# NEW HAMPSHIRE INSURANCE COMPANY
# – PAKISTAN BRANCH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

pwc

A. F. FERGUSON & CO.

## 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 premiums;
(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 **December 31, 2011** together with the 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) proper books of accounts have been kept by the Branch as required by the Insurance Ordinance, 2000;

(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Branch;

(c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Branch's affairs as at December 31, 2011 in accordance with the approved accounting standards as applicable in Pakistan, and the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

(d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

### *Other matter*

The financial statements of the Branch for the year ended December 31, 2010 were audited by another firm of Chartered Accountants who had expressed an unqualified opinion thereon vide their report dated April 28, 2011.

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Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: April 30, 2012
Karachi

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NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
BALANCE SHEET
AS AT DECEMBER 31, 2011

| | Note | 2011 | 2010 (Restated) | 2009 (Restated) |
|---|---|---|---|---|
| | | Rupees in '000 | | |
| Head office account | 7 | 1,002,279 | 928,058 | 871,481 |
| **Underwriting provisions** | | | | |
| Provision for outstanding claims (including IBNR) | | 318,476 | 285,081 | 315,159 |
| Provision for unearned premium | | 479,982 | 381,808 | 350,019 |
| Commission income unearned | | 97,824 | 76,846 | 74,812 |
| **Total underwriting provisions** | | 896,282 | 743,735 | 739,990 |
| **Creditors and Accruals** | | | | |
| Amounts due to other insurers/reinsurers | 8 | 632,819 | 621,732 | 418,272 |
| Accrued expenses | 9 | 49,016 | 60,683 | 45,564 |
| Other creditors and others | 10 | 173,364 | 170,044 | 122,677 |
| | | 855,199 | 852,459 | 586,513 |
| TOTAL LIABILITIES | | 1,751,481 | 1,596,194 | 1,326,503 |
| TOTAL EQUITY AND LIABILITIES | | 2,753,760 | 2,524,252 | 2,197,984 |
| Contingencies | 11 | | | |

| | Note | 2011 | 2010 (Restated) | 2009 (Restated) |
|---|---|---|---|---|
| | | Rupees in '000 | | |
| **Cash and bank deposits** | 12 | | | |
| Cash and other equivalent | | 96 | 38 | 27 |
| Current and other bank accounts | | 196,576 | 82,882 | 24,823 |
| Deposits maturing within 12 months | | 910,000 | 600,000 | 295,000 |
| | | 1,106,672 | 682,920 | 319,850 |
| **Investments** | 13 | 529,831 | 751,912 | 863,092 |
| **Deferred taxation** | 14 | 10,075 | 8,557 | 19,167 |
| **Security deposits** | | 3,301 | 2,201 | 1,501 |
| **Other Assets** | | | | |
| Premium due but unpaid | 15 | 89,214 | 204,218 | 131,124 |
| Amounts due from other insurers/reinsurers | 16 | 218,933 | 96,619 | 113,833 |
| Salvage recoveries accrued | | 11,483 | 11,314 | 6,270 |
| Accrued income on investment and deposits | 17 | 25,916 | 38,297 | 27,930 |
| Reinsurance recoveries against outstanding claims | 18 | 219,137 | 216,058 | 230,907 |
| Taxation payment less provision | 19 | 49,402 | 56,661 | 45,401 |
| Deferred commission expense | | 73,785 | 62,904 | 66,632 |
| Other deferred acquisition costs | | - | 40,326 | 36,446 |
| Prepayments | 20 | 347,594 | 274,303 | 247,065 |
| Loans to employees - unsecured - considered good | 21 | 4,903 | 6,684 | 4,223 |
| Sundry receivables | 22 | 3,179 | 7,362 | 5,627 |
| | | 1,043,546 | 1,014,746 | 915,458 |
| **Fixed Assets** | | | | |
| **Tangible and Intangible assets** | | | | |
| Leasehold improvements | | 7,842 | 15,031 | 15,954 |
| Furniture and fittings | | 9,100 | 10,696 | 11,605 |
| Office equipment | | 4,051 | 7,620 | 7,807 |
| Computers and EDP equipment | | 2,647 | 4,135 | 4,315 |
| Vehicles | | 18,412 | 14,918 | 16,663 |
| Software | | 5,910 | 11,516 | 16,856 |
| Capital work-in-progress | | 12,373 | - | 5,716 |
| | 23 | 60,335 | 63,916 | 78,916 |
| TOTAL ASSETS | | 2,753,760 | 2,524,252 | 2,197,984 |

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

Manager of 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, 2011

| | Note | Fire and property | Marine, aviation and transport | Motor | Accident and health | Miscellaneous | Aggregate December 31, 2011 | Aggregate December 31, 2010 |
|---|---|---|---|---|---|---|---|---|
| | | (Rupees in thousand) | | | | | | |
| Revenue Account | | | | | | | | |
| Net Premium Revenue | | 8,248 | 80,643 | 237,541 | 110,562 | 6,401 | 443,395 | 405,937 |
| Net Claims | | (2,019) | (47,517) | (154,632) | (63,589) | (486) | (268,243) | (201,105) |
| Management Expenses | 24 | (41,254) | (10,314) | (55,989) | (29,467) | (10,314) | (147,338) | (111,315) |
| Net Commission | | 89,798 | 3,048 | (29,581) | (28,258) | 4,008 | 39,015 | 9,981 |
| | | 46,525 | (54,783) | (240,202) | (121,314) | (6,792) | (376,566) | (302,439) |
| Underwriting Results | | 54,773 | 25,860 | (2,661) | (10,752) | (391) | 66,829 | 103,498 |
| Investment Income - net | | | | | | | 177,545 | 158,726 |
| Other Income | 25 | | | | | | 84 | 2,151 |
| General and administration expenses | 26 | | | | | | (136,311) | (171,592) |
| Profit before tax | | | | | | | 108,147 | 92,783 |
| Taxation | 27 | | | | | | (33,926) | (36,206) |
| Profit after tax | | | | | | | 74,221 | 56,577 |

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

Manager of 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, 2011

| | | 2011 | 2010 |
|---|---|---|---|
| | | ------- Rupees in '000 ------- | |
| Operating Cash Flows | | | |
| (a) | **Underwriting activities** | | |
| | Premiums received | 1,288,140 | 1,056,998 |
| | Reinsurance premiums paid | (1,626,127) | (476,559) |
| | Claims paid | (437,124) | (443,548) |
| | Reinsurance and other recoveries received | 717,722 | 227,214 |
| | Commissions paid | (196,489) | (172,381) |
| | Commissions received | 522,698 | 197,531 |
| | **Net cash generated from underwriting activities** | 268,820 | 389,255 |
| (b) | **Other operating activities** | | |
| | Income tax paid | (28,184) | (36,856) |
| | General management expenses paid - net | (204,897) | (245,648) |
| | Net cash flow from other operating activities | (233,081) | (282,504) |
| **Total cash generated from all operating activities** | | 35,739 | 106,751 |
| **Investment activities** | | | |
| | Profit / return received | 178,443 | 135,946 |
| | Dividends received | 6,724 | 4,867 |
| | (Payments) / Redemption for Term deposit receipt | (310,000) | (305,000) |
| | Proceeds from redemption of investments | 656,204 | 1,358,835 |
| | Investment made during the year | (429,364) | (1,240,109) |
| | Fixed capital expenditure | (25,009) | (8,735) |
| | Proceeds from disposal of fixed assets | 1,015 | 5,515 |
| **Total cash generated from/(used in) investing activities** | | 78,013 | (48,681) |
| **Net cash flow from all activities** | | 113,752 | 58,070 |
| Cash at the beginning of the year | | 82,920 | 24,850 |
| **Cash at the end of the year** | | 196,672 | 82,920 |
| **Reconciliation to profit and loss account** | | | |
| | Operating cash flows | 35,739 | 106,751 |
| | Depreciation expense | (22,053) | (14,792) |
| | Amortisation | (5,606) | (5,579) |
| | Investment income | 177,545 | 158,726 |
| | Other Income | 84 | 2,151 |
| | Increase in assets other than cash | 43,799 | 79,011 |
| | Increase in liabilities | (155,287) | (269,691) |
| **Profit after taxation** | | 74,221 | 56,577 |

**Definition of cash**
Cash comprise of stamps in hand, cash in hand and bank balances

| | | 2011 | 2010 |
|---|---|---|---|
| **Cash for the purpose of statement of cash flows consist of:** | | | |
| - | cash and other equivalents | 96 | 38 |
| **Current and other bank accounts** | | | |
| - | current accounts | 79,683 | 41,370 |
| - | saving accounts | 116,893 | 41,512 |
| | | 196,576 | 82,882 |
| **Cash and cash equivalents for the purpose of cash flow statement** | | 196,672 | 82,920 |

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

| Manager of Pakistan / Principal Officer | Chief Financial Officer | Assistant General Manager |
|---|---|---|

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2011

Business underwritten inside Pakistan

| Class | Premiums written | Unearned premium reserve | | Premiums earned | Reinsurance ceded | Prepaid reinsurance premium ceded | | Reinsurance expense | Net premium revenue | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Opening | Closing | | | Opening | Closing | | 2011 | 2010 |
| | Rupees in '000 | | | | | | | | | |
| **Direct and Facultative** | | | | | | | | | | |
| 1. Fire and property | 752,279 | 235,944 | 317,713 | 670,510 | 743,644 | 232,922 | 314,304 | 662,262 | 8,248 | 8,055 |
| 2. Marine, aviation and transport | 118,398 | 13,472 | 8,313 | 123,557 | 41,366 | 4,042 | 2,494 | 42,914 | 80,643 | 70,092 |
| 3. Motor | 258,746 | 88,899 | 103,837 | 243,808 | 6,267 | 3 | 3 | 6,267 | 237,541 | 220,423 |
| 4. Accident and health | 132,976 | 25,805 | 34,292 | 124,489 | 16,154 | 3,467 | 5,694 | 13,927 | 110,562 | 98,846 |
| 5. Miscellaneous | 76,048 | 17,688 | 15,827 | 77,909 | 69,808 | 16,723 | 15,023 | 71,508 | 6,401 | 8,521 |
| Total | 1,338,447 | 381,808 | 479,982 | 1,240,273 | 877,239 | 257,157 | 337,518 | 796,878 | 443,395 | 405,937 |

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

Manager of Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2011

Business underwritten inside Pakistan

| Class | Claims paid | Outstanding claims | | Claims expense | Reinsurance and other recoveries received | Reinsurance and other recoveries in respect of outstanding claims | | Reinsurance and other recoveries revenue | Net claims expense | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Opening | Closing | | | Opening | Closing | | 2011 | 2010 |
| | Rupees in '000 | | | | | | | | | |
| **Direct and Facultative** | | | | | | | | | | |
| 1. Fire and property | 155,502 | 210,202 | 207,825 | 153,125 | 151,667 | 201,603 | 201,042 | 151,106 | 2,019 | 1,131 |
| 2. Marine, aviation and transport | 52,985 | 19,392 | 34,439 | 68,032 | 16,104 | 5,246 | 9,657 | 20,515 | 47,517 | 31,251 |
| 3. Motor | 155,434 | 28,598 | 27,796 | 154,632 | - | - | - | - | 154,632 | 140,587 |
| 4. Accident and health | 44,800 | 16,513 | 42,162 | 70,449 | 3,715 | 29 | 3,174 | 6,860 | 63,589 | 27,818 |
| 5. Miscellaneous | 28,403 | 10,376 | 6,254 | 24,281 | 27,711 | 9,180 | 5,264 | 23,795 | 486 | 318 |
| Total | 437,124 | 285,081 | 318,476 | 470,519 | 199,197 | 216,058 | 219,137 | 202,276 | 268,243 | 201,105 |

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

Manager of Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

Business underwritten inside Pakistan

| Class | Commissions paid or payable | Deferred commission | | Net commission expense | Other management expenses | Underwriting expenses | Commissions from reinsurers | Net underwriting expense | |
|---|---|---|---|---|---|---|---|---|---|
| | | Opening | Closing | | | | | 2011 | 2010 |
| | Rupees in '000 | | | | | | | | |
| **Direct and Facultative** | | | | | | | | | |
| 1. Fire and property | 113,629 | 40,819 | 48,042 | 106,406 | 41,254 | 147,660 | 196,204 | (48,544) | (26,792) |
| 2. Marine, aviation and transport | 6,225 | 1,686 | 445 | 7,466 | 10,314 | 17,780 | 10,514 | 7,266 | 10,241 |
| 3. Motor | 31,876 | 10,915 | 13,210 | 29,581 | 55,989 | 85,570 | - | 85,570 | 51,159 |
| 4. Accident and health | 34,826 | 6,545 | 9,281 | 32,090 | 29,467 | 61,557 | 3,832 | 57,725 | 54,785 |
| 5. Miscellaneous | 13,301 | 2,939 | 2,807 | 13,433 | 10,314 | 23,747 | 17,441 | 6,306 | 11,941 |
| Total | 199,857 | 62,904 | 73,785 | 188,976 | 147,338 | 336,314 | 227,991 | 108,323 | 101,334 |

Note: Commission from reinsurers is net of opening and closing unearned commission of Rs 76,846 thousand and Rs 97,824 thousand respectively.

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

Manager of 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, 2011

| | 2011 | 2010 |
|---|---|---|
| | ------- Rupees in '000 ------- | |
| Income from non-trading investments | | |
| Held to maturity | | |
| Return on government securities | 79,566 | 120,319 |
| Available for sale | | |
| Dividend income | 6,724 | 4,867 |
| Return on term deposits and balances with bank | 91,977 | 32,116 |
| | 178,267 | 157,302 |
| (Provision) / reversal of provision against diminution in the value of available-for-sale investments | (722) | 1,424 |
| **Net investment income** | 177,545 | 158,726 |

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

Manager of Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

## 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. Subsequent to the year end, the Branch has shifted its registered office to 1st Floor, Dadex House 34-A/1, Block 6 PECHS Shahrah-e-Faisal, Karachi. The Branch is engaged in General Insurance business under the Insurance Ordinance, 2000 and operates through 5 sales offices (2010:5) 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) as issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002 and directives issued by the SECP. Wherever the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 the SEC (Insurance) Rules, 2002 or directives issued by the SECP differ with the requirements of IFRS, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002 or the said directives prevail.

The SECP has allowed 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. The accounting policy in respect of available-for-sale investments stated in note 5.8.

## 4 ACCOUNTING CONVENTION

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

## 5 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

- IFRS 7, Financial Instruments (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The amendment does not have any significant impact on the Branch's financial statements, other than certain additional disclosures.

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

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

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

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

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

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

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

5.1.3 Insurance contracts

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

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

The branch neither issues investment contracts nor does it issue insurance contracts with discretionary participation features (DPF).

5.2 Premium

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

Premium income also includes administrative surcharge that represents documentation and other charges recovered by the Branch from policy holders in respect of policies issued.

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

5.3 Reinsurance ceded

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 insurance business being reinsured.

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

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

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

The Branch assesses its reinsurance assets for impairment on the 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 recognises 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 date.

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

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage. The Branch recognises unearned portion of premium income as a liability, calculated as a proportion of the gross premium of each policy, determined as the ratio of the unexpired period of the policy and the total period, both measured to the nearest day, as allowed under SEC (Insurance) Rules, 2002.

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.

5.4.4 Unearned commission income

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

5.5 Other creditors and accruals

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

5.6 Provisions

Provisions are recognized when the Branch has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are regularly reviewed and adjusted to reflect the current estimate.

5.7 Cash and cash equivalents

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

5.8 Financial assets

5.8.1 Classification

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

At fair value through profit or loss

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

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**Available for sale**

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

**Held to maturity**

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

**Loans and receivables**

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

**5.8.2 Initial recognition and measurement**

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

**5.8.3 Subsequent measurement**

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

**5.8.4 Impairment against financial assets**

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

**5.8.5 Derecognition**

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

**5.9 Reinsurance recoveries against outstanding claims**

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

**5.10 Salvage and subrogation reimbursements**

Some insurance contracts permit the Branch to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Branch may also have a right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims, and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

### 5.11 Deferred commission expense and deferred acquisition costs

Commission expense and costs incurred in obtaining and recording policies are deferred and recognised as an asset and are recognised in the profit and loss account as expenses in accordance with the pattern of recognition of premium income.

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

In order to align the Branch accounting practice with the local general insurance industry, the management has decided to abandon the deferment of other acquisition cost.

The above change has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors" and has been recognised prospectively in the profit and loss account of the Branch in the current year. Had there been no change in accounting estimate, the profit before tax for the year ended December 31, 2011 would have been higher by Rs 41.510 million and management expenses for the year ended December 31, 2011 would have been lower by Rs 41.510 million.

### 5.12 Prepaid reinsurance

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

### 5.13 Sundry receivables

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

### 5.14 Fixed assets

#### 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 23.1 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. Subsequent costs are included in the asset's carrying amounts or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branch and the cost of the item can be measured reliably. Gain or loss on disposal of fixed asset is included in the profit and loss account.

#### 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 23.2 to the financial statements. Amortisation is calculated from the month the assets are available for use. While on disposal, amortisation is charged upto the month in which the assets are disposed of.

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Capital work-in-progress

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

Impairment

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

5.15 Functional and presentation currency

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

5.16 Financial instruments

Financial assets and financial liabilities are recognised 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 expires or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

5.17 Off-setting of financial assets and financial liabilities

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

5.18 Revenue recognition

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).

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

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

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

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

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

5.19 Taxation

Tax charge for the period comprises current and deferred taxation. Tax charge is recognised in the profit and loss account, except to the extent that it relates to the items recognised directly in the equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits, if enacted. The charge for current tax also include adjustments where necessary, relating to prior years which arise from assessment framed / finalised during the year.

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Deferred

Deferred taxation is recognised using the balance sheet liability method on all major temporary differences arising between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

5.20 Staff retirement benefits

Defined benefit plan

The Branch operates an approved gratuity fund scheme(defined benefit plan) for all permanent employees who have completed minimum prescribed period of service under the scheme. The Branch makes contributions to the fund on the basis of recommendations made by an actuary.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses. The defined benefit obligation is calculated by an independent actuary using the Projected Unit Credit Method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit and loss account over the employees' expected average remaining working lives.

Defined contribution plan

The Branch operates a funded contributory provident fund (defined contribution plan) for all permanent employees. Equal monthly contributions are made, both by the Branch and the employees, to the fund at the rate of 10% of basic salary. The Branch has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

5.21 Premiums due but unpaid

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

5.22 Amount due from / to other insurers / reinsurers

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

5.23 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.

5.24 Foreign currencies transactions

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

6 CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

| | Note |
|---|---|
| Provision for outstanding claims (including IBNR) | 5.4.1 |
| Premium deficiency reserve | 5.4.3 |
| Staff gratuity fund | 5.20 and 10.2 |
| Deferred taxation | 5.19 and 14 |
| Classification of investments | 5.8.1 and 13 |
| Provision for doubtful debts | 5.6 |
| Deferred commission | 5.11 |
| Useful lives of assets and methods of depreciation | 5.14 and 23 |
| Allocation of management expenses | 5.23, 24 and 26 |

| | 2011 | 2010 (Restated) | 2009 (Restated) |
|---|---|---|---|
| **7 HEAD OFFICE ACCOUNT** | (Rupees in '000) | | |
| *Unremitted profit* | | | |
| Balance at the beginning of the year | 928,058 | 871,481 | 854,339 |
| Profit after tax for the year | 74,221 | 56,577 | 17,142 |
| Balance at the end of year | 1,002,279 | 928,058 | 871,481 |
| **8 AMOUNTS DUE TO OTHER INSURERS / REINSURERS** | | | |
| Amounts due to group companies | 540,453 | 564,374 | 369,808 |
| Amounts due to others | 92,366 | 57,358 | 48,464 |
| | 632,819 | 621,732 | 418,272 |

| | Note | 2011 | 2010 |
|---|---|---|---|
| **9 ACCRUED EXPENSES** | | (Rupees in '000) | |
| Salaries, wages and benefits | | 9,592 | 25,097 |
| Software maintenance charges | | 11,725 | 11,686 |
| Legal and professional charges | | 2,870 | 2,310 |
| Agency development and recognition | | 2,114 | 3,788 |
| Other accrued expenses | | 22,715 | 17,802 |
| | | 49,016 | 60,683 |
| **10 OTHER CREDITORS AND ACCRUALS** | | | |
| Service fee to a related party | 10.1 | 116,460 | 111,284 |
| Due to related parties | | 5,554 | - |
| Commission | | 29,190 | 36,538 |
| Federal Excise Duty | | 7,672 | 5,521 |
| Federal Insurance Fee | | 696 | 722 |
| Withholding tax | | 300 | 752 |
| Workers' Welfare Fund | | 2,272 | 1,893 |
| Payable to gratuity fund | 10.2 | 2,704 | 4,387 |
| Others | | 8,516 | 8,947 |
| | | 173,364 | 170,044 |

10.1 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.

There is no further change recorded and payment made during the year. The increase of Rs 5.176 million is due to exchange difference.

### 10.2 Payable to gratuity fund

As mentioned in note 5.20, the Branch operates an approved funded gratuity scheme for all permanent employees who have completed the minimum prescribed period of service under the scheme. An actuarial valuation is carried out to determine the liability of the Branch in respect of the benefit and the latest valuation was carried out as at December 31, 2011. The information provided as follows has been obtained from the actuarial valuation carried out as at December 31, 2011. The following significant assumptions have been used for valuation of this scheme:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 13.00% | 14.5% |
| Rate of salary increase | 12.50% | 14% |
| Rate of return | 10.50% | 12% |

| | 2011 | 2010 |
|---|---|---|
| **Amounts recognised in the balance sheet** | -------- (Rupees in '000) -------- | |
| Present value of defined benefit obligation | 26,289 | 22,339 |
| Fair value of plan assets | (21,381) | (16,409) |
| Deficit | 4,908 | 5,930 |
| Unrecognized actuarial loss | (2,204) | (1,543) |
| Liability as at December 31, | **2,704** | **4,387** |
| **Movement in defined benefit obligations** | | |
| Balance as at January 1, | 4,387 | (878) |
| Charge for the year | 4,372 | 7,194 |
| Contributions | (4,387) | - |
| Payment to outgoing members by the branch | (1,668) | (1,929) |
| Balance as at December 31, | **2,704** | **4,387** |
| **Charge for the year** | | |
| Current service cost | 3,108 | 2,974 |
| Interest cost | 3,405 | 3,080 |
| Past Service Cost | - | 2,769 |
| Expected return on plan assets | (2,141) | (1,923) |
| Actuarial losses recognised during the year | - | 294 |
| Charge for the year ended December 31, | **4,372** | **7,194** |
| **Movement in the Present Value of Defined Benefit Obligation:** | | |
| Present Value of Defined Benefit Obligation as at January 1, | 22,339 | 17,215 |
| Current service cost | 3,108 | 2,974 |
| Interest cost | 3,405 | 3,080 |
| Benefits Payable to the ex-member | (70) | - |
| Past Service Cost | - | 2,769 |
| Actuarial gain on obligation | (825) | (1,770) |
| Actual benefits paid during the year | (1,668) | (1,929) |
| Present value of defined benefit obligation as at December 31, | **26,289** | **22,339** |
| **Movement in Fair Value of Plan Assets:** | | |
| Fair value of plan assets as at January 1, | 16,409 | 13,666 |
| Expected return on plan assets | 2,141 | 1,923 |
| Contributions made by the Branch | 4,387 | - |
| Benefits paid during the year | (70) | - |
| Actuarial loss on plan assets | (1,486) | 820 |
| Fair value of plan assets as at December 31, | **21,381** | **16,409** |

**Breakup of plan assets**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Rupees in '000 | % | Rupees in '000 | % |
| Treasury Bills | 14,590 | 68.24 | 14,169 | 86.35 |
| Pakistan Investment Bonds | 4,925 | 23.03 | - | - |
| Bank deposits | 1,993 | 9.32 | 2,267 | 13.81 |
| Current liabilities | (127) | (0.59) | (27) | (0.16) |
| | 21,381 | 100 | 16,409 | 100 |

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

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| | (Rupees in '000) | | | | |
| Present value of defined benefit obligations | 26,289 | 22,339 | 17,215 | 13,078 | 12,686 |
| Fair value of plan assets | 21,381 | 16,409 | 13,666 | 4,403 | 4,462 |
| Deficit | (4,908) | (5,930) | (3,549) | (8,675) | (8,224) |

Expected contribution to the plan for the year ending December 31, 2012 is Rs 4.255 million (2011: Rs 4.373 million).

## 11 CONTINGENCIES

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.

## 12 CASH AND BANK DEPOSITS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| **Cash and other equivalent** | | | |
| Cash in hand | | 62 | 25 |
| Stamps in hand | | 34 | 13 |
| | | 96 | 38 |
| **Current and other bank accounts** | | | |
| Current accounts | | 79,683 | 41,370 |
| Savings accounts | 12.1 | 116,893 | 41,512 |
| | | 196,576 | 82,882 |
| **Deposits maturing within 12 months** | | | |
| Term deposit receipts | 12.2 | 910,000 | 600,000 |
| | | 1,106,672 | 682,920 |

12.1 These carry markup ranging from 5% to 7.6% (2010 : 5 % to 7.6%) per annum.

12.2 These carry markup ranging from 9.8% to 13.4% (2010 : 9.00 % to 13.10%) per annum.

## 13 INVESTMENTS

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | ------ (Rupees in '000) ------ | |
| Held-to-maturity | 13.1 | 516,850 | 738,209 |
| Available-for-sale | 13.2 | 12,981 | 13,703 |
| | | 529,831 | 751,912 |

### 13.1 Held-to-maturity

| **Government Securities** | Face Value (Rs. In '000) | Mark up rate | Maturity year | 2011 | 2010 |
|---|---|---|---|---|---|
| Deposited with the State Bank of Pakistan (13.1.1) | | | | | |
| 10 years Pakistan Investment Bonds | 11,000 | 8% | 2013 | 11,337 | 11,514 |
| | | | | 11,337 | 11,514 |
| Others | | | | | |
| 3 years Pakistan Investment Bonds | 350,000 | 11.25% | 2011 | - | 345,528 |
| 3 years Pakistan Investment Bonds | 200,000 | 11.25% | 2012 | 198,447 | 196,460 |
| 10 years Pakistan Investment Bonds | 54,000 | 8% | 2013 | 55,530 | 56,330 |
| | | | | 253,977 | 598,318 |
| 1 year Market Treasury Bills | 270,000 | 11.85% to 13.84% | 2012 | 251,536 | 128,377 |
| | | | | 516,850 | 738,209 |

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

13.1.2 The aggregate market value of held-to-maturity investments as at December 31, 2011 amounted to Rs. 510.825million (2010: Rs 722 million).

13.2 Available-for-sale

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

| 2011 | 2010 | Name of Entity | Note | 2011 | 2010 |
|---|---|---|---|---|---|
| -------No. of shares------- | | | | ------ (Rupees in '000) ------ | |
| 225,000 | 225,000 | Hub Power Company Limited | | 12,570 | 12,570 |
| 374,200 | 340,182 | 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 | 13.2.1 | (4,875) | (4,153) |
| | | | | 12,981 | 13,703 |

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

| | 2011 | 2010 |
|---|---|---|
| Opening balance | 4,153 | 5,577 |
| Provision for the year | 722 | (1,424) |
| Closing balance | 4,875 | 4,153 |

13.2.2 The aggregate market value of available-for-sale investments as at December 31, 2011 amounted to Rs 59.24 million (2010: Rs. 87.6 million).

13.2.3 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, 2011 would have been higher by Rs 46.26 million (2010: Rs 73.90 million) and surplus on revaluation of available-for-sale investments (under Head Office account) would have been Rs 46.26 million (2010 : Rs 73.90 million).

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| 14 | DEFERRED TAXATION | | ------ (Rupees in '000) ------ | |
| | **Temporary differences arising in respect of:** | | | |
| | Provision for doubtful debts | | 5,825 | 7,021 |
| | Provision for gratuity | | 947 | 1,536 |
| | Fixed Assets | | 3,303 | - |
| | | | 10,075 | 8,557 |
| 15 | PREMIUM DUE BUT UNPAID | | | |
| | Considered good | | 89,214 | 204,218 |
| | Considered doubtful | | 258 | 8,419 |
| | | | 89,472 | 212,637 |
| | Less: Provision for doubtful debts | 15.1 | (258) | (8,419) |
| | | | 89,214 | 204,218 |
| 15.1 | **Provision for doubtful debts** | | | |
| | Opening balance | | 8,419 | 25,274 |
| | Reversal for the year | | (8,161) | (850) |
| | Written off during the year | | - | (16,005) |
| | | | 258 | 8,419 |
| 16 | AMOUNT DUE FROM OTHER INSURERS/ REINSURERS | | | |
| | Considered good | | 218,933 | 96,619 |
| | Considered doubtful | | 16,383 | 8,222 |
| | | | 235,316 | 104,841 |
| | Less: Provision for doubtful debts | 16.1 | (16,383) | (8,222) |
| | | | 218,933 | 96,619 |
| 16.1 | **Provision for doubtful debts** | | | |
| | Opening balance | | 8,222 | 7,372 |
| | Charge for the year | | 8,161 | 850 |
| | | | 16,383 | 8,222 |

| | | 2011 | 2010 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| **17** | **Accrued income on Investment** | | |
| | - Pakistan investment Bonds | 8,636 | 21,830 |
| | - Term Deposit Receipts | 17,280 | 16,467 |
| | | 25,916 | 38,297 |
| **18** | **REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS** | 219,137 | 216,058 |

**18.1** The above balance includes claims receivable from American Home Assurance Company and National Union Fire Insurance Company of Pittsburgh, PA (group companies) amounting to Rs 63.11 million and Rs 86.84 million respectively (2010: Rs 44.87 million and Rs 99.53 million respectively).

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | -------- (Rupees in '000) -------- | |
| 19 | TAXATION PAYMENT LESS PROVISION | | | |
| | Opening refundable | | 56,661 | 45,401 |
| | Charge for the year | | (35,443) | (25,596) |
| | Payments during the year | 19.1 | 28,184 | 36,856 |
| | | | (7,259) | 11,260 |
| | Closing refundable | | 49,402 | 56,661 |

**19.1** In 2010, the assessing officer through its orders issued has amended the assessment order for the tax year 2004 by disallowing certain expenses resulting in additional tax demand of Rs 4.4 million which was paid as required under the assessment order. Subsequently, the Branch has filed an appeal before Commissioner Inland Revenue (Appeals) against the orders. In the current year, the Commissioner Inland Revenue (Appeals) has decided the appeal substantially in favour of the Branch and a refund order in this respect has been issued amounting to Rs 3.124 million subsequent to current year in March 5, 2012. In respect of the remaining disallowed amount, the Branch has filed an appeal to the Appellate Tribunal. The management of the Branch is confident that this amount will be refunded / adjusted by the tax authorities.

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | -------- (Rupees in '000) -------- | |
| 20 | PREPAYMENTS | | | |
| | Prepaid re-insurance premium | | 337,518 | 257,157 |
| | Rent | | 8,371 | 17,146 |
| | Other prepayments | | 1,705 | - |
| | | | 347,594 | 274,303 |
| **21** | **LOANS TO EMPLOYEES - Unsecured - considered good** | 21.1 | 4,903 | 6,684 |

**21.1** This represents interest free domestic loans to employees upto two months salary repayable within 11 months.

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| | | | -------- (Rupees in '000) -------- | |
| 22 | SUNDRY RECEIVABLES | | | |
| | Advances to suppliers | | 1,070 | 4,500 |
| | Others | | 2,109 | 2,862 |
| | | | **3,179** | **7,362** |
| 23 | FIXED ASSETS | | | |
| | Tangible assets | | 42,052 | 52,400 |
| | Intangible assets | | 5,910 | 11,516 |
| | Capital work-in-progress | 23.1.1 | 12,373 | - |
| | | | **60,335** | **63,916** |

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## 23.1 Tangible Assets

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cost | | | Accumulated Depreciation | | | | |
| | As at January 1, 2011 | Additions / (Disposals) | As at December 31, 2011 | As at January 1, 2011 | Charge for the year / (Disposals) | As at December 31, 2011 | Written down value as at December 31, 2011 | Rate of Depreciation per annum |
| | (Rupees in thousand) | | | | | | | % |
| Leasehold property | 56 | - | 56 | 56 | - | 56 | - | 20 |
| Leasehold improvements | 30,225 | - (404) | 29,821 | 15,194 | 6,859 (74) | 21,979 | 7,842 | 20 |
| Furniture and fittings | 16,250 | - (190) | 16,060 | 5,554 | 1,441 (35) | 6,960 | 9,100 | 10 |
| Office equipment | 11,641 | 717 - | 12,358 | 4,021 | 4,286 | 8,307 | 4,051 | 20 |
| Computer and EDP equipment | 29,099 | 1,014 - | 30,113 | 24,964 | 2,502 - | 27,466 | 2,647 | 33.33 |
| Vehicles | 34,524 | 10,905 (5,646) | 39,783 | 19,606 | 6,965 (5,200) | 21,371 | 18,412 | 20 |
| **December 31, 2011** | 121,795 | 12,636 (6,240) | 128,191 | 69,395 | 22,053 (5,309) | 86,139 | 42,052 | |

| | 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 (1,360) | 30,225 | 13,702 | 1,898 (406) | 15,194 | 15,031 | 10 |
| Furniture and fittings | 16,054 | 1,627 (1,431) | 16,250 | 4,449 | 1,446 (341) | 5,554 | 10,696 | 10 |
| Office equipment | 11,041 | 1,008 (408) | 11,641 | 3,234 | 1,080 (293) | 4,021 | 7,620 | 10 |
| Computer and EDP equipment | 25,672 | 3,543 (116) | 29,099 | 21,357 | 3,679 (72) | 24,964 | 4,135 | 33.33 |
| Vehicles | 36,931 | 6,105 (8,512) | 34,524 | 20,268 | 6,689 (7,351) | 19,606 | 14,918 | 20 |
| **December 31, 2010** | 119,410 | 14,212 (11,827) | 121,795 | 63,066 | 14,792 (8,463) | 69,395 | 52,400 | |

### 23.1.1 Capital work in progress

| | 2011 | 2010 |
|---|---|---|
| | (Rupees in '000) | |
| Civil works | 7,726 | - |
| Office equipment | 409 | - |
| Motor vehicles | 4,238 | - |
| | **12,373** | - |

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| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| 23.1.2 | **Depreciation has been allocated as follows:** | | ---- (Rupees in '000) --- | |
| | Management expenses | 24 | 11,539 | 7,001 |
| | General and administration expenses | 26 | 10,514 | 7,791 |
| | | | 22,053 | 14,792 |

23.1.3 Cost of fully depreciated fixed assets that are still in Branch use as at December 31, 2011 amounted to Rs 40.430 million (2010: Rs 35.027 million).

23.1.4 During the year the Branch has changed the estimated useful life of its leasehold improvements and office equipment from ten years to five years. The management believes that the revision in useful life provides a more reasonable estimate of the benefits to be obtained from the use of these assets.

The above change has been accounted for as a change in accounting estimate in accordance with the requirements of International Accounting Standard (IAS) 8, "Accounting Policies, Changes in Accounting Estimates and Errors" and has been recognised prospectively in the profit and loss account of the Branch in the current year. Had there been no change in the accounting estimate, the profit before taxation for the year ended December 31, 2011 would have been higher by Rs 7.62 million and depreciation charge for the year ended December 31, 2011 would have been lower by Rs 7.62 million.

23.2 **Intangible Assets**

| | Cost | | | Accumulated Amortisation | | | Written down value as at December 31, 2011 | Rate of Amortisation per annum |
|---|---|---|---|---|---|---|---|---|
| | As at January 1, 2011 | Additions | As at December 31, 2011 | As at January 1, 2011 | Amortisation for the year | As at December 31, 2011 | | |
| | ------ (Rupees in thousand) ------ | | | | | | | % |
| Software | 28,030 | - | 28,030 | 16,514 | 5,606 | 22,120 | 5,910 | 20 |
| **December 31, 2011** | 28,030 | - | 28,030 | 16,514 | 5,606 | 22,120 | 5,910 | |
| **December 31, 2010** | 27,791 | 239 | 28,030 | 10,935 | 5,579 | 16,514 | 11,516 | 20 |

| | | Note | 2011 | 2010 |
|---|---|---|---|---|
| 23.2.1 | Amortisation has been allocated as follows: | | -----(Rupees in '000)---- | |
| | Management expenses | 24 | 2,127 | 1,941 |
| | General and administration expenses | 26 | 3,479 | 3,638 |
| | | | 5,606 | 5,579 |

## 24 MANAGEMENT EXPENSES

| | Note | 2011 | 2010 |
|---|---|---|---|
| Salaries, wages and benefits | 24.1 | 44,312 | 49,244 |
| Rents, taxes, electricity etc. | | 15,660 | 12,630 |
| Communication | | 2,965 | 2,953 |
| Advertisement and sales promotion | | 4,797 | 3,806 |
| Printing and stationery | | 2,501 | 2,101 |
| Service fee for support services | 10.1 | - | 8,032 |
| Traveling and entertainment | | 1,410 | 1,389 |
| Car running and maintenance | | 5,749 | 5,171 |
| Software maintenance charges | | 10,003 | 15,049 |
| Depreciation | 23.1.2 | 11,539 | 7,001 |
| Amortisation | 23.2.1 | 2,127 | 1,941 |
| Subscription and membership fees | | 4,144 | 3,301 |
| Other expenses | | 1,805 | 2,577 |
| | | 107,012 | 115,195 |
| Other deferred acquisition cost: | | | |
| - Opening | | 40,326 | 36,446 |
| - Closing | | - | (40,326) |
| | | 40,326 | (3,880) |
| | | 147,338 | 111,315 |

24.1 Include staff retirements benefits amounting to Rs. 3.70 million (2010 : Rs. 4.53 million).

| | | 2011 | 2010 |
|---|---|---|---|
| 25 | OTHER INCOME | -----(Rupees in '000)---- | |
| | Gain on sale of fixed assets | 84 | 2,151 |

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## 26 GENERAL AND ADMINISTRATION EXPENSES

| | Note | 2011 | 2010 |
|---|---|---|---|
| | | -------- (Rupees in '000) -------- | |
| Salaries, wages and benefits | 26.1 | 61,817 | 70,713 |
| Rent, taxes, electricity etc. | | 17,135 | 16,449 |
| Communication | | 2,669 | 3,007 |
| Advertisement and sales promotion | | 1,468 | 157 |
| Printing and stationery | | 2,636 | 2,517 |
| Traveling and entertainment | | 1,706 | 979 |
| Depreciation | 23.1.2 | 10,514 | 7,791 |
| Amortisation | 23.2.1 | 3,479 | 3,638 |
| Software maintenance charges | | 17,975 | 28,150 |
| Repairs and maintenance | | 2,592 | 4,200 |
| Legal and professional charges | | 1,718 | 518 |
| Auditors' remuneration | 26.2 | 417 | 400 |
| Insurance | | 3,261 | 2,940 |
| Car running and maintenance | | 3,508 | 3,243 |
| Service fee for support services | 10.1 | - | 20,864 |
| Workers' Welfare Fund | | 2,272 | 1,893 |
| Exchange loss | | 1,131 | 126 |
| Other expenses | | 2,013 | 4,007 |
| | | 136,311 | 171,592 |

26.1 Include staff retirements benefits amounting to Rs. 4.74 million (2010 : Rs. 6.54 million).

### 26.2 Auditors' remuneration

| | 2011 | 2010 |
|---|---|---|
| | -------- (Rupees in '000) -------- | |
| Audit fee | 310 | 295 |
| Other certification services | 57 | 55 |
| Out of pocket expenses | 50 | 50 |
| | 417 | 400 |

## 27 TAXATION

| | 2011 | 2010 |
|---|---|---|
| Current - for the year | 39,639 | 25,619 |
| - for prior years | (4,196) | (23) |
| Deferred | (1,517) | 10,610 |
| | 33,926 | 36,206 |

### 27.1 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:

| | 2011 | 2010 |
|---|---|---|
| | -----------(Rupees in '000)----------- | |
| Profit before tax | 108,147 | 92,783 |
| Tax calculation at the rate of 35 % (2010: 35%) | 37,851 | 32,474 |
| Tax effect of expenses that are not deductible in determining taxable profit | 3,461 | (5,611) |
| Tax effect of dividend income | (1,673) | (1,244) |
| Prior year adjustments | (4,196) | (23) |
| Tax effect on temporary difference | (1,517) | 10,610 |
| | 33,926 | 36,206 |

## 28 REMUNERATION OF MANAGER FOR PAKISTAN

| | 2011 | 2010 |
|---|---|---|
| | -----------(Rupees in '000)----------- | |
| Salary and other benefits | 6,255 | 5,900 |
| Branch's provided accommodation and utilities | 5,475 | 5,525 |
| | 11,730 | 11,425 |

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.

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## 29. FINANCIAL INSTRUMENTS BY CATEGORY

| | As at December 31, 2011 | | | |
|---|---|---|---|---|
| | Loans and receivables | Held to maturity | Available for sale | Total |
| | Rupees in '000 | | | |
| **Financial Assets** | | | | |
| Cash and bank deposits | 1,106,672 | - | - | 1,106,672 |
| Investments | - | 516,850 | 12,981 | 529,831 |
| Premium due but unpaid | 89,214 | - | - | 89,214 |
| Amounts due from other insurers / reinsurers | 218,933 | - | - | 218,933 |
| Accrued income on investment and deposits | 25,916 | - | - | 25,916 |
| Reinsurance recoveries against outstanding claims | 219,137 | - | - | 219,137 |
| Loan to employees - unsecured - considered good | 4,903 | - | - | 4,903 |
| Sundry receivables | 1,130 | - | - | 1,130 |
| | 1,665,905 | 516,850 | 12,981 | 2,195,736 |

| | As at December 31, 2011 | |
|---|---|---|
| | Other financial liabilities | Total |
| | Rupees in '000 | |
| **Financial Liabilities** | | |
| Provision for outstanding claims (including IBNR) | 318,476 | 318,476 |
| Amounts due to other insurers / reinsurers | 632,819 | 632,819 |
| Accrued expenses | 49,016 | 49,016 |
| Other creditors and accruals | 162,424 | 162,424 |
| | 1,162,735 | 1,162,735 |

| | As at December 31, 2010 | | | |
|---|---|---|---|---|
| | Loans and receivables | Held to maturity | Available for sale | Total |
| **Financial Assets** | Rupees in '000 | | | |
| Cash and bank deposits | 682,920 | - | - | 682,920 |
| Investments | - | 738,209 | 13,703 | 751,912 |
| Premium due but unpaid | 204,218 | - | - | 204,218 |
| Amounts due from other insurers / reinsurers | 96,619 | - | - | 96,619 |
| Accrued income on investment and deposits | 38,297 | - | - | 38,297 |
| Reinsurance recoveries against outstanding claims | 216,058 | - | - | 216,058 |
| Loan to employees - unsecured - considered good | 6,684 | - | - | 6,684 |
| Sundry receivables | 2,862 | - | - | 2,862 |
| | 1,247,658 | 738,209 | 13,703 | 1,999,570 |

| | As at December 31, 2010 | |
|---|---|---|
| | Other financial liabilities | Total |
| | Rupees in '000 | |
| **Financial Liabilities** | | |
| Provision for outstanding claims (including IBNR) | 285,081 | 285,081 |
| Amounts due to other insurers / reinsurers | 621,732 | 621,732 |
| Accrued expenses | 60,683 | 60,683 |
| Other creditors and accruals | 161,156 | 161,156 |
| | 1,128,652 | 1,128,652 |

## 30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates. The fair values of all the financial assets and liabilities are estimated to be not significantly different from their carrying values.

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

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

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

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

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

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

| | 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Rupees in '000 | | | |
| **Financial asset designated as available-for-sale** | | | | |
| Equity securities | 12,981 | - | - | 12,981 |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | Rupees in '000 | | | |
| **Financial asset designated as available-for-sale** | | | | |
| Equity securities | 13,703 | - | - | 13,703 |

## 31. RISK MANAGEMENT

### 31.1. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Branch's activities expose it to a variety of financial risks namely market risk, interest rate risk, foreign currency risk, credit risk and liquidity risk that could result in the Branch's net assets or reduction in the profit. The Branch's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Branch's financial performance. The Branch management has the overall responsibility for the establishment and oversight of the Branch's risk management framework and is responsible for developing risk management policies and its monitoring.

#### 31.1.1 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.

Market risk comprises of three types of risk namely foreign currency risk, interest rate risk and price risk.

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### 31.1.1.2 Price risk

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, 2011 and 2010. 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 the sensitivity analysis.

| | Fair value Rupees in '000 | Price change | Effect on fair value Rupees in '000 |
|---|---|---|---|
| December 31, 2011 | 59,240 | +5% | 2,962 |
| | | -5% | (2,962) |
| December 31, 2010 | 87,693 | +5% | 4,385 |
| | | -5% | (4,385) |

### 31.1.1.3 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 Branch is exposed to interest / markup rate risk in respect of the following:

| | 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Interest / mark-up bearing | | | Non-interest / mark-up bearing | | | |
| | Interest Rates | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | Total |
| | | (Rupees '000) | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and bank deposits | 5% - 13.4% | 1,026,893 | - | 1,026,893 | 79,779 | - | 79,779 | 1,106,672 |
| Investments | 8% - 13.84% | 449,983 | 66,867 | 516,850 | 12,981 | - | 12,981 | 529,831 |
| Premium due but unpaid | | - | - | - | 89,214 | - | 89,214 | 89,214 |
| Amount due from other insurers / reinsurers | | - | - | - | 218,933 | - | 218,933 | 218,933 |
| Accrued income | | - | - | - | 25,916 | - | 25,916 | 25,916 |
| Reinsurance recoveries against outstanding claims | | - | - | - | 219,137 | - | 219,137 | 219,137 |
| Loan to employees - unsecured - considered good | | | | - | 4,903 | - | 4,903 | 4,903 |
| Sundry and other receivables | | - | - | - | 1,130 | - | 1,130 | 1,130 |
| | | 1,476,876 | 66,867 | 1,543,743 | 651,993 | - | 651,993 | 2,195,736 |
| **Financial liabilities** | | | | | | | | |
| Provision for outstanding claims (including IBNR) | | - | - | - | 318,476 | - | 318,476 | 318,476 |
| Amounts due to other insurers / reinsurers | | - | - | - | 632,819 | - | 632,819 | 632,819 |
| Accrued expenses | | - | - | - | 49,016 | - | 49,016 | 49,016 |
| Other creditors and accruals | | - | - | - | 162,424 | - | 162,424 | 162,424 |
| | | - | - | - | 1,162,735 | - | 1,162,735 | 1,162,735 |
| | | 1,476,876 | 66,867 | 1,543,743 | (510,742) | - | (510,742) | 1,033,001 |

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| | Interest Rates | 2010 Interest / mark-up bearing Maturity upto one year | Maturity after one year | Sub total | Non-Interest / mark-up bearing Maturity upto one year | Maturity after one year | Sub total | Total |
|---|---|---|---|---|---|---|---|---|
| | | (Rupees '000) | | | | | | |
| **Financial assets** | | | | | | | | |
| Cash and bank deposits | 5% - 13.10% | 641,512 | - | 641,512 | 41,408 | - | 41,408 | 682,920 |
| Investments | 8% - 12.64% | 473,905 | 264,304 | 738,209 | 13,703 | - | 13,703 | 751,912 |
| Premium due but unpaid | | - | - | - | 204,218 | - | 204,218 | 204,218 |
| Amount due from other insurers / reinsurers | | - | - | - | 96,619 | - | 96,619 | 96,619 |
| Accrued Income | | - | - | - | 38,297 | - | 38,297 | 38,297 |
| Reinsurance recoveries against outstanding claims | | - | - | - | 216,058 | - | 216,058 | 216,058 |
| Loan to employees - unsecured - considered good | | - | - | - | 6,684 | - | 6,684 | 6,684 |
| Sundry and other receivables | | - | - | - | 2,862 | - | 2,862 | 2,862 |
| | | 1,115,417 | 264,304 | 1,379,721 | 619,849 | - | 619,849 | 1,999,570 |
| **Financial liabilities** | | | | | | | | |
| Provision for outstanding claims (including IBNR) | | - | - | - | 285,081 | - | 285,081 | 285,081 |
| Amounts due to other insurers / reinsurers | | - | - | - | 621,732 | - | 621,732 | 621,732 |
| Accrued expenses | | - | - | - | 60,683 | - | 60,683 | 60,683 |
| Other creditors and accruals | | - | - | - | 161,156 | - | 161,156 | 161,156 |
| | | - | - | - | 1,128,652 | - | 1,128,652 | 1,128,652 |
| | | 1,115,417 | 264,304 | 1,379,721 | (508,803) | - | (508,803) | 870,918 |

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 | Effect on profit before tax | Effect on Head Office Account |
|---|---|---|---|
| December 31, 2011 | 100 | 15,437 | 10,034 |
| | (100) | (15,437) | (10,034) |
| December 31, 2010 | 100 | 13,797 | 8,968 |
| | (100) | (13,797) | (8,968) |

### 31.1.1.4 Foreign currency risk

Foreign currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates. Foreign currency 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 currency risk arises primarily with respect to US dollar. Financial liabilities exposed to foreign currency risk amounted to Rs. 116.460 million (2010:Rs. 111.284 million) at the end of the year.

### 31.1.5 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:

| | 2011 | 2010 |
|---|---|---|
| | ----- Rupees in '000 ----- | |
| Bank accounts and deposits* | 1,106,576 | 682,882 |
| Accrued income on investment and deposits** | 17,280 | 16,467 |
| Premiums due but unpaid*** | 89,472 | 212,637 |
| Amounts due from other insurers / reinsurers | 235,316 | 104,841 |
| Reinsurance recoveries against outstanding claims | 219,137 | 216,058 |
| | 1,667,781 | 1,232,885 |

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The credit quality of Branch's bank deposits and accrued income can be assessed with reference to external credit ratings as follows:

| | Credit Rating | Credit Rating | 2011 | 2010 |
|---|---|---|---|---|
| | | | ----- Rupees in '000 ----- | |
| * Bank accounts and deposits* | | | | |
| Various | A1+ | PACRA | 672,672 | 357,837 |
| Various | A1+ | JCR-VIS | 115 | 26 |
| Various | P-1 | Moodey's | 433,789 | 325,018 |
| | | | 1,106,576 | 682,881 |
| ** Accrued income on investment and deposits** | | | | |
| Various | A1+ | PACRA | 12,306 | 8,778 |
| Various | P-1 | Moodey's | 4,974 | 7,689 |
| | | | 17,280 | 16,467 |

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

| | 2011 | 2010 |
|---|---|---|
| | ----- Rupees in '000 ----- | |
| Upto 1 year | 311,135 | 303,029 |
| 1 - 2 years | 13,368 | 7,333 |
| Over 2 years | 285 | 7,116 |
| | 324,788 | 317,478 |

### 31.1.6 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.

| | 2011 | | | |
|---|---|---|---|---|
| | With in one year | Over one year to five years | Over five years | Total |
| | ---------------- Rupees in '000 ---------------- | | | |
| **Financial liabilities** | | | | |
| Provision for outstanding claims | 318,476 | - | - | 318,476 |
| Amounts due to other insurers / reinsurers | 632,819 | - | - | 632,819 |
| Accrued expenses | 49,016 | - | - | 49,016 |
| Other creditors and accruals | 162,424 | - | - | 162,424 |
| | 1,162,735 | - | - | 1,162,735 |

| | 2010 | | | |
|---|---|---|---|---|
| | With in one year | Over one year to five years | Over five years | Total |
| | ---------------- Rupees in '000 ---------------- | | | |
| **Financial liabilities** | | | | |
| Provision for outstanding claims | 285,081 | - | - | 285,081 |
| Amounts due to other insurers / reinsurers | 621,732 | - | - | 621,732 |
| Accrued expenses | 60,683 | - | - | 60,683 |
| Other creditors and accruals | 161,156 | - | - | 161,156 |
| | 1,128,652 | - | - | 1,128,652 |

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### 31.2 Insurance risks

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.

#### 31.2.1 Frequency and severity of claims

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.

#### 31.2.2 Reinsurance Arrangements

Such risk exposure is mitigated by diversification across a large portfolio of insurance contracts and careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Strict claim review policies to assess all new and ongoing claims and regular detailed review of claims handling procedures are also put in place to reduce the risk exposure of the 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.

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

| | 2011 | | |
|---|---|---|---|
| | Maximum sum insured | Reinsurance cover | Highest net liability |
| | ----- Rupees in '000 ----- | | |
| Fire and property | 14,437,500 | 14,435,700 | 1,800 |
| Marine, aviation and transport | 2,078,075 | 623,423 | 1,454,652 |
| Motor | 12,500 | - | 12,500 |
| Accident and health | 89,000 | 84,700 | 4,300 |
| Miscellaneous | 605,000 | 603,185 | 1,815 |
| | 17,222,075 | 15,747,008 | 1,475,067 |

| | 2010 | | |
|---|---|---|---|
| | Maximum sum insured | Reinsurance cover | Highest net liability |
| | ----- Rupees in '000 ----- | | |
| 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 |

#### 31.2.3 Geographical concentration of insurance risk

To optimize benefits from the principle of averages and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location. Risk surveys are carried out on a regular basis for the evaluation of physical hazards associated with the location, occupation and coverage of the insured.

The ability to manage catastrophic risk is tied to managing the density of risk within a particular area. It provides a way to better visualize the risk exposures so the Branch determines the appropriate amount of reinsurance coverage to protect the business portfolio.

### 31.2.4 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 takes 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.

### 31.2.5 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 2011 | Assumed Net Loss 2010 |
|---|---|---|
| Fire and property | 24% | 14% |
| Marine, aviation and transport | 59% | 45% |
| Motor | 65% | 64% |
| Accident and health | 58% | 28% |
| Miscellaneous | 8% | 4% |

### 31.2.6 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 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | ---------------- Rupees in '000 ---------------- | | | |
| 10% increase in loss | (26,824) | (20,111) | (17,436) | (13,072) |
| 10% decrease in loss | 26,824 | 20,111 | 17,436 | 13,072 |

### 31.2.7 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.

### 31.3 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 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Rating | ---------------- Rupees in '000 ---------------- | | | |
| A or above including | | | | |
| Pakistan Reinsurance Company Limited | 218,933 | 96,619 | 219,137 | 216,058 |

## 32 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 transactions 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 28), are as follows:

| | 2011 | 2010 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| **Transactions during the year** | | |
| Premiums ceded | 626,015 | 493,489 |
| Commission income | 174,228 | 141,276 |
| Claims recoverable | 139,625 | 157,647 |
| Remmitance | 336,084 | - |
| Software maintenance charges | 25,552 | 27,188 |
| Service fee for support services | - | 28,896 |
| **Balances at the year end** | | |
| Due to related parties including accrued expenses | 29,977 | 16,626 |
| Service fee for support services | 116,460 | 111,284 |

## 33 NUMBER OF EMPLOYEES

Number of permanent employees at the end of the year were 68 (2010 : 73).

## 34 AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the management on 30-APR-2012.

## 35 RESTATEMENT

Uptil last year the amount due to group companies under reinsurance arrangements was included in the head office account (note 7) as current account instead of being included under amount due to other insurers / reinsurers (note 8). From the current year the head office account consists of unremitted profit only and the amount due to group companies under reinsurance arrangements has been included in the amount due to other insurers / reinsurers. The corresponding figures have been restated as required under International Accounting Standards. The impact of the change on comparative information as reported previously is summarised as follows:

| | 2010 | 2009 |
|---|---|---|
| | ------- (Rupees in '000) ------- | |
| **HEAD OFFICE ACCOUNT (note 7)** | | |
| Decrease in head office account | (564,374) | (369,808) |
| **AMOUNTS DUE TO OTHER INSURERS / REINSURERS (note 8)** | | |
| Increase in amounts due to other insurers / reinsurers | 564,374 | 369,808 |

There is no impact of this restatement on the profit and loss account and the cash flow statement.

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## 36 GENERAL

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

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

| | | |
|---|---|---|
| Manager of Pakistan / Principal Officer | Chief Financial Officer | Assistant General Manager |