

**NEW HAMPSHIRE INSURANCE
COMPANY – PAKISTAN BRANCH**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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, 2013** 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, 2013 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.



Chartered Accountants

Engagement Partner: **Rashid A. Jafer**

Dated: April 30, 2014

Karachi

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
BALANCE SHEET
AS AT DECEMBER 31, 2013

	Note	2013	2012
		Rupees in '000	
Head office account	7	1,033,814	1,194,991
Underwriting provisions			
Provision for outstanding claims (including IBNR)		874,760	395,942
Provision for unearned premium		585,631	466,098
Commission income unearned		118,511	93,700
Total underwriting provisions		1,578,902	955,740
Creditors and accruals			
Amounts due to other insurers / reinsurers	8	922,638	698,271
Accrued expenses	9	96,309	45,664
Other creditors and accruals	10	59,196	69,836
		1,078,143	813,771
TOTAL LIABILITIES		2,657,045	1,769,511
TOTAL EQUITY AND LIABILITIES		3,690,859	2,964,502
CONTINGENCIES AND COMMITMENTS	12		

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


Manager for Pakistan / Principal Officer


Assistant General Manager

	Note	2013	2012
		Rupees in '000	
Cash and bank deposits	13	726	183
Cash and other equivalent		248,004	251,049
Current and other bank accounts		910,000	1,055,000
Deposits maturing within 12 months		1,158,730	1,306,232
Investments	14	721,292	525,338
Deferred taxation	15	6,544	7,319
Security deposits		3,244	2,800
Other Assets			
Premium due but unpaid	16	229,715	138,224
Amounts due from other insurers / reinsurers	17	220,705	198,053
Salvage recoveries accrued		5,499	4,498
Accrued income on investment and deposits	18	14,367	22,568
Reinsurance recoveries against outstanding claims	19	786,650	266,276
Taxation - payments less provision	20	6,195	20,368
Deferred commission expense	21	81,751	65,466
Prepayments	22	405,298	316,367
Loans to employees - unsecured - considered good		2,556	3,974
Sundry receivables	23	532	4,750
		1,753,268	1,060,534
Fixed Assets			
Tangible and Intangible assets			
Leasehold improvements		7,824	10,310
Furniture and fittings		7,877	9,257
Office equipment		5,231	5,458
Computers and EDP equipment		2,495	1,665
Vehicles		23,164	25,002
Software		120	727
Capital work-in-progress		1,070	9,860
	24	47,781	62,279
TOTAL ASSETS		3,690,859	2,964,502


Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
 PROFIT AND LOSS ACCOUNT
 FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	Fire and property	Marine, aviation and transport	Motor	Accident and health	Miscellaneous	2013	2012
----- (Rupees in '000) -----								
Revenue Account								
Net Premium Revenue		14,911	25,716	342,585	118,915	7,743	509,870	436,986
Net Claims		(5,297)	(11,995)	(188,462)	(66,280)	(246)	(272,280)	(270,193)
Management Expenses	25	(35,985)	(14,073)	(46,397)	(22,585)	(2,724)	(121,764)	(106,893)
Net Commission		131,372	20,396	(45,037)	(27,320)	4,347	83,758	82,060
		90,090	(5,672)	(279,896)	(116,185)	1,377	(310,286)	(295,026)
Underwriting Results		105,001	20,044	62,689	2,730	9,120	199,584	141,960
Investment income - net							166,626	181,894
Other income - net	26						13,490	118,193
General and administration expenses	27						(127,431)	(147,228)
Profit before taxation							252,269	294,819
Taxation	28						(82,743)	(102,107)
Profit after taxation							169,526	192,712

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


 Manager for Pakistan / Principal Officer


 Assistant General Manager


 Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
OPERATING CASH FLOWS		
(a) Underwriting activities		
Premiums received	1,544,943	1,385,271
Reinsurance premiums paid	(998,795)	(1,041,445)
Claims paid	(578,881)	(483,323)
Reinsurance and other recoveries received	387,196	312,406
Commissions paid	(211,341)	(181,192)
Commissions received	305,253	327,589
Net cash generated from underwriting activities	448,375	319,306
(b) Other operating activities		
Income tax paid	(67,805)	(70,307)
General and administrative expenses and management expenses paid - net	(177,768)	(212,739)
Net cash flow from other operating activities	(245,573)	(283,046)
Net cash generated from all operating activities	202,802	36,260
INVESTMENT ACTIVITIES		
Profit / return received	165,983	175,651
Dividends received	7,823	6,617
Investment in term deposit receipt	145,000	(145,000)
Proceeds from redemption of investments	735,000	550,000
Investments made during the year	(929,933)	(542,533)
Fixed capital expenditure	(889)	(28,041)
Proceeds from disposal of fixed assets	2,415	1,606
Net cash generated from investing activities	125,399	18,300
FINANCING ACTIVITIES		
Remittance made to Head Office	(330,703)	-
Net cash (used in) financing activities	(330,703)	-
Net increase / (decrease) in cash and cash equivalents during the year	(2,502)	54,560
Cash and cash equivalents at the beginning of the year	251,232	196,672
Cash and cash equivalents at the end of the year	248,730	251,232
Reconciliation to Profit and Loss Account		
Operating cash flows	202,802	36,260
Depreciation expense	(14,550)	(16,111)
Amortisation	(607)	(5,183)
Investment income	166,626	181,894
Gain / (loss) on disposal of fixed assets	2,185	(3,197)
Increase in assets other than cash	700,604	17,079
Increase in liabilities	(887,534)	(18,030)
Profit after taxation for the year	169,526	192,712

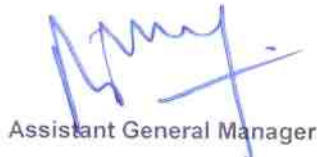
Definition of cash

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.

	2013	2012
	----- Rupees in '000 -----	
Cash and cash equivalents for the purposes of the Statement of Cash Flows consists of:		
- cash and other equivalents	726	183
Current and other bank accounts		
- saving accounts	248,004	251,049
Cash and cash equivalents for the purpose of Statement of Cash Flows	248,730	251,232

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


Manager for Pakistan / Principal Officer


Assistant General Manager


Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2013

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		2013	2012
Rupees in '000										
Direct and Facultative										
Fire and property	918,345	293,597	373,645	838,297	904,347	286,692	367,653	823,386	14,911	11,633
Marine, aviation and transport	152,673	17,174	25,106	144,741	125,274	14,442	20,691	119,025	25,716	26,040
Motor	378,920	116,366	143,353	351,933	9,348	2	2	9,348	342,585	277,948
Accident and health	131,714	29,765	30,954	130,525	10,073	3,429	1,892	11,610	118,915	112,924
Miscellaneous	61,512	9,196	12,573	58,135	53,650	8,407	11,665	50,392	7,743	8,441
Total	1,643,164	466,098	585,631	1,523,631	1,102,692	312,972	401,903	1,013,761	509,870	436,986

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

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Kajal Khan
Manager for Pakistan / Principal Officer

Mumtaz
Assistant General Manager

Shah
Profit Centre Manager

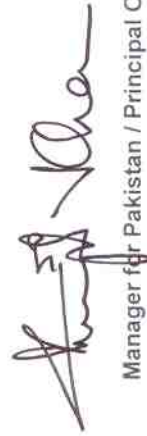
NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2013

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		Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims	Opening	Closing		2013	2012
----- Rupees in '000 -----											
Direct and Facultative											
Fire and property	218,162	236,388	751,122	732,896	207,055	224,639	745,183	727,599	5,297	1,784	
Marine, aviation and transport	63,654	28,403	27,872	63,123	48,903	12,600	14,825	51,128	11,995	26,015	
Motor	200,375	44,910	32,997	188,462	-	-	-	-	188,462	198,607	
Accident and health	67,073	34,693	36,984	69,364	3,191	1,399	1,292	3,084	66,280	41,947	
Miscellaneous	29,617	51,548	25,785	3,854	25,896	47,638	25,350	3,608	246	1,840	
Total	578,881	395,942	874,760	1,057,699	285,045	286,276	786,650	785,419	272,280	270,193	

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

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Manager for Pakistan / Principal Officer


Assistant General Manager


Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

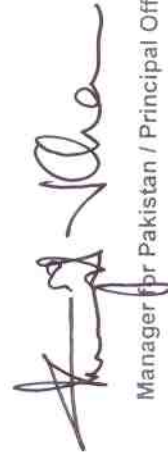
Business underwritten inside Pakistan

Class	Commissions paid or payable	Deferred commission		Commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers	Net underwriting expense	
		Opening	Closing					2013	2012
Rupees in '000									
Direct and Facultative									
Fire and property	126,154	39,656	51,384	114,426	35,985	150,411	245,798	(95,387)	(95,782)
Marine, aviation and transport	14,774	1,307	2,467	13,614	14,073	27,687	34,010	(6,323)	(8,182)
Motor	48,434	15,372	18,769	45,037	46,397	91,434	-	91,434	87,450
Accident and health	29,946	7,355	7,303	29,998	22,585	52,583	2,678	49,905	41,408
Miscellaneous	8,837	1,776	1,828	8,785	2,724	11,509	13,132	(1,623)	(61)
Total	228,145	65,466	81,751	211,860	121,764	333,624	295,618	38,006	24,833

Note: Commission from reinsurers is net of opening and closing unearned commission of Rs 93 700 thousand and Rs 118,511 thousand respectively.

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

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Manager for Pakistan / Principal Officer


Assistant General Manager


Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

2013 2012
----- Rupees in '000 -----

Income from non-trading investments

Held to maturity

Return on government securities

52,815	51,728
7,823	6,617
103,597	121,065
164,235	179,410

Available for sale

Dividend income

Return on term deposits and balances with bank

Reversal of provision against diminution in the value of available-for-sale investments

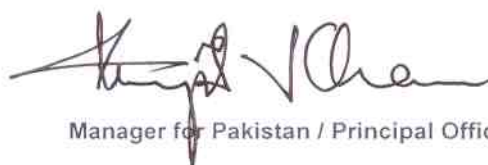
2,391 2,484

Net investment income

166,626 181,894

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



Manager for Pakistan / Principal Officer



Assistant General Manager



Profit Centre Manager

NEW HAMPSHIRE INSURANCE COMPANY - PAKISTAN BRANCH
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

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 Shahr-e-Faisal, Karachi. The Branch is engaged in General Insurance business under the Insurance Ordinance, 2000 and operates through 4 sales offices (2012: 4) in Pakistan.

2 BASIS OF PRESENTATION

These financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan through the Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002] vide S.R.O. 938 (1) /2002 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 Changes in accounting policies and disclosures arising from standards, interpretations and amendments to published approved accounting standards that are effective in the current year

IAS 19 (revised) 'Employee benefits' effective for annual periods beginning on or after January 1, 2013 amends the accounting for employee benefits. The standard requires immediate recognition of past service cost and also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses and the difference between actual investment returns and the return implied by the net interest cost / (income). The standard requires "remeasurements" to be recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur, which are not later reclassified to profit and loss account. However, the Securities and Exchange Commission of Pakistan (SECP) through the Insurance Rules, 2002 had prescribed the format of presentation and disclosure of financial statements, which do not require an OCI statement. Accordingly, the charge has been taken to the profit and loss account.

The new amendment does not materially affect the the Branch's financial statements, therefore retrospective adjustment has not been made in these financial statements.



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

IAS 1, 'Presentation of Financial Statements' has been amended effective January 1, 2013. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to the profit or loss subsequently (reclassification adjustments). The new amendment has no effect on the the Branch's financial statements in view of the prescribed format of financial statements under SEC (Insurance) Rules, 2002.

There are certain other new and amended standards and interpretations that are mandatory for the Branch's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or to have any significant effect on the the Branch's operations and are, therefore, not disclosed in these financial statements.

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

There are certain other new and amended standards, interpretations and amendments that are mandatory for the the Branch's accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the the Branch's operations and therefore not detailed in these financial statements.

5.1.4 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 reinsurers are estimated in a manner consistent with the provision for outstanding claims or settled claims associated with the reinsurance policies and are in accordance with the related reinsurance contract.

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

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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 24.1 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 24.2 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.

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 the 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.

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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 includes 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 the 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. The defined benefit obligation is calculated by an independent actuary using the Projected Unit Credit Method.

As more fully explained in note 5.1.1, effective January 1, 2013 all actuarial gains / losses are recognised in the profit and loss and revenue accounts as they occur. Previously actuarial gains / losses exceeding 10 percent of the higher of present value of defined benefit obligation and fair value of plan assets at the beginning of the year, were amortised over the average future remaining working lives of employees.

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.

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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 currency 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 10.1
Deferred taxation	5.19 and 15
Classification of investments	5.8.1 and 14
Provision for doubtful debts	5.6
Deferred commission	5.11
Useful lives of assets and methods of depreciation	5.14 and 24
Allocation of management expenses	5.23, 25 and 27

7 HEAD OFFICE ACCOUNT

Unremitted profit

	2013	2012
	----- Rupees in '000 -----	
Balance at the beginning of the year	1,194,991	1,002,279
Profit after tax for the year	169,526	192,712
Remittance to Head Office	(330,703)	-
Balance at the end of year	<u>1,033,814</u>	<u>1,194,991</u>

8 AMOUNTS DUE TO OTHER INSURERS / REINSURERS

Amounts due to group companies	730,663	574,809
Amounts due to others	191,975	123,462
	<u>922,638</u>	<u>698,271</u>

	Note	2013	2012
		----- Rupees in '000 -----	
9 ACCRUED EXPENSES			
Salaries, wages and benefits		13,394	4,115
Software usage and maintenance charges		48,850	28,394
Legal and professional charges		2,549	2,152
Agency development and recognition		3,250	1,742
Other accrued expenses		28,266	9,261
		<u>96,309</u>	<u>45,664</u>
10 OTHER CREDITORS AND ACCRUALS			
Due to related parties		4,688	12,365
Commission		36,368	37,137
Federal Excise Duty		4,562	3,556
Federal Insurance Fee		464	509
Withholding tax		304	765
Workers' Welfare Fund		5,237	5,985
Payable to gratuity fund	10.1	777	-
Others		6,796	9,519
		<u>59,196</u>	<u>69,836</u>

10.1 Defined benefit plan - approved gratuity fund

10.1.1 Salient features

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. Contribution to the fund is made and expense is recognised on the basis of actuarial valuations carried out at each year end using the projected unit credit method.

The Company faces the following risks on account of gratuity fund:

Final salary risks

The risk that the final salary at the time of cessation of service is greater than what was assumed. Since the benefit is calculated on the final salary, the benefit amount would also increase proportionately.

Asset volatility

Most assets are invested in risk free investments. However, investments in shares, are subject to adverse fluctuation as a result of change in market price.

Discount rate fluctuation

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the current plan's bond holdings.

Investment risks

The risk of the investment underperforming and not being sufficient to meet the liabilities. The risk is mitigated by closely monitoring the performance of investment.

Risk of insufficiency of assets

This is managed by making regular contribution to the Fund as advised by the actuary.

10.1.2 Valuation results

An actuarial valuation is carried out every year to determine the liability of the Branch in respect of the benefit and the latest valuation was carried out as at December 31, 2013. The information provided below has been obtained from the actuarial valuation carried out as at December 31, 2013. The following significant assumptions have been used for valuation of this scheme:

	2013	2012
Discount rate	12.75%	12.00%
Rate of salary increase	12.25%	11.50%
Rate of return on plan assets	12.75%	12.00%

Assumptions regarding future mortality experience are based on actuarial recommendations and published statistics.

	2013	2012
	----- Rupees in '000 -----	
Amounts recognised in the balance sheet		
Present value of defined benefit obligation	27,619	25,406
Fair value of plan assets	(26,841)	(26,680)
(Surplus) / deficit	777	(1,274)
Unrecognized actuarial loss	-	(2,635)
(Asset) / liability as at December 31,	777	(3,909)
Movement in defined benefit obligations		
Balance as at January 1,	(3,909)	2,704
Charge for the year	3,490	4,255
Contributions	1,529	(2,774)
Payment to outgoing members by the Branch	(333)	(8,094)
Balance as at December 31,	777	(3,909)
Amounts recognised in profit and loss account		
Current service cost	2,704	3,082
Interest cost	3,159	3,560
Expected return on plan assets	(3,304)	(2,387)
Recognition of actuarial loss	931	-
Charge for the year ended December 31,	3,490	4,255
Movement in the Present Value of Defined Benefit Obligation:		
Present Value of Defined Benefit Obligation as at January 1,	25,406	26,289
Current service cost	2,704	3,082
Interest cost	3,159	3,560
Actuarial loss / (gain) on obligation	(2,386)	569
Actual benefits paid during the year	(1,265)	(8,094)
Present value of defined benefit obligation as at December 31,	27,619	25,406
Movement in Fair Value of Plan Assets:		
Fair value of plan assets as at January 1,	26,680	21,381
Expected return on plan assets	3,304	2,386
Contributions made by the Branch	(1,529)	2,774
Outstanding Payments	(932)	-
Actuarial gain / (loss) on plan assets	(682)	139
Fair value of plan assets as at December 31,	26,841	26,680

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Sensitivity analysis

a) The impact of 1% change in following variables on defined benefit obligation is as follows:

	Change in assumption	Increase in assumption	Decrease in assumption
		(Rupees in '000)	
Discount rate	1%	25,758	29,768
Long Term Salary Increases	1%	29,890	25,620

b) The impact on defined benefit obligation due to increase in life expectancy by 1 year is not significant.

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant assumptions, same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability.

Breakup of plan assets

	2013		2012	
	Rupees in '000	%	Rupees in '000	%
Treasury Bills	19,576	72.93	14,692	55.07
Pakistan Investment Bonds	5,065	18.87	4,990	18.70
Bank deposits	2,200	8.20	7,090	26.57
Current liabilities	-	-	(92)	(0.34)
	<u>26,841</u>	<u>100</u>	<u>26,680</u>	<u>100</u>

5 year data on experience adjustments is as follows:

	2013	2012	2011	2010	2009
	Rupees in '000				
Present value of defined benefit obligation	27,619	25,406	26,289	22,339	17,215
Fair value of plan assets	26,841	26,680	21,381	16,409	13,666
Surplus / (deficit)	<u>(777)</u>	<u>1,274</u>	<u>(4,908)</u>	<u>(5,930)</u>	<u>(3,549)</u>

Expected contribution to the plan for the year ending December 31, 2014 is Rs 2.743 million (2013: Rs 2.559 million).

11 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Branch has set up provident fund for its permanent employees and the contributions were made by the Branch to the Trust in accordance with the requirement of Section 227 of the Companies Ordinance, 1984. The total charge against provident fund for the year ended December 31 2013, was Rs. 3.386 million (2012: Rs. 3.685 million). The total assets based on the audited financial statements of Provident Fund as at June 30, 2013 were Rs 35.584 million out of which 96% were invested in different financial instruments categories as provided in Section 227 of the Companies Ordinance, 1984 and rules formulated for the purpose. The fair value of the assets of the fund equate their carrying value. The above investments out of provident fund have been made in accordance with the requirement of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

Break up of investments

	2013	
	Rupees in '000	% of the size of the fund
Government securities	29,840	84%
Bank deposits	4,309	12%
Total	<u>34,149</u>	

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12 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 the 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 a better position to defend their interest in the above suit. Accordingly, no provision in respect of the above matter is considered necessary in these financial statements.

	Note	2013	2012
		----- Rupees in '000 -----	
13 CASH AND BANK DEPOSITS			
Cash and other equivalent			
Cash in hand		27	113
Stamps in hand		699	70
		726	183
Current and other bank accounts			
Savings accounts	13.1	248,004	251,049
Deposits maturing within 12 months			
Term deposit receipts	13.2	910,000	1,055,000
		<u>1,158,730</u>	<u>1,306,232</u>

13.1 These carry markup ranging from 6.5% to 7% (2012 : 6% to 7%) per annum.

13.2 These carry markup ranging from 8.13% to 9.32% (2012 : 8.15% to 11%) per annum.

	Note	2013	2012
		----- Rupees in '000 -----	
14 INVESTMENTS			
Held-to-maturity	14.1	703,436	509,873
Available-for-sale	14.2	17,856	15,465
		<u>721,292</u>	<u>525,338</u>

14.1 Held-to-maturity

Government Securities	Face Value Rs in '000	Coupon rate / yield	Maturity year		
Deposited with the State Bank of Pakistan (13.1.1)					
10 years Pakistan Investment Bonds	11,000	8.00%	2013	-	11,150
3 years Pakistan Investment Bonds	11,000	11.25%	2016	10,873	-
				10,873	11,150
Others					
3 years Pakistan Investment Bonds	80,000	11.25%	2015	80,969	81,523
10 years Pakistan Investment Bonds	54,000	8.00%	2013	-	54,678
				80,969	136,201
1 year market treasury bill	390,000	9.19 % to 9.29%	2013	-	362,522
1 year market treasury bill	54,000	9.77%	2014	51,820	-
6 months market treasury bill	200,000	9.69%	2014	193,960	-
3 months market treasury bills	370,000	9.76% to 10.21%	2014	365,814	-
				611,594	362,522
				<u>703,436</u>	<u>509,873</u>

14.1.1 These securities have been deposited with the State Bank of Pakistan in compliance with the requirements of section 29 of the Insurance Ordinance, 2000.

14.1.2 The aggregate market value of held-to-maturity investments as at December 31, 2013 amounted to Rs 702,558 million (2012: Rs 508,359 million).

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14.2 Available-for-sale

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

2013 -----No. of shares-----	2012	Name of Entity	Note	2013 ----- Rupees in '000 -----	2012
225,000	225,000	Hub Power Company Limited		12,570	12,570
452,782	411,620	MCB Bank Limited		4,330	4,330
7,464	6,220	Pakistan State Oil Company Limited		956	956
				17,856	17,856
Less: Provision for diminution in value of available-for-sale investments			14.2.1	-	(2,391)
				<u>17,856</u>	<u>15,465</u>

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

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

14.2.2 The aggregate market value of available-for-sale investments as at December 31, 2013 amounted to Rs 143.45 million (2012: Rs 97.96 million).

14.2.3 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, 2013 would have been higher by Rs 125.60 million (2012: Rs 82.50 million) and surplus on revaluation of available-for-sale investments (under Head Office account) would have been Rs 125.60 million (2012: Rs 82.50 million).

15	DEFERRED TAXATION	Note	2013 ----- Rupees in '000 -----	2012
	Temporary differences arising in respect of:			
	Provision for doubtful debts		5,658	5,825
	Fixed assets		886	1,494
			<u>6,544</u>	<u>7,319</u>
16	PREMIUM DUE BUT UNPAID			
	Considered good		229,715	138,224
	Considered doubtful		5,250	3,178
			234,965	141,402
	Less: Provision for doubtful debts	16.1	(5,250)	(3,178)
			<u>229,715</u>	<u>138,224</u>
16.1	Provision for doubtful debts			
	Opening balance		3,178	258
	Charge for the year		2,072	2,920
			<u>5,250</u>	<u>3,178</u>
17	AMOUNT DUE FROM OTHER INSURERS / REINSURERS			
	Considered good		220,705	198,053
	Considered doubtful		11,391	13,463
			232,096	211,516
	Less: Provision for doubtful debts	17.1	(11,391)	(13,463)
			<u>220,705</u>	<u>198,053</u>
17.1	Provision for doubtful debts			
	Opening balance		13,463	16,383
	(Reversal) for the year		(2,072)	(2,920)
			<u>11,391</u>	<u>13,463</u>

		2013	2012	
		----- Rupees in '000 -----		
18	ACCRUED INCOME ON INVESTMENT AND DEPOSITS			
-	Pakistan Investment Bonds	4,631	5,294	
-	Term Deposit Receipts	8,133	17,274	
-	Dividend Income receivable	1,603	-	
		<u>14,367</u>	<u>22,568</u>	
19	REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS	<u>786,650</u>	<u>286,276</u>	
19.1	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 38.14 million and Rs 489.72 million respectively (2012: Rs 57.11 million and Rs 133.65 million respectively).			
		2013	2012	
		----- Rupees in '000 -----		
20	TAXATION - PAYMENT LESS PROVISION			
	Opening refundable	20,358	49,402	
	Charge for the year	(81,968)	(99,351)	
	Payments during the year	67,805	70,307	
		(14,163)	(29,044)	
	Closing refundable	<u>6,195</u>	<u>20,358</u>	
20.1	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	2013	2012
		----- Rupees in '000 -----		
21	PREPAYMENTS			
	Prepaid re-insurance premium		401,903	312,972
	Rent		3,395	2,156
	Other prepayments		-	1,239
			<u>405,298</u>	<u>316,367</u>
22	LOAN TO EMPLOYEES - Unsecured - considered good	22.1	<u>2,556</u>	<u>3,974</u>
22.1	This represents interest free domestic loans to employees upto two months salary repayable within 11 months.			
		Note	2013	2012
		----- Rupees in '000 -----		
23	SUNDRY RECEIVABLES			
	Advances to suppliers		300	738
	Receivable from gratuity fund		-	3,909
	Others		232	103
			<u>532</u>	<u>4,750</u>
24	FIXED ASSETS			
	Tangible assets	24.1	46,591	51,692
	Intangible assets	24.2	120	727
	Capital work-in-progress	24.1.1	1,070	9,860
			<u>47,781</u>	<u>62,279</u>

24.1 Tangible Assets

	2013							Rate of Depreciation per annum
	Cost			Accumulated Depreciation			Written down value as at December 31, 2013	
	As at January 1, 2013	Additions / (Disposals)	As at December 31, 2013	As at January 1, 2013	Charge for the year / (Disposals)	As at December 31, 2013		
	Rupees in '000							%
Leasehold property	56	-	56	56	-	56	-	20
Leasehold improvements	25,044	-	25,044	14,734	2,486	17,220	7,824	20
Furniture and fittings	17,015	160	17,175	7,758	1,540	9,298	7,877	10
Office equipment	15,764	1,527 (122)	17,169	10,306	1,754 (122)	11,938	5,231	20
Computer and EDP equipment	28,566	2,058	30,624	26,901	1,228	28,129	2,495	33.33
Vehicles	43,807	5,934 (6,052)	43,689	18,805	7,542 (5,822)	20,525	23,164	20
December 31, 2013	130,252	9,679 (6,174)	133,757	78,560	14,550 (5,944)	87,166	46,591	

	2012							Rate of Depreciation per annum
	Cost			Accumulated Depreciation			Written down value as at December 31, 2012	
	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	

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	Note	2013	2012
		----- Rupees in '000 -----	
24.1.1 Capital work in progress			
Civil works		1,070	9,860
		<u>1,070</u>	<u>9,860</u>

24.1.2 Depreciation has been allocated as follows:

Management expenses	25	9,226	8,616
General and administration expenses	27	5,324	7,495
		<u>14,550</u>	<u>16,111</u>

24.1.3 Cost of fully depreciated fixed assets that are still in Branch use as at December 31, 2013 amounted to Rs 59.438 million (2012: Rs 51.983 million).

24.2 Intangible Assets

	Cost			Accumulated Amortisation			Written down value as at December 31, 2013	Rate of Amortisation per annum
	As at January 1, 2013	Additions	As at December 31, 2013	As at January 1, 2013	Amortisation for the year	As at December 31, 2013		
	----- Rupees in '000 -----							%
Software	28,030	-	28,030	27,303	607	27,910	120	20
December 31, 2013	<u>28,030</u>	<u>-</u>	<u>28,030</u>	<u>27,303</u>	<u>607</u>	<u>27,910</u>	<u>120</u>	
December 31, 2012	<u>28,030</u>	<u>-</u>	<u>28,030</u>	<u>22,120</u>	<u>5,183</u>	<u>27,303</u>	<u>727</u>	20

	Note	2013	2012
		----- Rupees in '000 -----	
24.2.1 Amortisation has been allocated as follows:			
Management expenses	25	251	2,140
General and administration expenses	27	356	3,043
		<u>607</u>	<u>5,183</u>

25 MANAGEMENT EXPENSES

Salaries, wages and benefits	25.1	51,136	49,587
Rents, taxes, electricity etc.		10,040	10,538
Communication		2,895	2,933
Advertisement and sales promotion		5,490	1,705
Printing and stationery		2,531	2,410
Traveling and entertainment		1,492	1,147
Car running and maintenance		4,699	5,650
Software maintenance charges		28,352	16,908
Depreciation	24.1.2	9,226	8,616
Amortisation	24.2.1	251	2,140
Subscription and membership fees		5,415	4,647
Other expenses		237	612
		<u>121,764</u>	<u>106,893</u>

25.1 Includes staff retirements benefits amounting to Rs 3.254 million (2012: Rs 4.178 million).

	2013	2012
	----- Rupees in '000 -----	
26 OTHER INCOME - NET		
Gain / (loss) on disposal of fixed assets	2,185	(3,197)
Liabilities no longer payable written back	-	110,951
Exchange gain	11,305	10,439
	<u>13,490</u>	<u>118,193</u>

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27	GENERAL AND ADMINISTRATION EXPENSES	Note	2013	2012
			-----Rupees in '000-----	
	Salaries, wages and benefits	27.1	56,911	65,007
	Rent, taxes, electricity etc.		8,119	8,521
	Communication		2,573	2,606
	Printing and stationery		2,686	2,558
	Traveling and entertainment		2,299	1,768
	Depreciation	24.1.2	5,324	7,495
	Amortisation	24.2.1	356	3,043
	Software maintenance charges		25,711	22,663
	Repairs and maintenance		5,707	6,471
	Legal and professional charges		4,683	5,699
	Auditors' remuneration	27.2	457	417
	Insurance		2,631	2,568
	Car running and maintenance		2,799	3,366
	Workers' Welfare Fund		5,148	6,016
	Other expenses		2,027	9,030
			<u>127,431</u>	<u>147,228</u>

27.1 Includes staff retirements benefits amounting to Rs 3.622 million (2012: Rs 3.763 million).

27.2	Auditors' remuneration	2013	2012
		-----Rupees in '000-----	
	Audit fee	344	310
	Other certification services	63	57
	Out of pocket expenses	50	50
		<u>457</u>	<u>417</u>

28	TAXATION	2013	2012
	Current - for the year	83,332	98,806
	Current - for prior year	(1,364)	545
	Deferred	775	2,756
		<u>82,743</u>	<u>102,107</u>

28.1 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:

	2013	2012
	-----Rupees in '000-----	
Profit before tax	<u>252,269</u>	<u>294,819</u>
Tax calculation at the rate of 34 % (2012: 35 %)	85,771	103,186
Tax effect of dividend income	(1,923)	(1,688)
Prior year adjustments	(1,364)	545
Others	259	64
	<u>82,743</u>	<u>102,107</u>

29 REMUNERATION OF MANAGER FOR PAKISTAN

Salary and other benefits	9,810	6,377
Branch's provided accommodation and utilities	4,758	5,886
	<u>14,568</u>	<u>12,263</u>

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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30 FINANCIAL INSTRUMENTS BY CATEGORY

Financial Assets

As at December 31, 2013			
Loans and receivables	Held to maturity	Available for sale	Total
Rupees in '000			
Bank deposits	1,158,004	-	1,158,004
Investments	-	703,436	721,292
Premium due but unpaid	229,715	-	229,715
Amounts due from other insurers / reinsurers	220,705	-	220,705
Accrued income on investment and deposits	14,367	-	14,367
Reinsurance recoveries against outstanding claims	786,650	-	786,650
Loan to employees - unsecured - considered good	2,556	-	2,556
Sundry receivables	232	-	232
	2,412,229	703,436	3,133,521

Financial Liabilities

As at December 31, 2013		
	Other financial liabilities	Total
Rupees in '000		
Provision for outstanding claims (including IBNR)	874,760	874,760
Amounts due to other insurers / reinsurers	922,638	922,638
Accrued expenses	96,309	96,309
Other creditors and accruals	48,629	48,629
	1,942,336	1,942,336

Financial Assets

As at December 31, 2012			
Loans and receivables	Held to maturity	Available for sale	Total
Rupees in '000			
Bank deposits	1,306,049	-	1,306,049
Investments	-	509,873	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	2,480,560

Financial Liabilities

As at December 31, 2012		
	Other financial liabilities	Total
Rupees in '000		
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

31 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 except for investments as disclosed in note 14.

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).

	2013			
	Level 1	Level 2	Level 3	Total
	Rupees in '000			
Financial asset designated as available-for-sale	-	-	-	-
	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

* In prior year investment in equity security of Hub Power Company Limited was held at market value which was lower than its cost as per the requirements of the Securities and Exchange Commission (Insurance) Rules, 2002. All other equity securities were held at cost which was lower than their market values. Currently, all equity securities are held at cost which is lower than their market value.

32 RISK MANAGEMENT

32.1 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.

32.1.1 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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32.1.1.2 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, 2013 and 2012. 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, 2013	143,450	+5% -5%	7,173 (7,173)
December 31, 2012	97,965	+5% -5%	4,898 (4,898)

32.1.1.3 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:

-----2013-----								
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	6.5% - 9.32%	1,158,004	-	1,158,004	-	-	-	1,158,004
Investments	9.69% - 11.25%	611,594	91,842	703,436	17,856	-	17,856	721,292
Premium due but unpaid		-	-	-	229,715	-	229,715	229,715
Amount due from other insurers / reinsurers		-	-	-	220,705	-	220,705	220,705
Accrued income		-	-	-	14,367	-	14,367	14,367
Reinsurance recoveries against outstanding claims		-	-	-	786,650	-	786,650	786,650
Loan to employees - unsecured - considered good		-	-	-	2,556	-	2,556	2,556
Sundry and other receivables		-	-	-	232	-	232	232
		1,769,598	91,842	1,861,440	1,272,081	-	1,272,081	3,133,521
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	874,760	-	874,760	874,760
Amounts due to other insurers / reinsurers		-	-	-	922,638	-	922,638	922,638
Accrued expenses		-	-	-	96,309	-	96,309	96,309
Other creditors and accruals		-	-	-	48,629	-	48,629	48,629
		-	-	-	1,942,336	-	1,942,336	1,942,336
		1,769,598	91,842	1,861,440	(670,255)	-	(670,255)	1,191,185

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2012							
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)							
6% - 7%	1,306,049	-	1,306,049	-	-	-	1,306,049
8.15% - 11%	428,350	81,523	509,873	15,465	-	15,465	525,338
	-	-	-	138,224	-	138,224	138,224
	-	-	-	198,053	-	198,053	198,053
	-	-	-	22,568	-	22,568	22,568
g claims	-	-	-	286,276	-	286,276	286,276
ed good	-	-	-	3,974	-	3,974	3,974
	-	-	-	78	-	78	78
	1,734,399	81,523	1,815,922	664,638	-	664,638	2,480,560
(IBNR)	-	-	-	395,942	-	395,942	395,942
	-	-	-	698,271	-	698,271	698,271
	-	-	-	45,664	-	45,664	45,664
	-	-	-	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

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, 2013	100	18,614	12,099
	(100)	(18,614)	(12,099)
December 31, 2012	100	18,159	11,803
	(100)	(18,159)	(11,803)

32.1.1.4 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 9.753 million (2012: Rs 10.652 million) at the end of the year.

32.1.5 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:

	2013	2012
----- Rupees in '000 -----		
Bank accounts and deposits*	1,158,004	1,306,049
Accrued income on investment and deposits**	8,133	17,274
Premiums due but unpaid***	234,965	141,402
Security deposits	3,244	2,800
Gratuity fund receivable	-	3,909
Loan to employees	2,556	3,974
Amounts due from other insurers / reinsurers***	232,096	211,516
Reinsurance recoveries against outstanding claims	786,650	286,276
	2,425,648	1,973,200

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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	2013 ----- Rupees in '000 -----	2012 ----- Rupees in '000 -----
* Bank accounts and deposits				
Various	A-3	Moody's	-	7,108
Various	AAA	JCR -VIS	280,902	603,468
Various	A2	Moody's	877,102	695,473
			<u>1,158,004</u>	<u>1,306,049</u>
** Accrued income on investment and deposits				
Various	A-1	Moody's	2,771	6,523
Various	P-1	PACRA	5,362	10,751
			<u>8,133</u>	<u>17,274</u>

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

	2013 ----- Rupees in '000 -----	2012 ----- Rupees in '000 -----
Upto 1 year	460,086	345,216
1 - 2 years	70	6,001
Over 2 years	6,906	1,701
	<u>467,061</u>	<u>352,918</u>

32.1.6 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.

	2013			
	Within one year	Over one year to five years	Over five years	Total
	----- Rupees in '000 -----			
Financial liabilities				
Provision for outstanding claims (including IBNR)	874,760	-	-	874,760
Amounts due to other insurers / reinsurers	922,638	-	-	922,638
Accrued expenses	96,309	-	-	96,309
Other creditors and accruals	48,629	-	-	48,629
	<u>1,942,336</u>	<u>-</u>	<u>-</u>	<u>1,942,336</u>
	2012			
	Within 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
	<u>1,198,898</u>	<u>-</u>	<u>-</u>	<u>1,198,898</u>

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32.2 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.

32.2.1 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.

32.2.2 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:

	2013		
	Maximum sum insured	Reinsurance cover	Highest net liability
	----- Rupees in '000 -----		
Fire and property	11,399,238	19,000	11,380,238
Marine, aviation and transport	1,931,798	335,167	1,596,631
Motor	47,600	47,600	-
Accident and health	43,000	4,750	38,250
Miscellaneous	2,432,000	7,296	2,424,704
	<u>15,853,636</u>	<u>413,813</u>	<u>15,439,823</u>

	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
	<u>14,904,549</u>	<u>311,658</u>	<u>14,592,891</u>

32.2.3 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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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:

Rating	Amount due from other insurers / reinsurers		Reinsurance recoveries against outstanding claims	
	2013	2012	2013	2012
	----- Rupees in '000 -----			
A or above including Pakistan Reinsurance Company Limited	220,705	198,053	786,650	286,276

33 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:

	2013	2012
	----- Rupees in '000 -----	
Transactions during the year:		
Premiums ceded	811,586	691,983
Commission income	230,635	196,071
Claims recoverable	196,011	169,722
Remittance	227,438	289,586
Software maintenance charges	16,636	9,544
Balances at the year end:		
Due to related parties included in accrued expenses	40,259	25,370

34 NUMBER OF EMPLOYEES

Number of permanent employees at the end of the year were 55 (2012: 57) . The average number of employees of the Branch are 56 (2012: 63)

35 AUTHORISATION FOR ISSUE

These financial statements were authorized for issue by the management on April 30, 2014.

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 are not material.


Manager for Pakistan / Principal Officer


Assistant General Manager


Profit Centre Manager