



**NEW HAMPSHIRE INSURANCE COMPANY –
PAKISTAN BRANCH**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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AUDITORS' REPORT TO THE DIRECTORS

We have audited the annexed financial statements comprising of:

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

of New Hampshire Insurance Company - Pakistan Branch (the Branch) as at 31 December 2010 together with notes forming part thereof, for the year then ended.

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

In our opinion:

- (a) proper books of account have been kept by the Branch as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;
- (b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Branch and are further in accordance with accounting policies consistently applied except for changes as stated in note 5.1 to the financial statements with which we concur;

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- (c) the financial statements together with the notes thereon present fairly in all material respects, the state of the Branch's affairs as at 31 December 2010 and of the profit and its cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- (d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**Chartered Accountants****Audit Engagement Partner: Arslan Khalid****Date: 28 April 2011****Karachi**

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

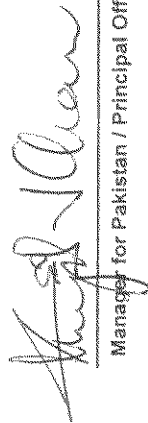
BALANCE SHEET


AS AT DECEMBER 31, 2010

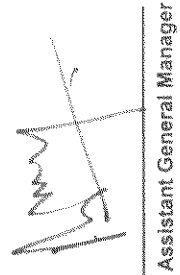
	Note	2 0 1 0 (Rupees in thousand)	2 0 0 9 (Rupees in thousand)
Head office account	8	1,492,432	1,241,289
Underwriting provisions			
Provision for outstanding claims (including IBNR)		285,081	315,159
Provision for unearned premium		381,808	350,019
Commission income unearned		76,846	74,812
Total underwriting provisions		743,735	739,990
Creditors and accruals			
Amounts due to other insurers / reinsurers		57,358	48,464
Accrued expenses		60,683	45,564
Other creditors and accruals		170,044	122,677
TOTAL LIABILITIES	9	1,031,820	956,695
Cash and bank deposits			
Cash and other equivalent		82,882	24,823
Current and other bank accounts		600,000	295,000
Deposits maturing within 12 months	11	682,920	319,850
Investments	12	751,912	863,092
Deferred tax asset	13	8,557	19,167
Security deposits		2,201	1,501
Current assets - others			
Premiums due but unpaid	14	204,218	131,124
Amounts due from other insurers / reinsurers	15	96,619	113,833
Salvage recoveries accrued		11,314	6,270
Accrued income on investment and deposits		38,297	27,930
Reinsurance recoveries against outstanding claims		216,058	230,907
Taxation payment less provision		52,255	45,401
Deferred commission expense		62,904	66,632
Other deferred acquisition costs		40,326	36,446
Prepayments	16	274,303	247,065
Loan to employees - unsecured - considered good	17	6,884	4,223
Sundry receivables	18	11,768	5,627
		1,014,746	915,458
Fixed assets			
Tangible and Intangible assets			
Leasehold improvements		15,031	15,954
Furniture, fittings and equipment		18,316	19,412
Computers and EDP equipment		4,135	4,315
Vehicles		14,918	16,663
Software		11,516	16,856
Capital work-in-progress	19	-	5,716
		63,916	78,916
TOTAL ASSETS		2,524,252	2,197,984
TOTAL EQUITY AND LIABILITIES		2,524,252	2,197,984
Contingency			

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


 Manager for Pakistan / Principal Officer


 Chief Financial Officer

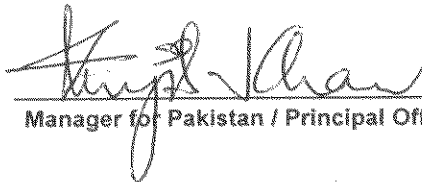

 Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

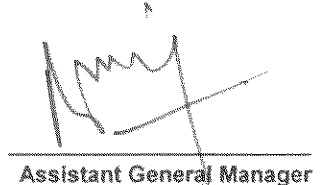
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

Note	Fire and property	Marine, Aviation & Transport	Motor	Accident & Health	Miscellaneous	Aggregate	
						December 31, 2010	December 31, 2009
(Rupees in thousand)							
Revenue account							
Net premium revenue	8,055	70,092	220,423	98,846	8,521	405,937	382,172
Net claims expenses	(1,131)	(31,251)	(140,587)	(27,818)	(318)	(201,105)	(169,222)
Management expenses	(34,507)	(6,679)	(25,603)	(31,169)	(13,357)	(111,315)	(117,200)
Net commission	61,299	(3,562)	(25,556)	(23,616)	1,416	9,981	3,173
	25,661	(41,492)	(191,746)	(82,603)	(12,259)	(302,439)	(283,249)
Underwriting results	33,716	28,600	28,677	16,243	(3,738)	103,498	98,923
Investment income - net						158,726	131,761
Other income	21					2,151	177
General and administrative expenses	22					(171,592)	(198,658)
Profit before tax						92,783	32,203
Taxation	23					(36,206)	(15,061)
Profit after tax						56,577	17,142

- i) The details of unremitted profit is disclosed in note 8 to the financial statements
- ii) The annexed notes from 1 to 29 form an integral part of these financial statements.


 Manager for Pakistan / Principal Officer


 Chief Financial Officer


 Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

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	(Rupees in thousand)	
Operating Cash Flows		
(a) Underwriting activities		
Premiums received	1,056,998	893,832
Reinsurance premiums paid	(476,559)	(309,216)
Claims paid	(443,548)	(350,338)
Reinsurance and other recoveries received	227,214	155,932
Commissions paid	(172,381)	(197,789)
Commissions received	197,531	150,107
Net cash generated from underwriting activities	389,255	342,528
(b) Other operating activities		
Income tax paid	(32,450)	(13,564)
General management expenses paid - net	(250,054)	(224,188)
Net cash flow used in operating activities	(282,504)	(237,752)
Total cash generated from all operating activities	106,751	104,776
Investment activities		
Profit / return received	135,946	101,098
Dividends received	4,867	3,029
(Payments) / Redemption of term deposit receipt	(305,000)	221,454
Proceeds from redemption of investments	1,358,835	449,274
Investment made during the year	(1,240,109)	(869,574)
Fixed capital expenditure	(8,735)	(15,850)
Proceeds from disposal of fixed assets	5,515	177
Total cash used in investing activities	(48,681)	(110,392)
Net cash generated from / (used in) all activities	58,070	(5,616)
Cash at the beginning of the year	24,850	30,466
Cash at the end of the year	82,920	24,850
Reconciliation to profit and loss account		
Operating cash flows	106,751	104,776
Depreciation expense	(14,792)	(16,436)
Amortisation	(5,579)	(8,223)
Investment income	158,726	131,761
Other income	2,151	177
Increase in assets other than cash	79,011	98,058
Increase in liabilities	(269,691)	(292,971)
Profit after taxation	56,577	17,142
Definition of cash		
Cash comprise of stamps in hand, cash in hand and bank balances.		
Cash for the purpose of statement of cash flows consist of:		
- cash and other equivalents	38	27
Current and other bank accounts		
- current accounts	41,370	1,024
- saving accounts	41,512	23,799
	82,882	24,823
Cash and cash equivalents for the purpose of cash flow statement	82,920	24,850

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


Manager for Pakistan / Principal Officer


Chief Financial Officer


Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

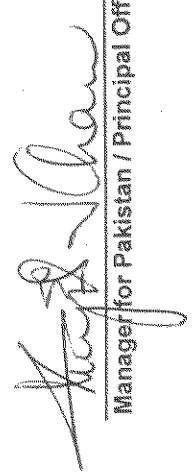
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

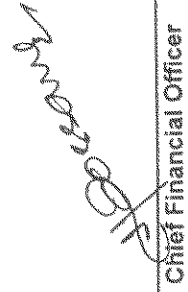
Class	Premiums written	Unearned premium reserve		Premiums earned	Re-insurance ceded	Prepaid re-insurance premium ceded		Re-insurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2010	2009
Direct and Facultative										
Fire and Property	554,249	221,763	235,944	540,068	545,958	218,977	232,922	532,013	8,055	6,050
Marine, Aviation and Transport	108,924	10,986	13,472	106,438	37,093	3,295	4,042	36,346	70,092	61,220
Motor	224,868	88,558	88,899	224,527	4,107	-	3	4,104	220,423	225,330
Accident and Health	134,842	2,843	25,805	111,880	16,335	166	3,467	13,034	98,846	84,371
Miscellaneous	77,400	25,869	17,688	85,581	69,702	24,081	16,723	77,060	8,521	5,201
Total	1,100,283	350,019	381,808	1,068,494	673,195	246,519	257,157	662,557	405,937	382,172

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

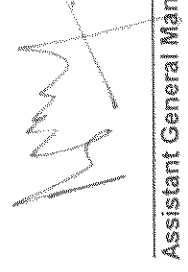
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Manager for Pakistan / Principal Officer



Chief Financial Officer



Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

**STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Business underwritten inside Pakistan

Class	Outstanding claims			Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	Net claims expense
	Claims paid	Opening	Closing		Claims expense	Opening		
Direct and Facultative								
Fire and Property	197,723	229,835	210,202	178,090	191,472	216,116	176,959	1,131
Marine, Aviation and Transport	55,657	31,309	19,392	43,740	15,762	8,519	12,489	31,251
Motor	149,399	37,410	28,598	140,587	-	-	-	140,587
Accident and Health	20,426	8,626	16,513	28,313	1,330	864	495	27,818
Miscellaneous	20,343	7,979	10,376	22,740	18,650	5,408	22,422	318
	<u>443,548</u>	<u>315,159</u>	<u>285,081</u>	<u>413,470</u>	<u>227,214</u>	<u>230,907</u>	<u>212,365</u>	<u>201,105</u>
								<u>169,222</u>

(Rupees in thousand)

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

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Manager for Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager



NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

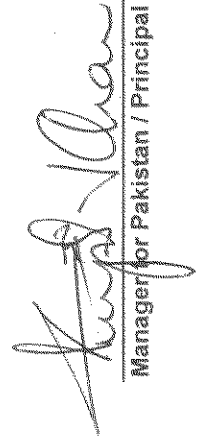
Business underwritten inside Pakistan

Class	Deferred commission			Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers	2 0 1 0	2 0 0 9	Net underwriting expense
	Commissions paid or payable	Opening	Closing							
Direct and Facultative										
Fire and Property	95,732	45,435	40,819	100,348	34,507	134,855	161,647	(26,792)		(17,574)
Marine, Aviation and Transport	13,397	1,102	1,686	12,813	6,679	19,492	9,251	10,241		8,611
Motor	26,772	9,699	10,915	25,556	25,603	51,159	-	51,159		75,036
Accident and Health	33,187	701	6,545	27,343	31,169	58,512	3,727	54,785		45,090
Miscellaneous	12,700	9,695	2,939	19,456	13,357	32,813	20,872	11,941		2,864
Total	181,788	66,632	62,904	185,516	111,315	296,831	195,497	101,334		114,027

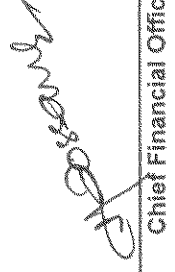
Note: Commission from reinsurers is net of opening and closing unearned commission of Rs.74,812 thousand and Rs. 76,846 thousand respectively.

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

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Manager for Pakistan / Principal Officer



Chief Financial Officer



Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
(Rupees in thousand)			
Income from non-trading investments			
Held-to-maturity			
Return on government securities		120,319	78,901
Available-for-sale			
Dividend income		4,867	3,029
Return on term deposits with banks		32,116	45,797
		157,302	127,727
Reversal of provision for diminution in value of available-for-sale investments	12.2.1	1,424	4,034
Net investment income		<u>158,726</u>	<u>131,761</u>

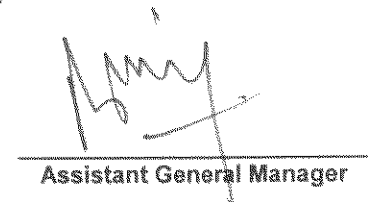
The annexed notes from 1 to 29 form an integral part of these financial statements.



 Manager for Pakistan / Principal Officer



 Chief Financial Officer



 Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010**

1. STATUS AND NATURE OF BUSINESS

New Hampshire Insurance Company - Pakistan (the Branch) is a Branch operation of New Hampshire Insurance Company (the Head Office), incorporated in the United States of America with limited liability, having its registered office at 2005 Market Street, Philadelphia, Pennsylvania. The ultimate parent of the Head Office is American International Group, Inc. The registered office of the Pakistan Branch is located at 7th Floor, Dawood Centre, M.T.Khan Road, Karachi. The Branch is engaged in General Insurance business under the Insurance Ordinance, 2000 and operates through 5 sales offices (2009:5) in Pakistan.

2. BASIS OF PRESENTATION

These financial statements have been prepared on the format issued by the Securities and Exchange Commission of Pakistan (SECP) through SEC (Insurance) Rules, 2002 vide SRO 938 dated 12 December 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. Where ever 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 shall 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. Accordingly, the requirements of International Accounting Standards - 39, to the extent allowed by SECP as aforesaid, have not been considered in the preparation of these financial statements. The accounting policy in respect of available-for-sale investment is stated in note 5.9.3.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention.

5. SIGNIFICANT ACCOUNTING POLICIES

- 5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

The Branch has adopted the following new and amended IFRS and related interpretations and improvements which became effective during the year:

IFRS 2 - Share based Payments: Amendments relating to Group Cash-settled Share based Payment Transactions

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

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In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in May 2008

IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

IFRS 2 – Share-based Payments

IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations

IFRS 8 – Operating Segments

IAS 1 – Presentation of Financial Statements

IAS 7 – Statement of Cash Flows

IAS 17 – Leases

IAS 36 – Impairment of Assets

IAS 38 – Intangible Assets

IAS 39 – Financial Instruments: Recognition and Measurement

IFRIC 9 – Reassessment of Embedded Derivatives

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

The adaptation of the above standards, amendments / improvements and interpretations did not have any effect on the financial statements.

5.2 Insurance Contracts

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

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

The Branch neither issues investments contracts nor does it issue insurance contracts with discretionary participation features.

5.3 Reinsurance Contracts Held

The Branch 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 reinsurance 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 reinsurances 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 assets.

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

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

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5.4 Underwriting provisions

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

5.4.1 Provision for outstanding claims including Incurred But Not Reported (IBNR)

Provision for outstanding claims are based on the estimated cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims expected settlement costs at undiscounted values. Incurred but not reported (IBNR) claims are recognised on the basis of management best estimate which takes into account the claims that are actually reported subsequent to the balance sheet

Any difference between the provision at the balance sheet date and settlement in the following year is included in the financial statements of that year.

5.4.2 Provision for unearned premium

It represents a proportion of premium written in a year that relates to policies that are unexpired at the balance sheet date and is recognised as liability. During the year, the Branch has changed its method of computation of unexpired portion of premium income and reinsurance expense which is now computed on the basis of the ratio of unexpired period of the policy and the total period both measured to the nearest date (365 days method) as allowed under the SEC Insurance Rules, 2002. Previously, the unexpired portion of premium income and expense was computed as follows:

- for marine, aviation and transport business and accident and health business, unearned premium reserve is computed by applying 1/6th and 1/2nd method respectively; and
- for other classes / lines of business, by applying 1/24th method as per the option given by the SEC (Insurance) Rules, 2002. The majority of the policies are issued for a period of one year.

This change in accounting estimate has been applied prospectively in accordance with the requirement of IAS - 8, "Accounting Policies, Changes in Accounting Estimate and Errors". Had the Branch not changed its method, the effects of the change on current year financial statements is as follows:

- the unearned premium income would have been Rs. 446.381 million (Currently Rs. 381.808 million)
- the prepaid re-insurance premium would have been Rs. 317.660 million (Currently Rs. 257.157 million)
- the deferred commission expense would have been Rs. 72.714 million (Currently Rs. 62.904 million)
- the unearned commission income would have been Rs. 94.611 million (Currently Rs. 76.846 million)
- the deferred acquisition cost would have been Rs. 47.146 million (Currently Rs. 40.326 million)

The said change has resulted in increase of Branch's profit for the year by Rs. 5.205 million.

5.4.3 Premium deficiency reserve

According to the requirements of the SEC (Insurance) Rules, 2002, a premium deficiency reserve needs to be created where the unearned premium for any class of business is not sufficient to cover the net liability expected to be incurred after the balance sheet date in respect of policies in that class of business. Any movement in the reserve is to be charged to the profit and loss account.

The management considers that the provision for the unearned premium for all classes of the business as at the year end is adequate to meet the expected future liability, after reinsurance, for claims and other expenses expected to be incurred after the balance sheet date in respect of policies in force at the balance sheet date. Hence, no premium deficiency reserve has been created in these financial statements.

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