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COMPANY INFORMATION

BOARD OF DIRECTORS
Air Vice Marshal (R) M.Ikramullah Bhatti
Air Commodore (R) Zafar Iqbal Mir
Takudzwa Brooks Takundanyika Mparutsa
M. Naveed Tariq
Ian Howell Ross
Shahid Hameed
Ahmed Bilal

CHIEF EXECUTIVE OFFICER
Asif Suleman

CHIEF FINANCIAL OFFICER
Huzaif Hanif Tola

COMPANY SECRETARY
Huzaif Hanif Tola

AUDITORS
Anjum Asim Shahid Rehman
Chartered Accountants

LEGAL ADVISOR
Shaukat Law Associates

REGISTERED OFFICE
10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi.

HEAD OFFICE
10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi.

SHARE REGISTRAR
M/s Corplink (Pvt) Ltd
Wings Arcade, 1-K, Commercial, Model Town, Lahore.

OFFICES

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Tel. # 32630370-75, 32213950-51, Fax # 32626674
E - mail : sihifc@cyber.net.pk
URl: www.shaheeninsurance.com

Lahore

Zonal Head - Mr. Naveed Butt

14 Askari Villas, Main Shami Road, Lahore Cantt.
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Islamabad

Zonal Head - Mr. Khalid Sarwar

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Karachi

Progressive Plaza Branch

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705, Progressive Plaza, 7th Floor,
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Plaza Branch

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Branch Manager - Mr. Akhtar Rao

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2630644-45, Fax. # (041) 2631514
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Sialkot

Branch Manager - Mr. Muhammad Mujahid Ali

104, First Floor, Kareem Plaza, Defence
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Peshawar

Branch Manager - Mr. Muhammad Shoaib Khan

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Multan

Branch Manager - Mr. Arshad Mehmood Khan

Shalimar Colony, near Madarsa Kair-ul- Muarif,
Bosan Road, Multan
Tel. # (061) 6750001-3
Fax # (061) 6750004
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Rawalpindi Branch

Branch Manager - Mr. Mujahid Raza

House No. 2-A/2, Block 'A' Near 6th Road,
Satellite Town, Rawalpindi.
Tel. # 9251-4581354, 4581355, 4840096,
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E-mail: rwp@shaheeninsurance.com

Hyderabad

Branch Manager - Syed Shaukat Ali

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Mirpur Azad Kashmi

Branch Manager - Mr. Sikandar

Shaheen House
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Sargodha

Branch Manager - Mr. Nadeem Awan

66-Civil Lines, First Floor, Khan Arcade
Court Road, Sargodha
Tel. # (048) 3741018, Fax #. (048) 3741208

MISSION STATEMENT

Our mission is to continuously improve our selves to become a leading, profitable Company, meeting the needs of our customers and enhancing the value of our shareholders' Investment.

We will accomplish this by using the strengths of our people and the application of innovative science for the development of new insurance products and services that are high in quality and competitive in price.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The interest of the Policyholder is supreme. We shall endeavour our utmost to render the best possible services to our clients and shall give them no cause for complaint relating to claims settlement or otherwise.

It is because the reinsurers provide underwriting capacity to the Company, it shall be our endeavor to ensure that reinsurers make profit on our business ceded to them.

It is the officers and staff members who carry on with the day to day work load. It is they who are involved in running the affairs of the Company within the policy framework laid down by the Board of Directors. As far as permissible by the financial resources available to the Company they shall be duly recompensed.

Observance of business ethics and profit generation are only two sides of the same coin. One is complementary to the other. By observing business ethics to the utmost extent possible we hope to generate due margin of profit so as to pay dividend to the shareholders after having paid tax to the public exchequer and to build up free reserves for purpose of enhancing the financial strength of our Company.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that 16th Annual General Meeting of Shaheen Insurance Company Limited will be held on Saturday, April 30, 2011 at Dreamworld Resort, Adjacent Block R, Gulshan-e-Maymar Super Highway, Karachi at 10:30 A.M. to transact the following;

Ordinary Business

1. To confirm the minutes of the Annual General Meeting held on April 30, 2010.

2. To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2010 together with the Directors' and Auditors' report thereon.

3. To appoint auditors for the year ended December 31, 2011 and to fix their remuneration.

4. To transact any other business with the permission of the Chair.

By the Order of Board

Huzaif Hanif Tola
Company Secretary
Karachi, April 09, 2011

Notes :

1. The share transfer books of the Company will remain closed from April 23, 2011 to April 30, 2011 (both days inclusive).

2. CDC Shareholders are requested to bring their original National Identity Cards, Account number, Sub-Account number and participant number in Central Depositary System for identification purpose for attending the meeting. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

3. A member entitle to attend and vote at the Meeting may appoint another person on his/her behalf as his/her proxy to attend, speak and vote, and a proxy so appointed shall have such right with respect to attending, speaking and voting at the Meeting as are available to the Members. Proxy forms must be deposited at the Company's Registered Office not less then 48 hours before the time for holding the Meeting.

4. Shareholders are requested to intimate any change in their addresses immediately.

DIRECTORS' REPORT

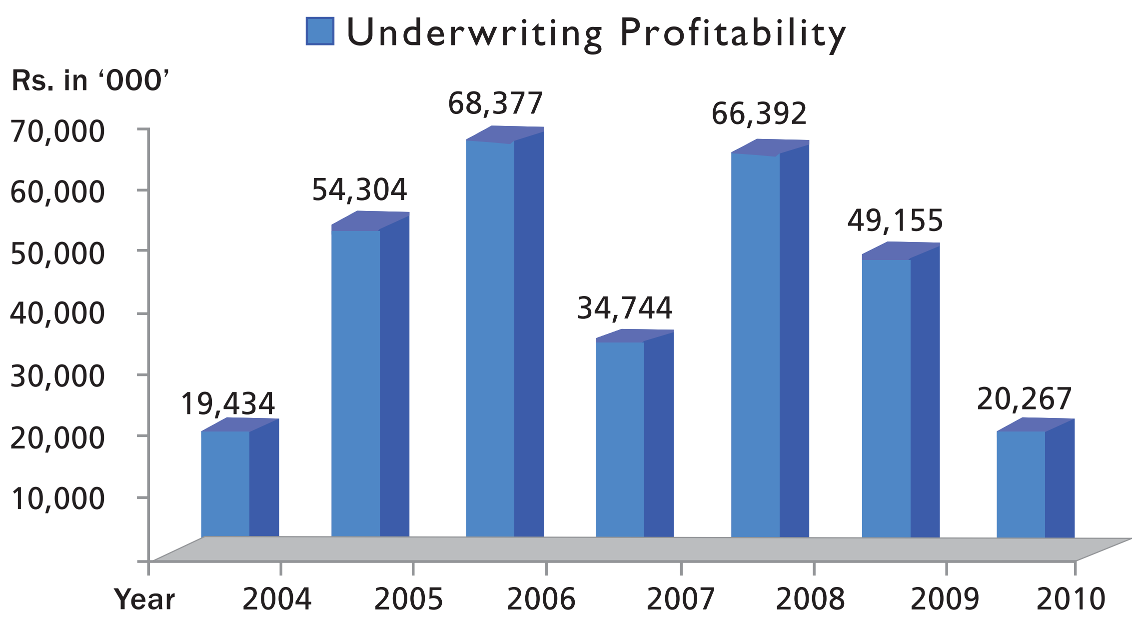
The Directors of your Company take pleasure in presenting to you the 16th Annual Report along with the audited financial statements for the year ended December 31, 2010.

GENERAL ECONOMIC REVIEW

The year 2010 remained burdened with challenges, which impacted the macroeconomic landscape of the country. In the second half of the year, record floods impacted nearly 20% of the country and caused significant damage to the fragile economy. Fortunately, your company has not been impacted with any major claims related to the floods. Continuing severe shortages of power and gas and worsening law and order situation in the country and Large Scale Manufacturing, after exhibiting good growth of 5% in FY10, remained subdued during the first half of the current fiscal year. As a consequence, GDP growth estimates for FY11 have been scaled down to 2.8% from pre-flood estimate of 4.3%.

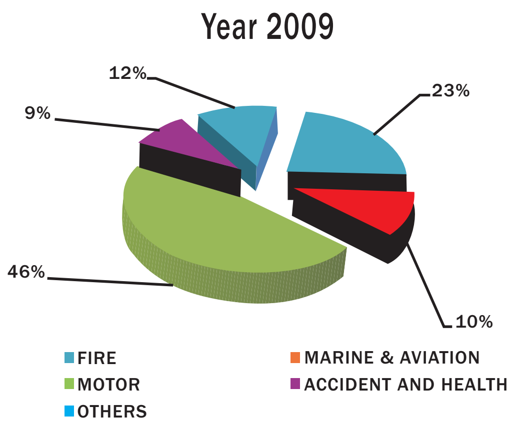
The insurance sector of Pakistan is in stagnant phase since the beginning of 2008 due to the country's economic, law and order situation vulnerabilities. The effect of the depressed economic activity, power shortages and high interest rates has significantly impacted the overall business environment in Pakistan. There is no prospect that economy of Pakistan in 2011 will grow with rapid pace and there are serious apprehensions that impact of last year challenges will continue in 2011.

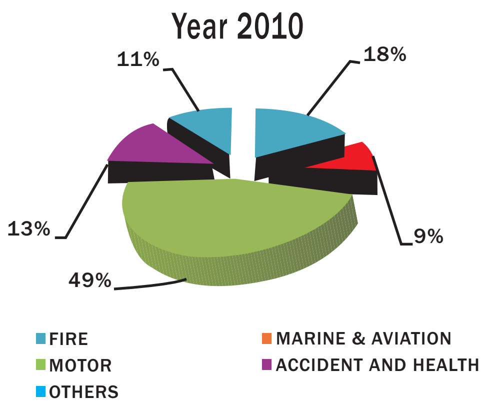
UNDERWRITING RESULTSUNDERWRITING RESULTS



During the year 2010, your Company has shown a decline in gross premiums underwritten of 7% and a decline in net premium revenue of 13% as compared to corresponding year. This decline is mainly attributable to management's selective underwriting approach adopted with a view of retaining only the profitable portfolio and achieving better margins in today's highly competitive general insurance market of Pakistan. Your Company stopped underwriting Aviation business which accounted for 6.7% of the Company's total portfolio due to uncertain credit ratings of certain re-insurers and our esteemed clients' insistence on reinsuring with these reinsurers. The overall net claims ratio had increased by 10% as compare to the corresponding period due to changes in the estimates of future claim settlement costs which will reflect more accurately the actual pattern of the claim settlements.

As a strategic decision by management, company has declined the fire business with high acquisition cost which has caused overall decrease in the fire business without any significant impact on underwriting profitability. Further management of your company has increased its accident and health business and it has contributed 13% of the total premium of the company in 2010 to improve the overall liquidity position of the company. Moreover, during the year company has opened another branch in Karachi which has resulted increase in pure marine business by 66%. Moreover, motor portfolio has increased from 46% to 49% in 2010 which is mainly attributable to decrease in fire and miscellaneous classes of business.





SEGMENTS AT A GLANCE

Fire and property damage

The Fire & Property portfolio contributed gross premium of Rs. 97.428 million which equals 17.5% of the total gross premium written by the Company. Premium in this class of business has decreased by 30% mainly due to selective underwriting in this class of business. However, this decrease will help increasing the net margins in the periods to come.

The underwriting profit of this class of business is Rs. 11.886 million as compared with Rs. 23.884 million in the previous year.

Marine, aviation and transport

Marine and aviation portfolio of your Company has shown a decline of 21% mainly due to your Company stopped underwriting one of its largest aviation client due to our client's insistence on reinsuring with certain reinsurers having less than satisfactory credit ratings. However, our other than aviation marine business registered an increase of 66% as compared to corresponding period.

Our marine portfolio has shown a loss of PKR 2.273 million mainly due to revision in claim settlement estimates as explained earlier.

Motor

Motor portfolio contributes 49% of the total business of your Company. Management of your Company has adopted the policy to decrease the Motor portfolio in last three years strategically to achieve a better portfolio mix. However, at current levels of 49% management of your Company believes we have the right mix of liquidity and profitability which will bear fruit for the Company in periods to come.

Underwriting profits of the motor business of your Company has decreased to Rs. 7.9 million during the year under review as compared to 11.462 million in the year 2009. This decrease in underwriting profitability is mainly attributed to increase in repair cost of motor vehicles.

Accident and health

In 2010, management of your company has increased the accident and health business by 43% as compared to last year. Accident and health business contributed 13.26% of the total premium written by the company in 2010. Management will continue to increase premium in this class of business by careful and prudent underwriting.

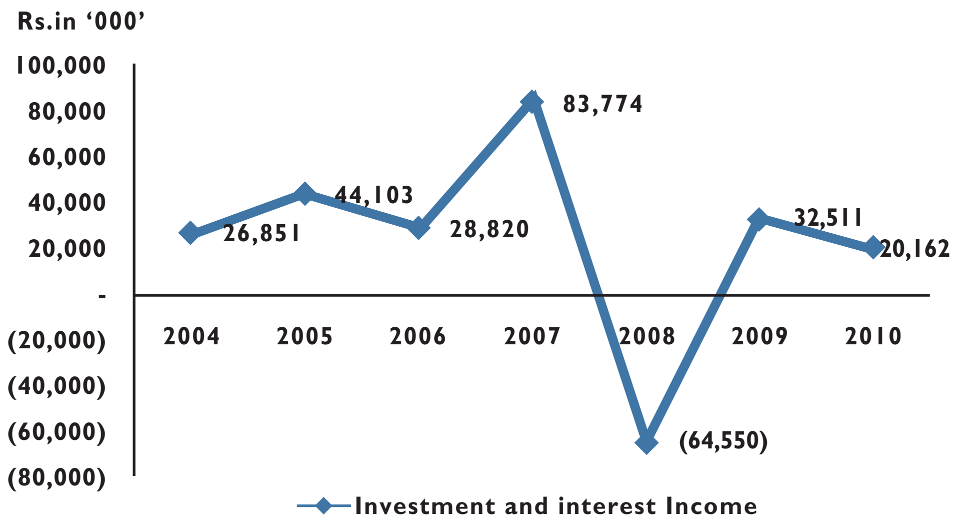
Miscellaneous

For miscellaneous lines which include engineering, contracts, machinery breakdown and cash business, gross premiums decreased by 12.8% as compared to previous year.

INVESTMENT INCOME

During the year management of your company has systematically reduced the investment in equity markets and shifted the investment towards fixed income mutual funds. This decision of management of your company was based on the criteria of maximization of return within reasonable and prudent levels of risk, provision of returns comparable to returns for similar investment options, provision of exposure to a wide range of mutual funds and control administrative and management costs.

Investment income in 2010 has decreased to Rs. 20.161 from Rs. 32.511 million. This decrease in income is attributable to less exposure in equity market in 2010 as compare to corresponding period.



Market value of 'available for sale' investments of the Company stood at Rs. 130.946 million as compared to the cost of Rs. 130.524 million. However, this unrealized gain has not been recorded in the current period's financial statements.

Favorable difference between the fair value and carrying value of the investment properties stands at Rs. 62.978 million as at December 31 2010 as against Rs. 59.98 million at the end of year 2009. However, this has not been recognized in the profit and loss account as the same is not allowed under accounting regulations for non life insurance companies issued by the Securities and Exchange Commission of Pakistan.

CREDIT RATING

It's a matter of great satisfaction that the Pakistan Credit Rating Agency Limited has re-affirmed the Insurer Financial Strength Rating of your Company during the year under review at 'A - ' (single A minus)

DIVIDEND PAYMENT TO THE SHAREHOLDERS

Due to further increase in paid up capital requirements in sight directors of your Company has decided to retain the maximum profits in the business and have recommended no dividends to be paid at this point of time.

LOSS PER SHARE

Basic and Diluted Loss per Share of the Company for the year ended December 31, 2010 is Rs. 1.45 per share (December 31, 2009: Earning per Share Rs. 0.87)

CONTRIBUTORY PROVIDENT FUND

The value of investments including accrued income of provident fund on the basis of un-audited accounts as on December 31, 2010 is as follows:

Certificate of Investment issued by Pak Oman Investment company Limited carrying mark-up at 12.7%	Rupees 0.534 million
Units Faysal Saving Growth Fund	Rupees 3.409 million
Units of KASB Fund Limited	Rupees 2.101 million
Units of PICIC Cash Fund	Rupees 10.054 million
Bank deposits in PLS accounts	Rupees 4.244 million

STATUTORY PAYMENTS ON ACCOUNT OF TAXES, DUTIES ETC.

There are no statutory payments on account of taxes, duties, levies and charges which are outstanding except in the ordinary course of business and disclosed in the financial statements.

AUDIT COMMITTEE

During the year under review four meetings of the audit committee were held which were attended by all the members of the committee. The Audit committee of the Company comprises the following members:

1. Air Vice Marshal R. Muhammad Ikramullah Bhatti	(Chairman)
2. Mr. Shahid Hameed	(Member)
3. Mr. Naveed Tariq	(Member)

MATERIAL CHANGES

Shaheen Foundation and First Capital Securities Corporation Limited have entered into Share Purchase Agreement dated 28 February 2011 with Hollard Insurance Company Limited for acquisition of Hollard's entire Shareholding of 6,345,296 shares of Rs. 10 each (31.73% of the total existing paid up capital of Shaheen Insurance Company Limited). Subject to the approval of regulatory authorities concerned, as per the terms and conditions of Share Purchase Agreement, Shaheen Foundation and First Capital Securities Corporation will acquire the entire 6,345,296 shares of Hollard Insurance Company Limited in the following proportion:

Shaheen Foundation:	3,164,141 shares
First Capital Securities Corporation:	3,181,155 shares

INCREASE IN PAID UP CAPITAL

Due to above referred restructuring in the shareholding of the sponsor groups and the time involved in finalizing the details your Company was not able to inject fresh capital to meet the minimum paid up capital requirements of PKR 250.0 million as laid down by circular 3 of 2007 of the Securities and Exchange Commission of Pakistan at the year ended December 31, 2010. However, directors of your Company in their Board meeting held on January 24, 2010 decided to increase the paid up capital by PKR 50.0 million through issue of 5.0 million right shares at par value of PKR 10.0 each. At the date of this report the subscription money is being received by the Company's bankers to this issue and allotment of the proposed shares will be made in the month of April 2011.

KEY OPERATIONAL AND FINANCIAL DATA

Following is the summary of key operational and financial data of the Company for last six years:

	Rs. In Millions					
	2010	**2009**	**2008**	**2007**	**2006**	**2005**
Reserve and earning	196.219	225.253	207.787	279.540	219.333	168.353
Investment Income	20.162	32.511	(64.649)	83.774	28.819	44.102
Gross Premium written	553.084	596.327	701.245	746.419	671.328	670.609
Net Premium Revenue	417.389	481.636	575.731	570.800	565.327	527.103
Net Claims	263.041	267.997	333.832	369.997	352.571	353.150
Profit / (Loss) after Tax	(29.033)	17.466	(71.753)	60.207	50.979	55.387
Dividend declared -cash	-	-	-	-	-	-
Dividend declared -bonus	-	14.28%	-	-	75%	25%

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The corporate laws, rules and regulations framed here-under spell out the overall functions of the Board of Directors of the Company. The Board is fully aware of its corporate responsibilities as envisaged under the Code of Corporate Governance, prescribed by the Securities and Exchange Commission of Pakistan and is pleased to certify that:

1) The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

2) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984 and Insurance Ordinance, 2000.

3) The Company has consistently followed appropriate accounting policies in preparation of the financial statements and accounting estimates are on the basis of prudent and reasonable judgment.

4) Financial statements have been prepared by the Company in accordance with the requirements of S.R.O. 938 issued by the SECP in December 2002, Insurance Ordinance, 2000, Companies Ordinance, 1984 and approved accounting standards as applicable to insurance companies in Pakistan.

5) The Board has established a system of internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal control given in the code.

6) The fundamentals of the Company are strong and there is no doubt about its ability to continue as a going concern.

7) The Company has followed the best practices of the Corporate Governance as laid down in the Listing Regulations of the stock exchanges and there has been no material departure therefrom.

8) The Company has at all times in the year, except as otherwise stated, complied with and as at the date of the statement, the Company continues to be in compliance with the provisions of the Insurance Ordinance, 2000 and rules framed there under.

BOARD OF DIRECTORS

During the year under review one director resigned and the Board of Directors filled the vacancy so created duly. Names of directors resigned and the new appointments are given as under:

S.No.	Name of Person Resigned	Name of Person Appointed	Position
1	Air Commodore R Mustansar Suhail Toor	Air Commodore R Zafar Iqbal Mir	Director

During the year five meetings of the Board of Directors were held and position of attendance by each director is explained below:

Name of Director	No. of meetings held during the tenure	No. of meetings attended
Air Vice Marshal R. M. Ikramullah Bhatti	5	5
Air Commodore R Zafar Iqbal Mir	3	3
Shahid Hameed	5	5
Ian Howell Ross	5	4
Brooks Mparutsa	5	4
Ahmed Bilal	5	5
Air Commodore R Mustansir Suhail Toor	2	2
Mohammad Naveed Tariq	5	5

Leave of absence was granted in case the directors were not able to attend the Board meeting.

PATTERN OF SHAREHOLDING

A statement of pattern of shareholding is separately shown in the report.

TRADING IN COMPANY'S SHARES

No trading in the shares of the Company was carried out by the Directors, CEO, CFO, Company Secretary, their spouses or minor children.

FUTURE OUTLOOK OF THE COMPANY

Going forward, achieving macroeconomic stability remains a key challenge for Pakistan. Continued power and gas shortages with high borrowing cost and worsening law and order situation are expected to place further pressure on business environment in Pakistan. Viewing difficult period ahead, your Company is well geared up to increase its market share gradually year on year basis. Management of your Company will focus on steady topline growth in all segments of the current business as well as working on innovative ideas to offer new value added products to its clients in personal lines of business.

ACKNOWLEDGEMENTS

We would like to record our appreciation for the continued guidance and support being extended to us by the regulators, namely Securities and Exchange Commission of Pakistan. We are much obliged to the State Bank of Pakistan for providing full support, particularly, in the matter of remittances of foreign exchange in respect of reinsurance premium under treaty and facultative arrangements

We also appreciate and acknowledge the role of our reinsurers and Singapore market brokers for their valued support to us.

Most of all we are also grateful to our customers for their continued trust and confidence which has made it possible for us to achieve these results. We would also like to convey our profound gratitude to the management and staff at all levels for their loyalty, devotion and hard work.

For and on behalf of the Board

M. Ikramullah Bhatti
Air Vice Marshal (Retd.)
Chairman
Karachi : 5 April, 2011

OPERATIONAL RESULTS AND FINANCIAL STRENGTH

From 2001 to 2010

Rupees in '000

		2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
1	Gross Direct Premium	553,084	596,327	701,245	746,419	671,328	670,609	641,164	395,302	231,500	117,254
	Increase %	(7.25)	(14.96)	(6.05)	11.19	0.11	4.59	62.20	70.76	97.43	42.02
2	Net Premium	417,389	481,636	575,732	570,800	565,327	527,103	376,765	276,649	128,396	75,624
	Increase %	(13.34)	(16.34)	0.86	0.97	7.25	39.90	36.19	115.47	69.78	39.73
	% to 11	208.69	240.82	328.99	326.17	565.33	658.88	470.96	345.81	160.50	94.53
3	Claims Incurred	263,041	267,997	333,832	369,997	352,571	353,150	273,807	126,816	59,891	36,836
	% to 2	63.02	55.64	57.98	64.82	62.37	67.00	72.67	45.84	46.65	48.71
4	Commission	68,272	104,711	115,711	105,860	87,891	69,613	33,430	12,523	2,552	2,067
	% to 2	16.36	21.74	20.10	18.55	15.55	13.21	8.87	4.53	1.99	2.73
5	Management Expenses	65,809	59,773	62,105	59,303	56,488	49,623	49,093	23,741	12,393	9,237
	% to 1	11.90	10.02	8.86	7.95	8.41	7.40	7.66	6.01	5.35	7.88
	% to 2	15.77	12.41	10.79	10.39	9.99	9.41	13.03	8.58	9.65	12.21
6	Interest & Dividend Income	16,671	100,650	(64,649)	83,774	28,820	44,103	26,851	12,623	6,832	5,335
	% to 22	5.70	32.44	(18.86)	18.06	7.06	13.46	10.84	7.80	6.40	7.04
7	Other Income	6,145	2,291	1,734	1,324	9,061	129	10,728	2,629	1,115	1,134
8	Provision for Taxation	5,557	3,536	7,906	2,854	8,371	2,464	5,456	11,135	6,580	4,268
9	Profit/(Loss) before Tax	(23,476)	21,002	(63,847)	63,061	59,350	57,852	17,326	31,780	22,989	9,592
10	Profit/(Loss) after Tax	(29,033)	17,466	(71,753)	60,207	50,979	55,388	11,870	20,645	16,409	5,324
	% to 2	(6.96)	3.63	(12.46)	10.55	9.02	10.51	3.15	7.46	12.78	7.04
11	Paid-up Capital	200,000	200,000	175,000	175,000	100,000	80,000	80,000	80,000	80,000	80,000
12	General Reserve	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	-	-
13	Reserve for Unexpired Risks	187,664	169,764	221,456	267,567	225,820	212,175	211,456	73,306	51,359	30,249
14	Unappropriated Profit	(23,780)	5,253	12,787	84,540	99,333	48,354	12,966	1,095	12,450	6,040
15	Capital Available for Shares	196,220	225,252	207,787	279,540	219,333	148,354	112,966	101,095	92,450	86,040
16	Total Net Outstanding Claims	126,179	93,004	113,117	126,661	98,646	85,384	90,509	47,077	20,405	9,743
	% to 2	30.23	19.31	19.65	22.19	17.45	16.20	24.02	17.02	15.89	12.88
17	Other Liabilities	78,010	89,947	78,628	84,593	61,251	96,287	78,053	64,558	27,185	16,133
18	Total Equity & Liabilities	717,706	729,670	755,242	871,716	674,977	635,735	614,669	447,918	204,091	145,371
19	Land & Properties	39,302	39,839	34,296	6,164	6,701	16,794	17,331	21,714	8,851	9,389
	% to 2	9.42	8.27	5.96	1.08	1.19	3.19	4.60	7.85	6.89	12.42
20	Cash & Bank Balances	136,970	132,727	166,841	235,860	197,362	155,720	135,302	59,794	49,239	47,052
	% to 2	32.82	27.56	28.98	41.32	34.91	29.54	35.91	21.61	38.35	62.22
21	Investment	155,721	177,520	175,907	227,940	211,114	172,032	112,466	102,059	57,536	28,715
22	Total Cash & Investment	292,691	310,247	342,748	463,800	408,476	327,752	247,768	161,853	106,775	75,767
23	O/S Premium	166,083	134,056	114,417	155,426	84,586	131,929	131,272	106,322	66,635	42,051
	% to 1	30.03	22.48	16.32	20.82	12.60	19.67	20.47	26.90	28.78	35.86
24	Fixed Assets	25,741	16,468	24,277	39,422	24,084	21,995	27,540	14,759	13,589	8,625
	% to 2	6.17	3.42	4.22	6.91	4.26	4.17	7.31	5.33	10.58	11.41
25	Total Assets	717,706	729,670	755,242	871,716	674,977	635,735	614,669	447,918	204,091	145,371
26	Break-up Value Per Share	9.81	11.26	11.87	15.97	21.93	18.54	14.12	12.64	11.56	10.76
27	Earning Per Share (After Tax)	(1.45)	0.87	(3.59)	3.44	5.10	6.92	1.46	2.58	2.05	0.67

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges, where Shaheen Insurance Company Limited (the Company) is listed and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(I)/2003 by the Securities and Exchange Commission of Pakistan (the Codes) for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Codes in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present all the directors are non-executive directors other than the Chief Executive Officer of the Company.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the Company.

3. All the resident directors of the Company have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or a Non Banking Finance Company (NBFC) and none of them is a member of any stock exchange.

4. One casual vacancy occurred in the Board of Directors during the year which was filled up by the Directors within 30 days thereof.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and the employees of the Company.

6. The Board has developed and approved a mission statement and overall corporate strategy and is in process of developing the significant policies and a complete record of the particulars of these significant policies.

7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. No new appointment of Chief Executive Officer was made during the year.

8. All the meetings of the Board were presided over by the Chairman and the Board met atleast once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board has established a system internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal controls given in the code.

10. An orientation course was arranged for the directors of the company to update them about their duties and responsibilities. All the directors attended the course except for a director who was appointed subsequent to a casual vacancy.

11. New appointment of Chief Financial Officer and Company Secretary was made during the year. However, no new appointment of Head of Internal Auditor was made during the year. The remuneration and the terms and conditions of the employment of Chief Financial Officer, Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer, have been approved by the Board of Directors.

12. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

14. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed underwriting, claim settlement and reinsurance & co-insurance committees.

17. The Company has formed an audit committee comprising of three members. All the members are non-executive directors including the Chairman of the committee.

18. The meetings of the audit committee were held once every quarter prior to the approval of interim and final results of the Company, as required by the Code. There was no change in terms of reference of the committee which was formed and advised to the committee for compliance in previous years.

19. The Board has set up an effective internal audit function manned by suitably qualified and experienced personnel who are involved in the internal audit function on a full time basis.

20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

22. We confirm that all other material principles contained in the Code have been complied with.

M. Ikram-ullah.

M.Ikramullah Bhatti
Air Vice Marshall (Retd.)
Chairman

Asif Suleman
Chief Executive Officer

Dated: 05 April 2011
Karachi

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLAINCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance (the Statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended December 31, 2010 prepared by the Board of Directors of Shaheen Insurance Company Limited (the Company) to comply with the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges where the Company is listed.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Company's corporate governance procedures and risk.

Further, Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges require the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code.

Anjum Asim Shahid Rahman
Chartered Accountants
Shahzada Saleem Chughtai

Date: April 05, 2011
Karachi

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHAHEEN INSURANCE COMPANY LIMITED

We have audited the annexed financial statements comprising of:

(i) balance sheet;
(ii) profit and loss account;
(iii) statement of comprehensive income;
(iv) statement of changes in equity;
(v) statement of cash flows;
(vi) statement of premiums;
(vii) statement of claims;
(viii) statement of expenses; and
(ix) statement of investment income

of **Shaheen Insurance Company Limited** (the Company) as at **December 31, 2010** together with the notes forming part thereof, for the year then ended.

It is the responsibility of the Company's Board of Directors to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 1984). Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall financial 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 Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;

(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the change as described in note 2.2 to the financial statements with which we concur;

(c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at December 31, 2009 and of the loss, comprehensive income, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

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

Anjum Asim Shahid Rahman
Chartered Accountants
Shahzada Saleem Chughtai

Date: April 05, 2011
Karachi

BALANCE SHEET

	Note	**2010**	2009
		Rupees	
Share Capital and Reserves			
Authorised share capital			
30,000,000 (2009: 20,000,000) ordinary shares			
of Rs. 10 each	5.1	**300,000,000**	200,000,000
Paid-up share capital	5.2	**200,000,000**	200,000,000
Unappropriated (loss) / profit		**(23,780,007)**	5,252,930
General reserve		**20,000,000**	20,000,000
Shareholders' equity		**196,219,993**	225,252,930
Underwriting Provisions			
Provision for outstanding claims			
(including IBNR)	4.4	**185,190,944**	165,695,329
Provision for unearned premium		**245,048,397**	234,723,760
Commission income unearned		**13,236,622**	14,050,901
Total underwriting provisions		**443,475,963**	414,469,990
Creditors and Accruals			
Premiums received in advance		**8,425,048**	10,531,970
Amounts due to other insurers / reinsurers	6	**29,395,613**	32,985,232
Accrued expenses	7	**9,866,168**	8,577,744
Agents balances		**17,646,088**	20,625,153
Deferred gain on disposal of assets under			
sale and leaseback	9.2	**183,048**	549,090
Other creditors and accruals	8	**11,022,354**	14,144,272
		76,538,319	87,413,461
Borrowings			
Liabilities against assets subject			
to finance lease	9	**1,072,822**	2,134,803
Other Liabilities			
Dividend payable - unclaimed		**398,934**	398,934
TOTAL LIABILITIES		**521,486,038**	504,417,188
TOTAL EQUITY AND LIABILITIES		**717,706,031**	729,670,118
CONTINGENCIES AND COMMITMENTS	10		

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

AS AT 31 DECEMBER 2010

	Note	2010	2009
		Rupees	
Cash and Bank Deposits	11		
Cash and other equivalents		**46,984**	169,938
Current and other accounts		**136,923,235**	132,556,696
		136,970,219	132,726,634
Loans - secured and considered good			
To employees	12	**2,136,673**	1,390,304
Investments	13	**155,721,299**	177,519,757
Investment Properties	14	**4,551,912**	5,089,328
Current Assets - Others			
Premiums due but unpaid	15	**166,082,545**	134,056,255
Amounts due from other insurers / reinsurers	16	**28,463,767**	29,315,217
Accrued investment income	17	**89,921**	200,667
Reinsurance recoveries against outstanding claims		**59,012,056**	72,691,102
Taxation - payments less provision		**1,137,729**	2,375,877
Deferred commission expense		**37,330,920**	50,241,945
Advances, deposits and prepayments	18	**65,717,735**	70,837,722
Sundry receivables	19	**-**	2,007,193
		357,834,673	361,725,978
Fixed Assets	20		
Tangible and Intangible			
Furniture, fixtures and office equipment		**6,824,620**	5,080,901
Motor vehicles		**18,916,627**	11,387,208
Capital work in progress - Office premises		**34,750,008**	34,750,008
		60,491,255	51,218,117
TOTAL ASSETS		**717,706,031**	729,670,118

Chairman	**Director**	**Director**	**Chief Executive Officer**

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Miscellaneous	2010 Aggregate	2009 Aggregate
Revenue account		---------- Rupees ----------						
Net premium revenue		55,561,707	13,188,578	259,376,375	64,995,154	24,266,801	**417,388,615**	481,636,478
Net claims		(8,096,370)	(5,675,286)	(184,179,980)	(51,427,621)	(13,661,655)	**(263,040,912)**	(267,997,443)
Management expenses	21	(11,592,567)	(5,834,798)	(32,371,890)	(8,729,810)	(7,279,891)	**(65,808,956)**	(59,772,858)
Net commission		(23,986,849)	(3,951,348)	(34,923,561)	(4,507,188)	(903,227)	**(68,272,173)**	(104,711,050)
Underwriting result		11,885,921	(2,272,854)	7,900,944	330,535	2,422,028	**20,266,574**	49,155,127
Investment income							**16,670,759**	95,615,768
Rental income							**2,085,233**	1,831,123
Other income	22						**6,145,169**	7,324,988
General and administration expenses	21						**(68,087,805)**	(64,786,278)
Impairment of non-trading investments (available-for-sale)	13.7						**(556,000)**	(68,138,336)
(Loss) / Profit before tax							**(23,476,070)**	21,002,392
Provision for taxation - current	23						**(5,556,867)**	(3,536,495)
(Loss) / Profit after tax							**(29,032,937)**	17,465,897
Profit and loss appropriation account:								
Balance at commencement of the year							**5,252,930**	12,787,033
(Loss) / Profit after tax for the year							**(29,032,937)**	17,465,897
Issue of bonus shares for the year 2010: Nil (2009: 14.2% per share of Rs. 10 each)							**-**	(25,000,000)
Balance of unappropriated (loss) / profit at end of the year							**(23,780,007)**	5,252,930
(Loss) / Earnings per share of Rs. 10 each - basic and diluted	24						**(1.45)**	0.87

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

M. Imam-ullah.

Chairman	Director	Director	Chief Executive Officer

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	**2010**	2009
		Rupees	
Net (Loss) / Profit for the year		**(29,032,937)**	17,465,897
Other comprehensive income for the year		**-**	-
Total comprehensive (loss) / income for the year		**(29,032,937)**	17,465,897

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

Chairman	**Director**	**Director**	**Chief Executive Officer**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2010

		Revenue reserves		
	Paid-up share capital	**General reserve**	**Unappropriated (loss) / profit**	**Total**
	----------------------------	**Rupees**	----------------------------	
Balance as at January 01, 2009	175,000,000	20,000,000	12,787,033	207,787,033
Changes in equity for the year ended December 31, 2009				
Issue of bonus shares	25,000,000		(25,000,000)	-
Profit after tax for the year ended December 31, 2009	-	-	17,465,897	17,465,897
Balance as at December 31, 2009	200,000,000	20,000,000	5,252,930	225,252,930
Changes in equity for the year ended December 31, 2010				
Loss after tax for the year ended December 31, 2010	-	-	(29,032,937)	(29,032,937)
Balance as at December 31, 2010	**200,000,000**	**20,000,000**	**(23,780,007)**	**196,219,993**

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

Chairman	Director	Director	Chief Executive Officer

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		Rupees	
OPERATING ACTIVITIES			
a) Underwriting activities			
Premiums received		**518,950,994**	573,826,317
Reinsurance premiums paid		**(120,532,783)**	(151,457,828)
Claims paid		**(324,059,358)**	(395,293,639)
Reinsurance and other recoveries received		**94,193,107**	107,183,308
Commissions paid		**(85,065,223)**	(115,188,556)
Commissions received		**25,910,730**	32,384,722
Net cash flows from underwriting activities		**109,397,467**	51,454,324
b) Other operating activities			
Income tax paid		**(4,318,719)**	(13,338,316)
General management expenses paid		**(134,573,717)**	(111,816,645)
Loans (advanced) / repayment received		**(746,369)**	16,002
Net cash flows used in other operating activities		**(139,638,805)**	(125,138,959)
Total cash outflow from all operating activities		**(30,241,338)**	(73,684,635)
INVESTING ACTIVITIES			
Profit / Return received		**32,030,158**	30,568,817
Rentals received		**2,095,266**	2,406,325
Payments for investments		**(270,441,970)**	(3,876,800)
Proceeds from disposal of investments		**288,534,112**	15,790,205
Fixed capital expenditure		**(19,856,470)**	(6,907,122)
Proceeds from disposal of fixed assets		**3,468,500**	2,933,250
Total cash inflow from all investing activities		**35,829,596**	40,914,675
FINANCING ACTIVITIES			
Financial charges paid		**(282,692)**	(447,647)
Payments of finance lease		**(1,061,981)**	(897,025)
Total cash outflows from all financing activities		**(1,344,673)**	(1,344,672)
Net cash flows from / (used in) all activities		**4,243,585**	(34,114,632)
Cash and cash equivalents at beginning of the year		**132,726,634**	166,841,266
Cash and cash equivalents at end of the year		**136,970,219**	132,726,634

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		Rupees	
Reconciliation to profit and loss account			
Operating cash flows		**(30,241,338)**	(73,684,635)
Depreciation on fixed assets	20.1	**(8,337,257)**	(7,109,555)
Depreciation on investment property	13.8	**(537,416)**	(537,416)
Gain on disposal of fixed assets	22	**1,222,425**	1,408,134
Amortisation of gains on assets under sale and lease back	22	**366,042**	366,036
Taxes paid		**4,318,719**	13,338,316
Financial charges	21	**(282,692)**	(447,647)
(Decrease) / Increase in assets other than cash		**(3,891,305)**	9,214,379
(Increase) / Decrease in liabilities		**(17,068,850)**	43,037,555
Investment and other income		**30,975,602**	35,417,225
Provision for tax	23	**(5,556,867)**	(3,536,495)
(Loss) / Profit after taxation		**(29,032,937)**	17,465,897

Definition of cash

Cash comprises of cash in hand, policy stamps, cheques in hand, 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.

Cash for the purpose of the Statement of Cash Flows consists of:

	2010	2009
	Rupees	
Cash and other equivalents		
- Cash in hand	**23,924**	132,938
- Policy stamps in hand	**23,060**	37,000
	46,984	169,938
Current and saving accounts		
- Current accounts	**38,868,594**	23,905,796
- Savings accounts	**98,054,641**	108,650,900
	136,923,235	132,556,696
	136,970,219	132,726,634

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

Chairman	**Director**	**Director**	**Chief Executive Officer**

STATEMENT OF PREMIUMS

FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	Premium written (Note 26)	Unearned premium reserve		*Premium earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2010 Net premium revenue	2009 Net premium revenue
		Opening	Closing			Opening	Closing			
	a	b	c	d=a+b-c	e	f	g	h=e+f-g	i=d-h	
	----- Rupees -----									
Direct and facultative										
Fire and property damage	97,428,468	52,903,997	44,186,526	106,145,939	47,746,360	26,964,342	24,126,470	50,584,232	**55,561,707**	87,184,564
Marine, aviation and transport	49,037,922	18,631,013	21,951,389	45,717,546	30,130,784	15,445,640	13,047,456	32,528,968	**13,188,578**	15,022,373
Motor	272,066,025	117,722,176	122,165,587	267,622,614	5,251,055	5,687,393	2,692,209	8,246,239	**259,376,375**	291,332,763
Accident and health	73,368,736	19,451,872	27,825,454	64,995,154	-	-	-	-	**64,995,154**	55,832,367
Miscellaneous	61,183,055	26,014,702	28,919,441	58,278,316	34,666,415	16,862,562	17,517,462	34,011,515	**24,266,801**	32,264,411
Total	553,084,206	234,723,760	245,048,397	542,759,569	117,794,614	64,959,937	57,383,597	125,370,954	**417,388,615**	481,636,478

* This includes administrative surcharge collected from customers along with premium but have not been deferred as this surcharge is levied to recover the administrative cost relating to policies issued during the year.
The annexed notes from 1 to 35 form an integral part of these financial statements.

M. Javaid - Malik.

Chairman	Director	Director	Chief Executive Officer

STATEMENT OF CLAIMS

FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	Claims paid	Outstanding claims Opening	Outstanding claims Closing	Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims Opening	Reinsurance and other recoveries in respect of outstanding claims Closing	Reinsurance and other recoveries revenue	2010 Net Claim Expenses	2009 Net Claim Expenses
	a	b	c	d=a+b-c	e	f	g	h=e+f-g	i=d-h	
	Rupees									
Direct and facultative										
Fire and property damage	33,547,461	19,181,736	23,190,231	37,555,956	27,475,142	14,214,717	16,199,161	29,459,586	**8,096,370**	8,856,857
Marine, aviation and transport	18,326,900	46,756,068	10,198,116	(18,231,052)	14,072,365	45,658,305	7,679,602	(23,906,338)	**5,675,286**	3,361,425
Motor	205,100,627	79,505,249	107,491,361	233,086,739	43,145,465	414,885	6,176,179	48,906,759	**184,179,980**	198,225,877
Accident and health	52,975,029	3,697,795	2,150,387	51,427,621	-	-	-	-	**51,427,621**	54,304,742
Miscellaneous	14,109,341	16,554,481	42,160,849	39,715,709	9,500,135	12,403,195	28,957,114	26,054,054	**13,661,655**	3,248,542
Total	324,059,358	165,695,329	185,190,944	343,554,973	94,193,107	72,691,102	59,012,056	80,514,061	**263,040,912**	267,997,443

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

Chairman	Director	Director	Chief Executive Officer

STATEMENT OF EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	**Commission paid or payable**	**Deferred commission Opening**	**Deferred commission Closing**	**Net Commission expenses**	**Other Management expenses (Note 21)**	**Underwriting expenses**	***Commission from reinsurers**	**2010 Net underwriting expenses**	2009 Net underwriting expenses
	a	**b**	**c**	**d=a+b-c**	**e**	**f=d+e**	**g**	**h=f-g**	
	---------- Rupees ----------								
Direct and facultative									
Fire and property damage	27,276,590	24,899,449	11,974,116	40,201,923	11,592,567	51,794,490	16,215,074	**35,579,416**	54,443,046
Marine, aviation and transport	8,502,874	2,936,939	4,257,750	7,182,063	5,834,798	13,016,861	3,230,715	**9,786,146**	5,955,929
Motor	35,706,580	16,227,094	16,638,444	35,295,230	32,371,890	67,667,120	371,669	**67,295,451**	81,644,391
Accident and health	5,217,913	1,494,490	2,205,215	4,507,188	8,729,810	13,236,998	-	**13,236,998**	9,017,505
Miscellaneous	5,382,201	4,683,973	2,255,395	7,810,779	7,279,891	15,090,670	6,907,552	**8,183,118**	13,423,037
Total	82,086,158	50,241,945	37,330,920	94,997,183	65,808,956	160,806,139	26,725,010	**134,081,129**	164,483,908

* Commission from reinsurers is arrived at after taking the impact of the opening and closing balances of unearned commission.
The annexed notes from 1 to 35 form an integral part of these financial statements.

Chairman	**Director**	**Director**	**Chief Executive Officer**

STATEMENT OF INVESTMENT INCOME

FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		Rupees	
Income from trading investments			
Capital (loss) / gain on sale of held for trading investments		**(798,792)**	9,896,394
Dividend income		**1,241,375**	3,798,161
Income from non-trading investments			
Held-to-maturity			
Return on other fixed income securities and deposits		**354,234**	553,215
Available-for-sale			
Dividend income		**10,903,115**	6,091,571
		11,257,349	6,644,786
Gain on sale of non-trading investments (available-for-sale)		**344,440**	69,307,215
Unrealized loss on revaluation of held-for-trading investments		**(8,217,814)**	(2,254,934)
Income from reverse repo transactions in listed equity securities		**15,373,661**	13,486,478
Investment related expenses	13.8	**(2,529,460)**	(5,262,332)
Net investment income		**16,670,759**	95,615,768

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

Chairman	Director	Director	Chief Executive Officer

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

1 STATUS AND NATURE OF BUSINESS

Shaheen Insurance Company Limited (the Company) was incorporated under the Companies Ordinance, 1984, as a Public Company in March 1995 and obtained the certificate for commencement of business in July 1995. It was registered with the Controller of Insurance in November 1995 to carry out non-life insurance business comprising fire, marine, motor, aviation, engineering, transportation, etc. The Company is listed on all the stock exchanges in Pakistan.

Its registered office is located at Shaheen Commercial Complex, Karachi.

2 BASIS OF PREPARATION

These financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan (SECP) through Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002], vide S.R.O. 938 dated December 12, 2002.

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984, the Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002 shall prevail.

The SECP has allowed the insurance companies to defer the application of International Accounting Standard 39 (IAS 39) "Financial Instruments, recognition and measurement" in respect of valuation of "available-for-sale" investments. Accordingly, the requirements of IAS 39, to the extent allowed by the SECP as aforesaid, have not been considered in the preparation of these financial statements.

2.2 Initial application of a standard, amendment or an interpretation to an existing standard and forthcoming requirements

2.2.1 Initial application of a standard or an interpretation

Following standards, interpretations and amendments became effective during the year. However, these amendments to IFRS and interpretations did not have any material effect on the Company's financial statements.

Improvements to IFRSs 2009

- Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- Amendments to IFRS 8 Operating Segments
- Amendments to IAS 1 Presentation of Financial Statements
- Amendments to IAS 7 Cash Flows Statement
- Amendments to IAS 17 Leases
- Amendments to IAS 36 Impairment of Assets
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement

Improvements to IFRSs 2010

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Additional Exemptions for First-time Adopters
- Amendment to IFRS 2 - Share-based Payment - Group Cash-settled Share-based Payment Transactions
- Amendments to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues. IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Improvements to IFRSs 2010 - Amendments to IFRS 3 Business Combinations
- Improvements to IFRSs 2010 - Amendments to IAS 27 Consolidated and Separate Financial Statements
- IAS 24 Related Party Disclosures (revised 2009)

With effect from the current year, the Company has elected to present a separate Statement of Comprehensive Income, as required by IAS-1 (Revised).

2.2.2 New accounting standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2011:

- Amendment to IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

-IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Company's financial statements.

-IAS 24 Related Party Disclosures (revised 2009) - effective for annual periods beginning on or after January 01, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment may result in certain changes in disclosures.

-Amendments to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Company's financial statements.

-Improvements to IFRSs 2010 - In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments may result in increased disclosures in the financial statements.

-Amendments to IAS 12 - deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Company.

-Amendments to IFRS 7 - Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after July 1, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. These amendments will result in increased disclosures in the financial statements.

3 BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except that 'held-to-maturity' investments are stated at amortised cost and investment 'at fair value through profit or loss - held-for-trading investments' are stated at fair value.

These financial statements have been prepared following accrual basis of accounting except for cash flow information.

3.1 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying 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 the revision and future periods if the revision affects both current and future periods.

Significant areas where assumptions and estimates were exercised in application of accounting policies relate to:

Classification of investments

In classifying investments as "held-for-trading" the Company has determined securities which are acquired with the intention to trade by taking advantage of short term market / interest rate movements.

In classifying investments as "held-to-maturity" the Company has determined financial assets with fixed or determinable payments and fixed maturity. In making this judgment, the Company evaluates its intention and ability to hold such investments to maturity.

The investments which are not classified as held-for-trading or held-to-maturity are classified as available-for-sale.

Provision for outstanding claims (including IBNR)

The Company records claims based on the amount of claim lodged by the insured. However, the settlement of all the claims is made based on the surveyor's assessment appointed for ascertainment of the Company's liability. The surveyor's assessment could differ significantly with the claims lodged by the insured, and accordingly amount of claims settled could materially differ with the amount of liability accrued.

The provision of claims incurred but not reported (IBNR) is made on the basis of actuarial valuation. The actuarial valuation is made on the basis of past trend and pattern of reporting of claims. The actual amount of IBNR may materially differ from the actuarial estimates.

Additional provision for unexpired risks

Additional provision for unexpired risks is based on actuarial valuation for class wise insurance business. The actuary considers the trends of gross and net loss ratio of the Company. Accordingly the actual results may differ with the assumption (based on historical trend) used by the actuary.

Reinsurance recoveries against outstanding claims

Reinsurance recoveries are accrued on the basis of share of reinsurers in outstanding claims including IBNR as stated above. The recoveries are finalised when the amounts of outstanding claims are finalised based on surveyor's assessment. Therefore, reinsurance recoveries booked against settled claims could proportionately differ with the amount of reinsurance recoveries accrued against outstanding claims at the balance sheet date.

Income taxes

In making the estimates for income taxes currently payable by the Company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past. In making the provision for deferred taxes, estimates of the Company's future taxable profits are taken into account.

Impairment - (available-for-sale)

The Company determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in prices. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry, sector performance, changes in technology and operational and financial cash flows.

Impairment of other assets, including premium due but unpaid

The Company also considers the need for impairment provision against other assets, including premium due but unpaid and the provision required there against. While assessing such a requirement, various factors including delinquency in the account and financial position of the insured are considered.

Fixed assets, investment properties and depreciation / amortisation

The Company carries the investment properties at their respective cost. The fair values are determined by the independent valuation experts and such valuations are carried out every year to determine the recoverable amount.

In making estimates of the depreciation / amortisation method, the management uses method which reflects the pattern in which economic benefits are expected to be consumed by the Company. The method applied is reviewed at each financial year end and if there is a change in the expected pattern of consumption of the future economic benefits embodied in the assets, the method would be changed to reflect the change in pattern. Such change is accounted for as change in accounting estimates in accordance with International Accounting Standard - 8, "Accounting Policies, Changes in Accounting Estimates and Errors".

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

The Company also reviews the value of the assets for possible impairment on an annual basis. Any change in the estimates in future years might affect the carrying amounts of the respective items of fixed assets with a corresponding effect on the depreciation charge and impairment.

3.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency and have been rounded off to the nearest rupees.

3.3 Foreign currency translations

Foreign currency transactions during the year are recorded at the exchange rate approximating those ruling on the date of transaction. Monetary assets and liabilities in foreign currencies are translated at the rate of exchange which approximates those prevailing on the balance sheet date. Gains and losses on translations are taken to income currently. Non-monetary items that are major in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Insurance Contracts

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

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

These contracts are normally one year insurance contracts except marine and some contracts of fire and property and miscellaneous class. Normally all marine insurance contracts and some fire and property contracts are of three months period. In miscellaneous class, some engineering insurance contracts are of more than one year period, whereas, normally travel insurance contracts expire within one month time.

These contracts are provided to all types of customers based on assessment of insurance risk by the Company. Normally personal insurance contracts e.g. vehicle, travel, personal accident, etc. are provided to individual customers, whereas, insurance contracts of fire and property, marine, aviation and transport, accident and health and other commercial line products are provided to commercial organisations.

Fire and property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Marine insurance covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident.

Accident and health insurance covers unforeseen cash flows and financial hardships arising due to ailments, accidents and other natural causes necessitating hospitalization.

Other various types of insurance are classified in miscellaneous category which includes mainly engineering, terrorism, worker compensation, and travel insurances etc.

The Company also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward. The insurance risk involved in these contracts is similar to the contracts undertaken by the Company as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts.

4.2 Premium income and provision for unearned premiums

Premium under a policy is recognised at the time of the issuance of insurance policy.

Revenue from premiums is recognised after taking into account the unearned portion of premium which is calculated using the 1/24th method. The unearned portion of premium income is recognised as a liability. Unearned premium income are determined on the basis of 1/24th method for all classes of business. Under this method, the liability for above unearned premium is equal to 1/24 of the premiums relating to policies commencing in the first month of financial year, 3/24 of the premiums relating to policies commencing in the second month of the financial year, and so on.

4.3 Reinsurance contracts held

These are contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognises the entitled benefits under the contracts as various reinsurance assets.

4.4 Provision for outstanding claims including incurred but not reported (IBNR)

A liability for outstanding claims is recognised in respect of all claims incurred as at the balance sheet date which represents the estimates of the claims intimated or assessed before the end of the accounting year and are measured at the undiscounted value of expected future payments.

Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs. Provision for IBNR of Rs. 0.775 million (2009: Rs. 1.089 million) is made for the cost of settling claims incurred but not reported at the balance sheet date on the basis of actuarial valuation. The latest valuation was carried out as of December 31, 2010.

The actuary uses statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The method used is the chain-ladder method which involves the analysis of historic claims development factors and the selection of estimated development factors based on the historic pattern. The selected development factors are then applied to cumulative claims data for each accident year. Study of claim lag pattern is conducted annually to account for any changes in experience. The development factors are based on these studies and are updated accordingly. Adequate margins are also built in to compensate for any adverse deviations in claims experience.

The actuary recommends that month wise factor based on an analysis of the past claims reporting pattern be applied to estimation of provision for IBNR. The historic chain-ladder method is used for determination of month wise factor for each class of business. Accordingly, provision has been made based on IBNR factors applied on incurred claims recommended by the actuary.

4.5 Reinsurance recoveries against outstanding claims

Reinsurance recoveries against outstanding claims are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised as a liability and measured at the amount expected to be received.

4.6 Commission expense and deferred commission expense

Commission incurred in obtaining and recording policies is recognised as expense after taking into account the proportion of deferred commission expense which is calculated using 1/24th method.

4.7 Claims expense

General insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from the previous years.

The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract.

4.8 Administrative surcharge

Administrative surcharge is included in the profit and loss account (as premium revenue) at the time the policies are issued.

4.9 Receivables and payables related to insurance contracts

Receivables and payables relating to insurance contracts are recognised when due. These include premiums due but unpaid, premiums received in advance and claims payable to insurance contract holders. These are recognised at cost, which is the fair value of the consideration to be received or payable less provision for impairment, if any.

If there is an objective evidence that any premiums due but unpaid is impaired, the Company reduces the carrying amount of the insurance receivable and recognises the loss in the profit and loss account.

4.10 Reinsurance expense and prepaid reinsurance premium ceded

Reinsurance premium is recognised as expense after taking into account the proportion of deferred premium expense which is calculated using 1/24th method. The deferred portion of premium expense is recognised as a prepayment.

4.11 Commission income and unearned commission income

Commission from reinsurers is recognised as income after taking into account the unearned portion of commission which is calculated using the 1/24th method (in accordance with the pattern of recognition of reinsurance premium). The unearned portion of commission is recognised as liability.

4.12 Premium deficiency reserve

The Company is required under SEC (Insurance) Rules, 2002 to maintain a provision in respect of premium deficiency for the individual class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve (PDR) is recognised in the profit and loss account for the year.

The requirement for additional provision for unexpired risks is determined on the basis of an actuarial valuation. The latest valuation was carried out as of December 31, 2010. Based on the actuarial valuation so carried out, the Company is not required to make any provision for premium deficiency reserve in respect of any class of business. The actuary determines adequacy of liability of premium deficiency by carrying out analysis of the Company's loss ratio of expired periods. For this purpose average loss ratio of last six years inclusive of claim settlement cost but excluding major exceptional claims are taken into consideration to determine ultimate loss ratio to be applied on unearned premium.

4.13 Claim and salvage recoveries

Claims expenses are reported net-off reinsurance in the profit and loss account.

Salvage value recoverable is recognised only if a firm and irrevocable contract and price thereon have been agreed with the buyer.

4.14 Creditors, accruals and others

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

4.15 Operating fixed assets

Tangibles

Owned

Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is charged over the estimated useful life of the asset on a systematic basis to income applying straight line method at rates given in note 20.1 to these financial statements.

Depreciation is charged from the month the asset is available for intended use. No depreciation is charged from the month of disposal of the asset.

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

Gains and losses on disposal of fixed assets are taken to profit and loss account currently.

Expenditure incurred subsequent to the initial acquisition of asset is capitalised only when it increases the future economic lives embodied in the items of fixed assets. All other expenditure is recognised in the profit and loss account as an expense.

Leased

Assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of minimum lease payments at the inception of lease less accumulated depreciation and impairment losses, if any. Finance charge on lease obligation is recognised in the profit and loss account over the lease term in a manner so as to provide a constant periodic rate of charge on the outstanding balance.

Depreciation on assets subject to finance lease is recognised in the same manner as owned assets.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

Intangibles

These are stated at cost less accumulated amortisation and impairment loss, if any. Amortisation is charged over the estimated useful life of the asset on a systematic basis to income applying the straight line method at the rates specified in note 20.1 to the financial statements.

Software development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Company.

The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amounts.

Capital work in progress

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

4.16 Investments

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for 'investments at fair value through profit or loss - held-for-trading investments' in which case the transaction costs are charged to the profit and loss account.

All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognised and classified as follows:

4.16.1 Investments at fair value through profit or loss - held-for-trading

Quoted investments which are acquired principally for the purpose of generating profit from short-term fluctuations in price or are part of the portfolio in which there is a recent actual pattern of short-term profit taking are classified as held-for-trading.

Subsequent to initial recognition these are re-measured at fair value by reference to quoted market prices with the resulting gain or loss being included in profit or loss of the period in which it arises.

4.16.2 Held-to-maturity

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

Subsequently, these are measured at amortised cost. Premium paid or discount availed on the acquisition of held-to-maturity investment is deferred and amortised over the term of investment using the effective yield method.

Profit on held-to-maturity instruments is recognised on a time proportion basis taking into account the effective yield on the investments.

These are reviewed for impairment at each reporting period and losses arising, if any, are charged to the profit and loss account of the period in which they arise.

4.16.3 Available-for-sale

Investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity, changes in interest rates or equity prices are classified as available-for-sale. These are valued as follows:

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirement of the S.R.O. 938 issued by the SECP in December 2002. The Company uses Stock Exchange quotations at the balance sheet date to determine the market value of listed shares and closed-end mutual funds. Furthermore, market value of open-ended mutual funds is determined by using MUFAP rates at the balance sheet date.

Had the Company adopted International Accounting Standard (IAS) 39 "Financial instruments-recognition and measurement" in respect of recognition of gain / (loss) on measurement of available-for-sale securities directly into equity, the investments of the Company would have been higher by Rs. 0.527 million and the net equity would have increased by the same amount.

Unquoted

Unquoted investments are recorded at cost less impairment (if any) in accordance with the above requirement.

4.16.4 Recognition / de-recognition of investments

Investments are recognised / derecognised by the Company on the date it commits to purchase / sell the investments.

4.17 Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not recognised in the financial statements as investments, as the Company does not obtain control over the assets. Amounts paid under these agreements are included in the financial statements as balance receivables for securities purchased under resale arrangements in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from the date of reverse repurchase transaction and accrued over the period of the reverse-repo agreement. Transactions of sale under repurchase (repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not derecognised from the financial statements and continue to be recognised as investments and measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the period of the repo agreement.

4.18 Investment properties

Investment properties are accounted for under the cost model in accordance with International Accounting Standard 40, Investment Property, and S.R.O. 938 issued by SECP. Accordingly;

- Premises is depreciated so as to write-off the assets over their expected economic lives under the straight line method at rates given in note 14 to these financial statements.

- Subsequent capital expenditures on existing properties and gains or losses on disposals are accounted for in the same manner as for operating fixed assets.

4.19 Trade and other receivables

These are stated at cost less impairment losses, if any. Full provision is made against the impaired debts.

4.20 Retirement benefits - Defined Contribution Plan (Provident Fund)

The Company operates a contributory provident fund scheme for its permanent employees. Contribution to the fund is made by the employees and the Company at the rate of 10 % of their basic salaries.

4.21 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts used for financial reporting purpose and amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

4.22 Financial instruments

Financial instruments carried on the balance sheet include cash and bank deposits, loans, premiums due but unpaid, amount due from other insurers / reinsurers, premium and claim reserves retained by cedants, accrued investment income, reinsurance recoveries against outstanding claims, security deposits, sundry receivables, amount due to other insurers / reinsurers, accrued expenses, provision for outstanding claims including incurred but not reported, agent's balances, liabilities against assets subject to finance lease, other creditors and accruals and other payables and unclaimed dividends.

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company losses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. At the time of initial recognition all financial assets and financial liabilities are measured at cost, except for financial assets and liabilities held-for-trading in which case transaction costs are charged to profit and loss account, which is the fair value of the consideration given or received for it. Any gain or loss on de-recognition of financial assets and financial liabilities are taken to income directly.

4.23 Revenue Recognition

Underwriting result

The earned premium less reinsurance, claims, commission and allocable expenses of management are reflected in the profit and loss account as the underwriting result for each class of insurance business undertaken.

Investment income

Profit on held-to-maturity instruments and bank balances is recognised on a time proportion basis taking into account the effective yield on the instruments. The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the profit and loss account over the term of the investment.

Return on bank deposits, term finance certificates and certificates of investments are recognised on a time proportion basis taking into account the effective yield.

Dividend income is recognised when the right to receive the same is established, i.e., at the time of the closure of share transfer books of the Company declaring the dividend.

Entitlement of bonus shares is recognised when the right to receive the same is established by increasing the number of shares to which the Company is entitled without giving any monetary effect in the financial statements either in terms of cost or value thereof which is in accordance with the requirements of Technical Release-15 issued by the Institute of Chartered Accountants of Pakistan (ICAP).

Gains / Losses on sale of investments are recognised in the profit and loss account at the time of sale.

Income from investment properties

Rental income from investment properties is recognised on time proportion basis.

4.24 Expenses of management

These are allocated to various classes of business in proportion to the respective net premium revenue for the year. Expenses not allocable to the underwriting business are charged as administrative expenses.

4.25 Off setting

Financial assets and liabilities are off set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognised amount and the Company intends either to settle on a net basis, or to realise the assets and to settle the liabilities simultaneously.

4.26 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. In addition impairment on available-for-sale investments and reinsurance assets are recognised as follows:

- **Available-for-sale**

  The Company determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

- **Reinsurance assets**

  The Company determines the impairment of the reinsurance assets by looking at objective evidence, as a result of an event that occurred after initial recognition of the reinsurance assets, which indicates that the Company may not be able to recover amount due from reinsurer under the terms of reinsurance contract. In addition, the Company also monitors the financial ratings of its reinsurers on each reporting date.

4.27 Provisions

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

4.28 Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 as the primary reporting format.

The Company has five primary business segments for reporting purposes namely fire, marine, motor, accident and health and miscellaneous.

Fire insurance segment provides insurance covers against damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation and impact.

Marine insurance segment provides coverage against cargo risk, war risk and damages occurring in inland transit.

Motor insurance provides comprehensive vehicle coverage and indemnity against third party loss.

Accident and health insurance provides cover against loss due to accidental injury or sickness.

Miscellaneous insurance provides cover against loss of cash in safe and cash in transit, money, engineering losses and others coverage.

Assets and liabilities that are directly attributable to segments have been assigned to them while the assets and liabilities pertaining to two or more segments have been allocated to segments on a net premium revenue basis. Those assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities. Depreciation and amortisation are allocated to a particular segment on the basis of premium earned.

4.29 Cash and cash equivalents

Cash and cash equivalents include cash, cheques and policy stamps in hand and balance with banks in current, saving and deposit accounts.

4.30 Amount due to other insurers / reinsurers

Liabilities for other insurers / reinsurers are carried at cost which is the fair value of consideration to be paid in the future for services.

4.31 Amount due from other insurers / reinsurers

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

4.32 Dividend distributions and appropriations

Dividend distributions and appropriations are recorded in the period in which the distributions and appropriations are approved.

4.33 Earnings / (Loss) per share

Earnings / (Loss) per share is calculated by dividing the profit / (loss) after tax for the year by the weighted average number of shares outstanding during the year.

4.34 Related parties transactions

All transactions with related parties are carried out by the Company at arm's length prices or as otherwise disclosed.

5. PAID-UP SHARE CAPITAL

5.1 Authorised share capital

2010	2009		Note	2010	2009
Number of shares				----------- Rupees -----------	
30,000,000	20,000,000	Ordinary shares of Rs. 10 each		**300,000,000**	200,000,000

5.1.1 The Company in its 15th annual general meeting held on April 30, 2010 resolved to increase its authorised capital from Rs. 200 million to Rs. 300 million.

5.2 Issued, subscribed and paid-up capital - (refer note 31)

2010	2009		2010	2009
Number of shares			----------- Rupees -----------	
8,000,000	8,000,000	Ordinary shares of Rs. 10 each fully paid in cash	**80,000,000**	80,000,000
		Ordinary shares of Rs. 10 each issued as fully paid bonus shares		
12,000,000	9,500,000	As at January 01,	**120,000,000**	95,000,000
-	2,500,000	Issued during the year	**-**	25,000,000
12,000,000	12,000,000		**120,000,000**	120,000,000
20,000,000	20,000,000		**200,000,000**	200,000,000

5.2.1 At December 31, 2010, 19.46 million (2009: 19.16 million) shares of the Company are held by associated companies / undertakings. Details of these holdings are as follows:

	2010	2009
	----------- Rupees -----------	
Shaheen Foundation, Pakistan Air Force	**4,098,921**	4,098,921
Central Non Public Fund, Pakistan Air Force	**2,500,000**	2,500,000
The Hollard Company Limited, South Africa	**6,345,296**	6,345,296
First Capital Mutual Fund	**1,362,563**	-
First Capital Securities Corporation Limited	**-**	843,358
First Capital Equities Limited	**2,016,000**	2,239,785
Worldcall Telecom Limited	**3,136,963**	3,136,963
	19,459,743	19,164,323

6 AMOUNTS DUE TO OTHER INSURERS / REINSURERS

	Note	2010	2009
		----------- Rupees -----------	
Foreign companies		**18,159,578**	14,111,864
Local companies		**11,236,035**	18,873,368
		29,395,613	32,985,232

7 ACCRUED EXPENSES

	2010	2009
Staff bonus payable	**6,449,880**	5,000,000
Advisory fee payable to a related party	**1,858,907**	2,016,927
Accrual against utilities	**802,658**	656,480
Others	**754,723**	904,337
	9,866,168	8,577,744

8 OTHER CREDITORS AND ACCRUALS

	Note	2010	2009
Amount payable to policy holders in respect of cancelled policies		**886,474**	301,976
Federal excise duty payable	8.1	**5,883,025**	11,277,817
Withholding tax payable	8.2	**451,917**	1,397,461
Workers welfare fund payable	8.3	**815,074**	815,074
Unearned rental income		**331,158**	321,121
Payable to provident fund		**874,631**	-
Payable for dealing in marketable securities		**697,617**	-
Others		**1,082,458**	30,823
		11,022,354	14,144,272

8.1 Subsequent to the year-end, amount of Rs. 4.79 million (2009: Rs. 5.706 million) was paid by the Company.

8.2 Subsequent to the year-end, this amount was paid by the Company.

8.3 This will be paid with return of total income for the current year.

9 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

9.1 Details are as follows:

	2010			2009		
	Minimum lease payments	**Financial charges for future periods**	**Present value**	Minimum lease payments	Financial charges for future periods	Present value
	----------------	----------------	----------------	**Rupees**	----------------	----------------
Within one year	**1,143,037**	**70,215**	**1,072,822**	1,344,672	282,691	1,061,981
After one year	**-**	**-**	**-**	1,143,037	70,215	1,072,822
	1,143,037	**70,215**	**1,072,822**	2,487,709	352,906	2,134,803

The total lease rentals due under the various lease agreements are Rs. 1.143 million (2009: Rs. 2.487 million) and are payable in equal monthly installments till 2011. Taxes, repairs and insurance costs are to be borne by the Company. Financing rate of 17% per annum (2009: 17% per annum) has been used as the discounting factor. Purchase option can be exercised by the Company, paying 15% of the leased amount.

9.2 Gain on sale and lease back of the assets under leasing arrangements are being recognised over the period of the lease.

10 CONTINGENCIES AND COMMITMENTS

10.1 CONTINGENCIES

10.1.1 The income tax assessments of the Company have been finalised up to and including the assessment year 2002-03 (financial year ended December 31, 2001), while returns have been filed for the financial years ended December 31, 2002 to December 31, 2009 which under the Income Tax Ordinance, 2001 are considered to be deemed assessments unless amended.

However , the assessment for tax year 2004, 2006 and 2007 have been amended by the taxation officer, against which the Company has preferred an appeal before the Commissioner Inland Revenue (Appeal). The demand raised of Rs. 2.045 million for the tax year 2004, Rs. 9.993 million for the tax year 2006, and Rs. 14.486 million for tax year 2007 against the apportionment of expenses and reverse repo.

During the year , Commissioner Inland Revenue (Appeals) has passed the order, in which the order of the taxation officer was confirmed for the tax year 2004, 2006 and 2007. Against the order of the Commissioner Inland Revenue (Appeal), the Company has preferred an appeal before the Appellate Tribunal Inland Revenue which is pending adjudication. However, the management and tax advisor of the Company are confident of a favourable outcome from appellate proceedings and provisions already created in the financial statements are sufficient to accommodate the increase of this tax demand.

10.2 COMMITMENTS

The Company has no commitments as at the balance sheet date (2009: Nil).

	Note	2010	2009
		---------- Rupees ----------	
11 CASH AND BANK DEPOSITS			
Cash and other equivalents			
- Cash in hand		**23,924**	132,938
- Policy stamps and bond papers in hand		**23,060**	37,000
		46,984	169,938
Current and saving accounts			
- Current accounts		**38,868,594**	22,318,956
- Profit and loss sharing accounts	11.1	**98,054,641**	110,237,740
		136,923,235	132,556,696
		136,970,219	132,726,634

11.1 These carry profit rates ranging between 0.5% to 11% (2009: 0.5% to 8%) per annum.

	Note	2010	2009
12 LOANS - secured, considered good		---------- Rupees ----------	
Due from employees other then executive	12.1	**2,136,673**	1,390,304

12.1 This represents mark-up free loans to the employees of the Company in accordance with the terms of their employment and are secured against their retirement benefits. These loans are recoverable in monthly installments over a period of one year.

13 INVESTMENTS

13.1 Type of investments

	Note	2010	2009
Held-to-maturity		---------- Rupees ----------	
Certificate of Investments	13.2	**582,721**	528,756
Term Finance Certificates - listed	13.3	**1,795,000**	4,041,000
		2,377,721	4,569,756

	Note	2010	2009
		---- Rupees ----	
At fair value through profit or loss - Held-for-trading	13.4	**22,818,839**	118,520,712
Available-for-sale			
Investments in ordinary shares of listed companies	13.5	**762,000**	28,433,849
Units / Certificates of mutual funds	13.6	**129,762,739**	25,995,440
	13.6.2	**130,524,739**	54,429,289
		155,721,299	177,519,757

13.2 This represents investment in Certificates of Investments issued by SME Leasing Limited carrying mark-up at the rate of 11.50% (2009: 10.5%) per annum maturing on May 23, 2011 (2009: February 23, 2010).

13.3 Held-to-maturity - Term Finance Certificates - (listed)

2010	2009		Note	2010	2009
Number of certificates				---- Rupees ----	
1,000	1,000	Standard Chartered Bank (Pakistan) Limited - 2nd issue	13.3.1	**1,250,000**	3,496,000
109	109	Invest Capital Investment Bank Limited (formerly Al-Zamin Leasing Corporation Limited)	13.3.2	**545,000**	545,000
				1,795,000	4,041,000

At December 31, 2010, the market value of Term Finance Certificates (TFCs) was Rs. 1.671 million (2009: Rs. 4.032 million), based on the rates quoted by Mutual Funds Association of Pakistan under SECP Circular 1 dated January 6, 2009.

13.3.1 This represents listed TFCs (face value of Rs. 5,000 each) carrying mark-up rate equal to five years Pakistan Investment Bond rate plus 0.75% per annum, receivable semi-annually in arrears with floor of 5% per annum and cap of 10.75% per annum.

Remaining balance of the principal amount shall be redeemed in six monthly installment as follows:

Period	**Six monthly installment**
January 20, 2011	1,250,000

13.3.2 This represents listed term finance certificates (face value of Rs. 5,000 each) and carrying mark-up rate equal to five years Pakistan Investment Bond rate plus 2% per annum, receivable semi-annually in arrears with floor of 12% per annum and cap of 15.75% per annum. The principal amount is due on maturity in September 2013.

13.4 At fair value through profit or loss - Held for trading - quoted shares

The details of investments in ordinary shares of face value of Rs. 10 each is as follows:

2010	2009	Name of the investee entity	2010	2009
Number of shares/ Certificates			Carrying (market) value	
			-------- Rupees --------	
		Chemicals		
-	50,000	Sitara Peroxide Limited	-	791,500
-	150,000	Lotte Pakistan PTA	-	1,174,500
-	350,000	Nimir Industrial Chemical Limited	-	619,500
481,099	-	Fatima Fertilizer Company Limited	5,426,797	-
		Support Services		
-	400,000	TRG Pakistan Limited	-	848,000
		Banks		
710,000	11,555,309	KASB Bank Limited	1,782,100	85,393,734
475,000	175,000	Mybank Limited	1,334,750	831,250
72,000	-	Askari Bank Limited	1,273,680	-
110,000	-	Bank of Punjab	1,079,100	-
108,000	-	Faysal Bank Limited	1,683,720	-
90,000	-	Soneri Bank Limited	747,900	-
		Financial Services		
90,000	165,000	Jahangir Siddiqui Co. Limited	981,000	4,961,550
-	50,000	Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)	-	2,463,500
-	56,000	JS Investment Limited	-	804,720
		Non-Life Insurance		
-	13,000	Adamjee Insurance Company Limited	-	1,602,900
67,500	60,000	Pakistan Reinsurance Company Limited	1,096,875	1,566,000
		Electricity		
-	51,500	Kot Addu Power Limited	-	2,362,305
-	87,000	Kohinoor Power Company Limited	-	684,690
-	128,100	Hub Power Company Limited	-	3,981,348
-	35,000	Nishat Power Limited	-	445,550
		Automobile Parts		
-	10,000	Indus Motors Company Limited	-	1,965,200
		General Industrials		
-	16,500	Packages Limited	-	2,376,000
		Personal Goods		
101,500	-	Nishat Mills Limited	6,513,255	-
93,000	87,000	Azgard Nine Limited	898,380	1,808,730
-	5,900	Masood Textile Limited	-	218,300
-	64,500	Ibrahim Fibres Limited	-	2,361,990
87	48,100	Prosperity Weaving Mills Limited	1,282	646,945
		Equity Investments Instruments		
-	250,000	First Equity Modaraba	-	612,500
			22,818,839	118,520,712

13.5 Available-for-sale - quoted shares (also refer note 13.7)

The details of investments in ordinary shares of face value of Rs. 10 each is as follows:

2010	2009	Name of the investee entity	2010	2009
Number of shares			Cost	
			-------- Rupees --------	
		Fixed Line Communication		
-	215,000	Pakistan Telecommunication Company Limited	-	3,949,889
-	25,000	Netsol Technologies Limited	-	707,070
		Banks		
-	8,451	MCB Bank Limited	-	1,750,649
-	57,000	United Bank Limited	-	3,428,307
200,000	200,000	Summit Bank Limited (formerly Arif Habib Bank Limited)	**762,000**	1,318,000
		Oil and Gas		
-	13,000	Attock Petroleum Limited	-	4,718,833
-	40,500	Pakistan State Oil Company Limited	-	12,561,101
			762,000	28,433,849

13.6 Available-for-sale investments - mutual funds

2010	2009	Name of the fund		2010	2009
Number of certificates				Cost	
				-------- Rupees --------	
		Closed-end fund			
75,000	75,000	Pakistan Strategic Allocation Fund		**171,000**	171,000
142,948	144,000	PICIC Growth Fund		**1,667,225**	1,473,999
638,462	-	First Capital Mutual Fund		**2,518,719**	-
-	75,000	Pakistan Premier Fund Limited		-	517,225
-	40,000	PICIC Investment Fund		-	275,183
				4,356,944	2,437,407
2010	2009				
Number of units					
		Open-end fund			
492,235	446,438	Pakistan Income Fund	13.6.1	**25,350,633**	23,001,662
218,242	-	Pakistan Cash Management Fund		**10,848,012**	-
78,190	-	Faysal Saving Growth Fund		**8,342,682**	274,869
2,417,416	-	ABL Income Fund		**24,295,343**	-
105,687	-	MCB Cash Management Optimizer Fund		**10,769,971**	-
26,030	-	Atlas Money Market Fund		**13,180,837**	-
106,605	-	IGI Income Fund		**11,065,131**	-
103,865	-	JS Cash Fund		**10,629,591**	-
1,011,399	-	NIT Government Bond Fund		**10,617,278**	
586	537	Atlas Islamic Income Fund		**306,317**	281,502
				125,405,795	23,558,033
				129,762,739	25,995,440

The face value of certificates of closed-end mutual funds is Rs. 10 each.

13.6.1 These units are pledged with the State Bank of Pakistan under the provisions of Insurance Ordinance, 2000 (XXXIX of 2000).

13.6.2 Market value of available-for-sale securities is Rs. 130.946 million (2009: Rs. 54.562 million)

13.7 During the year, the Company has recorded impairment on available-for-sale securities amounting to Rs. 0.556 million (2009: Rs. 68.138 million).

		Note	2010	2009
			Rupees	
13.8	**Investment related expenses (refer the statement of investment income)**			
	Brokerage commission - related party		**1,186,236**	2,030,835
	Federal Excise Duty, Capital Value Tax and other levies		**189,265**	431,561
	Custodian fees		**-**	225,437
	Investment advisory fees - related party		**616,543**	2,037,083
	Depreciation on investment properties	14	**537,416**	537,416
			2,529,460	5,262,332

14 INVESTMENT PROPERTIES - at cost less accumulated depreciation

2010

	Note	Cost: As at January 01, 2010	Cost: Additions/ (Deletions)	Cost: As at December 31, 2010	Depreciation: As at January 01, 2010	Depreciation: For the year	Depreciation: As at December 31, 2010	Written down value as at December 31, 2010	Depreciation rate %
		Rupees							
Shop premises	14.1	**7,900,000**	**-**	**7,900,000**	**3,950,000**	**395,000**	**4,345,000**	**3,555,000**	5
Office premises	14.1	**2,848,320**	**-**	**2,848,320**	**1,708,992**	**142,416**	**1,851,408**	**996,912**	5
		10,748,320	**-**	**10,748,320**	**5,658,992**	**537,416**	**6,196,408**	**4,551,912**	

2009

	Cost: As at January 01, 2009	Cost: Additions/ (Deletions)	Cost: As at December 31, 2009	Depreciation: As at January 01, 2009	Depreciation: For the year	Depreciation: As at December 31, 2009	Written down value as at December 31, 2009	Depreciation rate %
	Rupees							
Shop premises	7,900,000	-	7,900,000	3,555,000	395,000	3,950,000	3,950,000	5
Office premises	2,848,320	-	2,848,320	1,566,576	142,416	1,708,992	1,139,328	5
	10,748,320	-	10,748,320	5,121,576	537,416	5,658,992	5,089,328	

14.1 Shop and Office Premises (leasehold properties) have been valued under the market value basis by Ali Murtuza & Company (Private) Limited and MJ Surveyors (Private) Limited. Market value of shop and office premises based on the valuations as of February 21, 2011 and February 14, 2011 amounted to Rs. 55 million and Rs. 12.53 million (2009: February 08, 2010 and January 28, 2010 amounted to Rs.53.34 million and Rs. 11.73 million) respectively.

15 PREMIUMS DUE BUT UNPAID

	Note	2010	2009
		---------- Rupees ----------	
Considered good	15.1	**166,082,545**	134,056,255
Considered doubtful		**13,742,644**	13,742,644
		179,825,189	147,798,899
Provision against doubtful debts	15.2	**(13,742,644)**	(13,742,644)
		166,082,545	134,056,255

15.1 These include Rs. 136.592 million (2009: Rs. 73.711 million) due from related parties.

15.2 Reconciliation of provision against doubtful debts

	Note	2010	2009
		---------- Rupees ----------	
Balance as on 1 January		**13,742,644**	13,742,644
Charge for the year		**-**	-
Balance as on 31 December		**13,742,644**	13,742,644

16 AMOUNTS DUE FROM OTHER INSURERS / REINSURERS

		2010	2009
Considered good	- foreign	**8,301,787**	14,133,469
	- local	**20,161,980**	15,181,748
		28,463,767	29,315,217

17 ACCRUED INVESTMENT INCOME

	2010	2009
Mark-up accrued on term finance certificates	**89,921**	194,032
Profit accrued on term deposits with banks	**-**	6,635
	89,921	200,667

18 ADVANCES, DEPOSITS AND PREPAYMENTS

	Note	2010	2009
Security deposits		**3,621,460**	2,220,624
Prepaid reinsurance premium ceded		**57,383,597**	64,959,937
Prepayments	18.1	**4,090,281**	3,570,086
Others		**622,397**	87,075
		65,717,735	70,837,722

18.1 This includes Rs. 2.530 million (2009: 2.299 million) in respect of prepayment of rent to a related party.

19 SUNDRY RECEIVABLES - unsecured, considered good

	2010	2009
	---------- Rupees ----------	
Receivable:		
- from the provident fund	**-**	143,788
- against maturity of Government Securities - Defence Saving Certificates	**-**	1,837,500
- from a related party	**-**	25,905
	-	2,007,193

20 Fixed Assets

	Note	2010	2009
		---------- Rupees ----------	
Operating fixed assets	20.1	**25,741,247**	16,468,109
Capital work in progress - office premises	20.3	**34,750,008**	34,750,008
		60,491,255	51,218,117

20.1 Operating fixed assets - at cost less accumulated depreciation

	2010							
	C O S T			D E P R E C I A T I O N			Written down	Depreciation
	As at January 01, 2010	Additions/ (Deletions)	As at December 31, 2010	As at January 01, 2010	For the year	As at December 31, 2010	value as at December 31, 2010	rate %
	---------- Rupees ----------							
Tangible								
- Owned								
Furniture and fixtures	**10,035,261**	**1,590,750**	**11,626,011**	**7,615,598**	**680,010**	**8,295,608**	**3,330,403**	10
Office and electrical equipment	**9,004,510**	**498,800**	**9,503,310**	**7,168,680**	**706,591**	**7,875,271**	**1,628,039**	15 - 20
Computer equipment	**9,028,128**	**1,993,420**	**11,021,548**	**8,202,720**	**952,650**	**9,155,370**	**1,866,178**	33.3
Furniture, fixtures & office equipment	**28,067,899**	**4,082,970**	**32,150,869**	**22,986,998**	**2,339,251**	**25,326,249**	**6,824,620**	
Motor vehicles	**26,351,799**	**15,773,500**	**37,752,787**	**16,734,014**	**4,818,449**	**19,426,026**	**18,326,761**	20
		(4,372,512)			**(2,126,437)**			
	54,419,698	**19,856,470**	**69,903,656**	**39,721,012**	**7,157,700**	**44,752,275**	**25,151,381**	
		(4,372,512)			**(2,126,437)**			
- Leased								
Motor vehicles	**3,538,706**	**-**	**3,538,706**	**1,769,283**	**1,179,557**	**2,948,840**	**589,866**	
Intangible								
Computer software	**2,000,000**	**-**	**2,000,000**	**2,000,000**	**-**	**2,000,000**	**-**	33.3
	59,958,404	**19,856,470**	**75,442,362**	**43,490,295**	**8,337,257**	**49,701,115**	**25,741,247**	
		(4,372,512)			**(2,126,437)**			

	2009							
	C O S T			D E P R E C I A T I O N			Written down	Depreciation
	As at January 01, 2009	Additions/ (Deletions)	As at December 31, 2009	As at January 01, 2009	For the year	As at December 31, 2009	value as at December 31, 2009	rate %
	---------- Rupees ----------							
Tangible								
- Owned								
Furniture and fixtures	10,019,661	15,600	10,035,261	7,041,222	574,376	7,615,598	2,419,663	10
Office and electrical equipment	8,909,353	95,157	9,004,510	6,415,815	752,865	7,168,680	1,835,830	15 - 20
Computer equipment	8,723,515	304,613	9,028,128	7,344,477	858,243	8,202,720	825,408	33.3
Furniture, fixtures & office equipment	27,652,529	415,370	28,067,899	20,801,514	2,185,484	22,986,998	5,080,901	
Motor vehicles	31,851,599	410,500	26,351,799	17,374,684	3,744,514	16,734,014	9,617,785	20
		(5,910,300)			(4,385,184)			
	59,504,128	825,870	54,419,698	38,176,198	5,929,998	39,721,012	14,698,686	
		(5,910,300)			(4,385,184)			
- Leased								
Motor vehicles	3,538,706	-	3,538,706	589,726	1,179,557	1,769,283	1,769,423	
Intangible								
Computer software	2,000,000	-	2,000,000	2,000,000	-	2,000,000	-	33.3
	65,042,834	825,870	59,958,404	40,765,924	7,109,555	43,490,295	16,468,109	
		(5,910,300)			(4,385,184)			

20.2 Disposal of operating fixed assets

Particulars of the assets	Cost	Written down value	Sale proceeds	Gain / (Loss) on disposal	Mode of disposal	Sold to	Address
Vehicles							
Mercedes Benz -AQB 180	2,600,000	1,473,333	2,400,000	926,667	Negotiation	Hina Malik	Willa - A House No: 57 - A, 15th Street, Phase II, DHA, Karachi.
Honda Civic - N 6239	886,000	221,500	790,000	568,500	Negotiation	Shoaib Khan	Fazalabad, Takht Bhai, Mardan, Peshawar.
Honda City - LEA 07-5435	810,000	540,000	250,000	(290,000)	Negotiation	Qurban Ali	House No: 189, Al Falah Town, Lahore.
Other assets with book value less than Rs. 50,000	76,512	11,242	28,500	17,258			
	4,372,512	2,246,075	3,468,500	1,222,425			

20.3 CAPITAL WORK IN PROGRESS

	2010	2009
	---------- Rupees ----------	
Balance as on January 01	**34,750,008**	28,668,756
Add: Payments during the year	**-**	6,081,252
Balance as on December 31	**34,750,008**	34,750,008

This represents down payment and 18 monthly instalment payments to a related party for the purchase of an office premises in Lahore.

21. MANAGEMENT AND GENERAL AND ADMINISTRATION EXPENSES

		2010			2009		
		Management expenses	**General and administration expenses**	**Total**	Management expenses	General and administration expenses	Total
	Note	----------	----------	----------	Rupees	----------	----------
Salaries and other benefits		**41,190,206**	**28,881,879**	**70,072,085**	39,370,593	26,332,768	65,703,361
Provident fund		**-**	**2,631,420**	**2,631,420**	-	2,309,813	2,309,813
Rent		**7,519,219**	**3,830,140**	**11,349,359**	5,954,861	3,330,326	9,285,187
Utilities		**5,898,005**	**4,302,920**	**10,200,925**	5,225,316	2,915,203	8,140,519
Repair and maintenance		**1,465,437**	**1,450,056**	**2,915,493**	1,117,660	1,092,192	2,209,852
Legal and professional charges		**133,240**	**2,173,834**	**2,307,074**	225,000	1,254,764	1,479,764
Auditor's remuneration		**-**	**765,000**	**765,000**	-	678,900	678,900
Depreciation	21.1	**-**	**8,337,257**	**8,337,257**	-	7,109,555	7,109,555
Insurance expenses	20.1	**-**	**144,949**	**144,949**	-	215,012	215,012
Bank charges		**250,717**	**49,591**	**300,308**	699,402	76,785	776,187
Financial charges on assets subject to finance lease		**-**	**282,692**	**282,692**	-	447,647	447,647
Workers welfare fund		**-**	**-**	**-**	-	428,620	428,620
Advertisement and sales promotion		**20,660**	**1,109,865**	**1,130,525**	29,392	2,385,850	2,415,242
Travelling and entertainment		**6,368,411**	**6,163,602**	**12,532,013**	3,817,399	6,675,329	10,492,728
Printing and stationery		**2,295,332**	**4,289,070**	**6,584,402**	2,140,557	4,395,201	6,535,758
Newspaper and periodicals		**74,466**	**78,385**	**152,851**	70,197	87,009	157,206
Fee and subscription		**42,396**	**3,225,910**	**3,268,306**	37,000	3,831,940	3,868,940
License and software fees		**-**	**-**	**-**	8,000	887,350	895,350
Miscellaneous		**550,867**	**371,235**	**922,102**	1,077,481	332,014	1,409,495
		65,808,956	**68,087,805**	**133,896,761**	59,772,858	64,786,278	124,559,136

		Note	2010	2009
21.1	**Auditor's remuneration**		---------- Rupees ----------	
	Annual audit		**425,000**	350,000
	Interim review		**150,000**	150,000
	Certification fees and review of statement of compliance with code of corporate governance		**115,000**	115,000
	Out of pocket expenses		**75,000**	63,900
			765,000	678,900

22 OTHER INCOME

	Note	2010	2009
Gain on sale of fixed assets	20.2	**1,222,425**	1,408,134
Other administrative expenses recovered from policy holders		**444,430**	516,980
Exchange gain		**65,245**	-
Return on saving accounts	22.1	**4,047,027**	5,033,838
Amortisation of gain on disposal of assets under sale and leaseback		**366,042**	366,036
		6,145,169	7,324,988

22.1 This amount has been reclassified from income on held-to-maturity investments for better presentation purposes.

23 TAXATION

	Note	2010	2009
Current		**5,556,867**	3,536,495
Relationship between tax expense and accounting profit is as follows:			
Loss / Profit before taxation		**(23,476,070)**	21,002,392
Tax charge at enacted tax rate of 35% (2009: 35%)		**(8,216,625)**	7,350,837
Tax effect of expense that are not allowable in determining taxable income		**2,448,046**	(3,091,489)
Tax effect of dividend and rental income taxable at lower tax rate		**(3,597,422)**	(2,973,987)
Tax effect of application of minimum tax rate		**4,173,886**	2,408,182
Deferred tax asset on losses not recognised	23.1	**10,354,641**	807,043
Others		**394,341**	(964,091)
		5,556,867	3,536,495

23.1 Deferred tax asset on deductible temporary differences amounting to Rs. 26.043 million (2009: Rs. 8.632 million) has not been recognised in view of the uncertainty about its realisation.

			2010	2009
			---------- Rupees ----------	
24	**(LOSS) / EARNINGS PER SHARE - basic and diluted**			
	(Loss) / Profit after tax for the year		**(29,032,937)**	17,465,897
	Weighted average number of shares of Rs. 10 each	Number	**20,000,000**	20,000,000
	(Loss) / Earnings per share of Rs. 10 each		**(1.45)**	0.87

24.1 Diluted (loss) / earnings per share has not been presented as the Company does not have any convertible instruments as at December 31, 2010 and December 31, 2009 which would have any effect on the (loss) / earnings per share if the option to convert is exercised.

25. REMUNERATION TO THE CHIEF EXECUTIVE AND EXECUTIVES

	Chief Executive Officer		Executives		Total	
	2010	2009	**2010**	2009	**2010**	2009
Managerial remuneration	**2,531,652**	2,399,988	**9,094,760**	9,578,808	**11,626,412**	11,978,796
Provident fund	**159,996**	159,996	**431,070**	493,740	**591,066**	653,736
	2,691,648	2,559,984	**9,525,830**	10,072,548	**12,217,478**	12,632,532
Number of persons	**1**	1	**8**	7	**9**	8

No performance bonuses were granted to employees during the year. In addition to the above, these executives are also entitled to the Company maintained vehicles.

The Company does not have any other employee whose annual basic salary exceeds Rs. 0.5 million. No other amounts have been paid by the Company to its any other director.

26 PREMIUM WRITTEN

Premium written constitute direct and facultative business and administrative surcharge (which is also included in net premium revenue), class-wise details of which are as follows:-

	2010					
	Fire and property damage	**Marine, aviation and transport**	**Motor**	**Accident and Health**	**Miscellaneous**	**Total**
	Rupees					
Direct	**86,881,918**	**47,806,098**	**260,774,573**	**73,109,667**	**56,105,209**	**524,677,465**
Facultative	**8,959,805**	**51,383**	**160,485**	**-**	**4,645,592**	**13,817,265**
Administrative surcharge	**1,586,745**	**1,180,441**	**11,130,967**	**259,069**	**432,254**	**14,589,476**
	97,428,468	**49,037,922**	**272,066,025**	**73,368,736**	**61,183,055**	**553,084,206**

	2009					
	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Miscellaneous	Total
	Rupees					
Direct	126,684,398	60,544,510	262,288,658	50,660,646	69,018,990	569,197,202
Facultative	10,269,181	596,167	124,024	-	1,051,655	12,041,027
Administrative surcharge	2,408,581	704,062	11,005,254	187,279	783,751	15,088,927
	139,362,160	61,844,739	273,417,936	50,847,925	70,854,396	596,327,156

27 SEGMENT REPORTING

Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirement of Insurance Ordinance, 2000 and the SEC (Insurance) Rules,2002. The following table presents information regarding segment assets, liabilities as at December 31, 2010 and December 31, 2009, unallocated capital expenditures and non-cash expenses during the current and last year:

	FIRE & PROPERTY DAMAGE		MARINE, AVIATION & TRANSPORT		MOTOR		Accident and Health		Miscellaneous		Total	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
	Rupees											
SEGMENT ASSETS												
Segment assets	**105,881,617**	130,300,748	**37,705,973**	75,106,724	**275,662,910**	236,932,071	**64,885,134**	42,621,950	**72,159,457**	57,716,469	**556,295,091**	542,677,962
Unallocated corporate assets											**161,410,940**	186,992,156
Total assets											**717,706,031**	729,670,118
SEGMENT LIABILITIES												
Segment liabilities	**84,775,419**	94,880,579	**36,520,338**	72,007,824	**274,461,957**	242,174,618	**41,202,187**	31,701,008	**78,618,478**	58,005,855	**515,578,379**	498,769,884
Unallocated corporate liabilities											**5,907,659**	5,647,304
Total liabilities											**521,486,038**	504,417,188
Capital expenditure	**2,642,896**	149,497	**627,464**	25,759	**12,338,810**	499,553	**3,091,652**	95,737	**1,155,648**	55,324	**19,856,470**	825,870
Depreciation / Amortisation	**1,109,689**	1,384,235	**263,457**	238,511	**5,180,771**	4,625,508	**1,298,111**	886,454	**485,229**	512,264	**8,337,257**	7,646,972

28. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

The Company is exposed to variety of financial risks: market risk (comprising interest rate risk, currency risk and other price risk), liquidity risk and credit risk that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

The board of directors has overall responsibility for establishment and oversight of the Company's risk management framework. There are board committees and management committees for developing risk management policies and its monitoring.

28.1 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 Company manages the market risk by monitoring exposure on marketable securities by following internal risk management policies.

28.1.1 Interest rate risk exposure

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company invests in securities and has deposits that are subject to interest / mark-up rate risk. The Company 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 Company's interest / mark-up sensitivity and liquidity positions based on the contractual and maturity dates, whichever is earlier are as follows:

	Effective interest % per annum	2010 — Interest/ mark-up bearing financial instruments: Maturity upto one year	Maturity over one year to five years	Maturity more than five years	Sub total	Non-interest / mark-up bearing financial instruments	Total
		Rupees					
Financial assets							
Cash and bank deposits	0.5 - 11	98,054,641	-	-	98,054,641	38,915,578	136,970,219
Loans to employees		-	-	-	-	2,136,673	2,136,673
Investments	10.75 - 24	1,832,721	545,000	-	2,377,721	153,343,578	155,721,299
Premiums due but unpaid		-	-	-	-	166,082,545	166,082,545
Amounts due from other insurers / reinsurers		-	-	-	-	28,463,767	28,463,767
Accrued investment income		-	-	-	-	89,921	89,921
Reinsurance recoveries against outstanding claims		-	-	-	-	59,012,056	59,012,056
Security deposits		-	-	-	-	3,621,460	3,621,460
Sundry receivables		-	-	-	-	-	-
		99,887,362	545,000	-	100,432,362	451,665,578	552,097,940

	Interest rate % per annum	2010 Interest/ mark-up bearing financial instruments Maturity upto one year	Maturity over one year to five years	Maturity more than five years	Sub total	Non-interest / mark-up bearing financial instruments	Total
		----------	----------	----------	Rupees	----------	----------
Financial liabilities							
Provision for outstanding claims		-	-	-	-	185,190,944	185,190,944
Amounts due to other insurers / reinsurers		-	-	-	-	29,395,613	29,395,613
Accrued expenses		-	-	-	-	9,866,168	9,866,168
Agents balances		-	-	-	-	17,646,088	17,646,088
Other creditors and accruals		-	-	-	-	10,691,196	10,691,196
Liabilities against asset subject to finance lease	17	1,072,822	-	-	1,072,822	-	1,072,822
Dividend payable		-	-	-	-	398,934	398,934
		1,072,822	-	-	1,072,822	253,188,943	254,261,765
Interset risk sensitivity gap		**98,814,540**	**545,000**	**-**	**99,359,540**	**198,476,635**	**297,836,175**
Cumulative interest risk sensitivity gap		**98,814,540**	**99,359,540**	**99,359,540**			
Off balance sheet item							
Commitments for capital expenditure							-

	Effective Interest % per annum	2009 Interest / mark-up bearing financial instruments Maturity upto one year	Maturity over one year to five years	Maturity more than five years	Sub total	Non-interest / mark-up bearing financial instruments	Total
		----------	----------	----------	Rupees	----------	----------
Financial assets							
Cash and bank deposits	0.5 - 14.5	108,650,900		-	108,650,900	24,075,734	132,726,634
Loans to employees		-	-	-	-	1,390,304	1,390,304
Investments	10.75 - 19.4	528,756	4,041,000	-	4,569,756	172,950,001	177,519,757
Premiums due but unpaid		-	-	-	-	134,056,255	134,056,255
Amounts due from other insurers / reinsurers		-	-	-	-	29,315,217	29,315,217
Accrued investment income		-	-	-	-	200,667	200,667
Reinsurance recoveries against outstanding claims		-	-	-	-	72,691,102	72,691,102
Security deposits		-	-	-	-	2,220,624	2,220,624
Sundry receivables		-	-	-	-	2,007,193	2,007,193
		109,179,656	4,041,000	-	113,220,656	438,907,097	552,127,753
Financial liabilities							
Provision for outstanding claims		-	-	-	-	165,695,329	165,695,329
Amounts due to other insurers / reinsurers		-	-	-	-	32,985,232	32,985,232
Accrued expenses		-	-	-	-	8,577,744	8,577,744
Agents balances		-	-	-	-	20,625,153	20,625,153
Other creditors and accruals		-	-	-	-	13,823,151	13,823,151
Liabilities against asset subject to finance lease	17	1,061,981	1,072,822	-	2,134,803	-	2,134,803
Dividend payable		-	-	-	-	398,934	398,934
		1,061,981	1,072,822	-	2,134,803	242,105,543	244,240,346
Interest rate risk sensitivity gap		108,117,675	2,968,178	-	111,085,853	196,801,554	307,887,407
Cumulative interest risk sensitivity gap		108,117,675	111,085,853	111,085,853			
Off balance sheet item							
Commitments for capital expenditure							-

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

	Increase / (Decrease) in basis points	Effect on Profit before tax	Effect on Equity
		Rupees	
December 31, 2010	**100**	**993,595**	**645,837**
	(100)	**(993,595)**	**(645,837)**
December 31, 2009	100	1,110,859	722,058
	(100)	(1,110,859)	(722,058)

28.1.2 Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Company, at present is not materially exposed to currency risk as majority of the transactions are carried out in Pak Rupees.

28.1.3 Other Price Risk

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

The Company's listed securities are susceptible to market price risk arising from uncertainties about the future value of investment securities. The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity, money market fund and term finance certificates (TFCs). In addition, the Company actively monitors the key factors that affect stock, money market and TFCs market.

The following table summarizes the Company's other price risk as of December 31, 2010 and 2009. It shows the effects of an estimated increase of 5% in the market prices as on those dates. A decrease of 5% in the fair values of the quoted securities would affect profit and equity of the Company in a similar but opposite manner.

	Fair vlaue	Price change	Effect on fair value
December 31, 2010	**132,616,188**	**+5%**	**6,630,809**
		-5%	**(6,630,809)**
December 31, 2009	58,594,134	+5%	2,929,707
		-5%	(2,929,707)

28.2 Liquidity Risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations when they fall due under normal circumstances. To guard against the risk, the Company 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 summarizes the maturity profile of the Company'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.

FANACIAL LIABILITIES	2010 Carrying amount	Contracted cash flows	Upto one year	More than one year	2009 Carrying amount	Contracted cash flows	Upto one year	More than one year
	Rupees							
Provision for outstanding claims	185,190,944	185,190,944	185,190,944	-	165,695,329	165,695,329	165,695,329	-
Amounts due to other insurers / reinsurers	29,395,613	29,395,613	29,395,613	-	32,985,232	32,985,232	32,985,232	-
Accrued expenses	9,866,168	9,866,168	9,866,168	-	8,577,744	8,577,744	8,577,744	-
agent balances	17,646,088	17,646,088	17,646,088	-	20,625,153	20,625,153	20,625,153	-
other creditors and accruals	10,691,196	10,691,196	10,691,196	-	13,823,151	13,823,151	13,823,151	-
Obligation under finance lease	1,072,822	1,143,037	1,143,037	-	2,134,803	2,487,709	1,344,672	1,143,037
Dividend Payable - Unclaimed	398,934	398,934	398,934	-	398,934	398,934	398,934	-
	254,261,765	**254,331,980**	**254,331,980**	-	244,240,346	244,593,252	243,450,215	1,143,037

28.3 Credit Risk

Credit risk is the risk, which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counterparties in various industries and by continually assessing the credit worthiness of counterparties.

28.3.1 Concentration of credit risk

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

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

The carrying amount of financial assets represent the maximum credit exposure, as specified below:

	Note	2010	2009
		---------- Rupees ----------	
Bank deposits	11	**136,923,235**	132,556,696
Investments	13	**2,377,721**	4,569,756
Premiums due but unpaid	15	**179,825,189**	147,798,899
Amounts due from other insurers / reinsurers	16	**28,463,767**	29,315,217
Accrued investment income	17	**89,921**	200,667
Reinsurance recoveries against outstanding claims		**59,012,056**	72,691,102
Sundry receivables	19	**-**	169,693
		406,691,889	387,302,030

The Company did not hold any collateral against the above during the year.

The age analysis of receivables is as follows:

	2010	2009
Upto 1 year	**176,089,049**	157,480,583
1 - 2 years	**28,121,049**	16,996,575
2 - 3 years	**3,652,006**	2,210,106
Over 3 years	**426,852**	426,852
	208,288,956	177,114,116

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

Bank	Rating	Rating agency	2010	2009
			Rupees	
Standard Chartered Bank (Pakistan) Limited	AAA	PACRA	**1,009,960**	1,013,032
Allied Bank Limited	AA	PACRA	**733,562**	170,878
Bank Al Falah Limited	AA	PACRA	**2,200,270**	3,492,697
NIB Bank Limited	AA-	PACRA	**549,503**	549,503
Silk Bank Limited	A-	JCR-VIS	**60,436**	2,264,029
MCB Bank Limited	AA+	PACRA	**95,080,303**	492,574
Faysal Bank Limited (formerly Royal Bank of Scotland)	AA	PACRA	**50,253**	18,440,011
Bank Al Habib Limited	AA+	PACRA	**856,791**	306,617
SAMBA Bank Limited	A	JCR VIS	**304,267**	304,267
HSBC Bank Middle East Limited	A-	MOODY'S	**603,265**	1,586,840
JS Bank Limited	A	PACRA	**34,975,129**	103,936,248
The Punjab Provincial Co-operative Bank	N/A	N/A	**499,496**	-
			136,923,235	132,556,696

The credit quality of Company's exposure in TFC's can be assessed as follows:	Rating	2010	2009
		Rupees	
Standard Chartered Bank Pakistan Limited	AAA	**1,250,000**	3,496,000
Invest Capital Investment Bank Limited (formerly Al-Zamin Leasing Corporation Limited)	A	**545,000**	545,000
		1,795,000	4,041,000

The management monitors exposure to credit risk in premium receivable from customers through regular review of credit exposure and prudent estimates of provisions for doubtful receivab~~les as disclosed in not~~e 15.

The credit quality of premium receivable from co-insurer, and for commission and claim recoveries from reinsurer can be assessed from external ratings disclosed in note 30.

29 INSURANCE RISK

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty in the amount of compensation to the insured. Generally most insurance contracts carry the insurance risk for a period of one year.

The Company accepts insurance through issuance of general insurance contracts. For these general insurance contracts the most significant risks arise from fire, atmospheric disturbance, earthquake, terrorist activities and other catastrophes. For health insurance contracts, significant risks arise from epidemics.

The Company's risk exposure is mitigated by employing a comprehensive framework to identify, assess, manage and monitor risk. This framework includes implementation of underwriting strategies which aim to ensure that the underwritten risks are well diversified in terms of type and amount of the risk. Adequate reinsurance is arranged to mitigate the effect of the potential loss to the Company from individual to large or catastrophic insured events. Further, the Company adopts strict claim review policies including active management and prompt pursuing of the claims, regular detailed review of claim handling procedures and frequent investigation of possible false claims to reduce the insurance risk.

Geographical concentration of insurance risk

To optimize benefits from the principle of average 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, the most important of which is risk survey.

Risk surveys are carried out on a regular basis for the evaluation of physical hazards associated with the commercial / industrial / residential occupation of the insured. Details regarding the fire separation / segregation with respect to the manufacturing processes, storage, utilities, etc. are extracted from the layout plan of the insured facility. Such details are formed part of the reports which are made available to the underwriters / reinsurance personnel for their evaluation. Reference is made to the standard construction specifications as laid down by Insurance Association of Pakistan (IAP). For instance, the presence of Perfect Party Walls, Double Fire Proof Iron Doors, physical separation between the buildings within an insured's premises. It is basically the property contained within an area which is separated by another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area.

Address look-up and geocoding is the essential field of the policy data interphase of IT systems. It provides instant location which is dependent on data collection provided under the policy schedule. All critical underwriting information is punched into the IT system/application through which a number of MIS reports can be generated to assess the concentration of risk.

The ability to manage catastrophic risk is tied to managing the density of risk within a particular area. A risk management solution is implemented to help assess and plan for risk in catastrophic scenarios. It provides a way to better visualize the risk exposures so the Company determines the appropriate amount of reinsurance coverage to protect the business portfolio.

For marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea / air / inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are entered into the IT system. The reinsurance module of the IT system is designed to satisfy the requirements as laid down in the proportional treaty agreement.

Shipment declarations are also endorsed on the policies. Respective reinsurance cessions are automatically made upon the posting of policy documents.

The voyage cards so maintained for the particular set of policies for a single vessel voyage are automatically logged into the system showing actual gross, treaty and net exposure, both in terms of sums insured and premiums.

Frequency and severity of claims

Risk associated with general insurance contracts includes the reasonable possibility of significant loss as well as the frequent occurrence of the insured events. This has been managed by having in place underwriting strategy, reinsurance arrangements and proactive claim handling procedures.

The reinsurance arrangements against major risk exposure include excess of loss, surplus arrangements, stop loss and catastrophic coverage. The objective of having such arrangements is to mitigate adverse impacts of severe losses on Company's net retentions. As the motor reinsurance arrangements are on excess of loss basis, therefore the reinsurance coverage against Company's risk exposures on motor business is not quantifiable.

The concentration of risk by type of contract is summarized below by reference to liabilities:

Class	2010	2009	2010	2009	2010	2009
	Gross sum insured		Reinsurance		Net	
	Rupees					
Fire and property damage	**48,416,439,034**	65,714,251,510	**20,708,346,923**	37,975,418,761	**27,708,092,111**	27,738,832,749
Marine and transport	**22,343,997,053**	14,486,784,049	**12,924,953,088**	9,240,096,461	**9,419,043,965**	5,246,687,588
Aviation	**592,627,500**	2,103,000,000	**436,202,000**	2,084,120,000	**156,425,500**	18,880,000
Miscellenacous	**15,391,029,666**	17,549,658,234	**7,558,100,583**	8,836,824,512	**7,832,929,083**	8,712,833,722
	86,744,093,253	99,853,693,793	**41,627,602,594**	58,136,459,734	**45,116,490,659**	41,717,234,059

Uncertainty in the estimation of future claims payment

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events that occur during the term of the insurance contract including the event reported after the expiry of the insurance contract term.

An estimated amount of the claim is recorded immediately on the intimation to the Company. 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 Company follows the recommendation of actuary to apply month wise factor based on analysis of the past claim reporting pattern. For this purpose, the claim chain-ladder method is used for each class of business. The month wise factor is applied on claims incurred to determine the amount of IBNR.

There are several variable factors which affect the amount and timing of recognized claim liabilities. The Company 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. Similarly, the provision for IBNR is based on historic reporting pattern of the claims; hence, actual amount of IBNR may differ from the amount estimated.

Key assumptions

The principal assumption underlying the liability estimation of IBNR and Premium Deficiency Reserves is that the Company'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 internal factors such as portfolio mix, policy conditions and claim handling procedures are further used in this regard.

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

Class	2010	2009
	Assumed Net Loss Ratio	
Fire and property	**25%**	26%
Marine, aviation and transport	**30%**	21%
Motor	**83%**	86%
Accident and health	**91%**	91%
Miscellaneous	**50%**	86%

Sensitivities

As the Company enters into short term insurance contracts, it does not assume any significant impact of changes in market conditions on unexpired risks. However, some results of sensitivity testing are set out below, showing an impact on (loss) / profit before tax net of reinsurance:

	Pre tax Loss		Shareholders' equity	
	2010	2009	**2010**	2009
	Rupees			
10% increase in loss				
Fire and property damage	**(809,637)**	(885,686)	**(526,264)**	(575,696)
Marine, aviation and transport	**(567,529)**	(336,143)	**(368,894)**	(218,493)
Motor	**(18,417,998)**	(19,822,588)	**(11,971,699)**	(12,884,682)
Accident and health	**(5,142,762)**	(5,430,474)	**(3,342,795)**	(3,529,808)
Miscellaneous	**(1,366,166)**	(324,854)	**(888,008)**	(211,155)
	(26,304,092)	(26,799,745)	**(17,097,660)**	(17,419,834)
10% decrease in loss				
Fire and property damage	**809,637**	885,686	**526,264**	575,696
Marine, aviation and transport	**567,529**	336,143	**368,894**	218,493
Motor	**18,417,998**	19,822,588	**11,971,699**	12,884,682
Accident and health	**5,142,762**	5,430,474	**3,342,795**	3,529,808
Miscellaneous	**1,366,166**	324,854	**888,008**	211,155
	26,304,092	26,799,745	**17,097,660**	17,419,834

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 a year.

30 REINSURANCE RISK

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

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

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

Rating	Amount Due from other insurers/ reinsurers	Reinsurance recoveries outstanding claims	Other reinsurance assets	2010	2009
			Rupees		
A - or above including					
Pakistan Reinsurance Company Ltd.	**28,443,991**	**47,716,354**	**53,086,357**	**129,246,702**	148,605,549
BBB	**7,400**	**11,295,702**	**4,297,240**	**15,600,342**	18,348,331
Others	**12,376**	**-**	**-**	**12,376**	12,376
	28,463,767	**59,012,056**	**57,383,597**	**144,859,420**	166,966,256

31 CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is, to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to the shareholders and benefits to other stakeholders and to maintain a strong capital base to support the sustained development of its businesses. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares. The Securities and Exchange Commission of Pakistan through its Circular No. 03 dated April 04, 2007 requires the minimum paid up capital for Insurance Companies to be raised to Rs. 300 million by the year ending December 31, 2011. The raise is to be achieved in a phased manner requiring Rs. 250 million paid up capital by the end of the financial year 2010.

	2008	**2009**	**2010**	**2011**
	Rupees			
Minimum paid up capital	160,000,000	200,000,000	250,000,000	300,000,000

The paid up capital of the Company for the year ended December 31, 2010 stood at Rs. 200 million. The SECP has granted period of 90 days ending on April 19, 2011 before enforcing any penal actions under section 63 of the Insurance Ordinance, 2000. In order to meet the minimum paid up capital requirement, Board of Directors of the Company in their meeting held on January 24, 2011 has decided to issue the right shares at 25% at par value i.e. 1 for every 4 ordinary shares held by the member of the Company to comply with the requirements of aforementioned circular. The Company has already started the process of right issue and believe to complete the formalities within the time allowed by SECP to meet the minimum paid-up capital requirement.

32 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 transactions. Consequently, difference may arise between the carrying values and the fair value estimates.

The fair value of all the financial instruments are estimated to be not significantly different from their carrying values except for the following investments:

	Carrying Value		Market Value	
	2010	2009	**2010**	2009
Available-for-sale investments	Rupees			
- equity shares and closed-end mutual funds	**5,118,944**	30,871,256	**5,380,909**	30,664,036
(Based on the rates quoted on the stock exchanges)				
- mutual funds	**125,405,795**	23,558,033	**125,564,655**	23,897,642
(Based on the quoted redemption rates)				
Held-to-maturity investments				
- term finance certificates	**1,795,000**	4,041,000	**1,670,624**	4,032,456
(Based on the average of rates quoted by MUFAP as per circular No. 1 dated January 06, 2009)				

33 TRANSACTIONS WITH RELATED PARTIES

The Company has related party relationship with its employee provident fund, key management personnel, entities indicated in note 5 to the financial statements and companies with common directors.

Transactions with related parties during the year and balances with them as at the year-end are as follows:

	Note	**2010**	2009
		Rupees	
Transactions and balances with associated companies			
Insurance premium			
Balance at beginning of the year		**73,710,751**	59,410,379
Gross insurance premium written (including government levies, administrative surcharge and policies stamps)		**133,611,679**	124,003,938
Received / Adjusted during the year		**(70,730,349)**	(109,703,566)
Balance at end of the year		**136,592,081**	73,710,751
Insurance claim expense			
Outstanding claims at beginning of the year		**16,168,937**	16,159,935
Gross claim expense for the year		**67,986,445**	71,071,160
Claim paid during the year		**(67,356,245)**	(71,062,158)
Outstanding claims at end of the year		**16,799,137**	16,168,937

Other transactions during the year with associated companies			
Rental income		**1,500,000**	1,234,560
Rental expense		**3,143,289**	2,858,536
Brokerage, commission and advisory expenses	13.8	**1,802,779**	4,067,918
Advertisement expenses		**368,710**	2,176,850
Other balances with associated companies			
Sundry receivables	19	**-**	25,905
Premium received in advance		**266,160**	-
Other creditors and accruals	8	**697,617**	-
Advisory fee payable	7	**1,858,907**	2,016,927
Prepaid rent	18.1	**2,529,963**	2,299,968
Advance for the purchase of office premises	20	**34,750,008**	34,750,008
Transactions during the year with other related parties (key management personnel)			
Contribution to the provident fund	33.2	**2,631,420**	2,309,813
Remuneration of key management personnel	33.3	**12,217,478**	12,632,532
Balances with other related parties (key management personnel)			
Payable to the provident fund	8	**874,631**	-
Receivable from the provident fund	19	**-**	143,788

33.1 Insurance and claim related transactions with related parties are carried in normal course of business.

33.2 Contribution to the provident fund is in accordance with the Company's staff services rules.

33.3 Remuneration to the key management personnel are in accordance with the terms of their employment.

33.4 Other transactions are at agreed terms.

34 NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

Shaheen Foundation and First Capital Securities Corporation Limited have entered into Share Purchase Agreement dated February 28, 2011 with Hollard Insurance Company Limited for acquisition of Hollard's entire Shareholding of 6,345,296 shares of Rs. 10 each (31.73% of the total existing paid up capital of Shaheen Insurance Company Limited). Subject to the approval of regulatory authorities concerned, as per the terms and conditions of Share Purchase Agreement, Shaheen Foundation and First Capital Securities Corporation Limited will acquire the entire 6,345,296 shares of Hollard Insurance Company Limited in the following proportion:

	Number of Shares
Shaheen Foundation	3,164,141
First Capital Securities Corporation	3,181,155
	6,345,296

35 DATE OF AUTHORISATION FOR ISSUE

These Financial statements were authorised for issue in the Board of Directors meeting held on April 05, 2011.

Chairman	Director	Director	Chief Executive Officer

PATTERN OF SHARE HOLDING

HELD BY THE SHARE HOLDERS AS AT 31ST DECEMBER, 2010

No. of Share Holders	………...Share Holding………... From	To	Total Shares Held
161	1	100	3,710
119	101	500	29,206
68	501	1000	44,615
118	1001	5000	192,814
10	5001	10000	66,327
2	10001	15000	24,998
1	15001	20000	18,338
2	20001	25000	46,249
1	110001	115000	114,000
1	1360001	1365000	1,362,563
1	2015001	2020000	2,016,000
1	2495001	2500000	2,500,000
1	3135001	3140000	3,136,963
1	4095001	4100000	4,098,921
1	6345001	6350000	6,345,296
488			20,000,000

CATEGORIES OF SHARE HOLDERS AS REQUIRED UNDER C.C.G

AS ON 31ST DECEMBER, 2010

Name	Holding	% AGE
Associated Companies	19,460,085	97.3004
Directors,CEO their Spouse & Minor Children	6,638	0.0332
Insurance Companies	6,345,296	31.7265
Share Held by the General Public	394,901	1.9745
Share Holders Holding 10% or more of Total Capital	18,097,180	90.4859
Joint Stock Companies	22,956	0.1148
Banks,Development Finance Institutions, Non Banking Financial Institutions	115,420	0.5771

NAME OF SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL

As on 31st December, 2010

Name	Holding	% AGE
Shaheen Foundation, Pakistan Air force	4,098,921	20%
Central Non Public Fund, Pakistan Air force	2,500,000	13%
The Hollard Company Limited, South Africa	6,345,296	32%
First Capital Equities Limited	2,016,000	10%
Worldcall Telecom Limited	3,136,963	16%

PROXY FORM

I / We ____ of ____

being a

Member(s) of Shaheen Insurance Company Limited, and holders of ____

Ordinary shares as per Registered Folio No. ____and / or CDC

Participant I.D. No. ________________________________ and Sub Account No. ________________________ do

Hereby appoint ____of __________________________________or

Failing him/her __________________________________of____

who is also a member of the Company vide Registered Folio No. ____to

attend and vote for me / us and on my / our behalf at the 16th Annual General Meeting of the Company to be held at Dreamworld Resort, Adjacent Block R, Gulshan-e-Maymar Super Highway, Karachi on April 30, 2011 at 10:30 A.M. and at any adjournment thereof

Signed by : ______________________________

Witness : ________________________________

Affix Revenue
Stamp

Date : __________________________________

Note:

1. A member entitled to attend and vote at the meeting may appoint in writing another member as his / her proxy to attend and vote instead of him / her at the meeting. If the member is a corporation, its common seal should be affixed on the instrument.

2. This form of proxy in order to be effective, must be deposited duly completed, at 10th Floor Shaheen Complex M.R. Kayani Road, Karachi not less than 48 hours before the time of holding of the meeting.

3. CDC shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.

4. A proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.