579)	-	(100)	(435)	(1,301)
	24,034	13,930	27,050	3,005	3,655	74,334
Management expenses	(17,677)	(17,107)	(17,087)	(10,210)	(8,240)	(79,417)
Net commission	2,664	5,449	(8,269)	5,346	2,261	9,973
	(15,013)	(11,658)	(25,356)	(4,864)	(5,979)	(69,444)
Segment results	9,021	2,272	1,694	(1,859)	(2,324)	4,890
Net investment income						6,221
Return on bank balances						20,454
Gain on disposal of fixed assets						115
Other income						2,716
						34,396
General and administrative expenses						(28,788)
Financial charges						(178)
Other charges						(340)
Profit before taxation						5,090

## 26.3 Other information - Statement of Assets and Liabilities

2011						
Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and Surety ship	Miscellaneous	Total
(Rupees in thousand)						
Segment assets	256,310	74,482	259,163	16,102	19,455	734,279
Unallocated assets	-	-	-	-	-	332,453
Consolidated total assets	-	-	-	-	-	1,066,732
Segment liabilities	253,967	119,624	257,220	26,881	17,570	774,673
Unallocated liabilities	-	-	-	-	-	49,452
Consolidated total liabilities	-	-	-	-	-	824,125
2010						
Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and Surety ship	Miscellaneous	Total
(Rupees in thousand)						
Segment assets	184,244	87,015	156,652	35,331	19,312	613,667
Unallocated	-	-	-	-	-	306,255
Consolidated total assets	-	-	-	-	-	919,922
Segment liabilities	203,071	106,828	174,257	26,252	18,711	640,035
Unallocated	-	-	-	-	-	49,050
Consolidated total liabilities	-	-	-	-	-	689,085

**27. FINANCIAL INSTRUMENTS BY CATEGORY**

**Financial assets and financial liabilities**

**Financial assets**

**Loans and receivables - amortised cost**

**Cash and bank deposits**

	2011	2010
Cash and other equivalents	410	129
Current and other accounts	65,863	67,760
Deposits maturing within 12 months	170,000	150,000
	<b>236,273</b>	<b>217,889</b>

**Current assets - others**

Premiums due but unpaid	347,096	248,161
Amounts due from other insurers / reinsurers	111,521	119,853
Accrued interest	2,051	9,858
Reinsurance recoveries against outstanding claims	44,464	53,713
Sundry and other receivables	3,838	-
	<b>508,970</b>	<b>431,585</b>

**Investments - at fair value through profit or loss**

	54,182	50,654
	<b>799,425</b>	<b>700,128</b>

**Financial Liabilities**

**Amortised cost**

Provision for outstanding claims (including IBNR)	115,046	128,089
Amounts due to other insurers / reinsurers	223,073	228,581
Accrued expenses	6,165	2,822
Unclaimed dividend	195	195
Obligation under musharakah agreement	6,108	5,816
Other creditors and accruals	67,616	47,434
	<b>418,203</b>	<b>412,937</b>

**28. 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 transaction. Consequently, differences may arise between the carrying values and the fair value estimates. The fair values of all the financial assets and liabilities are estimated to be not significantly different from their carrying values.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares, treasury bills etc) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Company is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

IFRS 7, 'Financial instruments: Disclosures' requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	<b>2011</b>			<b>Total</b>
	<b>(Rupees in thousand)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Financial assets designated at fair value through profit or loss				
- Equity securities	16,151	-	-	16,151
- Government treasury bills	-	38,031	-	38,031

	<b>2010</b>			<b>Total</b>
	<b>(Rupees in thousand)</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Financial assets designated at fair value through profit or loss				
- Equity securities	13,884	-	-	13,884
- Government treasury bills	-	36,770	-	36,770

## **29. RISK MANAGEMENT**

### **29.1 Risk management framework**

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Board of Directors of the Company supervises the overall risk management approach within the Company. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board to Executive Management Committees and Senior Managers.

### **29.2 Insurance risks**

The Company mainly issues the following types of insurance contracts:

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

These contracts are normally one year insurance contracts except marine contracts which are generally for a period of 3 to 6 months.

This includes an amount of Rs 13.045 million (2010: Rs 11.4 million) due from related parties.

### 29.2.1 Frequency and severity of claims

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or timing thereof, differ from expectations. This is influenced by frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

### 29.2.2 Reinsurance Arrangements

Such risk exposure is mitigated by diversification across a large portfolio of insurance contracts and careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Strict claim review policies to assess all new and ongoing claims and regular detailed review of claims handling procedures are also put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future development.

In compliance of the regulatory requirement, the reinsurance agreements are duly submitted to the Securities and Exchange Commission of Pakistan on an annual basis.

The Company's class wise risk exposure (based on maximum loss coverage in a single policy) is as follows:

	2011		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	3,311,000	3,254,000	57,000
Marine, aviation and transport	3,132,000	3,093,000	39,000
Motor	22,040	13,224	8,816
Accident and health	750	-	750
Credit and surety ship	69,556	69,556	-
Miscellaneous	2,063,000	2,059,000	4,000
	<u>8,598,346</u>	<u>8,488,780</u>	<u>109,566</u>
	2010		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	1,932,000	1,908,000	24,000
Marine, aviation and transport	3,074,000	3,036,000	38,000
Motor	12,312	10,612	1,700
Accident and health	750	750	-
Credit and surety ship	79,809	75,819	3,990
Miscellaneous	2,049,000	2,046,500	2,500
	<u>7,147,871</u>	<u>7,077,681</u>	<u>70,190</u>

The table below sets out the concentration of insurance contract liabilities by type of contract:

	<b>2011</b>		
	<b>Gross liabilities</b>	<b>Gross assets</b>	<b>Net liabilities / (assets)</b>
	<b>(Rupees in thousand)</b>		
Fire and property	253,967	256,310	(2,343)
Marine, aviation and transport	119,624	74,482	45,142
Motor	257,220	259,163	(1,943)
Accident and health	26,881	16,102	10,779
Credit and surety ship	17,570	19,455	(1,885)
Miscellaneous	99,411	108,767	(9,356)
	<u>774,673</u>	<u>734,279</u>	<u>40,394</u>
	<b>2010</b>		
	<b>Gross liabilities</b>	<b>Gross assets</b>	<b>Net liabilities / (assets)</b>
	<b>(Rupees in thousand)</b>		
Fire and property	203,071	184,242	18,829
Marine, aviation and transport	106,828	87,015	19,813
Motor	174,257	156,652	17,605
Accident and health	26,252	35,333	(9,081)
Credit and surety ship	18,711	19,312	(601)
Miscellaneous	110,916	131,113	(20,197)
	<u>640,035</u>	<u>613,667</u>	<u>26,368</u>

### 29.2.3 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.

An estimated amount of the claim is recorded immediately on intimation to the Company. The estimation of the amount is based on the amount notified by the policy holder, 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 uses historical experience factor based on analysis of the past years claim reporting pattern.

There are several variable factors which affect the amount and timing of recognized claim liabilities. However, the management considers that uncertainty about the amount and timing of claim payments is generally resolved within a year. 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 recognized amounts.

### 29.2.4 Key assumptions

The principal assumption underlying the liability estimation of IBNR and premium deficiency reserve 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.



### 29.2.5 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:

	Effect of 10% increase in claims		Effect of 10% decrease in claims	
	Profit and Loss	Equity	Profit and Loss	Equity
	(Rupees in thousand)			
Fire and property	(1,539)	(1,539)	1,539	1,539
Marine, aviation and transport	(1,595)	(1,595)	1,595	1,595
Motor	(8,484)	(8,484)	8,484	8,484
Accident and health	(1,653)	(1,653)	1,653	1,653
Miscellaneous	(1,096)	(1,096)	1,096	1,096
	<u>(14,367)</u>	<u>(14,367)</u>	<u>14,367</u>	<u>14,367</u>

The above effects have been worked out on the assumption that increase / decrease in net claims expense pertains to individual segment in isolation.

### 29.3 Financial risk

#### (i) 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 market prices.

#### (a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest / mark-up rate risk in respect of the following:

Interest Rates	2011							
	Interest / mark-up bearing			Non-interest / mark-up bearing			Total	
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
(Rupees in thousand)								
<b>Financial assets</b>								
Cash and bank deposits	10% - 11.5%	191,919	-	191,919	44,354	-	44,354	236,273
Investments	12.49%	38,031	-	38,031	16,151	-	16,151	54,182
Premium due but unpaid		-	-	-	347,096	-	347,096	347,096
Amount due from other insurers / reinsurers		-	-	-	111,521	-	111,521	111,521
Accrued interest		-	-	-	2,051	-	2,051	2,051
Sundry and other receivables		-	-	-	-	3,838	3,838	3,838
Reinsurance recoveries against outstanding claims		-	-	-	44,464	-	44,464	44,464
		229,950	-	229,950	565,637	3,838	569,475	799,425
<b>Financial liabilities</b>								
Provision for outstanding claims (including IBNR)		-	-	-	115,046	-	115,046	115,046
Amounts due to other insurers / reinsurers		-	-	-	223,073	-	223,073	223,073
Other creditors and accruals		-	-	-	67,616	-	67,616	67,616
Accrued expenses		-	-	-	6,165	-	6,165	6,165
Unclaimed dividend		-	-	-	195	-	195	195
Obligation under musharakah agreement	18.24%-18.40%	1,513	4,595	6,108	-	-	-	6,108
		1,513	4,595	6,108	412,095	-	412,095	418,203
		<u>228,437</u>	<u>(4,595)</u>	<u>223,842</u>	<u>153,542</u>	<u>3,838</u>	<u>157,380</u>	<u>381,222</u>

2010							
Interest Rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
<b>(Rupees in thousand)</b>							
<b>Financial assets</b>							
Cash and bank deposits	9% - 13%	204,810	-	204,810	13,079	-	13,079
Investments	12.78%	36,770	-	36,770	13,884	-	13,884
Premium due but unpaid		-	-	-	248,161	-	248,161
Amount due from other insurers / reinsurers		-	-	-	119,853	-	119,853
Accrued interest		-	-	-	9,858	-	9,858
Sundry and other receivables		-	-	-	-	-	-
Reinsurance recoveries against outstanding claims		-	-	-	53,713	-	53,713
		241,580	-	241,580	458,548	-	458,548
<b>Financial liabilities</b>							
Provision for outstanding claims (including IBNR)		-	-	-	128,089	-	128,089
Amounts due to other insurers / reinsurers		-	-	-	228,581	-	228,581
Other creditors and accruals		-	-	-	47,434	-	47,434
Accrued expenses		-	-	-	2,822	-	2,822
Unclaimed dividend		-	-	-	195	-	195
Obligation under musharakah agreement	17.83%-18.00%	1,203	4,613	5,816	-	-	5,816
		1,203	4,613	5,816	407,121	-	407,121
		<b>240,377</b>	<b>(4,613)</b>	<b>235,764</b>	<b>51,427</b>	<b>-</b>	<b>51,427</b>

### Sensitivity analysis

The Company is exposed to interest risk in respect of saving bank deposits, borrowings under musharakah agreement, investments in Term Deposit Receipts and Government Securities comprising of Market Treasury Bills. For cash flow sensitivity analysis of variable and fixed rate instruments a hypothetical change of 100 basis points in interest rates at the reporting date would have decreased / (increased) profit for the year by the amounts shown below. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all variables remain constant.

	Profit and Loss	
	Increase	Decrease
<b>(Rupees in thousand)</b>		
<b>As at December 31, 2011</b>		
Cash flow sensitivity - financial assets	2,450	(2,450)
Cash flow sensitivity - financial liabilities	55	(55)
<b>As at December 31, 2010</b>		
Cash flow sensitivity - financial assets	2,150	(2,150)
Cash flow sensitivity - financial liabilities	10	(10)

**(b) Foreign currency risk**

Currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates. Foreign exchange risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As of the balance sheet date, the Company does not have material assets or liabilities which are exposed to foreign currency risk.

**(c) Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company manages its exposure to such risks by maintaining a diversified portfolio of investments.

The Company has investments in quoted equity securities amounting to Rs. 16.151 million (2010: Rs. 13.884 million) as at December 31, 2011 which have been carried at fair value. The carrying value of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the reporting date. Market prices are subject to fluctuation which may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions.

**Sensitivity analysis**

As the entire investment portfolio has been classified in the fair value through profit or loss category, a 10% increase / decrease in redemption value and share prices at year end would have increased / decreased unrealised gain / loss of investment recognized in profit and loss account by Rs 1.388 million.

**(ii) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. To guard against the risk, the Company maintains balance of cash and other equivalents and readily marketable securities. The maturity profile of assets and liabilities are also monitored to ensure adequate liquidity is maintained. All financial liabilities of the Company are short term in nature.

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The table below analysis the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date on an undiscounted cash flow basis.

	2011			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees in thousand)			
Provision for outstanding claims	115,046	115,046	115,046	-
Amounts due to other insurers / reinsurers	223,073	223,073	223,073	-
Other creditors and accruals	95,201	95,201	95,201	-
Accrued expenses	6,165	6,165	6,165	-
Unclaimed dividend	195	195	195	-
Obligation under musharakah agreement	6,108	6,108	1,513	4,595
	<b>445,788</b>	<b>445,788</b>	<b>441,193</b>	<b>4,595</b>

	2010			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
(Rupees in thousand)				
Provision for outstanding claims	128,089	128,089	128,089	-
Amounts due to other insurers / reinsurers	228,581	228,581	228,581	-
Other creditors and accruals	78,171	78,171	78,171	-
Accrued expenses	2,822	2,822	2,822	-
Unclaimed dividend	195	195	195	-
Obligation under musharakah agreement	5,816	5,816	1,203	4,613
	<u>443,674</u>	<u>443,674</u>	<u>439,061</u>	<u>4,613</u>

### (iii) 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. Credit risk also arises in respect of reinsurance contracts as reinsurance ceded does not relieve the Company from its obligation to policy holders and as a result the Company remains liable for the portion of outstanding claims ceded to the extent that the reinsurance operator fails to meet the obligation under the reinsurance arrangements. The Company attempts to control credit risk by monitoring credit exposures and continually assessing the credit worthiness of counterparties. The table below analysis the Company's maximum exposure to credit risk:

	2011	2010
	(Rupees in thousand)	
- Bank deposits*	235,863	217,760
- Premiums due but unpaid**	347,096	248,161
- Amounts due from other insurers / reinsurers***	111,521	119,853
- Accrued interest*	2,051	9,858
- Reinsurance recoveries against outstanding claims***	44,464	53,713
- Sundry and other receivables	4,099	-
	<u>745,094</u>	<u>649,345</u>

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

Bank deposits	Rating			2011	2010
	Short Term	Long Term	Agency	(Rupees in thousand)	
NIB Bank Limited	A1+	AA-	PACRA	65,830	67,724
Habib Metropolitan Bank Limited (including Term Deposit Receipts)	A1+	AA+	PACRA	170,017	150,017
Silk Bank Limited	A-	A-2	JCR VIS	16	19
Faysal Bank Limited	A1+	AA	PACRA	-	-
				<u>235,863</u>	<u>217,760</u>
<b>Accrued interest</b>					
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	<u>2,051</u>	<u>9,858</u>

\*\* The age analysis of premiums due but unpaid is as follows:

	2011	2010
	(Rupees in thousand)	
Upto 1 year	317,159	212,069
1 - 2 years	14,146	23,956
Over 2 years	15,791	12,136
	<u>347,096</u>	<u>248,161</u>

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets subject to credit risk is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

The table below analysis the concentration of credit risk by industrial distribution:

	2011	2010
	(%)	
Textile	13.72	24.30
Transport	3.54	9.25
Financial institutions	41.87	8.77
Hotels	5.98	7.72
Power	3.31	1.47
Oil and gas	1.36	1.62
Others	30.22	46.87
	<u>100</u>	<u>100</u>

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

Rating	2011		
	Amount due from reinsurers	Amount due from Co-insurers	Reinsurance recoveries against outstanding claims
	(Rupees in thousand)		
A or above	3,377	97,545	40,080
BBB	2,987	2,021	3,995
Other	5,591	-	389
	<u>11,955</u>	<u>99,566</u>	<u>44,464</u>
Rating	2010		
	Amount due from reinsurers	Amount due from Co-insurers	Reinsurance recoveries against outstanding claims
	(Rupees in thousand)		
A or above	9,180	106,680	39,837
BBB	3,074	919	4,732
Other	-	-	9,144
	<u>12,254</u>	<u>107,599</u>	<u>53,713</u>

**29.4 Capital management**

Capital requirements applicable to the Company are set and regulated by the SECP. These requirements are put in place to ensure sufficient paid up capital and solvency margins. The Company manages its capital requirement by assessing its capital structure against the required capital level on a regular basis. Currently, the Company has paid-up capital of Rs 350 million against the minimum required paid-up capital of Rs 300 million set by the SECP for the non-life insurance companies through issue of Circular No. 3 dated April 10, 2007 for the year ended December 31, 2011.

**30. DATE OF AUTHORISATION FOR ISSUE**

These financial statements have been authorised for issue on 27 March 2012 by the Board of Directors of the Company.

**31. GENERAL**

**31.1** Figures in these financial statements have been rounded off to the nearest thousand rupee.

**32. CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. No significant reclassifications were made during the current year.

## Notice of Annual General Meeting

Notice is hereby given that the Eighth Annual General Meeting of the Company will be held at the Institute of Chartered Accountants of Pakistan (ICAP) Auditorium, Chartered Accountants Avenue, Near Teen Talwar, Clifton, Karachi on Friday 27 April 2012 at 3.30 PM to transact the following business:

### Ordinary Business

1. To confirm the Minutes of the seventh Annual General Meeting held on 05 April 2011.
2. To receive and adopt the audited Financial Statements for the year ended 31 December 2011, together with Directors' Report and Auditors' Report thereon.
3. To appoint auditors for the year 2012 and to fix remuneration. The present auditors M/s. A.F.Ferguson & Co. Chartered Accountants being eligible, offer themselves for reappointment.
4. Any other matter with the permission of Chairman.

By Order of the Board

**Muhammad Haneed**  
Company Secretary

Karachi: 05 April 2012

### Notes:

1. The Share Transfer Register of the Company will remain closed from 20 April to 27 April 2012 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another person as his/her proxy to attend, speak and vote instead of his/her behalf at the meeting. Proxies, in order to be valid, must be received at the Registered Office of the Company situated at 8th floor, Shaheen Complex, M.R. Kayani Road, Karachi not later than 48 hours before the meeting. A member shall not be entitled to attend to appoint more than one proxy.
3. CDC shareholders are requested to bring their Computerized National Identity Cards, Accounts / Sub-Accounts Number and Participant's ID Number in the Central Depository Company (CDC) for identification purpose when attending the meeting. In case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
4. Shareholders are requested to notify the Company of any change of address immediately.
5. The Individual Members who have not yet submitted photocopy of their valid Computerized National Identity Card (CNIC) and the Corporate Members who have not yet submitted photocopy of their valid National Tax Number (NTN) to the Company are once again requested to send the same with the Folio number at the earliest directly to the Company's Share Registrar FAMCO Associates (Private) Limited, State Life Building # 1-A, 1st Floor, I.I.Chundrigar Road, Karachi.

Branch Network	Branch Head / Incharge	Details
<b>Karachi Corporate Branch</b>	Mr. Aseem Ahmed	Suit No.E-1,Executive Floor, Glass Tower, Main Clifton Road, Karachi. TEL : 021-3565 3394-5,3565 5612-3 & 3563 9712 FAX : 021-3565 4764
<b>Lahore Branch</b>	Mr. Nadeem Quraishi	House # 13/C, Block - K Main Boulevard, Gulberg - II,Lahore. TEL : 042-3575 4154 - 4155 & 4166 FAX : 042-3575 4167
<b>Islamabad Branch</b>	Mr. Muhammed Iftikhar Awan	Office # 16, 4th Floor Malik Complex, 80-West Jinnah Avenue, Blue Area, Islamabad. Tel : 051-287 0613-14, 227 1974, 287 6452 & 287 7020 Fax : 051-287 0621
<b>Multan Branch</b>	Mr. Muhammed Waheed Zafar	Ground floor, Commercial Plaza No. 1 Opp.Civil Hospital, Multan TEL : 061-458 9398 - 99 & 458 6665 FAX : 061-458 5896
<b>Faisalabad Branch</b>	Mr. Sajjad Ali	Ahmed Plaza, 4th Floor Civil Line, Bilal Road Faisalabad. Tel : 041-254 0420-22 Fax : 041-554 0423
<b>Sukkur Branch</b>	Mr. Muhammed Jamshed	Bunder Road, Upper Utility Store, Chacher House Sukkur. Tel : 071-562 7263 Fax : 071-562 7283



## Proxy Form

Annual General Meeting

I/We \_\_\_\_\_  
of \_\_\_\_\_  
a member/members of PICIC Insurance Limited and holder of \_\_\_\_\_  
share(s) as per Registered Folio No. \_\_\_\_\_ do hereby appoint  
\_\_\_\_\_ of \_\_\_\_\_ who is a member/non member of  
the Company vide Registered Folio No. \_\_\_\_\_ (or failing him/her  
\_\_\_\_\_ of \_\_\_\_\_ who is a member/non member of  
the Company vide Registered Folio No. \_\_\_\_\_ )  
as my/our Proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company  
to be held on Friday the 27 April 2012 at 3.30 P.M. and that at any adjournment thereof.

As witnesses my/our hand this \_\_\_\_\_ day of \_\_\_\_\_  
2012 in the presence of (Name, Address and NIC Number).

Signature of witness.

Signed by the said member

Please affix here  
rupee five revenue  
stamp

**Note:** A member entitled to attend and vote at this meeting may appoint another member/non member as his/her proxy to attend, speak and vote on his/her behalf at the meeting. Proxies, in order to be valid, must be complete in all respect and be received by Shares Registrar of the Company, FAMCO Associates (Pvt.) Ltd., State Life Building 1-A, 1st Floor I.I. Chundrigar Road, Karachi, not later than 48 hours before the meeting.