New Hampshire Insurance Company - Pakistan Branch

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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, 2012** 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, 2012 and of the profit and its cash flows for the year then ended, in accordance with the approved accounting standards as applicable in Pakistan, and the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
(d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

AFF Co

Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: April 30, 2013

Karachi

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NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
BALANCE SHEET
AS AT DECEMBER 31, 2012

	Note	2012	2011
		Rupees in '000	
Head office account	7	1,194,991	1,002,279
Underwriting provisions			
Provision for outstanding claims (including IBNR)		395,942	318,476
Provision for unearned premium		466,098	479,982
Commission income unearned		93,700	97,824
Total underwriting provisions		955,740	896,282
Creditors and accruals			
Amounts due to other insurers / reinsurers	8	698,271	632,819
Accrued expenses	9	45,664	49,016
Other creditors and accruals	10	69,836	173,364
		813,771	855,199
TOTAL LIABILITIES		1,769,511	1,751,481
TOTAL EQUITY AND LIABILITIES		2,964,502	2,753,760
CONTINGENCIES AND COMMITMENTS	11		

	Note	2012	2011
		Rupees in '000	
Cash and bank deposits	12		
Cash and other equivalent		183	96
Current and other bank accounts		251,049	196,576
Deposits maturing within 12 months		1,055,000	910,000
		1,306,232	1,106,672
Investments	13	525,338	529,831
Deferred taxation	14	7,319	10,075
Security deposits		2,800	3,301
Other Assets			
Premium due but unpaid	15	138,224	89,214
Amounts due from other insurers / reinsurers	16	198,053	218,933
Salvage recoveries accrued		4,498	11,483
Accrued income on investment and deposits	17	22,568	25,916
Reinsurance recoveries against outstanding claims	18	286,276	219,137
Taxation - payments less provision	19	20,358	49,402
Deferred commission expense		65,466	73,785
Prepayments	20	316,367	347,594
Loans to employees - unsecured - considered good	21	3,974	4,903
Sundry receivables	22	4,750	3,179
		1,060,534	1,043,546
Fixed Assets			
Tangible and Intangible assets			
Leasehold improvements		10,310	7,842
Furniture and fittings		9,257	9,100
Office equipment		5,458	4,051
Computers and EDP equipment		1,665	2,647
Vehicles		25,002	18,412
Software		727	5,910
Capital work-in-progress		9,860	12,373
	23	62,279	60,335
TOTAL ASSETS		2,964,502	2,753,760

The annexed notes 1 to 35 form an integral part of these financial statements.

Manager for Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	Fire and property	Marine, aviation and transport	Motor	Accident and health	Miscellaneous	2012	2011
		(Rupees in '000)						
Revenue Account								
Net Premium Revenue		11,633	26,040	277,948	112,924	8,441	436,986	443,395
Net Claims		(1,784)	(26,015)	(198,607)	(41,947)	(1,840)	(270,193)	(268,243)
Management Expenses	24	(29,930)	(9,620)	(51,309)	(13,896)	(2,138)	(106,893)	(147,338)
Net Commission		125,712	17,802	(36,141)	(27,512)	2,199	82,060	39,015
		93,998	(17,833)	(286,057)	(83,355)	(1,779)	(295,026)	(376,566)
Underwriting Results		105,631	8,207	(8,109)	29,569	6,662	141,960	66,829
Investment income - net							181,894	177,545
Other income - net	25						118,193	84
General and administration expenses	26						(147,228)	(136,311)
Profit before taxation							294,819	108,147
Taxation	27						(102,107)	(33,926)
Profit after taxation							192,712	74,221

The annexed notes 1 to 35 form an integral part of these financial statements.

Manager for Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	Rupees in '000	
OPERATING CASH FLOWS		
(a) **Underwriting activities**		
Premiums received	1,385,271	1,288,140
Reinsurance premiums paid	(1,041,445)	(1,626,127)
Claims paid	(483,323)	(437,124)
Reinsurance and other recoveries received	312,406	717,722
Commissions paid	(181,192)	(196,489)
Commissions received	327,589	522,698
Net cash generated from underwriting activities	319,306	268,820
(b) **Other operating activities**		
Income tax paid	(70,307)	(28,184)
General and administrative expenses and management expenses paid - net	(212,739)	(204,897)
Net cash flow from other operating activities	(283,046)	(233,081)
Net cash generated from all operating activities	36,260	35,739
INVESTMENT ACTIVITIES		
Profit / return received	175,651	178,443
Dividends received	6,617	6,724
Investment in term deposit receipt	(145,000)	(310,000)
Proceeds from redemption of investments	550,000	656,204
Investments made during the year	(542,533)	(429,364)
Fixed capital expenditure	(28,041)	(25,009)
Proceeds from disposal of fixed assets	1,606	1,015
Net cash generated from investing activities	18,300	78,013
Net increase in cash and cash equivalents during the year	54,560	113,752
Cash and cash equivalents at the beginning of the year	196,672	82,920
Cash and cash equivalents at the end of the year	251,232	196,672
Reconciliation to Profit and Loss Account		
Operating cash flows	36,260	35,739
Depreciation expense	(16,111)	(22,053)
Amortisation	(5,183)	(5,606)
Investment income	181,894	177,545
(Loss) / gain on disposal of fixed assets	(3,197)	84
Increase in assets other than cash	17,079	43,799
Increase in liabilities	(18,030)	(155,287)
Profit after taxation for the year	192,712	74,221

Definition of cash

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

	2012	2011
	Rupees in '000	
Cash and cash equivalents for the purposes of the Statement of Cash Flows consists of:		
- cash and other equivalents	183	96
Current and other bank accounts		
- current accounts	-	79,683
- saving accounts	251,049	116,893
	251,049	196,576
Cash and cash equivalents for the purpose of Statement of Cash Flows	251,232	196,672

The annexed notes 1 to 35 form an integral part of these financial statements.

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

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2012

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		2012	2011
	Rupees in '000									
Direct and Facultative										
Fire and property	798,128	317,713	293,597	822,244	782,999	314,304	286,692	810,611	11,633	8,248
Marine, aviation and transport	127,859	8,313	17,174	118,998	104,906	2,494	14,442	92,958	26,040	80,643
Motor	297,726	103,837	116,366	285,197	7,248	3	2	7,249	277,948	237,541
Accident and health	122,504	34,292	29,765	127,031	11,842	5,694	3,429	14,107	112,924	110,562
Miscellaneous	53,384	15,827	9,196	60,015	44,958	15,023	8,407	51,574	8,441	6,401
Total	1,399,601	479,982	466,098	1,413,485	951,953	337,518	312,972	976,499	436,986	443,395

The annexed notes 1 to 35 form an integral part of these financial statements.

Manager for Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2012

Business underwritten inside Pakistan

Class	Total 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		2012	2011
	Rupees in '000									
Direct and Facultative										
Fire and property	159,097	207,825	236,388	187,660	162,279	201,042	224,639	185,876	1,784	2,019
Marine, aviation and transport	79,966	34,439	28,403	73,930	44,972	9,657	12,600	47,915	26,015	47,517
Motor	181,493	27,796	44,910	198,607	-	-	-	-	198,607	154,632
Accident and health	58,218	42,162	34,693	50,749	10,577	3,174	1,399	8,802	41,947	63,589
Miscellaneous	4,549	6,254	51,548	49,843	5,629	5,264	47,638	48,003	1,840	486
Total	483,323	318,476	395,942	560,789	223,457	219,137	286,276	290,596	270,193	268,243

The annexed notes 1 to 35 form an integral part of these financial statements.

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

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Business underwritten inside Pakistan

Class	Commissions paid or payable	Deferred commission		Commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers	Net underwriting expense	
		Opening	Closing					2012	2011
	Rupees in '000								
Direct and Facultative									
Fire and property	107,667	48,042	39,656	116,053	29,930	145,983	241,765	(95,782)	(48,544)
Marine, aviation and transport	9,569	445	1,307	8,707	9,620	18,327	26,509	(8,182)	7,266
Motor	38,303	13,210	15,372	36,141	51,309	87,450	-	87,450	85,570
Accident and health	29,257	9,281	7,355	31,183	13,896	45,079	3,671	41,408	57,725
Miscellaneous	10,117	2,807	1,776	11,148	2,138	13,286	13,347	(61)	6,306
Total	194,913	73,785	65,466	203,232	106,893	310,125	285,292	24,833	108,323

Note: Commission from reinsurers is net of opening and closing unearned commission of Rs 97,824 thousand and Rs 93,700 thousand respectively.

The annexed notes 1 to 35 form an integral part of these financial statements.

Manager for Pakistan / Principal Officer

Chief Financial Officer

Assistant General Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	------------ Rupees in '000 -----------	
Income from non-trading investments		
Held to maturity		
Return on government securities	51,728	79,566
Available for sale		
Dividend income	6,617	6,724
Return on term deposits and balances with bank	121,065	91,977
	179,410	178,267
Reversal of provision / (provision) against diminution in the value of available-for-sale investments	2,484	(722)
Net investment income	181,894	177,545

The annexed notes 1 to 35 form an integral part of these financial statements.

Manager for 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 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 4 sales offices (2011: 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 December 12, 2002.

3 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) 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 is 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.

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 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

There are certain new and amended standards and interpretations that are mandatory for the Branch's accounting period beginning on or after January 1, 2012 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, 2012 and not early adopted:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 1, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments will have no impact on the financial statements of the Branch.

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- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 1, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The management is yet to assess the full impact of the amendments.

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.

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. In addition, conforming to the requirements of the SEC (Insurance) Rules, 2002, a provision is made for the claims which may have been incurred in the current reporting period but have not been reported to the Branch. 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. IBNR for accident and health business is recognised based on actuarial valuation in accordance with the requirements of the SECP.

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.

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

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.

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 the profit and loss account 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 the profit and loss account.

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 the profit and loss account 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.

Intangible

These are stated at cost less accumulated amortisation and impairment, if any. Amortisation is charged to the profit and loss account 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.

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

		Note	2012	2011
			-------- Rupees in '000 -----------	
7	**HEAD OFFICE ACCOUNT**			
	Unremitted profit			
	Balance at the beginning of the year		1,002,279	928,058
	Profit after tax for the year		192,712	74,221
	Balance at the end of year		1,194,991	1,002,279
8	**AMOUNTS DUE TO OTHER INSURERS / REINSURERS**			
	Amounts due to group companies		574,809	540,453
	Amounts due to others		123,462	92,366
			698,271	632,819
9	**ACCRUED EXPENSES**			
	Salaries, wages and benefits		4,115	9,592
	Software maintenance charges		12,336	11,725
	Legal and professional charges		2,152	2,870
	Agency development and recognition		1,742	2,114
	Other accrued expenses		25,319	22,715
			45,664	49,016
10	**OTHER CREDITORS AND ACCRUALS**			
	Service fee to a related party	10.1	-	110,951
	Due to related parties		12,365	11,063
	Commission		37,137	29,190
	Federal Excise Duty		3,556	7,672
	Federal Insurance Fee		509	696
	Withholding tax		765	300
	Workers' Welfare Fund		5,985	2,272
	Payable to gratuity fund	10.2	-	2,704
	Others		9,519	8,516
			69,836	173,364

10.1 During the year CHARTIS MEMSA Insurance Company Limited (a related party) has reversed charges initially charged to the Branch as per a Services Agreement for provision of ongoing expertise, services and administrative support. Accordingly, accruals recorded by the Branch in this respect have been reversed during the year.

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, 2012. The information provided below has been obtained from the actuarial valuation carried out as at December 31, 2012. The following significant assumptions have been used for valuation of this scheme:

	2012	2011
Discount rate	12.00%	13.00%
Rate of salary increase	11.50%	12.50%
Rate of return	12.00%	10.50%

	2012	2011
	Rupees in '000	
Amounts recognised in the balance sheet		
Present value of defined benefit obligation	25,406	26,289
Fair value of plan assets	(26,680)	(21,381)
(Surplus) / deficit	(1,274)	4,908
Unrecognized actuarial loss	(2,635)	(2,204)
(Asset) / liability as at December 31,	(3,909)	2,704
Movement in defined benefit obligations		
Balance as at January 1,	2,704	4,387
Charge for the year	4,255	4,372
Contributions	(2,774)	(4,387)
Payment to outgoing members by the Branch	(8,094)	(1,668)
Balance as at December 31,	(3,909)	2,704
Charge for the year		
Current service cost	3,082	3,108
Interest cost	3,560	3,405
Expected return on plan assets	(2,387)	(2,141)
Charge for the year ended December 31,	4,255	4,372
Movement in the Present Value of Defined Benefit Obligation:		
Present Value of Defined Benefit Obligation as at January 1,	26,289	22,339
Current service cost	3,082	3,108
Interest cost	3,560	3,405
Benefits Payable to the ex-member	-	(70)
Actuarial loss / (gain) on obligation	569	(825)
Actual benefits paid during the year	(8,094)	(1,668)
Present value of defined benefit obligation as at December 31,	25,406	26,289
Movement in Fair Value of Plan Assets:		
Fair value of plan assets as at January 1,	21,381	16,409
Expected return on plan assets	2,386	2,141
Contributions made by the Branch	2,774	4,387
Benefits paid during the year	-	(70)
Actuarial gain / (loss) on plan assets	139	(1,486)
Fair value of plan assets as at December 31,	26,680	21,381

Breakup of plan assets	2012		2011	
	Rupees in '000	%	Rupees in '000	%
Treasury Bills	14,692	55.07	14,590	68.24
Pakistan Investment Bonds	4,990	18.70	4,925	23.03
Bank deposits	7,090	26.57	1,993	9.32
Current liabilities	(92)	(0.34)	(127)	(0.59)
	26,680	100	21,381	100

5 year data on experience adjustments is as follows:

	2012	2011	2010	2009	2008
	Rupees in '000				
Present value of defined benefit obligations	25,406	26,289	22,339	17,215	13,078
Fair value of plan assets	26,680	21,381	16,409	13,666	4,403
Surplus / (deficit)	1,274	(4,908)	(5,930)	(3,549)	(8,675)

Expected contribution to the plan for the year ending December 31, 2013 is Rs 2.559 million (2012: Rs 4.255 million).

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11 CONTINGENCIES AND COMMITMENTS

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, issued to the plaintiff with a maximum liability of Rs 5.6 million. 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	2012	2011
		------- Rupees in '000 -------	
Cash and other equivalent			
Cash in hand		113	62
Stamps in hand		70	34
		183	96
Current and other bank accounts			
Current accounts		-	79,683
Savings accounts	12.1	251,049	116,893
		251,049	196,576
Deposits maturing within 12 months			
Term deposit receipts	12.2	1,055,000	910,000
		1,306,232	1,106,672

12.1 These carry markup ranging from 6% to 7% (2011 : 5 % to 7.6%) per annum.

12.2 These carry markup ranging from 8.15% to 11% (2011: 9.8% to 13.4%) per annum.

13 INVESTMENTS

	Note	2012	2011
		------- Rupees in '000 -------	
Held-to-maturity	13.1	509,873	516,850
Available-for-sale	13.2	15,465	12,981
		525,338	529,831

13.1 Held-to-maturity

Government Securities	Face Value (Rs in '000)	Coupon rate / yield	Maturity year	2012	2011
Deposited with the State Bank of Pakistan (13.1.1)					
10 years Pakistan Investment Bonds	11,000	8%	2013	11,150	11,337
				11,150	11,337
Others					
3 years Pakistan Investment Bonds	200,000	11.25%	2012	-	198,447
3 years Pakistan Investment Bonds	80,000	11.25%	2015	81,523	-
10 years Pakistan Investment Bonds	54,000	8%	2013	54,678	55,530
				136,201	253,977
1 year Market Treasury Bills	270,000	11.85% to 13.84%	2012	-	251,536
1 year Market Treasury Bills	390,000	9.19 % to 9.29%	2013	362,522	-
				509,873	516,850

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, 2012 amounted to Rs 508.359 million (2011: Rs 510.825 million).

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13.2 Available-for-sale

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

2012	2011		Note	2012	2011
-------No. of shares-------		Name of Entity		------- Rupees in '000 -------	
225,000	225,000	Hub Power Company Limited		12,570	12,570
411,620	374,200	MCB Bank Limited		4,330	4,330
6,220	5,184	Pakistan State Oil Company Limited		956	956
				17,856	17,856
		Less: Provision for diminution in value of available-for-sale investments	13.2.1	(2,391)	(4,875)
				15,465	12,981

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

Opening balance	4,875	4,153
(Reversal) / provision for the year	(2,484)	722
Closing balance	2,391	4,875

13.2.2 The aggregate market value of available-for-sale investments as at December 31, 2012 amounted to Rs 97.96 million (2011: Rs 59.24 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 Standard - 39 "Financial Instruments: Recognition and Measurement", the investments as at December 31, 2012 would have been higher by Rs 82.50 million (2011: Rs 46.26 million) and surplus on revaluation of available-for-sale investments (under Head Office account) would have been Rs 82.50 million (2011: Rs 46.26 million).

		Note	2012	2011
14	**DEFERRED TAXATION**		------- Rupees in '000 -------	
	Temporary differences arising in respect of:			
	Provision for doubtful debts		5,825	5,825
	Provision for gratuity		-	947
	Fixed assets		1,494	3,303
			7,319	10,075
15	**PREMIUM DUE BUT UNPAID**			
	Considered good		138,224	89,214
	Considered doubtful		3,178	258
			141,402	89,472
	Less: Provision for doubtful debts	15.1	(3,178)	(258)
			138,224	89,214
15.1	**Provision for doubtful debts**			
	Opening balance		258	8,419
	Charge / (reversal) for the year		2,920	(8,161)
			3,178	258
16	**AMOUNT DUE FROM OTHER INSURERS / REINSURERS**			
	Considered good		198,053	218,933
	Considered doubtful		13,463	16,383
			211,516	235,316
	Less: Provision for doubtful debts	16.1	(13,463)	(16,383)
			198,053	218,933
16.1	**Provision for doubtful debts**			
	Opening balance		16,383	8,222
	(Reversal) / charge for the year		(2,920)	8,161
			13,463	16,383

			2012	2011
			------------ Rupees in '000 ----------	
17	**ACCRUED INCOME ON INVESTMENT AND DEPOSITS**			
	- Pakistan Investment Bonds		5,294	8,636
	- Term Deposit Receipts		17,274	17,280
			22,568	25,916
18	**REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS**		286,276	219,137

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 57.11 million and Rs 133.65 million respectively (2011: Rs 63.11 million and Rs 86.84 million respectively).

		2012	2011
		------------ Rupees in '000 ----------	
19	**TAXATION PAYMENT LESS PROVISION**		
	Opening refundable	49,402	56,661
	Charge for the year	(99,351)	(35,443)
	Payments during the year	70,307	28,184
		(29,044)	(7,259)
	Closing refundable	20,358	49,402

19.1 In 2010, the assessing officer 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 the Commissioner Inland Revenue (Appeals) against the orders. The Commissioner Inland Revenue (Appeals) 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 on 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 and accordingly, no provision has been made in this respect.

		Note	2012	2011
			------------ Rupees in '000 ----------	
20	**PREPAYMENTS**			
	Prepaid re-insurance premium		312,972	337,518
	Rent		2,156	8,371
	Other prepayments		1,239	1,705
			316,367	347,594
21	**LOAN TO EMPLOYEES - Unsecured - considered good**	21.1	3,974	4,903

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

		Note	2012	2011
			------------ Rupees in '000 ----------	
22	**SUNDRY RECEIVABLES**			
	Advances to suppliers		738	1,070
	Receivable from gratuity fund	10.2	3,909	-
	Others		103	2,109
			4,750	3,179
23	**FIXED ASSETS**			
	Tangible assets	23.1	51,692	42,052
	Intangible assets	23.2	727	5,910
	Capital work-in-progress	23.1.1	9,860	12,373
			62,279	60,335

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23.1 Tangible Assets

	2012							
	Cost			Accumulated Depreciation			Written down value as at December 31, 2012	Rate of Depreciation per annum
	As at January 1, 2012	Additions / (Disposals)	As at December 31, 2012	As at January 1, 2012	Charge for the year / (Disposals)	As at December 31, 2012		
	Rupees in '000							%
Leasehold property	56	-	56	56	-	56	-	20
Leasehold improvements	29,821	8,168 (12,945)	25,044	21,979	2,624 (9,869)	14,734	10,310	20
Furniture and fittings	16,060	2,705 (1,750)	17,015	6,960	1,521 (723)	7,758	9,257	10
Office equipment	12,358	3,434 (28)	15,764	8,307	2,021 (22)	10,306	5,458	20
Computer and EDP equipment	30,113	920 (2,467)	28,566	27,466	1,902 (2,467)	26,901	1,665	33.33
Vehicles	39,783	15,327 (11,303)	43,807	21,371	8,043 (10,609)	18,805	25,002	20
December 31, 2012	128,191	30,554 (28,493)	130,252	86,139	16,111 (23,690)	78,560	51,692	

	2011							
	Cost			Accumulated Depreciation			Written down value as at December 31. 2011	Rate of Depreciation per annum
	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		
	Rupees in '000							%
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	10
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	

23.1.1 Capital work in progress

	Note	2012	2011
		------- Rupees in '000 -------	
Civil works		9,860	7,726
Office equipment		-	409
Motor vehicles		-	4,238
		9,860	12,373

23.1.2 Depreciation has been allocated as follows:

	Note	2012	2011
Management expenses	24	8,616	11,539
General and administration expenses	26	7,495	10,514
		16,111	22,053

23.1.3 Cost of fully depreciated fixed assets that are still in Branch use as at December 31, 2012 amounted to Rs 51.983 million (2011: Rs 40.430 million).

23.2 Intangible Assets

	Cost			Accumulated Amortisation			Written down value as at December 31, 2012	Rate of Amortisation per annum
	As at January 1, 2012	Additions	As at December 31, 2012	As at January 1, 2012	Amortisation for the year	As at December 31, 2012		
	---- Rupees in '000 ----							%
Software	28,030	-	28,030	22,120	5,183	27,303	727	20
December 31, 2012	28,030	-	28,030	22,120	5,183	27,303	727	
December 31, 2011	28,030	-	28,030	16,514	5,606	22,120	5,910	20

23.2.1 Amortisation has been allocated as follows:

	Note	2012	2011
		--------Rupees in '000--------	
Management expenses	24	2,140	2,127
General and administration expenses	26	3,043	3,479
		5,183	5,606

24 MANAGEMENT EXPENSES

	Note	2012	2011
Salaries, wages and benefits	24.1	49,587	44,312
Rents, taxes, electricity etc.		10,538	15,660
Communication		2,933	2,965
Advertisement and sales promotion		1,705	4,797
Printing and stationery		2,410	2,501
Traveling and entertainment		1,147	1,410
Car running and maintenance		5,650	5,749
Software maintenance charges		16,908	10,003
Depreciation	23.1.2	8,616	11,539
Amortisation	23.2.1	2,140	2,127
Subscription and membership fees		4,647	4,144
Deferred acquisition cost		-	40,326
Other expenses		612	1,805
		106,893	147,338

24.1 Includes staff retirements benefits amounting to Rs 4.178 million (2011: Rs 3.70 million).

25 OTHER INCOME - NET

	Note	2012	2011
		--------Rupees in '000--------	
(Loss) / gain on disposal of fixed assets		(3,197)	84
Liabilities no longer payable written back	10.1	110,951	-
Exchange gain		10,439	-
		118,193	84

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26 GENERAL AND ADMINISTRATION EXPENSES

	Note	2012	2011
		Rupees in '000	
Salaries, wages and benefits	26.1	65,007	61,817
Rent, taxes, electricity etc.		8,521	17,135
Communication		2,606	2,669
Advertisement and sales promotion		-	1,468
Printing and stationery		2,558	2,636
Traveling and entertainment		1,768	1,706
Depreciation	23.1.2	7,495	10,514
Amortisation	23.2.1	3,043	3,479
Software maintenance charges		22,663	17,975
Repairs and maintenance		6,471	2,592
Legal and professional charges		5,699	1,718
Auditors' remuneration	26.2	417	417
Insurance		2,568	3,261
Car running and maintenance		3,366	3,508
Workers' Welfare Fund		6,016	2,272
Exchange loss		-	1,131
Other expenses		9,030	2,013
		147,228	136,311

26.1 Includes staff retirements benefits amounting to Rs 3.763 million (2011: Rs 4.74 million).

26.2 Auditors' remuneration

	2012	2011
	Rupees in '000	
Audit fee	310	310
Other certification services	57	57
Out of pocket expenses	50	50
	417	417

27 TAXATION

	2012	2011
Current - for the year	98,806	39,639
- for prior year	545	(4,196)
Deferred	2,756	(1,517)
	102,107	33,926

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:

	2012	2011
	Rupees in '000	
Profit before tax	294,819	108,147
Tax calculation at the rate of 35 % (2011: 35 %)	103,186	37,851
Tax effect of expenses that are not deductible in determining taxable profit	(2,692)	3,461
Tax effect of dividend income	(1,688)	(1,673)
Prior year adjustments	545	(4,196)
Tax effect on temporary difference	2,756	(1,517)
	102,107	33,926

28 REMUNERATION OF MANAGER FOR PAKISTAN

	2012	2011
Salary and other benefits	6,377	6,255
Branch's provided accommodation and utilities	5,886	5,475
	12,263	11,730

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.

Alto

29 FINANCIAL INSTRUMENTS BY CATEGORY

	As at December 31, 2012			
	Loans and receivables	Held to maturity	Available for sale	Total
	Rupees in '000			
Financial Assets				
Bank deposits	1,306,049	-	-	1,306,049
Investments	-	509,873	15,465	525,338
Premium due but unpaid	138,224	-	-	138,224
Amounts due from other insurers / reinsurers	198,053	-	-	198,053
Accrued income on investment and deposits	22,568	-	-	22,568
Reinsurance recoveries against outstanding claims	286,276	-	-	286,276
Loan to employees - unsecured - considered good	3,974	-	-	3,974
Sundry receivables	78	-	-	78
	1,955,222	509,873	15,465	2,480,560

	As at December 31, 2012	
	Other financial liabilities	Total
	Rupees in '000	
Financial Liabilities		
Provision for outstanding claims (including IBNR)	395,942	395,942
Amounts due to other insurers / reinsurers	698,271	698,271
Accrued expenses	45,664	45,664
Other creditors and accruals	59,021	59,021
	1,198,898	1,198,898

	As at December 31, 2011			
	Loans and receivables	Held to maturity	Available for sale	Total
	Rupees in '000			
Financial Assets				
Bank deposits	1,106,576	-	-	1,106,576
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
	1,665,809	516,850	12,981	2,195,640

	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

Ato

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).

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	Rupees in '000			
Financial asset designated as available-for-sale				
* Equity security - Hub Power Company Limited	10,179	-	-	10,179

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	Rupees in '000			
Financial asset designated as available-for-sale				
* Equity security - Hub Power Company Limited	7,695	-	-	7,695

* This has been held at market value which is lower than its cost as per the requirements of the Securities and Exchange Commission (Insurance) Rules, 2002. All other equity securities has been held at cost which is lower than their market values.

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 a reduction 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.

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, 2012 and 2011. 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, 2012	97,965	+5%	4,898
		-5%	(4,898)
December 31, 2011	59,240	+5%	2,962
		-5%	(2,962)

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:

	2012							
		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 in '000)						
Financial assets								
Bank deposits	6% - 7%	1,306,049	-	1,306,049	-	-	-	1,306,049
Investments	8.15% - 11%	428,350	81,523	509,873	15,465	-	15,465	525,338
Premium due but unpaid		-	-	-	138,224	-	138,224	138,224
Amount due from other insurers / reinsurers		-	-	-	198,053	-	198,053	198,053
Accrued income		-	-	-	22,568	-	22,568	22,568
Reinsurance recoveries against outstanding claims		-	-	-	286,276	-	286,276	286,276
Loan to employees - unsecured - considered good				-	3,974	-	3,974	3,974
Sundry and other receivables		-	-	-	78	-	78	78
		1,734,399	81,523	1,815,922	664,638	-	664,638	2,480,560
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	395,942	-	395,942	395,942
Amounts due to other insurers / reinsurers		-	-	-	698,271	-	698,271	698,271
Accrued expenses		-	-	-	45,664	-	45,664	45,664
Other creditors and accruals		-	-	-	59,021	-	59,021	59,021
		-	-	-	1,198,898	-	1,198,898	1,198,898
		1,734,399	81,523	1,815,922	(534,260)	-	(534,260)	1,281,662

	2011							
	Interest Rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
		(Rupees in '000)						
Financial assets								
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

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, 2012	100	18,159	11,803
	(100)	(18,159)	(11,803)
December 31, 2011	100	15,437	10,034
	(100)	(15,437)	(10,034)

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 10.652 million (2011: Rs 116.460 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:

	2012	2011
	Rupees in '000	
Bank accounts and deposits*	1,306,049	1,106,576
Accrued income on investment and deposits**	17,274	17,280
Premiums due but unpaid***	141,402	89,472
Security deposits	2,800	3,301
Gratuity fund receivable	3,909	-
Loan to employees	3,974	4,903
Amounts due from other insurers / reinsurers***	211,516	235,316
Reinsurance recoveries against outstanding claims	286,276	219,137
	1,973,200	1,675,985

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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	2012	2011
			---------- Rupees in '000 ---------	
* **Bank accounts and deposits**				
Various	P-2	Moody's	7,108	-
Various	A2	Moody's	603,468	-
Various	A1+	PACRA	695,473	672,672
Various	A1+	JCR-VIS	-	115
Various	P-1	Moody's	-	433,789
			1,306,049	1,106,576
** **Accrued income on investment and deposits**				
Various	A2	Moody's	6,523	-
Various	A1+	PACRA	10,751	12,306
Various	P-1	Moody's	-	4,974
			17,274	17,280

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

	2012	2011
	--------- Rupees in '000 ---------	
Upto 1 year	345,216	311,135
1 - 2 years	6,001	13,368
Over 2 years	1,701	285
	352,918	324,788

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.

	2012			
	With in one year	Over one year to five years	Over five years	Total
	------------------------------- Rupees in '000 -------------------------------			
Financial liabilities				
Provision for outstanding claims (including IBNR)	395,942	-	-	395,942
Amounts due to other insurers / reinsurers	698,271	-	-	698,271
Accrued expenses	45,664	-	-	45,664
Other creditors and accruals	59,021	-	-	59,021
	1,198,898	-	-	1,198,898

	2011			
	With in one year	Over one year to five years	Over five years	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

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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:

	2012		
	Maximum sum insured	Reinsurance cover	Highest net liability
	---------- Rupees in '000 ----------		
Fire and property	10,988,695	1,800	10,986,895
Marine, aviation and transport	1,584,354	274,885	1,309,469
Motor	24,000	24,000	-
Accident and health	100,000	4,350	95,650
Miscellaneous	2,207,500	6,623	2,200,877
	14,904,549	311,658	14,592,891

	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

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.

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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. IBNR for accident and health business is recognised based on actuarial valuation in accordance with the requirements of the SECP.

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 2012	Assumed Net Loss 2011
Fire and property	15%	24%
Marine, aviation and transport	100%	59%
Motor	71%	65%
Accident and health	37%	58%
Miscellaneous	22%	8%

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	
	2012	2011	2012	2011
	Rupees in '000			
10% increase in loss	(27,019)	(26,824)	(17,562)	(17,436)
10% decrease in loss	27,019	26,824	17,562	17,436

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.

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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	
	2012	2011	2012	2011
Rating	Rupees in '000			
A or above including				
Pakistan Reinsurance Company Limited	198,053	218,933	286,276	219,137

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 prices with various related parties. Details of transactions with related parties during the year and the balances as at the year end, with related group companies other than those already disclosed in the specific notes to the financial statements are as follows:

	2012	2011
	Rupees in '000	
Transactions during the year:		
Premiums ceded	691,983	626,015
Commission income	196,071	174,228
Claims recoverable	169,722	139,625
Remittance	289,586	336,084
Software maintenance charges	9,544	25,552
Balances at the year end:		
Due to related parties included in accrued expenses	25,370	29,977

33 NUMBER OF EMPLOYEES

Number of permanent employees at the end of the year were 57 (2011: 68).

34 AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the management on 30 April 2013.

35 GENERAL

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

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

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