ERNST & YOUNG

NEW HAMPSHIRE INSURANCE COMPANY – PAKISTAN BRANCH

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Ernst & Young Ford Rhodes Sidat Hyder
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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;

(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).

Ernst & Young Ford Rhodes Sidat Hyder

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	2010	2009
		(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
	9	288,085	216,705
TOTAL LIABILITIES		1,031,820	956,695
TOTAL EQUITY AND LIABILITIES		2,524,252	2,197,984
Contingency	10		

	Note	2010	2009
		(Rupees in thousand)	
Cash and bank deposits			
Cash and other equivalent		38	27
Current and other bank accounts		82,882	24,823
Deposits maturing within 12 months		600,000	295,000
	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	6,684	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		-	5,716
	19	63,916	78,916
TOTAL ASSETS		2,524,252	2,197,984

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

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	Aggregate 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	20	(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

	2010	2009
	(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.

	2010	2009
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
	(Rupees in thousand)									
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.

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	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 expense	
		Opening	Closing			Opening	Closing		2010	2009
	(Rupees in thousand)									
Direct and Facultative										
Fire and Property	197,723	229,835	210,202	178,090	191,472	216,116	201,603	176,959	1,131	26
Marine, Aviation and Transport	55,657	31,309	19,392	43,740	15,762	8,519	5,246	12,489	31,251	44,715
Motor	149,399	37,410	28,598	140,587	-	-	-	-	140,587	109,296
Accident and Health	20,426	8,626	16,513	28,313	1,330	864	29	495	27,818	13,663
Miscellaneous	20,343	7,979	10,376	22,740	18,650	5,408	9,180	22,422	318	1,522
	443,548	315,159	285,081	413,470	227,214	230,907	216,058	212,365	201,105	169,222

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	Commissions paid or payable	Deferred commission: Opening	Deferred commission: Closing	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers	Net underwriting expense 2010	Net underwriting expense 2009
	(Rupees in thousand)								
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.

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		**158,726**	131,761

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

FYM

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.

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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5.5 Commission income unearned

It represents a proportion of commission that relates to outward reinsurance policies that are unexpired at the balance sheet date and is recognised as a liability. Commission income earned is taken to profit and loss account in the period in which the related reinsurance premium is charged.

5.6 Staff retirement benefits

5.6.1 Staff Gratuity Fund

The Branch 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 recommendations using Projected Unit Credit method.

Actuarial gain and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses at the end of previous reporting period exceeded 10% of the higher of defined benefit obligation or the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

5.6.2 Staff Provident Fund

The Branch also operates an approved provident fund for all its permanent employees. Monthly contributions are made by the Branch and the employees to the fund at the rate of 10% of basic salary.

5.7 Taxation

5.7.1 Current

Provision for current taxation is based on the taxable income for the year determined in accordance with the Income Tax Ordinance, 2001. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also includes adjustments where considered necessary, to provision for tax made in previous years arising from assessments framed during the year, for such years.

5.7.2 Deferred

Deferred tax is provided using the liability method on all taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is charged or credited in the profit and loss account.

5.8 Provisions

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

5.9 Investments

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Branch commits to purchase or sell the investments. These are recognised and classified as follows:

5.9.1 Investment at fair value through profit or loss

- Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held-for-trading.

- Investments which are designated at fair value through profit or loss upon initial recognition.

  Subsequent to initial recognition, these investments are remeasured at fair value. Gains or losses on remeasurement of these investments are recognised in profit and loss account.

5.9.2 Held-to-maturity

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

Subsequent to initial recognition at cost, these are remeasured at amortised cost less provision for impairment, if any. Any premium paid or discount availed on acquisition of held to maturity investment is deferred and amortised over the term of investment using the effective yield.

5.9.3 Available-for-sale

Investments which do not fall in the above categories are classified as available-for-sale.

Subsequent to initial recognition at cost, quoted investments are stated 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. The Branch uses Stock Exchange quotations at the balance sheet date to determine the market value.

5.10 Premiums due but unpaid and amounts due from other insurers

These are stated net of provision for impairment, if any. Provision for doubtful debts is determined based on management's estimate about the recoverability of the amounts due.

5.11 Deferred commission & 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 pattern of recognition of related premium revenue.

5.12 Pre-paid reinsurance premium

Prepaid reinsurance premium are those proportions of the reinsurance premiums that relates to policies that are unexpired at the balance sheet date. The reinsurance premium expense is recognised in accordance with the pattern of recognition of premium income to the which they relate.

5.13 Fixed assets

5.13.1 Tangible

These are stated at cost less accumulated depreciation and impairment loss, if any. Depreciation is charged to income over the useful life of the asset on a systematic basis applying the straight line method at the rates specified in note 19.1 to the financial statements. Depreciation is charged on additions from the month of acquisition till the month of disposal.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gain and loss on disposal of fixed assets is included in income currently.

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

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any, are retired. Gain or loss on disposal of fixed asset is included in income.

5.13.2 Intangible

These are stated at cost less accumulated amortisation and impairment, if any. Amortisation is charged to income over the useful life of the asset on a systematic basis applying the straight line method at the rates specified in note 19.2 to the financial statements. Amortisation is calculated from the month the assets are available for use. While on disposal, amortisation is charged up to the month in which the assets are disposed off.

5.13.3 Capital work-in-progress

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

5.13.4 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of an asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognised in the profit and loss account currently.

5.14 Revenue recognition

5.14.1 Premium received / receivable under a policy is recognised as written from the date of attachment of the policy to which it relates. Premium income is recognised evenly over the period of policy from inception to expiry (Note 5.4.2).

5.14.2 Administrative surcharge is included in premium at the time the policies are written.

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

5.14.4 Profit / return on investments and deposits is recognised on a time proportion basis that takes into account the effective yield on the investments and deposits respectively.

5.15 Allocation of management expenses

Expenses have been allocated to profit and loss account among classes of businesses based on management's best estimate which primarily takes into account gross premium written and number of employees.

5.16 Foreign currency translation

These financial statements are presented in Rupees, which is Branch's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

5.17 Offsetting

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Branch has a legally enforceable right to set-off the recognised amounts and it intends either to settle on a net basis or to realised the asset and settle the liability simultaneously.

5.18 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand, stamps in hand and bank balances.

5.19 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Branch 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 expire or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contact 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.

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Branch's accounting polices. The estimates / judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognized 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. The estimates, judgments and assumptions that have significant effect on the financial statements are as follows:

	Note
Provision for outstanding claims (including IBNR)	5.4.1
Premium deficiency reserve	5.4.3
Staff gratuity fund	5.6.1 & 9.2.1
Deferred taxation	5.7.2 & 13
Classification of investments	5.9 & 12
Provision for doubtful debts	5.10, 14 & 15
Deferred commission and deferred acquisition costs	5.11
Useful lives of assets and methods of depreciation	5.13 & 19
Allocation of management expenses	5.15 & 20

7. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following revised standards, interpretations and amendments with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards, interpretations and amendments:

Standard or interpretation or amendment	Effective date (accounting period beginning on or after)
IAS 24 - Related Party Disclosures (Revised)	01 January 2011
IAS 32 - Financial Instruments: Presentation-Classification of Right Issues (Amendment)	01 February 2010
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets	01 January 2012
IFRIC 14 - IAS 19 - The Limit on Defined Benefit Assets, Minimum Funding Requirement and their Interaction (Amendments)	01 January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments	01 July 2010

The Branch expects that the adoption of the above interpretations, amendments and revisions of the standards will not affect the Branch's financial statements in the period of initial application.

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	Note	2010	2009
		(Rupees in thousand)	

8. HEAD OFFICE ACCOUNT

Current Account			
Balance at the beginning of the year		369,808	218,714
Premiums ceded		493,489	371,724
Commission income		(141,276)	(107,610)
Claims recoverable		(157,647)	(113,020)
		194,566	151,094
Balance at the end of year		564,374	369,808
Unremitted profit			
Balance at the beginning of the year		871,481	854,339
Profit after tax for the year		56,577	17,142
Balance at the end of year		928,058	871,481
		1,492,432	1,241,289

9. CREDITORS AND ACCRUALS

	Note	2010	2009
Amounts due to other insurers / reinsurers		57,358	48,464
Accrued expenses	9.1	60,683	45,564
Other creditors and accruals	9.2	170,044	122,677
		288,085	216,705

9.1 Accrued expenses

Salaries, wages and benefits		25,097	18,731
Software maintenance charges		11,686	11,731
Legal and professional charges		2,310	2,310
Agency Development & Recognition		3,788	1,500
Other accrued expenses		17,802	11,292
		60,683	45,564

9.2 Other creditors and accruals

Service fee to a related party	9.2.2	111,284	83,513
Due to related parties		-	6,972
Commission		36,538	21,363
Federal Excise Duty		5,521	4,137
Federal Insurance Fee		722	349
Withholding tax		752	150
Workers' Welfare Fund		1,893	658
Payable to gratuity fund	9.2.1	4,387	-
Others		8,947	5,535
		170,044	122,677

9.2.1 The latest actuarial valuation of staff gratuity fund was carried out on December 31, 2010. The principal actuarial assumptions used for the purpose of valuation are:

	2010	2009
Rate of salary increase	14%	14.5%
Rate of return	12%	5%
Discount rate	14.5%	15%

	2010	2009
	(Rupees in thousand)	
Reconciliation of payable to defined benefit plan		
Present value of defined benefit obligation	22,339	17,215
Fair value of plan assets	(16,409)	(13,666)
Deficit	5,930	3,549
Unrecognized actuarial loss	(1,543)	(4,427)
Liability as at December 31,	4,387	(878)
Movement in defined benefit liability		
Balance as at January 1,	(878)	4,013
Charge for the year	7,194	4,909
Contributions	-	(9,800)
Payment to outgoing members by the branch	(1,929)	-

	2010	2009
	(Rupees in thousand)	
Charge for the year		
Current service cost	**2,974**	2,846
Interest cost	**3,080**	2,133
Past Service Cost	**2,769**	-
Expected return on plan assets	**(1,923)**	(294)
Actuarial losses recognised during the year	**294**	224
Charge for the year ended December 31,	**7,194**	4,909
Movement in the Present Value of Defined Benefit Obligation:		
Present Value of Defined Benefit Obligation as at January 1,	**17,215**	13,078
Current service cost	**2,974**	2,846
Interest cost	**3,080**	2,133
Past Service Cost	**2,769**	-
Actuarial gain on obligation	**(1,770)**	-
Actual benefits paid during the year	**(1,929)**	(842)
Present value of defined benefit obligation as at December 31,	**22,339**	17,215
Movement in Fair Value of Plan Assets:		
Fair value of plan assets as at January 1,	**13,666**	4,403
Expected return on plan assets	**1,923**	295
Contributions made by the Branch	-	9,800
Benefits paid during the year	-	(843)
Actuarial loss on plan assets	**820**	11
Fair value of plan assets as at December 31,	**16,409**	13,666

Historical information

	2010	2009	2008	2007	2006
	(Rupees in thousand)				
Present value of defined benefit obligations	**22,339**	17,215	13,078	12,686	11,120
Fair value of plan assets	**16,409**	13,666	4,403	4,462	5,079
Deficit	(5,930)	(3,549)	(8,675)	(8,224)	(6,041)

9.2.2 The Branch has entered into a Services Agreement with CHARTIS MEMSA Insurance Company Limited (service provider and a related party) whereby the service provider will provide ongoing expertise, services and administrative support to the Branch. The agreement requires the fee to be charged on an arm's length basis.

Accordingly, a liability of USD 1,293,960 (2009: USD 958,033) has been accrued as at the year end in these financial statements as per the terms of the agreement.

Reconciliation of service fee	**Note**	2010	2009	2010	2009
		(USD in thousand)		(Rupees in thousand)	
Opening balance as at January 1,		**958**	-	**83,513**	-
Estimated charge accrued for the year		**695**	958	**59,770**	83,513
Adjustment for estimated charge accrued for previous year based on actual invoiced amount		**(59)**	-	**(5,074)**	-
Rebate		**(300)**	-	**(25,800)**	-
	20 & 22	**336**	958	**28,896**	83,513
Exchange loss		-	-	**(1,125)**	-
Payments made during the year		-	-	-	-
Closing balance as at December 31,		**1,294**	958	**111,284**	83,513

10. CONTINGENCY

The Branch is defendant in a law suit filed by Syed Bhais (Private) Limited in the Honorable High Court of Sindh in respect of a Marine insurance policy, with the maximum liability of Rs. 5.6 million, issued to the plaintiff. The legal advisor of the Branch is of the view that the loss claimed by the plaintiff is not covered under the subject policy as consignment was auctioned by the customs department due to non clearance of the consignment in time and hence, based on the merits of the case, the Branch is in better position to defend their interest in the above suit. Accordingly, no provision in respect of the above matter is considered necessary in these financial statements.

	Note	2010	2009
		(Rupees in thousand)	
11. CASH AND BANK DEPOSITS			
Cash and other equivalent			
Cash in hand		**25**	20
Stamps in hand		**13**	7
		38	27
Current and other bank accounts			
Current accounts		**41,370**	1,024
Savings accounts	11.1	**41,512**	23,799
		82,882	24,823
Deposits maturing within 12 months			
Term deposit receipts	11.2	**600,000**	295,000
		682,920	319,850

11.1 These carry markup ranging from 5% to 7.6% (2009 : 5 % to 7.6%) per annum.

11.2 These carry markup ranging from 9.00 % to 13.10% (2009 : 10.50% to 12.50%) per annum.

12. INVESTMENTS

	Note	2010	2009
Held-to-maturity	12.1	**738,209**	850,813
Available-for-sale	12.2	**13,703**	12,279
		751,912	863,092

12.1 Held-to-maturity

	Face value (Rs. In '000)	Mark up rate	Maturity year	2010	2009
Government Securities					
Deposited with the State Bank of Pakistan (12.1.1)					
10 years Pakistan Investment Bonds	11,000	8%	2013	**11,514**	11,680
				11,514	11,680
Others					
3 years Pakistan Investment Bonds	350,000	11.25%	2011	**345,528**	339,692
3 years Pakistan Investment Bonds	200,000	11.25%	2012	**196,460**	-
10 years Pakistan Investment Bonds	54,000	8%	2013	**56,330**	57,083
				598,318	396,775
1 year Market Treasury Bills	130,000	12.02% to 12.64%	2011	**128,377**	442,358
				738,209	850,813

12.1.1 These securities are deposited with the State Bank of Pakistan in compliance with the requirements of section 29 of the Insurance Ordinance, 2000.

12.2 Available-for-sale

Ordinary shares (face value of Rs.10 each) - quoted

2010	2009	Name of Entity	Note	2010	2009
------No. of shares------					
225,000	225,000	Hub Power Company Limited		**12,570**	12,570
340,182	309,257	MCB Bank Limited		**4,330**	4,330
5,184	5,184	Pakistan State Oil Company Limited		**956**	956
				17,856	17,856
Less: Provision for diminution in value of available-for-sale investment			12.2.1	**(4,153)**	(5,577)
				13,703	12,279

12.2.1 Reconciliation of provision for diminution in value of available-for-sale investments.

	2010	2009
Opening balance	**5,577**	9,611
Reversal for the year	**(1,424)**	(4,034)
Closing balance	**4,153**	5,577

12.3 The aggregate market value of held-to-maturity investments as at December 31, 2010 amounted to Rs. 722 million (2009: Rs.842 million).

12.4 The aggregate market value of available-for-sale investments as at December 31, 2010 amounted to Rs. 87.6 million (2009: Rs. 76.4 million).

12.5 In compliance with the accounting regulations as per the Securities and Exchange Commission (Insurance) Rules, 2002, the Branch has accounted for the available-for-sale investments at lower of cost or market value. Had the Branch valued its available-for-sale investments at fair value, in accordance with International Accounting Standards - 39 "Financial Instruments: Recognition and Measurement", the investments as at December 31, 2010 would have been higher by Rs. 73.90 million (2009: Rs. 64.12 million) and surplus on revaluation of available-for-sale investments (under Head Office account) would have been Rs. 73.90 million (2009 : Rs. 64.12 million).

	Note	2010	2009
		(Rupees in thousand)	
13. DEFERRED TAX ASSET			
Temporary differences arising in respect of:			
Provisions against diminution in the value of assets		**7,021**	13,378
Provision for gratuity		**1,536**	(307)
Tax loss		**-**	6,096
		8,557	19,167
14. PREMIUM DUE BUT UNPAID			
Considered good		**204,218**	131,124
Considered doubtful		**8,419**	25,274
		212,637	156,398
Less: Provision for doubtful debts	14.1	**(8,419)**	(25,274)
		204,218	131,124
14.1 Provision for doubtful debts			
Opening balance		**25,274**	62,611
(Reversal) / Charge for the year		**(850)**	6,924
Written off during the year		**(16,005)**	(44,261)
		8,419	25,274
15. AMOUNT DUE FROM OTHER INSURERS/ REINSURERS			
Considered good		**96,619**	113,833
Considered doubtful		**8,222**	7,372
		104,841	121,205
Less: Provision for doubtful debts	15.1	**(8,222)**	(7,372)
		96,619	113,833
15.1 Provision for doubtful debts			
Opening balance		**7,372**	14,291
Charge / (Reversal) for the year		**850**	(6,919)
		8,222	7,372
16. PREPAYMENTS			
Prepaid re-insurance premium		**257,157**	246,519
Other prepayments		**17,146**	546
		274,303	247,065

17. LOAN TO EMPLOYEES - Unsecured - considered good

This represents interest free domestic loans to employees up to two months salary repayable within 11 months.

	Note	2010	2009
18. SUNDRY RECEIVABLES			
Advances to suppliers		**4,500**	4,520
Receivable from gratuity fund	9.2.1	**-**	878
Receivable from tax authorities	18.1	**4,406**	-
Others		**2,862**	229
		11,768	5,627

18.1 During the year, the assessing officer through order dated June 30, 2010 has amended the assessment order for the tax year 2004 by disallowing certain expenses resulting in additional tax demand of Rs. 4.40 million. The Branch has paid the said additional tax under protest and have filed an appeal before Commissioner Inland Revenue (Appeals) against the above order of the assessing officer which is pending adjudication. The management of the Branch is confident that this amount will be refunded / adjusted by the tax authorities.

	Note	2010	2009
19. FIXED ASSETS			
Tangible assets	19.1	**52,400**	56,344
Intangible assets	19.2	**11,516**	16,856
Capital work-in-progress		**-**	5,716
		63,916	78,916

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19.1 Tangible Assets

	2010							
	Cost			Accumulated Depreciation				
	As at January 1, 2010	Additions / (Disposals)	As at December 31, 2010	As at January 1, 2010	Charge for the year / (Disposals)	As at December 31, 2010	Written down value as at December 31, 2010	Rate of Depreciation per annum
	(Rupees in thousand)							%
Leasehold property	56	-	56	56	-	56	-	20
Leasehold improvements	29,656	1,929	30,225	13,702	1,898	15,194	15,031	10
		(1,360)			(406)			
Furniture, fittings and office equipments	27,095	2,635	27,891	7,683	2,526	9,575	18,316	10
		(1,839)			(634)			
Computer and EDP equipments	25,672	3,543	29,099	21,357	3,679	24,964	4,135	33.33
		(116)			(72)			
Vehicles	36,931	6,105	34,524	20,268	6,689	19,606	14,918	20
		(8,512)			(7,351)			
December 31, 2010	119,410	14,212	121,795	63,066	14,792	69,395	52,400	
		(11,827)			(8,463)			

	2009							
	Cost			Accumulated Depreciation				
	As at January 1, 2009	Additions / (Disposals) / write-offs*	As at December 31, 2009	As at January 1, 2009	Charge for the year / (Disposals) / write-offs*	As at December 31, 2009	Written down value as at December 31, 2009	Rate of Depreciation per annum
	(Rupees in thousand)							%
Leasehold property	56	-	56	56	-	56	-	20
Leasehold improvements	26,918	2,738	29,656	9,934	3,768	13,702	15,954	10
Furniture, fittings and office equipments	25,691	3,681	27,095	8,024	2,336	7,683	19,412	10
		(2,277) *			(2,677) *			
Computer and EDP equipments	26,536	2,129	25,672	18,876	4,124	21,357	4,315	33.33
		(2,993) *			(1,643) *			
Vehicles	37,328	1,353	36,931	15,542	6,208	20,268	16,663	20
		(1,750)			(1,482)			
December 31, 2009	116,529	9,901	119,410	52,432	16,436	63,066	56,344	
		(7,020)			(5,802)			

	Note	2010	2009
		(Rupees in thousand)	
19.1.1 Depreciation has been allocated as follows:			
Management expenses	20	7,001	6,107
General and administration expenses	22	7,791	10,329
		14,792	16,436

19.2 Intangible Assets

	2010							
	Cost			Accumulated Amortisation				
	As at January 1, 2010	Additions	As at December 31, 2010	As at January 1, 2010	Amortisation for the year	As at December 31, 2010	Written down value as at December 31, 2010	Rate of Amortisation per annum
	(Rupees in thousand)							%
Software	27,791	239	28,030	10,935	5,579	16,514	11,516	20
December 31, 2010	27,791	239	28,030	10,935	5,579	16,514	11,516	
December 31, 2009	24,996	2,795	27,791	2,712	8,223	10,935	16,856	20

	Note	2010	2009
		(Rupees in thousand)	
19.2.1 Amortisation has been allocated as follows:			
Management expenses	20	**1,941**	1,942
General and administration expenses	22	**3,638**	6,281
		5,579	8,223

20. MANAGEMENT EXPENSES

	Note	2010	2009
Salaries, wages and benefits	20.1	**49,244**	44,659
Rents, taxes, electricity etc.		**12,630**	9,852
Communication		**2,953**	2,772
Advertisement and sales promotion		**3,806**	8,488
Printing and stationery		**2,101**	1,460
Service fee for support services	9.2.2	**8,032**	33,201
Traveling and entertainment		**1,389**	1,346
Car running and maintenance		**5,171**	3,670
Software maintenance charges		**15,049**	7,563
Depreciation	19.1.1	**7,001**	6,107
Amortisation	19.2.1	**1,941**	1,942
Subscription and membership fees		**3,301**	2,490
Other expenses		**2,577**	1,433
		115,195	124,983
Other deferred acquisition cost:			
- Opening		**36,446**	28,663
- Closing		**(40,326)**	(36,446)
		(3,880)	(7,783)
		111,315	117,200

20.1 Include staff retirements benefits amounting to Rs. 4.53 million (2009 : Rs. 2.88 million) .

21. OTHER INCOME

	Note	2010	2009
Gain on sale of fixed assets		**2,151**	177

22. GENERAL AND ADMINISTRATION EXPENSES

	Note	2010	2009
Salaries, wages and benefits	22.1	**70,713**	68,647
Rent, taxes, electricity etc.		**16,449**	18,677
Communication		**3,007**	3,821
Advertisement and sales promotion		**157**	-
Printing and stationery		**2,517**	2,378
Traveling and entertainment		**979**	2,063
Depreciation	19.1.1	**7,791**	10,329
Amortisation	19.2.1	**3,638**	6,281
Software maintenance charges		**28,150**	22,218
Repairs and maintenance		**4,200**	4,146
Legal and professional charges		**518**	396
Auditors' remuneration	22.2	**400**	375
Insurance		**2,940**	2,598
Car running and maintenance		**3,243**	2,187
Service fee for support services	9.2.2	**20,864**	50,312
Workers' Welfare Fund		**1,893**	658
Exchange loss		**126**	813
Other expenses		**4,007**	2,759
		171,592	198,658

22.1 Include staff retirements benefits amounting to Rs. 6.54 million (2009 : Rs. 5.58 million).

	2010	2009
	(Rupees in thousand)	

22.2 Auditors' remuneration

Audit fee	295	270
Other certification services	55	55
Out of pocket expenses	50	50
	400	375

23. TAXATION

Current - for the year	25,619	303
- for prior years	(23)	3,646
Deferred	10,610	11,112
	36,206	15,061

23.1 Relationship between tax expense and accounting profit

The tax on the Branch's profit (before tax) differs from the theoretical amount that would arise using the Branch's applicable tax rate as follows:

Profit before tax	92,783	32,203
Tax calculation at the rate of 35 % (2009: 35%)	32,474	11,271
Tax effect of expenses that are not deductible in determining taxable profit	(5,611)	(10,211)
Tax effect of dividend income	(1,244)	(757)
Prior year adjustments	(23)	3,646
Tax effect on temporary difference	10,610	11,112
	36,206	15,061

24. REMUNERATION OF MANAGER FOR PAKISTAN

Salary and other benefits	5,900	7,211
Branch's provided accommodation and utilities	5,525	5,246
	11,425	12,457

In addition, Manager for Pakistan has been provided with free use of Branch's car and household fixtures, in accordance with the practice of the Branch.

25. RISK MANAGEMENT

25.1 Insurance and financial risk

25.1.1 Insurance risk

The Branch mainly issues the following types of insurance contracts:

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

These contracts are normally one year insurance contracts except marine and accident and health business contracts which are generally for a period of 3 months and 1 month respectively.

The principal risk the Branch 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 Branch is to ensure that sufficient reserves are available to cover these liabilities.

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 Branch. The Branch further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future development.

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

	2010		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	9,140,000	9,140,000	-
Marine, aviation and transport	918,000	275,000	643,000
Motor	12,000	3,500	8,500
Accident and health	48,000	44,000	4,000
Miscellaneous	284,000	281,000	3,000
	10,402,000	9,743,500	658,500

	2009		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	4,800,000	4,800,000	-
Marine, aviation and transport	894,000	268,000	626,000
Motor	16,000	-	16,000
Accident and health	48,000	44,000	4,000
Miscellaneous	356,000	352,000	4,000
	6,114,000	5,464,000	650,000

25.1.2 Uncertainty in the estimation of future claims payment

Claims on general insurance contracts are payable on a claim occurrence basis. The Branch 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 the intimation to the Branch. The estimation of the amount is based on management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. For the estimation of provision of claims incurred but not reported (IBNR), the management makes the best estimate which take into account the claims that are actually reported subsequent to the balance sheet date.

There are several variable factors which affect the amount and timing of recognized claim liabilities. The branch takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from initial recognized amount.

Key assumptions

The principal assumption underlying the liability estimation of claims and premium deficiency reserves is that the Branch's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

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

Class	Assumed Net Loss Ratio 2010	Assumed Net Loss Ratio 2009
Fire and property	14%	0%
Marine, aviation and transport	45%	73%
Motor	64%	49%
Accident and health	28%	16%
Miscellaneous	4%	29%

Eum

Sensitivity analysis

The insurance claim liabilities are sensitive to the incidence of insured events and severity / size of claims. The impact of 10% variation in claims value with other factors remaining constant is summarized below. However, in practice the actual results may differ from sensitivity analysis:

	Profit before tax		Head Office Account	
	2010	2009	2010	2009
	(Rupees in thousand)			
10% increase in loss	**(20,111)**	(16,922)	**(13,072)**	(10,999)
10% decrease in loss	**20,111**	16,922	**13,072**	10,999

Claim development

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

25.2 Reinsurance risk

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

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

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

	Amount due from other insurers / reinsurers		Reinsurance recoveries against outstanding claims	
	2010	2009	2010	2009
	(Rupees in thousand)		(Rupees in thousand)	
Rating				
A or above including Pakistan Reinsurance Company Limited	**96,619**	137,650	**216,058**	230,907

25.3 Financial risk

The Branch is exposed to a variety of financial risks: market risk (comprising currency risk, interest rate risk, and other price risk), liquidity risk and credit risk that could affect the Branch's net financial position and performance.

These risks are managed through various risk management policies and monitoring by Branch's management.

25.3.1 Market risk

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

25.3.1.1 Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Branch invests in securities and has deposits that are subject to interest / mark-up rate risk. The Branch limits interest / mark-up rate risk by monitoring changes in interest / mark-up rates in the currencies in which its cash and investments are denominated. The interest rates and maturity of bank balances / deposits and investments are disclosed in note 11 and 12 respectively. Further, the Branch has no interest-bearing liabilities as at the year end.

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

	Increase / (decrease) in basis points	Effect on profit before tax	Effect on Head Office Account
		(Rupees in thousand)	
December 31, 2010	**100**	**13,797**	**8,968**
	(100)	**(13,797)**	**(8,968)**
December 31, 2009	100	11,696	7,602
	(100)	(11,696)	(7,602)

25.3.1.2 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. The Branch's principal transactions are carried out in Pak Rupees and its exposure to foreign exchange risk arises primarily with respect to US dollar. Financial liabilities exposed to foreign exchange risk amounted to Rs. 111.284 million (2009:Rs. 83.513 million) at the end of the year.

25.3.1.3 Other price risk

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

The Branch's quoted securities are susceptible to market price risk arising from uncertainties about the future value of investment securities. The Branch limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity market.

The following table summarizes the Branch's other price risk as of December 31, 2010 and 2009. It shows the effects of an estimated increase / decrease of 5% in the market prices as on the fair values of the quoted equity securities with other factors remaining constant. However, in practice the actual results may differ from sensitivity analysis.

	Fair value (Rupees in thousand)	Price change	Effect on fair value (Rupees in thousand)
December 31, 2010	**87,693**	**+5%**	**4,385**
		-5%	**(4,385)**
December 31, 2009	76,473	+5%	3,824
		-5%	(3,824)

25.3.2 Liquidity risk

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

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

	2010			
	With in one year	**Over one year to five years**	**Over five years**	**Total**
	---------- (Rupees in thousand) ----------			
Financial liabilities				
Provision for outstanding claims	**285,081**	-	-	**285,081**
Amounts due to other insurers / reinsurers	**57,358**	-	-	**57,358**
Accrued expenses	**60,683**	-	-	**60,683**
Other creditors and accruals	**170,044**	-	-	**170,044**
	573,166	-	-	**573,166**

	2009			
	With in one year	**Over one year to five years**	**Over five years**	**Total**
	---------- (Rupees in thousand) ----------			
Financial liabilities				
Provision for outstanding claims	315,159	-	-	315,159
Amounts due to other insurers / reinsurers	48,464	-	-	48,464
Accrued expenses	45,564	-	-	45,564
Other creditors and accruals	122,677	-	-	122,677
	531,864	-	-	531,864

25.3.3 Credit Risk

Credit risk is the risk, which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Branch attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counter parties in various industries and by continually assessing the credit worthiness of counter parties. The table below analyses the Branch's maximum exposure to credit risk:

	2010	2009
	(Rupees in thousand)	
Bank accounts and deposits	**682,882**	319,823
Premiums due but unpaid	**204,218**	131,124
Amounts due from other insurers / reinsurers	**96,619**	113,833
Accrued income on deposits	**16,467**	13,313
Reinsurance recoveries against outstanding claims	**216,058**	230,907
	1,216,244	809,000

25.3.3.1 Concentration of credit risk and credit exposure of the financial instruments

Concentration of credit risk arises when a number of counter parties have a similar type of business activities. As a result any change in economic, political or other conditions would affect their ability to meet contractual obligations in a similar manner. The Branch manages concentration of credit risk through diversification of activities among individuals, groups and industry segment.

The Branch is exposed to major credit risk on bank balances and deposits, premiums receivable from customers and co-insurers; and on commission and claim recoveries from re-insurers.

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

Rating*	2010	2009
	(Rupees in thousand)	
A1+	**357,865**	183,425
A-1	-	35,406
A-2	-	50,017
P-1	**325,017**	50,975
	682,882	319,823

* Above ratings are performed by PACRA, JCR-VIS and Moody's Fitch.

The management monitors exposure to credit risk in premium receivable from customers and insurance companies through regular review of credit exposure and prudent estimates of provisions for doubtful receivables.

25.3.3.2 The age analysis of premiums due but unpaid and amounts due from other insurers/reinsurers is as follows:

	2010	2009
	(Rupees in thousand)	
Upto 1 year	**303,029**	234,357
1 - 2 years	**7,333**	10,672
Over 2 years	**7,116**	32,574
	317,478	277,603

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, difference may arise between the carrying values except for the investments in held-to-maturity and available-for-sale portfolios. The market value of these investments are disclosed in note 12.3 and 12.4 respectively.

26. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Branch comprises of head office, ultimate parent and subsidiaries / branches of ultimate parent. The Branch in the normal course of business carries out transaction at arm's length with various related parties. Details of transactions with related parties during the year and the balances as at the year end, other than the remuneration of Manager for Pakistan (detailed in note 24), are as follows:

	2010	2009
	(Rupees in thousand)	
Transactions during the year		
Premiums ceded	**493,489**	371,724
Commission income	**141,276**	107,610
Claims recoverable	**157,647**	113,020
Software maintenance charges	**27,188**	4,975
Service fee for support services	**28,896**	83,513
Balances at the year end		
Premiums due but unpaid	-	9,336
Due to related parties including accrued expenses	**16,626**	11,947
Service fee for support services	**111,284**	83,513

27. NUMBER OF EMPLOYEES

Number of permanent employees at the end of the year were 73 (2009 : 77).

28. AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the management on April 28, 2011.

29. GENERAL

29.1 Figures have been rounded off to the nearest thousand rupees.

29.2 Prior year's figures have been reclassified, wherever necessary, for the purposes of comparison. However, such reclassifications were not material.

Manager for Pakistan / Principal Officer	Chief Financial Officer	Assistant General Manager