Habib Insurance Company Limited

Contents

Company Information

Board of Directors

Chairman	:	Rafiq M. Habib
Directors	:	Abbas D. Habib
		Mazher Ali Jumani
		Mansoor G. Habib
		Mohamedali R. Habib
		Sajjad Hussain Habib
		Aun Mohammad A. Habib
Managing Director & Chief Executive	:	Ali Raza D. Habib
Company Secretary / Executive Director	:	Shabbir Gulamali
Auditors	:	M/s. KPMG Taseer Hadi & Co. Chartered Accountants Karachi
Share Registar	:	M/s. Noble Computer Services (Pvt.) Ltd. First Floor, House of Habib Building, Siddiqsons Tower, 3 Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350
Registered Office	:	1st Floor, State Life Bldg. No. 6, Habib Square, M. A. Jinnah Road, P.O. Box 5217, Karachi-74000, Pakistan Tel : (92-21) 32424030/38/39 Fax : (92-21) 32421600 UAN : (92-21) 111 03 03 03 Website : www.habibinsurance.net

Seventieth Report of the Directors to the Shareholders for the year ended December 31, 2012

The Shareholders,

The Board of Directors have pleasure in presenting the Seventieth Annual Report along with the audited accounts of the Company for the year ended December 31, 2012.

	Rupees in '000
Net profit after tax for 2012	194,988
Amount available after appropriations for the year 2011	15,846
	210,834
The Board of Directors now propose:	
Payment of dividend at Rs. 1.75 per share of Rs. 5/- each i.e.@ 35%	173,425
Unappropriated profit carried forward	37,409
	210,834
Basic earnings per share of Rs. 5/- each	1.97

By the Grace of Allah, the profits of the Company for the year 2012 were generous enough for the Directors to recommend a payout of 35% to shareholders as mentioned above.

The net profit after tax increased to Rs. 195.0 million as compared to Rs. 126.3 million of the previous year fortunately due to a substantial rise in investment income. The gross underwritten premium grew to Rs. 955.9 million from Rs. 894.3 million of last year with a marginal increase in the underwriting results. The Investment Income recorded a sizeable gain of Rs. 86.9 million to reach Rs. 204.4 million benefiting from better corporate payouts on what we believe is a well balanced Funds and Stock Portfolio of the Company.

The Pakistan Credit Rating Agency has maintained the positive outlook to the Company's Insurer Financial Strength (IFS) rating of A+. This denotes strong capacity to meet policyholders and contract obligations.

On the overall performance of the economy for 2012, the GDP growth for the fiscal year 2011-12 is at 3.67%. Decline in inflation to 7.9% from 9.7% of the earlier year and corresponding cuts in discount rate by 250 bps are key factors. Foreign exchange reserves are at US$ 13.86 billion and direct foreign investment at US$ 1 billion. The Karachi Stock Exchange, the all important index to the economy, performed brilliantly during the year closing at the KSE 100 index of 16905 points, a rise of 49%.

The outlook for the current year appears challenging. The general elections are expected to take place in the near future and we hope that the new Government will pursue a favourable economic policy. The Stock Exchange continues to do well nearing the 18000 mark.

We pray to Allah for all the Peace and Prosperity for the Nation and that 2013 will also be another rewarding year for the Company.

We are thankful to all our clients and customers who have placed their confidence in our Company and we will continue to strive even more towards meeting all their insurance requirements. A special mention as always, is made for all the support and guidance we received from our panel of reinsurers. The Board of Directors would like to express their appreciation to all the staff members of the Company for their dedication and hard work throughout the year.

Corporate Social Responsibility (CSR)

Your Company is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- corporate philanthropy amounting to Rs. 2.0 million by way of donations during the year for social and educational development and welfare of under privileged classes;

- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and “No Smoking Zone”, and providing a safe and healthy work environment;

- business ethics, requiring all staff members to comply with the Company’s “Code of Conduct”;

- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;

- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc.;

- contribution to the national exchequer by the Company by way of direct taxes of over Rs. 15.0 million during the year; furthermore, an additional amount of over Rs. 169.8 million was deducted/ collected by the Company on account of withholding taxes, sales tax on services and federal excise duties paid to the Government of Pakistan.

Audit Committee

The audit committee of the Company comprises of four members all of whom are non-executive directors. The audit committee met four times during the year. Attendance of meetings is as follows.

		No. of Meetings attended
Mr. Abbas D. Habib	Chairman	3
Mr. Mazher Ali Jumani	Member	3
Mr. Mohamedali R. Habib	Member	3
Mr. Aun Mohammad A. Habib	Member	3

HR and Remuneration Committee

The HR and Rumuneration committee comprises of four members all of whom are non-executive directors. No meeting of the HR and Remuneration Committee was held during the year.

Mr. Mazher Ali Jumani	Chairman
Mr. Mansoor G. Habib	Member
Mr. Aun Mohammad A. Habib	Member
Mr. Ali Raza D. Habib	Member

Directors Training Programme

One of our Directors has completed the Directors formal Training programme from the Pakistan Institute of Corporate Governance (PICG).

Auditors

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Company for the year ending December 31, 2013, at a fee to be mutually agreed.

Statement on Corporate and Financial Reporting Framework

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. Proper books of account of the Company have been maintained.

3. Appropriate accounting policies have been consistently applied in preparation of the financial statements, changes if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgement.

4. International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There are no doubts upon the Company's ability to continue as a going concern.

7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

8. Key operating and financial data for the last six years is annexed.

9. Information about the taxes and levies is given in the notes to the financial statements.

10. Value of investments and balance in deposit accounts of Provident Fund as at December 31, 2012 is Rs. 44.3 million.

11. During the year four Board meetings were held and the attendance of the Directors is as follows:

Date of Meeting	Attended by	
March 29, 2012	Mr. Rafiq M. Habib	
	Mr. Abbas D. Habib	
	Mr. Mansoor G. Habib	
	Mr. Mohamedali R. Habib	
	Mr. Sajjad Hussain Habib	
	Mr. Aun Mohammad A. Habib	
	Mr. Ali Raza D. Habib	Chief Executive
April 28, 2012	Mr. Abbas D. Habib	
	Mr. Mazher Ali Jumani	
	Mr. Sajjad Hussain Habib	
	Mr. Aun Mohammad A. Habib	
	Mr. Ali Raza D. Habib	Chief Executive
August 24, 2012	Mr. Rafiq M. Habib	
	Mr. Abbas D. Habib	
	Mr. Mansoor G. Habib	
	Mr. Mohamedali R. Habib	
	Mr. Aun Mohammad A. Habib	
	Mr. Ali Raza D. Habib	Chief Executive
October 25, 2012	Mr. Rafiq M. Habib	
	Mr. Mazher Ali Jumani	
	Mr. Mansoor G. Habib	
	Mr. Mohamedali R. Habib	
	Mr. Sajjad Hussain A. Habib	
	Mr. Aun Mohammad A. Habib	
	Mr. Ali Raza D. Habib	Chief Executive

12. The pattern of shareholding and additional information regarding pattern of shareholding is annexed.

13. No trades in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

On behalf of the Board of Directors

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Karachi: February 14, 2013

Six Years' Review at a Glance

(Rupees in '000)

Years	2012	2011	2010	2009	2008	2007
Gross Written Premium	955,934	894,331	777,531	702,869	737,442	685,606
Net Premium Revenue	435,966	420,310	394,643	359,040	397,960	335,974
Investment Income / (Loss)	204,350	117,389	149,355	184,886	(390,531)	443,297
Net Claims	229,906	231,180	183,787	175,704	202,219	217,176
Profit / (Loss) after Tax	194,988	126,296	168,482	204,743	(396,428)	420,378
Paid-up Capital	495,499	450,454	400,403	400,403	355,914	296,595
Reserves & Retained Earnings	464,956	427,626	451,482	423,141	307,376	941,080
Total Assets - at Book Value	2,003,968	1,878,076	1,666,985	1,625,473	1,460,429	2,101,104
Cash Dividend - %	35	25	25	35	12.5	60
Stock Dividend - %	–	10	12.5	–	12.5	20

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2012

This statement is being presented to comply with the Code of Corporate Governance (CCG) contained in listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited 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 CCG in the following manner:

1. The Company encourages representation of independent non-executive Directors and Directors representing minority interests on its Board of Directors. All elected Directors of the Board are non-executive Directors. The last election of Directors was held on May 10, 2011.

2. The Directors have confirmed that none of them is serving as a Director in more than seven listed companies, including this Company.

3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred on the Board during the year.

5. The Company has prepared a 'Code of Conduct' and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision/ mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies has been maintained and amended/ updated from time to time.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. Directors are well conversant with the listing regulations, and corporate requirements and as such are fully aware of their duties and responsibilities. At present, one Director has acquired the formal Directors Training Certificate from the Pakistan Institute of Corporate Governance (PICG).

10. There was no new appointment of CFO and Company Secretary during the year. However, the Board has approved appointment of Head of Internal Audit, including his remuneration and terms and conditions of employment.

11. The Directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the CCG.

15. The Board has formed underwriting/ claim settlement/ reinsurance & co-insurance committee(s).

16. The Board has formed an audit committee. It comprises of four members, all of whom are non-executive Directors including the Chairman of the Committee.

17. The meetings of the audit committee were held at least once every quarter prior to the approval of interim and final results of the Company and as required by the CCG. The terms of reference of the audit committee have been formed and advised to the audit committee for compliance.

18. The Board has formed an HR and Remuneration Committee. It comprises of three members, all of whom are non-executive Directors including the Chairman of the Committee. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

19. The Board has outsourced the internal audit function to Messrs Abbas Karjatwala & Company, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and their representatives 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. The ‘closed period’, prior to the announcement of interim/ final results, and business decisions, which may materially affect the market price of Company’s securities, was determined and intimated to the Directors, empolyees and Stock Exchange(s).

23. Material/ price sensitive information has been disseminated amongst all market participants at once through Stock Exchange(s).

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

On behalf of the Board of Directors

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Karachi: February 14, 2013

Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **Habib Insurance Company Limited** ("the Company") to comply with the listing regulations of the Karachi and Lahore stock exchanges, where 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 responsibility for compliance with the Code of Corporate Governance 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 of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance 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 internal controls, the Company's corporate governance procedures and risks.

Further, Listing Regulations notified by the Karachi Stock Exchange Limited (formerly Karachi Stock Exchange (Guarantee) Limited), requires 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 of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2012.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi: February 14, 2013

Auditors' Report to the Members

We have audited the annexed financial statements comprising of:

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

of **Habib Insurance Company Limited** (“the Company”) as at 31 December 2012 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 International Standards on Auditing 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 account have been kept by the Company as required by the Insurance Ordinance, 2000;

(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;

(c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31 December 2012 and of the profit, changes in equity and its cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

(d) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi: February 14, 2013

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Habib Insurance Company Limited

Balance Sheet as at December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Share Capital and Reserves			
Authorised share capital [100,000,000 (December 31, 2011: 100,000,000) ordinary shares of Rs. 5 each]		500,000	500,000
Paid-up share capital	5.1	495,499	450,454
Retained earnings		210,834	173,504
Reserves		254,122	254,122
TOTAL EQUITY		960,455	878,080
Underwriting Provisions			
Provision for outstanding claims (including IBNR)		184,482	209,927
Provision for unearned premium		380,692	363,602
Commission income unearned		42,213	37,137
Total underwriting provisions		607,387	610,666
Deferred Liability			
Staff retirement benefits	6	25,283	24,036
Creditors and Accruals			
Premiums received in advance		8,287	13,583
Amounts due to other insurers/ reinsurers	7	137,958	130,152
Accrued expenses		9,843	10,861
Taxation - provision less payments		40,098	49,959
Other creditors & accruals	8	185,380	134,828
		381,566	339,383
Other liabilities			
Unclaimed dividends		29,277	25,911
TOTAL LIABILITIES		1,043,513	999,996
TOTAL EQUITY AND LIABILITIES		2,003,968	1,878,076
Contingencies	9		

	Note	2012	2011
		(Rupees in '000)	
Cash and Bank Deposits	10		
Cash and other equivalents		848	902
Current and other accounts		77,750	49,530
		78,598	50,432
Loans - secured, considered good to employees	11	29,221	31,237
Investments	12	1,056,208	916,434
Deferred Taxation	13	26,464	19,445
Current Assets - others			
Premiums due but unpaid	14	224,697	204,360
Amounts due from other insurers/ reinsurers	15	153,310	123,623
Accrued investment income	16	4,450	3,006
Reinsurance recoveries against outstanding claims		124,590	124,995
Deferred commission expense		50,120	38,170
Advances, deposits and prepayments	17	209,335	171,781
Sundry receivables	18	35,146	180,468
		801,648	846,403
Fixed Assets	19		
Tangible and intangible			
Furniture, fixtures and office equipment		5,987	7,840
Computers and related equipment		1,109	1,139
Motor vehicles		829	898
Capital work in progress - office premises		-	3,750
Computer software		3,904	498
		11,829	14,125
TOTAL ASSETS		2,003,968	1,878,076

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Profit and Loss Account for the year ended December 31, 2012

(Rupees in '000)

	Note	Fire and Property	Marine and Transport	Motor	Other Classes	2012	2011
Revenue Account							
Net premium revenue		99,975	128,187	128,684	79,120	435,966	420,310
Net claims		(10,420)	(74,929)	(85,716)	(58,841)	(229,906)	(231,180)
Expenses	20	(57,434)	(32,935)	(18,914)	(28,303)	(137,586)	(127,305)
Net commission		18,422	(9,190)	(11,692)	(2,991)	(5,451)	(1,632)
Underwriting result		50,543	11,133	12,362	(11,015)	63,023	60,193
Net investment income						204,350	117,389
Other income - net	21					9,279	28,956
General and administration expenses	20					(66,903)	(57,494)
Profit before tax						209,749	149,044
Taxation - net	22					(14,761)	(22,748)
Profit after tax						194,988	126,296
Other comprehensive income						–	–
Total comprehensive income for the year						194,988	126,296
Profit and loss appropriation account							
Balance at commencement of the year						173,504	197,360
Profit after tax for the year						194,988	126,296
Issuance of bonus shares for the year 2011: 10% (2010: 12.5%)						(45,045)	(50,051)
Cash dividend for the year ended December 31, 2011 at Rs. 1.25 per share (2010: Rs. 1.25 per share)						(112,613)	(100,101)
						37,330	(23,856)
Balance of unappropriated profit at end of the year						210,834	173,504
							(Restated)
Earnings per share of Rs. 5 each	23				Rupees	1.97	1.27

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB	MAZHER ALI JUMANI	MANSOOR G. HABIB	ALI RAZA D. HABIB
Chairman	*Director*	*Director*	*Managing Director & Chief Executive*

Statement of Changes in Equity
for the year ended December 31, 2012

(Rupees in '000)

	Share Capital	Reserves			
		Capital Reserves	Revenue Reserves		
	Issued, subscribed and paid up	Reserve for exceptional losses (note 5.2)	General reserve	Retained earnings	Total
Balance as at January 01, 2011	400,403	9,122	245,000	197,360	851,885
Total comprehensive income for the year					
Profit for the year	–	–	–	126,296	126,296
Transaction with owners recorded directly in equity					
Bonus share distribution for the year ended December 31, 2010 at 12.5%	50,051	–	–	(50,051)	–
Final dividend for the year ended December 31, 2010 of Rs. 1.25 per share	–	–	–	(100,101)	(100,101)
	50,051	–	–	(150,152)	(100,101)
Balance as at December 31, 2011	450,454	9,122	245,000	173,504	878,080
Total comprehensive income for the year					
Profit for the year	–	–	–	194,988	194,988
Transaction with owners recorded directly in equity					
Bonus share distribution for the year ended December 31, 2011 at 10%	45,045	–	–	(45,045)	–
Final dividend for the year ended December 31, 2011 of Rs. 1.25 per share	–	–	–	(112,613)	(112,613)
	45,045	–	–	(157,658)	(112,613)
Balance as at December 31, 2012	495,499	9,122	245,000	210,834	960,455

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB	MAZHER ALI JUMANI	MANSOOR G. HABIB	ALI RAZA D. HABIB
Chairman	*Director*	*Director*	*Managing Director & Chief Executive*

Habib Insurance Company Limited

Statement of Cash Flow for the year ended December 31, 2012

	2012	2011
	(Rupees in '000)	
Operating Cash Flows		
a) Underwriting activities		
Premiums received	880,988	862,779
Reinsurance premiums paid	(532,007)	(403,268)
Claims paid	(433,640)	(361,043)
Reinsurance and other recoveries received	178,694	160,666
Commissions paid	(77,660)	(105,416)
Commissions received	108,144	97,054
Other underwriting receipts	–	2,024
Net cash inflow from underwriting activities	124,519	252,796
b) Other operating activities		
Income tax paid	(31,641)	(24,695)
General management expenses paid	(176,548)	(159,311)
Other operating receipts/ (payments)	145,967	(118,074)
Loans advanced	(8,866)	(29,984)
Loans repayment received	10,882	1,890
Net cash outflow from other operating activities	(60,206)	(330,174)
Total cash inflow/ (outflow) from all operating activities	64,313	(77,378)
Investment activities		
Profit/ return received	13,754	8,000
Dividends received	88,284	56,778
Payments for investments	(894,333)	(782,896)
Proceeds from disposal of investments	866,279	846,700
Fixed capital expenditure	(1,240)	(3,945)
Proceeds from disposal of fixed assets	356	42,991
Total cash inflow from investing activities	73,100	167,628
Financing activities		
Dividends paid	(109,247)	(97,817)
Total cash outflow from financing activities	(109,247)	(97,817)
Net cash inflow/ (outflow) from all activities	28,166	(7,567)
Cash at beginning of the year	50,432	57,999
Cash at end of the year	78,598	50,432

	2012	2011
	(Rupees in '000)	
Reconciliation to Profit and Loss Account		
Operating cash flows	64,313	(77,378)
Depreciation/ amortisation expense	(3,446)	(8,546)
Profit on disposal of fixed assets	266	22,769
(Increase)/ decrease in assets other than cash	(27,115)	262,415
Decrease in liabilities	(48,765)	(176,954)
	(14,747)	22,306
Other adjustments		
Income tax paid	31,641	24,695
Federal excise duty receivable - written off	(1,408)	–
Provision for premiums due but unpaid	(15,316)	(11,403)
Provision for amount due from other insurers/ reinsurers	(4,310)	–
Provision for impairment	48,415	(32,160)
Provision for gratuity	(4,940)	(5,041)
Gratuity paid	3,693	1,290
Profit/ Return received	18,245	8,000
Dividends received	89,658	56,778
Capital gain	58,818	84,579
Provision for taxation	(14,761)	(22,748)
	209,735	103,990
	194,988	126,296

Definition of cash

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

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

Cash and bank deposits

	2012	2011
Cash and other equivalents		
Cash in hand	390	417
Policy stamps	458	485
	848	902
Current and other accounts		
Current accounts	18,426	11,894
Profit and loss sharing accounts	59,324	37,636
	77,750	49,530
Cash and bank deposits as per balance sheet	78,598	50,432

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Premiums
for the year ended December 31, 2012

(Rupees in '000)

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2012 Net premium revenue	2011 Net premium revenue
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	399,046	185,181	201,270	382,957	310,488	117,678	145,184	282,982	99,975	107,000
2. Marine and Transport	228,828	30,538	23,024	236,342	104,304	11,095	7,244	108,155	128,187	125,243
3. Motor	131,413	81,013	72,048	140,378	12,148	808	1,262	11,694	128,684	125,105
4. Other Classes	196,647	66,870	84,350	179,167	112,873	33,361	46,187	100,047	79,120	62,962
Grand Total	955,934	363,602	380,692	938,844	539,813	162,942	199,877	502,878	435,966	420,310

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Claims
for the year ended December 31, 2012

(Rupees in '000)

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	2012 Net claims expense	2011 Net claims expense
Direct and facultative										
1. Fire and Property	128,093	99,397	91,320	120,016	102,716	75,590	82,470	109,596	10,420	36,797
2. Marine and Transport	109,483	37,280	26,558	98,761	30,266	20,076	13,642	23,832	74,929	53,553
3. Motor	110,825	42,764	33,578	101,639	15,795	7,805	7,933	15,923	85,716	93,794
4. Other Classes	85,239	30,486	33,026	87,779	29,917	21,524	20,545	28,938	58,841	47,036
Grand Total	433,640	209,927	184,482	408,195	178,694	124,995	124,590	178,289	229,906	231,180

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Expenses
for the year ended December 31, 2012

(Rupees in '000)

Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers*	2012 Net underwriting expense	2011 Net underwriting expense
Direct and facultative									
1. Fire and Property	55,123	21,761	29,286	47,598	57,434	105,032	66,020	39,012	38,666
2. Marine and Transport	38,380	5,218	5,781	37,817	32,935	70,752	28,627	42,125	38,925
3. Motor	13,800	7,645	9,548	11,897	18,914	30,811	205	30,606	29,978
4. Other Classes	13,164	3,546	5,505	11,205	28,303	39,508	8,214	31,294	21,368
Grand Total	120,467	38,170	50,120	108,517	137,586	246,103	103,066	143,037	128,937

* 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 31 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Statement of Investment Income
for the year ended December 31, 2012

	Note	2012	2011
		(Rupees in '000)	
Income from Non-Trading Investments			
Held-to-maturity			
Return on Government Securities		6,920	6,011
Available-for-sale			
Dividend income		89,658	57,278
Return on other fixed income securities		1,077	2,458
Gain on sale of investments		58,818	84,579
		156,473	150,326
Reversal / (provision) for impairment in value of available-for-sale securities - net	12.5.2	48,415	(32,160)
Investments related expenses		(538)	(777)
Net investment income		204,350	117,389

The annexed notes from 1 to 31 form an integral part of these financial statements.

RAFIQ M. HABIB	MAZHER ALI JUMANI	MANSOOR G. HABIB	ALI RAZA D. HABIB
Chairman	*Director*	*Director*	*Managing Director & Chief Executive*

Notes to the Financial Statements for the year ended December 31, 2012

1. STATUS AND NATURE OF BUSINESS

Habib Insurance Company Limited (the Company) was incorporated as a Public Limited Company in the year 1942 under the Companies Act, 1913 (now the Companies Ordinance, 1984). The registered office of the Company is situated at Habib Square, M.A. Jinnah Road, Karachi and the shares of the Company are quoted on the Karachi and Lahore Stock Exchanges. The Company is engaged in the general insurance business.

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 SRO 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 International Accounting Standards Board as 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 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 SECP as aforesaid, have not been considered in the preparation of these financial statements.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that obligations under certain employee benefits are measured at present value and certain investments which are stated at their fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is also the Company’s functional currency. All financial information presented in Pak Rupees has been rounded to the nearest thousands, unless otherwise stated.

2.4 Use of estimates and judgements

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

The estimates/ judgements and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, or judgements were exercised in application of accounting policies, are as follows:

	Note
- Provision for outstanding claims including IBNR	4.4
- Premium deficiency reserve	4.7
- Defined benefit plan	4.8.2
- Classification of investments and impairment	4.9
- Useful lives of assets and methods of depreciation	4.10
- Provision for current and deferred tax	4.16
- Provision	4.2, 4.19 and 4.20

3. STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 01, 2013:

- IAS 19 - Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 1, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets required to recognise unrecognised actuarial gains and losses in other comprehensive income. The unrecognised actuarial loss in aggregate amount to Rs 4.190 million as at December 31, 2012 (2011: 1.872 million) as disclosed in note 6.4. In addition actuarial gains and losses which are currently being recognised in profit and loss account would be required to be recognised in other comprehensive income.

- IAS 27 - Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 1, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.

- IAS 28 - Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) - (effective for annual periods beginning on or after January 1, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The amendments have no impact on financial statements of the Company.

- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) - (effective for annual periods beginning on or after January 1, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

- Annual Improvements 2009-2011 - (effective for annual periods beginning on or after January 1, 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.

  - IAS 1 - Presentation of Financial Statements is amended to clarify that only one comparative period which is the preceding period - is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRS. Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

  - IAS 16 - Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 - Inventories. The amendments have no impact on financial statements of the Company.

  - IAS 32 - Financial Instruments: Presentation is amended to clarify that IAS 12 - Income Taxes applied to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.

  - IAS 34 - Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 - Operating Segments. IAS 34 now requires the disclosure of a measure of total assets and liabilities for a particular reportable segment. In addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

4.1 Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policy holders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified into following main categories:

- Fire and property
- Marine and transport
- Motor
- Other classes (which includes mainly bankers blanket bond, personal accident, health, liability, engineering etc).

These contracts are entered with group companies, corporate clients, and individual residing or located in Pakistan.

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

4.2 Premium

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

Administrative surcharge is recognised as premium at the time policies are written.

Revenue from premiums is determined after taking into account the unearned portion of premium by applying 1/24th method as prescribed by the SEC (Insurance) Rules, 2002. The unearned portion of premium income is recognised as liability.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any.

4.3 Reinsurance contracts

Insurance contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued are reinsurance contracts. 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 contract as various reinsurance assets. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted reinsurance business being reinsured.

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

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

The deferred portion of reinsurance premium ceded is recognised as a prepayment which is calculated by using 1/24th method as prescribed by the SEC (Insurance) Rules, 2002.

The Company assesses its reinsurance assets for impairment on balance sheet date. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account.

4.4 Claims expense

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 and any adjustments to claims outstanding from previous years.

The Company recognises liability in respect of all claims incurred upto the balance sheet date which is based on the best estimate of the claims intimated or assessed on or before the end of the financial year and measured at the undiscounted value of the expected future payments. 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.

The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs. Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. Provision for IBNR is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date. Further actuarial valuation has also been carried out to determine the amount of provision for IBNR in respect of Accident and Health insurance as required by SRO 16(I)/2012 issued by the Securities and Exchange Commission of Pakistan on January 9, 2012. However no further provision has been recorded as a result of valuation as the estimate made by management is sufficient to provide for claims reported subsequent to the balance sheet date.

4.5 Reinsurance and other recoveries against outstanding claims

Claims recoveries against outstanding claims from the reinsurer and salvage recoveries 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 are measured at the amount expected to be received.

4.6 Commission

Commission expense incurred in obtaining and recording policies is deferred and recognised in profit and loss account as an expense in accordance with the pattern of recognition of premium revenue.

Commission income from reinsurers is recognised at the time of issuance of the underlying insurance policy. These are deferred and recognised as liability and recognised in the profit and loss account as revenue in accordance with the pattern of recognition of the reinsurance premiums.

Profit commission, if any, under the terms of reinsurance arrangements, is recognised on accrual basis.

4.7 Premium deficiency reserve

The Company is required as per SEC (Insurance) Rules, 2002 and IFRS-4, to maintain a provision in respect of premium deficiency for the class of business where the unearned premium reserve is not adequate to meet the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other underwriting 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 is recorded as an expense in the profit and loss account and the same shall be recognised as a liability.

The Company determines adequacy of liability of premium deficiency by carrying out analysis of expired periods. For this purpose average loss ratio of last three years inclusive of claims settlement cost but excluding major exceptional claims are taken into consideration to determine ultimate loss ratio to be applied on unearned premium. Further, actuarial valuation has been carried out to determine the amount of premium deficiency reserve in respect of Accident and Health insurance as required by SRO 16(I)/ 2012 issued by the Securities and Exchange Commission of Pakistan on January 9, 2012.

Based on an analysis and also on the advice of actuary, no provision has been made as the unearned premium reserve for each class of business as at the year end is adequate to meet the expected future liability after reinsurance, from claims and other expenses, expected to be incurred after the balance sheet date in respect of policies in force at the balance sheet date.

4.8 Staff retirement benefits

4.8.1 Defined contribution plan

The Company operates a recognised Provident Fund scheme for all its eligible employees. Equal contributions are made by the Company and the employees at the applicable rate.

4.8.2 Defined benefit plan

The Company operates an unfunded approved gratuity scheme for all its permanent employees who attain the minimum qualification period for entitlement of gratuity. Gratuity is based on employees’ last drawn salary.

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuation was carried out as of December 31, 2012 using the “Projected Unit Credit Method”.

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for amortisation actuarial gains and losses.

Cumulative net amortisation actuarial gains and losses at the end of previous year which exceed 10% of the present value of the Company’s gratuity obligations are amortised over the expected average remaining working lives of the employees.

4.8.3 Employees' compensated absences

The Company accounts for its liability towards accumulating compensated absences, when the employees render service that increase their entitlement to future compensated absences. An actuarial valuation has been carried out using Projected Unit Credit method to determine the amount of charge and liability to be recognised at the balance sheet date.

4.9 Investments

4.9.1 Recognition

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case 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:

- Investment at fair value through profit and loss (held for trading)
- Available-for-sale
- Held to maturity

4.9.2 Measurement

4.9.2.1 Investment at fair value through profit or loss (held for trading)

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

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

4.9.2.2 Available-for-sale

At the time of acquisition, investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity or changes in interest rates are classified as available-for-sale.

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at 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 requirements of the SEC (Insurance) Rules, 2002 vide S.R.O. 938 dated December 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value. Also see note no.12.4.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

Unquoted

Unquoted investments are recorded at cost less accumulated impairment losses, if any.

Provision for diminution in the value of securities is made after considering impairment losses, if any.

4.9.2.3 Held-to-maturity

At the time of acquisition, investments with fixed maturity, where 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 less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

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.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

4.10 Fixed assets

4.10.1 Tangibles

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment loss. Depreciation on tangible fixed assets except vehicles is charged to income applying the straight line method at the rates specified in note 19.1 to the financial statements after taking into account residual value, if any. Depreciation on vehicles is charged to income applying the reducing balance method whereby the cost of the asset is written off over the estimated useful life. The useful lives, residual value and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date. Depreciation on additions is charged for the full month in which an asset is put to use and on deletions up to the month immediately preceding the deletion.

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amounts the assets are written down to their recoverable amounts.

Capital work-in-progress is stated at cost less any impairment in value. It consists of advances made to suppliers in respect of tangible and intangible assets.

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

4.10.2 Intangibles

These are stated at cost less accumulated amortisation and any provision for impairment loss. Amortisation of intangible fixed assets is charged to income applying the straight line method at the rates specified in note 19.2 to the financial statements after taking into account residual value, if any.

Full month's amortisation is calculated from the month the assets are available for use using the straight-line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortisation method is reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable, if any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

4.11 Investment and other income

Gain/ (loss) on sale of investments

Gain/ (loss) on sale of available-for-sale investments is taken to profit and loss account in the year of sale.

Dividend income

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

Return on term finance certificates

The difference between the redemption value and the purchase price of the Term Finance Certificates is amortised and taken to the profit and loss account over the term of the investment.

Return on fixed income securities

Return on fixed income securities classified as available-for-sale is recognised on a time proportion basis.

Income on held-to-maturity investment

Income from held-to-maturity investments is recognised on a time proportionate basis taking account the effective yield on the investment.

Profit on bank accounts and deposits

Profit on bank accounts and deposits is recognised on accrual basis.

4.12 Management expenses

Underwriting expenses have been allocated to various classes of business on a basis deemed equitable by the management. Expenses not attributable to the underwriting business are charged as administrative expenses.

4.13 Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, for which discrete financial information is available.

The Company presents segments reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The reported operating segments are also consistent with the internal reporting provided to the Board of Directors who assess the performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

The Company has four primary business segments for reporting purposes namely fire and property, marine and transport, motor and other classes.

4.13.1 Fire and property

The perils covered under fire insurance include damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation, impact and other coverage.

4.13.2 Marine and transport

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

4.13.3 Motor

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

4.13.4 Other classes

Other classes includes mainly bankers blanket bond, personal accident, health, liability, engineering etc.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them. Those assets and liabilities which can not be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities. Financing, investment and income taxes are managed on an overall basis and are therefore, not allocated to any segment.

4.14 Financial instruments

Financial assets and financial liabilities within the scope of IAS 39 are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and are derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in the profit and loss.

Financial instruments carried on the balance sheet include cash and bank balances, loan to employees, investments, premium due but unpaid, amount due from other insurers/ reinsurers, accrued investment income, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amount due to other insurers/ reinsurers, accrued expenses, other creditors and accruals and unclaimed dividends. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.15 Offsetting of financial assets and liabilities

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

4.16 Taxation

4.16.1 Current

Provision for current taxation is based on 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. The charge for current tax also include adjustments, where considered necessary, to provision for tax made in previous years arising from assessments finalised during the current year for such years.

4.16.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities for financial reporting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

4.17 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand, stamps in hand and deposits with banks.

4.18 Foreign currency translation

Transactions in foreign currencies are accounted for in rupees at the rates prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into rupees at the rates of exchange which approximate those prevailing at the balance sheet date. Exchange differences are taken to the profit and loss account.

4.19 Creditors, accruals and provisions

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 the goods and/ or services received, whether or not billed to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current estimate.

4.20 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. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in the provisions are recognised as income or expense.

4.21 Dividend declaration and reserve appropriation

Dividend declaration and reserve appropriations are recognised when approved.

5. PAID-UP SHARE CAPITAL AND RESERVES

5.1 Paid-up share capital

2012	2011		2012	2011
(Number of Shares)			(Rupees in '000)	
1,000,000	1,000,000	Ordinary shares of Rs. 5/- each issued as fully paid in cash	5,000	5,000
98,099,804	89,090,731	Ordinary shares of Rs. 5/- each issued as fully paid bonus shares	490,499	445,454
99,099,804	90,090,731		495,499	450,454
90,090,731	80,080,650	Ordinary shares of Rs. 5/- each at the beginning of the year	450,454	400,403
9,009,073	10,010,081	Fully paid bonus shares issued during the year	45,045	50,051
99,099,804	90,090,731		495,499	450,454

5.1.1 At December 31, 2012 related parties including directors and their dependents held 12.901 million (13.02%) [2011: 11.707 million (12.99%)] number of ordinary shares of Rs. 5 each.

5.2 Reserves for exceptional losses

Under the Income Tax Act, 1922 applicable to insurance companies, the Company set aside in prior years amounts up to ten percent of premium earnings, net of reinsurances of the year as a reserve for exceptional losses, which was treated as an allowable deduction in arriving at the taxable income. This option was withdrawn by the Income Tax Ordinance, 1979 with retrospective effect to the accounting year ended December 31, 1978. Accordingly, the Company has ceased to set aside such amounts, but has retained the reserves created up to December 31, 1978.

6. STAFF RETIREMENT BENEFITS

Defined benefit plan - unfunded gratuity scheme

The latest actuarial valuation was carried out on December 31, 2012 by M/s. Akhtar and Hasan (Private) Limited using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation are as follows:

- Discount rate 12% (2011: 13%) per annum compounded
- Expected rate of increase in the salaries of the employees 10% (2011: 11%) per annum compounded
- Expected service length of the employees 15 years (2011: 15 years)
- Normal retirement 60 years (2011: 60 years)

	2012	2011
	(Rupees in '000)	
6.1 Liability in balance sheet		
Present value of defined benefit obligations	29,473	25,908
Unrecognised actuarial loss	(4,190)	(1,872)
	25,283	24,036
6.2 Movement in liability during the year		
Opening balance	24,036	20,284
Charged to profit and loss account	4,940	5,041
Benefits paid during the year	(3,693)	(1,289)
Closing balance	25,283	24,036
6.3 Reconciliation of the present value of defined benefit obligations		
Present value of defined benefit obligations as at January 1,	25,908	21,374
Current service cost	1,942	1,904
Interest cost	2,998	3,137
Benefits paid	(3,693)	(1,289)
Actuarial loss	2,318	782
Present value of defined benefit obligations as at December 31,	29,473	25,908

	2012	2011
	(Rupees in '000)	

6.4 Movement in the unrecognised loss

	2012	2011
Unrecognised loss as at January 1,	(1,872)	(1,090)
Actuarial loss on obligation during the year	(2,318)	(782)
Unrecognised loss as at December 31,	(4,190)	(1,872)

6.5 Charge for the defined benefit plan

	2012	2011
Current service cost	1,942	1,904
Interest cost	2,998	3,137
	4,940	5,041

6.6 Historical data of the fund

	2012	2011	2010	2009	2008
	(Rupees in '000)				
Present value of defined benefit obligations	29,473	25,908	21,374	19,027	19,105
Fair value of plan assets	–	–	–	–	–
Deficit	29,473	25,908	21,374	19,027	19,105
Experience adjustments					
- Actuarial (loss)/ gain on obligation	(2,318)	(782)	38	2,604	1,404

6.7 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 5.005 million.

	2012	2011
	(Rupees in '000)	

7. AMOUNT DUE TO OTHER INSURERS / REINSURERS

	2012	2011
Foreign reinsurers	11,984	16,756
Local reinsurers	73,582	62,410
Co-insurers	52,392	50,986
	137,958	130,152

8. OTHER CREDITORS AND ACCRUALS

	2012	2011
Federal excise duty	14,366	12,114
Federal insurance fee	865	861
Withholding tax payable	385	505
Agents commission payable	145,472	102,665
Worker's welfare fund payable	15,588	11,392
Sundry creditors	8,704	7,291
	185,380	134,828

9. CONTINGENCIES

As at December 31, 2012 there is no contingency.

	Note	2012	2011
		(Rupees in '000)	
10. CASH AND BANK DEPOSITS			
Cash and other equivalents			
Cash in hand		390	417
Policy stamps		458	485
		848	902
Current and other accounts			
Current accounts	10.1	18,426	11,894
Profit and loss sharing accounts	10.2	59,324	37,636
		77,750	49,530
		78,598	50,432

10.1 This includes balance with related parties amounting to Rs. 17.033 million (2011: 10.862 million).

10.2 This balance is held with related parties and carry profit rates ranging between 6% to 11% (2011: 5% to 11%) per annum.

11. LOANS - (secured, considered good)

To employees	29,221	31,237

These loans are secured against provident fund balances or deposit of title documents. These loans are recoverable in monthly installments over various periods.

These loans carry mark-up rate of 5% to 10% (2011: 5% to 10%) per annum except loans amounting to Rs. 1.111 million (2011: Rs. 0.546 million) which are interest free.

11.1 Reconciliation of carrying amount of loans

Opening balance	31,237	3,143
Mark-up for the year	2,955	142
Disbursements during the year	8,866	29,984
	43,058	33,269
Repayments (including mark-up) during the year	(13,837)	(2,032)
Closing balance	29,221	31,237

	Note	2012	2011
		(Rupees in '000)	

12. INVESTMENTS

12.1 Type of investments

	Note	2012	2011
Held-to-maturity			
Government securities (deposited with SBP)			
- Pakistan Investment Bonds	12.2.1	52,429	47,941
Available-for-sale			
- Units of open end mutual funds deposited with the State Bank of Pakistan - quoted	12.3.1	97	349
- Units of open end mutual funds	12.3.2	5,252	5,000
- Term Finance Certificates - quoted	12.3.3	4,784	7,988
- Modaraba Certificates - quoted	12.3.4	14,840	14,823
- Ordinary shares of quoted/ unquoted companies	12.3.5	283,519	319,087
- Ordinary shares of quoted companies/ units of open end mutual funds (related parties)	12.3.6	695,287	521,246
		1,003,779	868,493
		1,056,208	916,434

12.2 Held-to-maturity - amortised cost

12.2.1 Government securities

This represents Pakistan Investment Bonds having face value of Rs. 53.5 million (market value of Rs. 54.398 million) [2011: Rs. 50 million (market value of Rs. 47.942 million)]. These carry mark-up ranging from of 11.25% to 11.75% (2011: 11.25% to 11.75%) per annum and will mature between July 22, 2013 to August 30, 2015. These have been deposited with the State Bank of Pakistan (SBP) in compliance of Section 29 of Insurance Ordinance, 2002.

12.3 Available-for-sale

12.3.1 Units of open end mutual funds deposited with the State Bank of Pakistan - quoted

2012	2011	Face Value	Name of the investee entity	Note	2012	2011
(Number of units)		(Rupees)			(Rupees in '000)	
–	27,500	10	National Investment (Unit) Trust		–	252
4,878	4,381	50	Pakistan Income Fund		97	97
					97	349

12.3.2 Units of open end mutual funds - quoted

2012	2011					
(Number of Units)						
27,500	–	10	National Investment (Unit) Trust		252	–
11,278	11,278	500	Atlas Money Market Fund		5,000	5,000
					5,252	5,000

12.3.3 Term Finance Certificates - quoted

2012	2011					
(Number of Certificates)						
–	1,000	5,000	Bank Al-Falah Limited		–	3,247
1,000	1,000	5,000	Engro Fertilizers Limited	12.3.3.1	4,784	4,741
					4,784	7,988

12.3.3.1 These carry mark-up rate equal to six months KIBOR plus 1.55% per annum, receivable semi-annually in arrears with no floor or cap. The credit ratings of the above securities is A.

12.3.4 Modaraba certificates - quoted

2012	2011					
(Number of Certificates)						
2,015,000	2,015,000	5	First Habib Modaraba		13,695	13,695
109,000	109,000	10	Standard Chartered Modaraba		1,145	1,128
					14,840	14,823

12.3.5 Ordinary shares of quoted/ unquoted companies

2012	2011	Face Value (Rupees)	Name of the investee entity	2012	2011
(Number of shares)				(Rupees in '000)	
			Oil & Gas		
40,500	50,000	10	Shell Pakistan Limited	5,516	9,514
15,000	75,000	10	Pakistan Oilfields Limited	5,575	27,590
40,000	66,000	10	Pakistan Petroleum Limited	6,515	12,604
10,000	5,000	10	Pakistan State Oil Limited	2,229	1,577
			Chemicals		
250,000	400,000	10	Dawood Hercules Chemicals Limited	8,135	16,956
100,000	100,000	10	Descon Oxychem Limited	615	373
25,000	–	10	Engro Corporation Limited	2,230	–
100,000	–	10	Fatima Fertilizer Company Limited	2,559	–
50,000	–	10	Fauji Fertilizer Company Limited	5,871	–
11,500	40,000	10	Linde Pakistan Limited	1,765	4,040
13,750	13,750	10	Clariant Pakistan Limited	1,922	1,922
			Industrial Metals & Mining		
100,000	50,000	10	International Industries Limited	3,291	2,448
100,000	–	10	International Steels Limited	1,470	–
			General Industries		
50,000	–	10	Cherat Packaging Company Limited	2,031	–
65,000	230,000	10	Packages Limited	9,825	19,026
9,082	8,257	10	Ghani Glass Limited	158	339
			Electronic & Electrical Equipment		
11,537	11,537	10	Pakistan Cables Limited	542	369
20,000	20,000	10	Electric Lamp Manufacurers Ltd (unqouted)	–	–
			Industrial Engineering		
50,000	50,000	5	Al-Ghazi Tractors Limited	12,044	12,044
35,000	45,000	10	Millat Tractors Limited	19,760	27,275
			Automobile & Parts		
20,000	20,000	5	Agriauto Industries Limited	1,190	1,190
27,648	23,040	10	Atlas Battery Limited	2,930	2,930
–	10,000	10	Pak Suzuki Motor Company Limited	–	590
			Beverages		
1,452	1,320	10	Shezan International Limited	124	124
			Food Producers		
150	150	10	Nestle Pakistan Limited	79	79
3,500	6,400	50	Unilever Pakistan Limited	18,634	34,074
443	443	10	Colony Sugar Mills Limited	–	–
20,000	20,000	10	Dewan Sugar Mills Limited	65	40
285,000	285,000	5	Habib ADM Limited	4,334	4,334
427	427	10	Kohinoor Sugar Mills Limited	2	2

2012	2011	Face Value (Rupees)	Name of the investee entity	2012	2011
(Number of shares)				(Rupees in '000)	
			Personal Goods		
6,000	6,000	10	Bata Pakistan Limited	5,440	4,910
117	117	10	Colony Textile Mills Limited	–	–
12,850	12,850	10	Dawood Lawrencepur Limited	588	404
25,000	50,000	10	Gadoon Textile Mills Limited	1,431	2,862
901,050	951,050	10	Gul Ahmed Textile Mills Limited	16,911	16,368
28,549	28,549	10	Gulistan Spinning Mills Limited	164	117
4,575	4,575	10	Kohinoor Industries Limited	14	4
93	93	10	Kohinoor (Gujarkhan) Mills Limited (unquoted)	–	–
20	20	10	National Silk & Rayon Mills Limited	–	–
15,000	50,000	10	Nishat Mills Limited	958	2,022
			Pharma & Bio Tech		
70,000	200,000	10	Abbott Laboratories (Pakistan) Limited	7,501	21,432
75,647	68,770	10	Glaxosmithkline Pakistan Limited	5,547	5,989
			Fixed Line Telecommunication		
–	100,000	10	Pakistan Telecommunication Company Limited	–	1,039
			Electricity		
125,000	400,000	10	The Hub Power Company Limited	4,699	15,220
40,000	50,000	10	Kot Addu Power Company Limited	1,819	2,274
			Banks		
100,000	–	10	Allied Bank of Pakistan Limited	7,022	–
40,000	27,500	10	Habib Bank Limited	4,156	2,763
10,000	–	10	MCB Bank Limited	1,574	–
150,000	62,500	10	National Bank of Pakistan	7,526	3,607
–	149,906	10	Soneri Bank Limited	–	585
100,000	100,000	10	Standard Chartered Bank (Pakistan) Ltd.	1,242	799
25,000	25,000	10	United Bank Limited	1,473	1,471
			Non Life Insurance		
–	25,000	10	Adamjee Insurance Company Limited	–	1,163
144,000	120,000	10	Atlas Insurance Limited	3,747	3,747
50,000	75,000	10	EFU General Insurance Limited	4,275	2,861
663,096	797,596	10	IGI Insurance Limited	63,843	35,270
237,862	198,218	10	Jubilee General Insurance Company Limited	15,963	10,567
50,000	100,000	10	Pakistan Reinsurance Company Limited	1,223	1,550
			Life Insurance		
75,000	35,070	10	EFU Life Assurance Limited	6,992	2,623
				283,519	319,087

12.3.6 Ordinary shares of quoted companies/ units of open end mutual fund (related parties)

2012	2011	Face Value (Rupees)	Name of the investee entity	2012	2011
(Number of shares/units)				(Rupees in '000)	
3,500,000	1,803,465	10	Bank AL Habib Limited	91,775	49,704
140,000	140,000	5	Dynea Pakistan Limited	1,722	1,194
1,790,495	2,377,452	100	First Habib Cash Fund (units)	180,319	240,629
108,585	79,253	100	First Habib Income Fund (units)	10,967	8,106
359,109	359,109	100	First Habib Stock Fund (units)	35,000	35,000
607,006	–	100	First Habib Islamic Balanced Fund (units)	60,701	–
1,665,424	1,665,424	10	Habib Metropolitan Bank Limited	31,393	34,697
5,282,258	995,095	5	Habib Sugar Mills Limited	104,978	10,343
41,600	41,600	10	Indus Motor Company Limited	11,232	8,529
4,330,160	4,330,160	5	Shabbir Tiles and Ceramics Limited	37,456	34,858
1,826,396	1,302,736	5	Thal Limited	129,744	98,186
				695,287	521,246

12.4 The Company uses stock exchange quotation, at the balance sheet date to determine the market value of quoted equity securities. Had these investment been measured at fair value as required by International Accounting Standard (IAS) - 39, the carrying value of investments and equity of the Company as at December 31, 2012 would have been higher by Rs. 176.786 million (2011: higher by Rs. 2.178 million).

12.5 Available for sale

Cost	12.5.1	1,462,771	1,375,900
Provision for impairment - net of reversals	12.5.2	(458,992)	(507,407)
		1,003,779	868,493

12.5.1 Market value of quoted available-for-sale investments is Rs. 1,180.565 million (December 31, 2011: Rs. 866.315 million).

	Note	2012	2011
		(Rupees in '000)	

12.5.2 Provision for impairment - net of reversals

Opening provision		507,407	475,247
(Reversal)/ charge for the year		(48,415)	32,160
Closing provision		458,992	507,407

13. DEFERRED TAXATION

13.1 Deferred tax asset/ (liability) - net

Deferred taxation comprises temporary difference relating to following:

Taxable temporary differences		
Accelerated tax depreciation allowance	(592)	(1,025)
Deductible temporary differences		
Provisions	27,056	20,470
	26,464	19,445

13.2 Reconciliation of deferred tax

Opening provision	19,445	15,592
Recognised in profit and loss account	7,019	3,853
Closing balance	26,464	19,445

14. PREMIUMS DUE BUT UNPAID - unsecured

	Note	2012	2011
Considered good	14.1	224,697	204,360
Considered doubtful		46,854	31,538
		271,551	235,898
Provision against doubtful debts	14.2	(46,854)	(31,538)
		224,697	204,360

14.1 This includes an amount of Rs. 109.949 million (December 31, 2011: Rs. 90.504 million) due from related parties.

	Note	2012	2011
		(Rupees in '000)	

14.2 Provision against premium due but unpaid - net

Balance as on January 1,		31,538	20,135
Charge for the year		15,316	11,403
Balance as on December 31,		46,854	31,538

15. AMOUNTS DUE FROM OTHER INSURERS/ REINSURERS - unsecured

Considered good			
- Premiums due from Co-insurers		103,973	70,617
- Foreign reinsurers		1,413	7,006
- Local reinsurers		5,006	17,600
- Claims due from Co-insurers		42,918	28,400
Considered doubtful - Amount due from other insurers/ reinsurers		14,559	10,249
		167,869	133,872
Provision against amount due from other insurers/ reinsurers	15.1	(14,559)	(10,249)
		153,310	123,623

15.1 Provision against amount due from insurers/ reinsurers - net

Balance as on January 1,		10,249	10,249
Charge for the year		4,310	–
Balance as on December 31,		14,559	10,249

16. ACCRUED INVESTMENT INCOME

Dividend income		1,874	500
Mark-up on term finance certificates		47	104
Mark-up on Government securities		2,516	2,396
Profit on bank accounts		13	6
		4,450	3,006

17. ADVANCES, DEPOSITS AND PREPAYMENTS

Security deposits		1,564	1,550
Advances		3,921	3,950
Prepaid reinsurance premium ceded		199,877	162,942
Others		3,973	3,339
		209,335	171,781

	Note	2012	2011
		(Rupees in '000)	

18. SUNDRY RECEIVABLES

	Note	2012	2011
Federal excise duty receivable	20.4	–	1,408
Receivable against sale of investments		31,444	163,367
Other receivables		3,702	15,693
		35,146	180,468

19. FIXED ASSETS

	Note	2012	2011
Tangible - operating fixed assets	19.1	7,925	9,877
Capital work in progress		–	3,750
Intangible - computer software	19.2	3,904	498
		11,829	14,125

19.1 Tangible - operating assets

(Rupees in '000)

	December 31, 2012							
	Cost			Depreciation			Written Down Value as at Dec. 31, 12	Depreciation Rate %
	As at Jan. 01, 12	Additions / (disposals)	As at Dec. 31, 12	As at Jan. 01, 12	for the year/ (disposals)	As at Dec. 31, 12		
Furniture, fixtures and office equipment	30,354	239	30,593	22,514	2,092	24,606	5,987	10-20
Computers and related equipment	10,714	803 (47)	11,470	9,575	826 (40)	10,361	1,109	33
Motor vehicles	3,871	198 (408)	3,661	2,973	184 (325)	2,832	829	20
	44,939	1,240 (455)	45,724	35,062	3,102 (365)	37,799	7,925	

(Rupees in '000)

	December 31, 2011							
	Cost			Depreciation			Written Down Value as at Dec. 31, 11	Depreciation Rate %
	As at Jan. 01, 11	Additions / (disposals)	As at Dec. 31, 11	As at Jan. 01, 11	for the year/ (disposals)	As at Dec. 31, 11		
Furniture, fixtures and office equipment	29,948	584 (178)	30,354	20,226	2,458 (170)	22,514	7,840	10-20
Computers and related equipment	10,255	609 (150)	10,714	8,802	905 (132)	9,575	1,139	33
Motor vehicles	53,543	2,002 (51,674)	3,871	29,424	5,027 (31,478)	2,973	898	20
	93,746	3,195 (52,002)	44,939	58,452	8,390 (31,780)	35,062	9,877	

19.2 Intangible assets

(Rupees in '000)

	Cost			Amortisation			Written Down Value as at Dec. 31, 12	Amortisation Rate %
	As at Jan. 01, 12	Transfer from CWIP	As at Dec. 31, 12	As at Jan. 01, 12	for the year	As at Dec. 31, 12		
Computer software	9,852	3,750	13,602	9,354	344	9,698	3,904	20
2011	9,852	–	9,852	9,198	156	9,354	498	20

19.3 Disposal of tangible assets

	Cost	Accumulated depreciation	Book value	Sale proceeds	Net gain / (loss) (note 21)	Mode of dsposal	Sold to
	(Rupees in '000)						
Motor vehicles							
Daihatsu Cuore AHE-257	408	325	83	350	267	Negotiation	Tanveer Ahmed Shahid-Employee
Computer and related equipment							
Various	47	40	7	6	(1)	Negotiation	Various suppliers
	455	365	90	356	266		

20. EXPENSES

	Note	2012	2011
		(Rupees in '000)	
Salaries and wages including bonus, contribution to provident fund and staff welfare	20.1	102,911	94,150
Motor car expenses		18,291	17,677
Travelling and entertainment expenses		5,715	4,480
Rent, taxes and electricity		14,006	12,982
Communications		4,693	4,896
Printing and stationery		3,092	3,814
Repair and maintenance		5,142	5,053
Legal and professional expenses		7,119	4,589
Corporate & subscription		5,452	4,851
Depreciation		3,102	8,390
Amortisation		344	156
Donation	20.2	2,000	2,000
Auditors' remuneration	20.3	971	903
Provision against premium due from other insurers/ reinsurers	15.1	4,310	–
Provision against premiums due but unpaid-net	14.2	15,316	11,403
Worker's Welfare Fund		4,195	2,980
Other expenses	20.4	7,830	6,475
		204,489	184,799

The above expenses represents an amount of Rs. 137.586 million and Rs. 66.903 million (2011: 127.305 million and Rs. 57.494 million) charged appropriately to underwriting under their respective classes and general and administration expenses respectively.

20.1 This includes staff retirement benefits amounting to Rs. 8.277 million (2011: Rs. 7.885 million).

20.2 An amount of Rs. 2.0 million (2011: Rs. 2.0 million) was donated to the following Trusts in which the Directors' have interest:

Name of Institution / Address	Director / Trustee	(Rupees in '000)
Al-Sayyeda Benevolent Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Rafiq M. Habib 2. Mr. Mansoor G. Habib 3. Mr. Aun Mohammad A. Habib	400
Rehmatbai Habib Widows & Orphans Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Aun Mohammad A. Habib	400
Rehmatbai Habib Food & Clothing Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Mohamedali R. Habib 2. Mr. Sajjad Hussain Habib 3. Mr. Aun Mohammad A. Habib	400
Habib Poor Fund UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Mansoor G. Habib 2. Mr. Mohamedali R. Habib 3. Mr. Aun Mohammad A. Habib	400
Habib Medical Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Rafiq M. Habib 2. Mr. Mohamedali R. Habib	400
		2,000

	Note	2012	2011
		(Rupees in '000)	
20.3 Auditors' remuneration			
Annual audit		432	360
Interim review		180	150
Certifications fees and review of statement of compliance with Code of Corporate Governance		187	173
Out of pocket expenses		172	220
		971	903

20.4 This includes federal excise duty written off during the year amounting to Rs. 1.408 million.

21. OTHER INCOME - NET

	Note	2012	2011
Income from financial assets			
Profit on bank accounts		4,054	4,163
Mark-up on staff loan	11.1	2,955	142
		7,009	4,305
Income from non-financial assets			
Net gain on sale of fixed assets	19.3	266	22,769
Others		701	32
Liabilites written back		1,303	1,850
		2,270	24,651
		9,279	28,956

22. TAXATION - NET

	2012	2011
Current	21,780	26,601
Deferred	(7,019)	(3,853)
	14,761	22,748

22.1 Relationship between tax expense and accounting profit

	2012	2011
Profit before taxation for the year	209,749	149,044
Tax at the applicable rate of 35% (December 31, 2011: 35%)	73,412	52,165
Tax effect of expenses that are not allowable in determining taxable income	(16,945)	11,256
Tax effect of capital gains subject to separate rate of tax	(19,233)	(27,012)
Tax effect of income subject to lower rates	(22,470)	(14,320)
Tax effect of permanent differences	–	851
Others	(3)	(192)
	14,761	22,748

22.2 In respect of tax years 2004 to 2007, the tax authorities have served notices on the Company under section 122(9) for amendment under section 122(5A) in the returns filed by the Company in respect of the aforesaid years. The amendment mainly relates to taxability of capital gains and proration of expenses against dividend and capital gains. The proceedings in respect of tax year 2004 to 2007 are still pending due to the fact that the Company has filed writ petition before the Honourable High Court of Sindh against said notices. The Honourable High Court of Sindh has issued status quo order in respect of tax year 2005.

Further, the tax authorities have also issued orders for the tax year 2008 and 2009 wherein certain disallowances have been made mainly relating to the same matters mentioned above. During 2011, the Commissioner Income Tax has decided the matter in favour of the Company in respect of tax year 2008 and 2009. The department has filed appeal before the learned Appellate Tribunal Inland Revenue for the tax years 2008 and 2009. During the year, the Appellate Tribunal Inland Revenue has decided the matter in favour of the Company.

The Company has filed return of total income for the tax year 2010 and 2011 (financial year ended December 31, 2009 and 2010) which is deemed to have been assessed under the Income Tax Ordinance, 2001 unless selected by the taxation authorities for audit purposes. Furthermore, in respect of tax year 2012, the tax authorities have served notice on the Company under section 122 (9) for amendment under section 122 (5A) of the Income Tax Ordinance, 2001 disallowing certain expenses claimed by the Company. The proceedings of the case are under progress.

23. EARNINGS PER SHARE - basic and diluted

Basic earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares as at the year end as follows:

	2012	2011
	(Rupees in '000)	
Profit after tax for the year	194,988	126,296
	(Number of shares)	(Restated)
Weighted average number of shares of Rs. 5/- each	99,099,804	99,099,804
	(Rupees)	(Restated)
Basic earnings per share of Rs. 5/- each	1.97	1.27

23.1 No figure for diluted earnings per share has been presented as the Company has not issued any instrument which would have an impact on earnings per share when exercised.

24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged to in the financial statements, including all benefits, to the Chief Executive, Directors and Executives/ Key Management Personnel of the Company are as follows:

	Chief Executive		Directors		Executives / Key Management Personnel		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	(Rupees in '000)							
Fees	–	–	215	210	–	–	215	210
Managerial remuneration	6,000	4,800	–	–	12,375	11,336	18,375	16,136
Bonus	–	–	–	–	2,151	2,024	2,151	2,024
Retirement benefits	333	257	–	–	687	630	1,020	887
Others	833	768	–	–	552	600	1,385	1,368
	7,166	5,825	–	–	15,765	14,590	22,931	20,415
Number of persons	1	1	7	7	4	6	12	14

24.1 The Chief Executive and Executives of the Company are entitled to medical reimbursement at actual as per company's policy.

25. TRANSACTIONS WITH RELATED PARTIES

25.1 Related parties of the Company comprise of associated companies, companies with common directors, major shareholders, staff retirement funds, directors and key management perssonnel. The Company in the normal course of business carries out transactions with related parties at commercial terms and conditions except for compensation to key management personnel which are on employment terms.

Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

Transactions and balances with associated companies

	2012	2011
	(Rupees in '000)	
Transactions during the year with associated companies		
Premium written	390,233	362,299
Claims paid	160,038	98,303
Dividend received	60,840	34,017
Dividend paid	10,401	9,245
Investment made	776,033	625,823
Investment sold	625,500	550,243
Interest received on bank accounts	4,055	4,163
Bank charges	194	577
Balances with associated companies		
Premium due but unpaid	109,917	90,373
Claims outstanding	24,748	33,922
Bank balances	76,357	48,498
Profit receivable on bank accounts	12	6
Investment held	695,287	521,246
Bonus from associated companies	(Number of shares / units)	
Bonus shares received	436,555	1,995,957
Bonus shares issued	832,090	799,545
Bonus units received	–	32,707
Transactions during the year with other related parties including key management personnel		
Premium written	218	102
Claims paid	142	115
Share registrar fees paid	478	323
Brokerage expenses paid	378	1,101
Contribution to the provident fund	3,337	2,844
Proceeds from sale of assets	350	4,675
Balance with other related parties including key management personnel		
Premium due but unpaid	32	131
Due to / (from) the provident fund	2	(12)

25.2 Remuneration to the key management personnel are in accordance with the terms of their employment (refer note 24). Contribution to the provident fund is in accordance with the Company's staff service rules.

25.3 Details of other balances and transaction with related parties during the year ended December 31, 2012 are disclosed in note 12.3.6, and 14.1 to these financial statements.

26. SEGMENT INFORMATION

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 and liabilities as at December 31, 2012 and December 31, 2011, allocated capital expenditures and depreciation/ amortisation during the year. The above have been assigned to the following segments on the basis of gross premium earned by the segments.

(Rupees in '000)

	Fire and Property		Marine and Transport		Motor		Other Classes		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Segment Assets										
Segment Assets	311,810	268,226	192,434	173,360	114,298	107,784	145,881	118,845	764,423	668,215
Unallocated corporate assets									1,239,545	1,209,861
Consolidated total assets									2,003,968	1,878,076
Segment Liabilities										
Segment liabilities	366,747	344,032	226,338	222,355	134,436	138,245	171,583	152,434	899,104	857,066
Unallocated corporate liabilities									144,409	142,930
Consolidated total liabilities									1,043,513	999,996
Capital expenditure										
Capital expenditure	506	1,584	312	1,023	185	636	237	702	1,240	3,945
Depreciation/ amortisation	1,407	3,431	867	2,217	515	1,378	657	1,520	3,446	8,546

27. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

27.1 Insurance risk management

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of 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, earthquakes, transit, theft and third party liabilities etc.

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 and regular detailed review of claim handling procedures.

(a) 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, quota share, surplus arrangements and catastrophic coverage. The objective of having such arrangements is to mitigate adverse impacts of severe losses on Company's net retentions.

(b) Uncertainty in the estimation of future claim payments

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events as per terms and condition of the insurance contract.

An estimated amount of the claim is recorded immediately on the intimation to the Company. The estimation of the amount is based on management judgement or preliminary assessment by the independent surveyor appointed for the purpose. The initial estimates include expected settlement cost of the claims. Provision for IBNR is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claim actually reported subsequent to the balance sheet date.

There are several variable factors which affect the amount and timing of recognised 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 recognised amount. Similarly, the provision for claims incurred but not reported is based on historic reporting pattern of the claims; hence, actual amount of incurred but not reported claims may differ from the amount estimated. Outstanding claims are reviewed on a periodic basis.

(c) 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 judgement to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgement includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

(d) Changes in assumptions

The Company did not change its assumptions for the insurance contracts as disclosed in above (b) and (c).

(e) Sensitivity analysis

The insurance claim liabilities are sensitive to the incidence of insured events and severity/ size of claims. The impact of 10% increase/ decrease in incidence of insured events on gross claim liabilities, underwriting results, net claim liabilities, profit before tax and shareholder's equity is as follows:

	Underwriting results		Shareholder's equity	
	2012	2011	2012	2011
	(Rupees in '000)			
Average claim cost				
Fire and property	1,042	3,680	677	2,392
Marine and transport	7,493	5,355	4,870	3,481
Motor	8,572	9,379	5,572	6,096
Other classes	5,884	4,704	3,825	3,058
	22,991	23,118	14,944	15,027

Concentration of risk

To optimise benefits form 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 risk 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 process, 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 specification as laid down by IAP (Insurance Association of Pakistan). For instance, the presence of perfect party walls, double fire proof iron doors, physical separation between the building 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.

The ability to manage catastrophic risk is tied managing the density of risk within a particular area. For catastrophic aggregates, the system assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardising Target Accumulations) codes with reference to the accumulation of sum insured in force at any particular location against natural perils.

For marine risks, complete underwriting details such as sums insured, mode of transport (air/ inland transit), vessel identification, sailing dates, origin and destination of the shipments, per carry limits, accumulation of sum insured on a single voyage etc are taken into consideration.

A number of proportional and non-proportional reinsurance arrangements are in place to protect the net account. Apart from the adequate event limit which is a multiple of the treaty capacity or the primary recovery from the proportional treaty. Losses may also be recovered from the non-proportional treaty which is very much in line with the risk management philosophy of the Company.

The Company minimises its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

The concentration of risk by type of contracts based on single risk with maximum exposure is summarised below.

	Gross sum insured		Reinsurance		Net	
	2012	2011	2012	2011	2012	2011
			(Rupees in ' 000)			
Fire and property	15,455,228	16,858,000	15,451,728	16,842,000	3,500	16,000
Marine and transport	1,278,948	491,000	1,266,158	479,000	12,790	12,000
Motor	12,060	11,000	11,360	10,000	700	1,000
Other classes	5,221,385	4,724,000	5,217,885	4,694,000	3,500	30,000
	21,967,621	22,084,000	21,947,131	22,025,000	20,490	59,000

Claims development table

The following table shows the development of claims over a period of time on gross basis. For each class of business the uncertainty about the amount and timings of claims payment is usually resolved within a year.

Analysis on gross basis

Accident year	2008 and prior years	2009	2010	2011	2012	Total
			(Rupees in ' 000)			
Estimate of ultimate claims cost:						
At end of accident year	151,082	292,564	340,549	432,375	421,406	1,637,976
One year later	137,374	313,617	337,188	424,254	–	1,212,433
Two years later	99,812	318,601	335,729	–	–	754,142
Three years later	100,956	315,423	–	–	–	416,379
Four years later	130,752	–	–	–	–	130,752
Estimate of cumulative claims	130,752	315,423	335,729	424,254	421,406	1,627,564
Cumulative payment made to date	(128,773)	(310,724)	(329,247)	(403,313)	(271,025)	(1,443,082)
Liability for outstanding claims	1,979	4,699	6,482	20,941	150,381	184,482

27.2 Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

27.2.1 Risk management framework

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

27.2.2 Credit risk

Credit risk is the risk that 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.

27.2.2.1 Exposure to credit risk

Credit risk of the Company arises principally from the balances with banks, loans to employees, investments (except for investment in government securities and listed equity shares), premium due but unpaid, amount due from other insurers/ reinsurers, reinsurance and other recoveries against outstanding claims and sundry receivable (except receivable against FED). To reduce the credit risk the management continuously reviews and monitors the credit exposure towards the policyholders and other insurers/ reinsurers and makes provision against those balances considered doubtful of recovery.

In summary, compared to the amount included in statement of assets and liabilities, the maximum exposure to credit risk as at December 31, is as follows:

		December 31, 2012		December 31, 2011	
	Note	Balance as per the financial statement	Maximum exposure	Balance as per the financial statement	Maximum exposure
		(Rupees in '000)			
Bank balances	10	77,750	77,750	49,530	49,530
Loan to employees	11	29,221	29,221	31,237	31,237
Investments	12	1,056,208	4,784	916,434	7,988
Premiums due but unpaid	14	224,697	224,697	204,360	204,360
Amounts due from other insurers/ reinsurers	15	153,310	153,310	123,623	123,623
Accrued investment income	16	4,450	4,450	3,006	3,006
Reinsurance recoveries against outstanding claims		124,590	124,590	124,995	124,995
Advances, deposits and prepayment	17	9,458	1,564	8,839	1,550
Sundry receivables	18	35,146	35,146	180,468	179,060
		1,714,830	655,512	1,642,492	725,349

Differences in the balances as per financial statements and maximum exposure in investments is due to investments in government securities of Rs. 52.429 million (2011: 47.941 million) and listed equity shares/ units of Rs. 998.995 million (2011: 853.885 million) which are not exposed to credit risk.

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

	Rating		Rating
	Short term	Long term	Agency
Habib Metropolitan Bank Limited	A1+	AA+	PACRA
Bank AL Habib Limited	A1+	AA+	PACRA
Habib Bank Limited	A1+	AAA	JCR-VIS
United Bank Limited	A1+	AA+	JCR-VIS

The credit quality of Company's exposure in Term Finance Certificates are disclosed in note 12.3.3.1 of the financial statements.

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 receivables as disclosed in note 14 to the financial statements.

Concentration of credit risk

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

Sector-wise analysis of premium due but unpaid at the reporting date was:

	December 31, 2012		December 31, 2011	
	(Rupees in'000)	%	(Rupees in'000)	%
Automobiles	46,218	17.0	39,501	16.7
Banks, Modaraba and Leasing	21,618	8.0	35,513	15.1
Textile and Composite	35,425	13.0	35,871	15.2
Sugar	24,170	8.9	11,656	4.9
Chemicals and Allied Industries	4,350	1.6	4,885	2.1
Glass, Ceramics and Tiles	17,618	6.5	9,071	3.8
Cable, Engineering and Steel	6,326	2.3	4,683	2.0
Cement	–	0.0	200	0.1
Food and Confectionary	4,481	1.7	9,400	4.0
Fuel and Energy	6,718	2.5	6,519	2.8
Insurance	919	0.3	709	0.3
Pharmaceuticals	4,189	1.5	4,334	1.8
Others	99,519	36.6	73,556	31.2
	271,551	100	235,898	100

Age analysis of premium due but unpaid at the reporting date was:

	December 31, 2012		December 31, 2011	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	204,855	–	178,009	–
1-2 years	26,923	7,081	12,491	–
2-3 years	5,459	5,459	12,544	–
Over 3 years	34,314	34,314	32,854	31,538
Total	271,551	46,854	235,898	31,538

The Company enters into re-insurance/ co-insurance arrangements with re-insurers/ other insurers having sound credit ratings accorded by reputed credit rating agencies. Further, the Company is required to comply with the requirements of circular no. 32/ 2009 dated October 27, 2009 issued by SECP which requires an insurance company to place at least 80% of their outward treaty cessions with reinsurers rated 'A' or above by Standard & Poors with the balance being placed with entities rated at least 'BBB' by reputable ratings agency. An analysis of all insurer/ reinsurance assets recognised by the rating of the entity from which it is due is as follows:

	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Prepaid reinsurance premium ceded	2012	2011
			(Rupees in '000)		
A or above (including PRCL)	5,893	124,590	199,877	330,360	307,779
BBB	414	–	–	414	4,652
Others	112	–	–	112	112
	6,419	124,590	199,877	330,886	312,543

Age analysis of amount due from other insurers/ reinsurers at the reporting date was:

	2012		2011	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	105,287	–	30,911	–
1-2 years	35,551	–	28,055	–
Over 2 years	27,031	14,559	74,906	10,249
Total	167,869	14,559	133,872	10,249

Age analysis of reinsurers recoveries against outstanding claims at the reporting date was:

	2012		2011	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	60,253	–	96,544	–
1-2 years	53,131	–	19,609	–
Over 2 years	11,206	–	8,842	–
Total	124,590	–	124,995	–

In respect of the aforementioned insurance and reinsurance assets, the Company takes into account its past history/ track record of recoveries and financial position of the counterparties while creating provision for impairment. Further, reinsurance recoveries are made when corresponding liabilities are settled.

27.2.3 Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting its financial obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations that 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 following are the contractual maturities of financial liabilities:

	2012	2011
	Carrying Amount (Rupees in '000)	
Non-derivative financial liabilities		
Provision for outstanding claims	184,482	209,927
Amount due to other insurers/ reinsurers	137,958	130,152
Accrued expenses	9,843	10,861
Other creditors and accruals	185,380	134,828
Unclaimed dividends	29,277	25,911
	546,940	511,679

The carrying amounts represent contractual cash flows maturing within one year.

27.2.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices may affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. All transactions are carried in Pak Rupees therefore, the Company is not exposed to currency risk. However, the Company is exposed to interest rate risk and other price risk.

27.2.4.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate exposure arises from balances held in profit and loss sharing accounts with reputable banks, term finance certificates and government securities. The Company limits interest rate risk by monitoring changes in interest rates. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments are:

	2012	2011	2012	2011
	Effective interest rate (in %)		(Rupees in '000)	
Fixed rate instruments				
- Government securities	(11.25 to 11.75)	(11.25 to 11.75)	52,429	47,941
Variable rate instruments				
- Bank balances	(6 to 11)	(5 to 11)	59,324	37,636
- Term finance certificates	(11.08)	(13.43 to 13.46)	4,784	7,988
			64,108	45,624

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account and equity of the Company.

Cash flow sensitivity analysis for variable rate instruments

The Company is exposed to cash flow interest rate risk in respect of its balances with profit and loss sharing account with banks and term finance certificates. A change of 100 basis points in interest rates at the year end would not have material impact on profit for the year and equity of the Company.

27.2.4.2 Equity price risk

Equity price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of KSE-100 Index and the value of individual shares. The equity price risk exposure arises from the Company's investments in equity securities and units of mutual funds. This arises from investments held by the Company for which prices in the future are uncertain. The Company policy is to manage price risk through diversification and selection of securities within specified limits set by the management. A summary analysis of investments by industry sector is disclosed in note 12 to these financial statements.

The Management monitors the fluctuations of prices of equity securities on regular basis. The Company also has necessary skills for monitoring and managing the equity portfolio in line with fluctuations of the market.

Market prices are subject to fluctuation and consequently the amount realised in the subsequent sale of an investment may significantly differ from the reported market value. Furthermore, amount realised in the sale of a particular security may be affected by the relative quantity of the security being sold.

Sensitivity analysis of equity investment as at the reporting date is as follows:

For available-for-sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income and equity would have been lower by Rs. 23.679 million (2011: 32.297 million). However, an increase of 10% in equity prices at the reporting date, such increase is restricted to amount of cost of investment of such securities, i.e., Rs. 20.196 million (2011: 21.924 million) as per the policy of the Company.

27.3 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of all financial assets and financial liabilities approximate their fair values, except for certain equity and debt instruments held, whose fair values have been disclosed in their respective notes to these financial statements.

28. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for 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 Company currently meets the paid-up capital requirement as required by the Securities and Exchange Commission of Pakistan.

29. NUMBER OF EMPLOYEES

The number of employees at the end of year was 186 (2011: 199).

30. SUBSEQUENT EVENT - NON ADJUSTING

In the meeting held on February 14, 2012, the Baord of Directors of the Company proposed a final cash dividend of Rs. 1.75 per share (2011: Rs. 1.25 per share) amounting to Rs. 173.425 million (2011: Rs. 112.613 million) and nil bonus shares (2011: one share for every ten shares held amounting to Rs. 45.045 million) for the year ended December 31, 2012, for approval by the members in the Annual General Meeting to be held on April 29, 2013. .

31. DATE OF AUTORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors in their meeting held on February 14, 2013.

RAFIQ M. HABIB *Chairman*	MAZHER ALI JUMANI *Director*	MANSOOR G. HABIB *Director*	ALI RAZA D. HABIB *Managing Director* *& Chief Executive*

Habib Insurance Company Limited

Pattern of Shareholding as at December 31, 2012

Number of Shareholders	Size of Shareholding Rs. 5/- each			Total Shares Held
402	1	to	100	9,489
322	101	to	500	88,141
210	501	to	1,000	160,728
556	1,001	to	5,000	1,437,283
186	5,001	to	10,000	1,502,118
71	10,001	to	15,000	885,956
59	15,001	to	20,000	1,069,245
33	20,001	to	25,000	743,122
25	25,001	to	30,000	701,718
15	30,001	to	35,000	493,492
15	35,001	to	40,000	573,219
5	40,001	to	45,000	212,488
20	45,001	to	50,000	987,805
6	50,001	to	55,000	910,987
5	55,001	to	60,000	282,323
6	60,001	to	65,000	380,290
8	65,001	to	70,000	546,339
4	70,001	to	75,000	288,061
10	75,001	to	80,000	786,578
4	85,001	to	90,000	352,103
2	90,001	to	95,000	187,051
10	95,001	to	100,000	986,359
10	100,001	to	105,000	1,028,386
1	105,001	to	110,000	105,160
6	110,001	to	115,000	674,597
1	115,001	to	120,000	115,517
5	120,001	to	125,000	618,030
1	125,001	to	130,000	125,920
4	130,001	to	135,000	535,209
3	135,001	to	140,000	413,031
3	145,001	to	150,000	446,933
1	150,001	to	155,000	153,88
4	155,001	to	160,000	627,392
7	160,001	to	165,000	1,34,313
4	165,001	to	170,000	667,650
1	175,001	to	180,000	176,930
5	180,001	to	185,000	911,541
4	190,001	to	195,000	769,858
7	195,001	to	200,000	1,388,313
1	200,001	to	205,000	200,047
2	215,001	to	220,000	433,422
1	220,001	to	225,000	220,691
2	225,001	to	230,000	454,603
1	240,001	to	245,000	244,790
6	245,001	to	250,000	1,489,988
2	260,001	to	265,000	529,860
1	265,001	to	270,000	265,389
1	270,001	to	275,000	273,670
1	275,001	to	280,000	277,393
1	280,001	to	285,000	283,108
1	285,001	to	290,000	286,394
1	300,001	to	305,000	301,515
1	305,001	to	310,000	305,776
2	310,001	to	315,000	620,630
1	325,001	to	330,000	328,577
2	335,001	to	340,000	673,329
1	345,001	to	350,000	345,042
2	355,001	to	360,000	715,214
1	360,001	to	365,000	361,534
1	380,001	to	385,000	384,808
1	390,001	to	395,000	394,733
1	405,001	to	410,000	408,695
1	420,001	to	425,000	421,532
4	430,001	to	435,000	1,732,889
1	475,001	to	480,000	475,503
2	480,001	to	485,000	964,435
3	495,001	to	500,000	1,491,786
2	505,001	to	510,000	1,016,616
1	550,001	to	555,000	554,956
1	565,001	to	570,000	565,811
1	585,001	to	590,000	588,894
1	590,001	to	595,000	594,597
1	615,001	to	620,000	619,864
1	620,001	to	625,000	624,323
1	630,001	to	635,000	634,837
1	645,001	to	650,000	647,562
1	650,001	to	655,000	654,056
1	670,001	to	675,000	673,428
1	695,001	to	700,000	698,652
1	700,001	to	705,000	704,226
1	705,001	to	710,000	707,812
1	740,001	to	745,000	742,154
1	790,001	to	795,000	792,159
1	800,001	to	805,000	804,930
1	820,001	to	825,000	822,526
1	850,001	to	855,000	851,807
3	870,001	to	875,000	2,616,538
1	965,001	to	970,000	966,709
1	975,001	to	980,000	975,672
1	980,001	to	985,000	981,666
1	995,001	to	1,000,000	999,040
1	1,040,001	to	1,045,000	1,040,545
1	1,060,001	to	1,065,000	1,062,134
1	1,115,001	to	1,120,000	1,119,935
1	1,450,001	to	1,455,000	1,451,063
1	1,655,001	to	1,660,000	1,657,500
1	1,855,001	to	1,860,000	1,856,250
1	1,880,001	to	1,885,000	1,882,895
1	2,175,001	to	2,180,000	2,177,109
1	2,330,001	to	2,335,000	2,331,677
1	2,345,001	to	2,350,000	2,346,126
1	2,395,001	to	2,400,000	2,395,721
1	3,980,001	to	3,985,000	3,983,809
1	4,290,001	to	4,295,000	4,291,018
1	4,335,001	to	4,340,000	4,335,613
1	4,585,001	to	4,590,000	4,588,317
1	4,975,001	to	4,980,000	4,978,341
2,129			TOTAL	99,099,804

Categories of Shareholders	Numbers	Shares Held	Percentage
1. Individuals	2,052	61,913,907	62.48
2. Insurance companies	8	5,827,318	5.88
3. Joint stock companies	36	9,908,532	10.00
4. Charitable trusts	9	14,188,805	14.32
5. Government institutions	2	1,402	0.00
6. Modaraba companies	1	149,644	0.15
7. Foreign investors	21	7,110,196	7.17
	2,129	99,099,804	100.00

Pattern of Shareholding as at December 31, 2012

Additional Information

Shareholders' Category	Number of shareholders/ folios	Number of shares held
Associated Companies		
Habib Sugar Mills Limited	1	4,291,018
Thal Limited	1	4,588,317
Karachi Mercantile Co. (Pvt.) Limited	1	273,670
CDC Trustee First Habib Stock Fund	1	23,519
NIT and ICP		
IDBP (ICP Unit)	2	1,402
Directors		
Mr. Rafiq M. Habib	1	133,485
Mr. Abbas D. Habib	2	602,647
Mr. Mazher Ali Jumani	2	8,606
Mr. Mansoor G. Habib	2	26,785
Mr. Mohamedali R. Habib	2	1,555,114
Mr. Sajjad Hussain Habib	1	227,307
Mr. Aun Mohammad A. Habib	1	227,296
Chief Executive Officer		
Mr. Ali Raza D. Habib	1	49,051
Directors' Spouses		
Mrs. Jamila Rafiq w/o Mr. Rafiq M. Habib	2	773,438
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	1	16,702
Mrs. Sayyeda Mohamedali w/o Mr. Mohamedali R. Habib	1	104,051
Banks, Development Financial Institutions, Insurance Companies, Modaraba Companies and Mutual Funds	9	6,076,318
Joint Stock Companies and Corporations	33	755,527
Individuals/ Others	2,035	58,066,550
Charitable Trusts, Societies and Government Institutions	9	14,188,805
Foreign Investors	21	7,110,196
	2,129	99,099,804

Notice of Annual General Meeting

NOTICE is hereby given that the 70th Annual General Meeting of the Shareholders of the Company will be held at The Institute of Chartered Accountants of Pakistan, Kehkashan, Clifton, Karachi, on Monday, April 29, 2013 at 11:00 a.m. to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended December 31, 2012 together with the Directors' and Auditors' Report thereon.

2. To approve payment of cash dividend @ 35% i.e. Rs. 1.75 per share of Rs. 5/- each for the year ended December 31, 2012 as recommended by the Board of Directors.

3. To appoint Auditors for the year ending December 31, 2013 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for reappointment.

4. To consider any other business of the Company with the permission of the Chair.

Special Business

5. To consider and pass the following special resolution:

"RESOLVED that the Company be and is hereby authorised to invest Rs. 50 million for the purchase of ordinary shares of M/s. Habib Metropolitan Bank Limited.

FURTHER RESOLVED that the Managing Director & Chief Executive be and is hereby authorised to make the aforesaid investments as and when deemed appropriate and to delegate the aforesaid powers to any officer of the Company as he may deem fit."

For item # 5, statement under section 160 of the Companies Ordinance, 1984 is annexed.

By order of the Board

SHABBIR GULAMALI
Company Secretary

Karachi: February 14, 2013

Notes:

1. The share transfer books of the Company will remain closed from Tuesday, April 16, 2013 to Monday, April 29, 2013 (both days inclusive).

2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as his/ her proxy to attend and vote on his/ her behalf. Proxy form, in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.

3. The CDC account/ sub account holders are requested to bring with them their Computerised National ID Cards along with the Participant(s) ID number and their account numbers at the time of attending the AGM in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors Resolution/ Power of Attorney with specimen signatures be produced at the time of meeting.

4. Members are requested to promptly communicate any change in their address to our Share Registrar, M/s. Noble Computer Services (Pvt.) Limited situated at First Floor, House of Habib Building, Siddiqsons Tower, 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

The statement is annexed to the Notice of the 70th Annual General Meeting to be held on April 29, 2013 at which certain business are to be transacted. The purpose of this statement is to set forth material facts concerning such special business.

ITEM NUMBER 5 OF THE AGENDA

As recomended by the Board of Directors in their meeting held on February 14, 2013 it is proposed to make investment by way of purchase of shares of our associated company, M/s. Habib Metropolitan Bank Limited. In this regard the Company seeks the approval of the shareholders under section 208 of the Companies Ordinance, 1984.

In compliance with Regulations No. 8 of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012 the following information is annexed with the notice for approval of investment in associated companies.

Regulation No. 3(1)a

Sr. No.	Description	Information Required
1	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established	Habib Metropolitan Bank Limited being associated on the basis of common directorship. Mr. Mohamedali R. Habib, Director of the Company is also Director of Habib Metropolitan Bank Ltd.
2	Purpose, benefits and period of investment	Long term investment to earn dividend income as well as prospective capital gains
3	Maximum amount of investment	Rs. 50 million
4	Maximum price at which securities will be acquired	Not more than the price quoted on the stock exchange
5	Maximum number of securities to be acquired	Equivalent to the amount of investment
6	Number of securities and percentage thereof held before and after the proposed investment	1,665,424 shares (0.16%) held before proposed investment. Number of shares and percentage after proposed investment will depend on the prevailing prices at the time of actual acquisition of shares which could vary with the market price at which shares are purchased in future
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired	Rs. 17.71 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1)	Not Applicable
9	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements	December 31, 2012: Rs. 26.96
10	Earning per share of the associated company or associated undertaking for the last three years	2012: Rs. 3.25 per share 2011: Rs. 3.13 per share 2010: Rs. 2.69 per share
11	Sources of fund from which securities will be acquired	Own source

Sr. No.	Description	Information Required
12	Where the securities are intended to be acquired using borrowed funds: i) Justification for investment through borrowings; and ii) Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	No Director or Chief Executive has any interest in the proposed investment, except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the Company
15	Any other important details necessary for the members to understand the transaction	None
16	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely: i) Description of the project and its history since conceptualisation; ii) Starting and expected dates of completion of work; iii) Time by which such project shall become commercially operational; and iv) Expected time by which the project shall start paying return on investment	Not Applicable

Regulation No. 3(3)

Sr. No.	Description	Information Required
	The directors of the investing company while presenting the special resolution for making investment in its associated company or associated undertaking shall submit an undertaking to the members of the investing company that they have carried out necessary due diligence for the proposed investment	The Directors of the Company submit that they have carried out necessary due diligence for the proposed investment in shares of Habib Metropolitan Bank Ltd.

Status of approvals for investment in associated companies

Bank AL Habib Limited

Sr. No.	Description	Information Required
1	Information to be disclosed to the members:- If the associated company or associated undertaking in which the investment is being made or any of its sponsors or directors is also a member of the investing company, the information about interest of the associated company or associated undertaking and its sponsors and directors in the investing company shall be disclosed in the notice of general meeting called for seeking members' approval pursuant to section 208 of the Ordinance	Bank AL Habib Limited is not holding any shares of the investing company. No Director or Chief Executive has any interest in the investing company except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the investing company. The shareholding of Directors and Chief Executive is disclosed in the pattern of shareholding
2	In case any decision to make investment under the authority of a resolution passed pursuant to provisions of section 208 of the Ordinance is not implemented either fully or partially till the holding of subsequent general meeting(s), the status of the decision must be explained to the members through a statement having the following details namely:-	
a)	total investment approved;	Rs. 60 million approved by the shareholders at Annual General Meeting held on April 28, 2012
b)	amount of investment made to date;	Rs. 42.068 million
c)	reasons for not having made complete investment so far where resolution required it to be implemented in specified time;	Remaining amount may be invested on availability of shares at reasonable price within the period specified in the earlier resolution.
d)	material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company	The shareholders equity of the investee company has increased to Rs.21.175 million from Rs.17.837 million due to issue of Bonus Shares of Rs.1.318 million and increase in reserves of Rs.2.020 million

Habib Sugar Mills Limited

Sr. No.	Description	Information Required
	Information to be disclosed to the members:-	
1	If the associated company or associated undertaking in which the investment is being made or any of its sponsors or directors is also a member of the investing company, the information about interest of the associated company or associated undertaking and its sponsors and directors in the investing company shall be disclosed in the notice of general meeting called for seeking members' approval pursuant to section 208 of the Ordinance	Habib Sugar Mills Limited is holding 4,291,018 shares of the investing company. No Director or Chief Executive has any interest in the investing company except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the investing company. The shareholding of Directors and Chief Executive is disclosed in the pattern of shareholding
2	In case any decision to make investment under the authority of a resolution passed pursuant to provisions of section 208 of the Ordinance is not implemented either fully or partially till the holding of subsequent general meeting(s), the status of the decision must be explained to the members through a statement having the following details namely:-	
a)	total investment approved;	Rs. 25 million approved by the shareholders at Annual General Meeting held on April 28, 2012
b)	amount of investment made to date;	Nil
c)	reasons for not having made complete investment so far where resolution required it to be implemented in specified time;	Amount may be invested on availability of shares at reasonable price within the period specified in the earlier resolution.
d)	material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company	The shareholders equity of the investee company has increased to Rs.21.175 million from Rs.17.837 million due to issue of Bonus Shares of Rs.1.318 million and increase in reserves of Rs.2.020 million

Habib Insurance Company Limited

PROXY FORM

I/ We ....

of ....

being a member(s) of Habib Insurance Company Limited and holding ....

ordinary shares, as per Share Register Folio Number ....

and/ or CDC Account and Participant's I.D. Numbers ....

hereby appoint ....Folio No ....of..............................

or failing him/ her ....Folio No ....of..............................

another member of Habib Insurance Company Limited as my proxy to vote for me/ us and on my/ our behalf at the Seventieth Annual General Meeting of the Company to be held on April 29, 2013 and at any adjournment thereof.

Signed this .... day of ....

Revenue Stamp
Five
Rupees

SIGNATURE OF MEMBER(S)

(Signature should agree with the specimen signature registered with the Company)

A member entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/ her. No person shall act as proxy (except for a corporation) unless he/ she is entitled to be present and vote in his/ her own right.

CDC account holder or sub-account holder appointing a proxy should furnish attested copies of his/ her own as well as the proxy's CNIC/ passport with the proxy form. The proxy shall also produce his/ her original CNIC or passport at the time of the meeting. In case of corporate entity, the Board of Directors resolution/ power of attorney with specimen signature shall be submitted alongwith proxy form.

The instrument appointing a proxy should be signed by the member or by his/ her attorney duly authorised in writing. If the member is a corporation, its common seal (if any) should be affixed to the instrument.

The proxy form shall be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.