

Habib Insurance Company Limited

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Habib Insurance Company Limited

Company Information

Board of Directors

Chairman	:	Rafiq M. Habib
Directors	:	Abbas D. Habib
		Mansoor G. Habib
		Mohamedali R. Habib
		Sajjad Hussain Habib
		Aun Mohammad A. Habib
		Mazher Ali Jumani

**Managing Director
& Chief Executive** : Ali Raza D. Habib

Company Secretary : Shabbir Gulamali

Auditors : Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
Karachi

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) 2424030/38/39
Fax : (92-21) 2421600
UAN : (92-21) 111 03 03 03
Website : www.habibinsurance.net

Habib Insurance Company Limited

Sixty Fourth Report of the Directors' to the Shareholders for the year ended December 31, 2006

The Shareholders,

The Board of Directors have pleasure in presenting the Sixty Fourth Annual Report alongwith the audited accounts of the Company for the year ended December 31, 2006.

	Rupees in '000
Net profit after tax	600,945
Unappropriated profit brought forward	160,185
Profit available for appropriation	<u>761,130</u>
Appropriations for the year 2005	(149,850)
	<u><u>611,280</u></u>

The Board of Directors now propose:

Payment of dividend at Rs. 3.25 per share of Rs. 5/- each i.e. @ 65%	142,805
Issue of thirty five bonus shares for every hundred shares held i.e. @ 35%	76,895
Transfer to general reserve	375,000
Unappropriated profit carried forward	16,580
	<u><u>611,280</u></u>

By the grace of Allah, the profits of your Company have been out of the ordinary enabling the Directors to recommend a record payout of 100% as mentioned above. The single feature behind this remarkable situation has been the windfall from capital gains realised on the sale of shares invested by the Company. Here, we might specifically mention that the high capital gains realised during 2006 have been exceptional as compared to earlier years and as a result the market value of quoted investments in 2006 have dropped to Rs. 751.8 million from Rs. 1,056.2 million of 2005. The dividend income has been steady as compared to last year.

On the underwriting side we are happy to report that the gross written premium have risen to Rs. 559.5 million, an increase of 24% over last year with net premium increasing to Rs. 268.1 million as compared to Rs. 229.7 million of last year. However, the underwriting results of the Company have reduced to Rs. 52.9 million from Rs. 66.2 million for the corresponding period of last year. This has been largely due to higher amounts being transferred to reserves for unearned premium in 2006 because of substantial increase of business underwritten in the later part of the year.

Habib Insurance Company Limited

By and large, the results of your Company for 2006 have been quite satisfactory. The Pakistan Credit Rating Agency Limited (PACRA) has maintained the Company's Insurer Financial Strength (IFC) rating of A+. This rating denotes strong capacity to meet policyholder and contract obligations.

During 2006, the economy performed well and the growth in GDP remained strong at 6.6%. Inflation was down to 7.9% from 9.3% of the earlier year. Exports rose to US\$ 19.2 billion though trade deficit widened because of increase in oil prices. The services sector remained impressive particularly in the areas of finance and insurance, in whole sale and retail trade and in transport and communication. The Stock Exchange had its usual share of volatility, finally closing at the KSE index of 10040 points not too far away from the opening of 9556. Corporate payouts have been respectable.

While the planning for 2007 has been set for improved growth, this will certainly be a year of great challenges. Continuing privatisation and inflow of foreign investments are likely to strengthen the economy. The government has set attractive targets for growth in agriculture as well as for exports. Check on inflation will of course have to remain top priority.

We wish to express our gratitude to the Prime Minister in making the timely announcement in January 2007 of extension on capital gains tax for another year and this certainly will add the much required support to the market.

Most importantly, we are indeed thankful to all our clients and customers, who have placed their confidence in our Company and will ensure to make every effort in 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 and our appreciation to all the staff members of the Company for their hard work they put in throughout the year.

We feel positive and confident for the future. Given the right circumstances of the general situation in the country and in the economy, we look forward to a year of good progress. The Company will Inshallah pursue its plan for expansion of business and towards development of new markets and products. The management will strive to continue its cautious and progressive policy in the best interest of all.

Audit Committee

The audit committee of the Company comprises of the following members:

Mr. Abbas D. Habib	Chairman
Mr. Mohamedali R. Habib	Member
Mr. Aun Mohammad A. Habib	Member
Mr. Mazher Ali Jumani	Member

Auditors

The present auditors Messrs Ford Rhodes Sidat Hyder & 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, 2007, at a fee to be mutually agreed.

Habib Insurance Company Limited

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 financial statements, changes if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgement.
4. International Accounting 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. The value of investments of Provident Fund as on December 31, 2006 is Rs. 18,750,000.
10. During the year four Board meetings were held and the attendance of the Directors is as follows:

Date of Meeting

Attended by

March 25, 2006

Mr. Abbas D. Habib
Mr. Mansoor G. Habib
Mr. Mohamedali R. Habib
Mr. Sajjad Hussain Habib
Mr. Aun Mohammad A. Habib
Mr. Mazher Ali Jumani
Mr. Ali Raza D. Habib

Chief Executive

April 25, 2006

Mr. Abbas D. Habib
Mr. Mansoor G. Habib
Mr. Sajjad Hussain Habib
Mr. Mazher Ali Jumani
Mr. Ali Raza D. Habib

Chief Executive

Habib Insurance Company Limited

August 22, 2006

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. Mazher Ali Jumani
Mr. Ali Raza D. Habib Chief Executive

October 20, 2006

Mr. Rafiq M. Habib
Mr. Abbas D. Habib
Mr. Mansoor G. Habib
Mr. Mohamedali R. Habib
Mr. Mazher Ali Jumani
Mr. Ali Raza D. Habib Chief Executive

11. The pattern of shareholding and additional information regarding pattern of shareholding is annexed.
12. Except as stated below, no trading in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children:

	No. of Shares
Acquired:	
Mr. Abbas D. Habib	9,547
Mr. Sajjad Hussain Habib	157
Mr. Aun Mohammad A. Habib	157
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	4,968
Disposed:	
Mr. Mansoor G. Habib	173,024

On behalf of the Board of Directors

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Karachi: March 26, 2007

Habib Insurance Company Limited

Six Years' Review at a Glance

(Rupees in '000)

	Years	2006	2005	2004	2003	2002	2001
Gross Written Premium		559,526	452,759	359,883	326,883	271,316	261,847
Net Premium Revenue		268,075	229,715	178,985	157,197	124,160	123,323
Investment Income		606,676	133,261	120,785	87,958	45,905	28,229
Net Claims		122,423	94,606	78,289	91,138	53,671	53,580
Profit after Tax		600,945	147,901	99,747	68,916	41,183	26,558
Paid-up Capital		219,700	169,000	130,000	100,000	75,000	75,000
Reserves & Retained Earnings		740,402	249,307	140,406	109,659	90,743	64,560
Total Assets - at Book Value		1,523,545	863,209	731,115	678,702	497,810	403,303
Cash Dividend		65%	35%	30%	25%	20%	40%
Stock Dividend		35%	30%	30%	30%	33.33%	—

Habib Insurance Company Limited

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2006

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 and No. XIII of listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited respectively, 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 Code in the following manner:

1. The Company encourages representation of independent non-executive Directors on its Board of Directors. All Directors of the Board are non-executive Directors.
2. The Directors have confirmed that none of them is serving as a Director in more than ten 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 NBFIs 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's 'Statement of Ethics and Business Practices', has been signed by all the Directors and employees of the Company.
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. The Board has established a system of sound internal control, which is effectively implemented at all levels within the Company. The Company includes all the necessary aspects of internal control given in the Code.
10. The members of the Board are well conversant with the listing regulations and corporate requirements and as such fully aware of their duties and responsibilities.
11. The Board has approved appointment of CFO, Company Secretary and Internal Auditors, including their remuneration and terms and conditions of employment, as determined by the CEO.
12. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

Habib Insurance Company Limited

13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
14. 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.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed underwriting / claim settlement / reinsurance and co-insurance committee(s).
17. The Board has formed an audit committee. It comprises of 4 members, all of whom are non-executive Directors including the Chairman of the committee.
18. The Meetings of the committees were held at least once every quarter prior to the approval of interim and final results of the Company and as required by the Code. The terms of reference of the audit committee have been formed and advised to the audit 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 the Institute of Chartered Accountants of Pakistan.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. We confirm that all material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Karachi: March 26, 2007

ALI RAZA D. HABIB
Managing Director 
& *Chief Executive*

Habib Insurance Company Limited

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 for the year ended December 31, 2006 prepared by the Board of Directors of Habib Insurance Company Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Company is listed.

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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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, for the year under review.

Karachi: March 26, 2007

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Habib Insurance Company Limited

Auditors' Report to the Members of Habib Insurance Company Limited

We have audited the annexed financial statements comprising of:

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

of Habib Insurance Company Limited as at December 31, 2006 together with the notes forming part thereof, for the year then ended.

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

We conducted our audit in accordance with the 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 and the Companies Ordinance, 1984;
- (b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the change, as stated in note 6.1 to the financial statements, with which we concur;
- (c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at December 31, 2006 and of the profit, its cash flow and changes in equity for the year then ended in accordance with Approved Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- (d) 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: March 26, 2007

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants

Habib Insurance Company Limited

Balance Sheet as at December 31, 2006

	Note	2006 (Rupees in '000)	2005 (Rupees in '000)		Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Share Capital and Reserves				Cash and Bank Deposits	14		
Authorised share capital	7	250,000	250,000	Cash and other equivalents		709	468
Paid-up share capital	7	219,700	169,000	Current and other accounts		123,976	55,568
Retained earnings		611,280	160,185	Deposits maturing within 12 months		1,750	500
Reserves	8	129,122	89,122			126,435	56,536
TOTAL EQUITY		960,102	418,307	Loans – secured, considered good to employees	15	905	194
Underwriting Provisions				Investments	16	691,063	479,421
Provision for outstanding claims (including IBNR)		74,157	46,257	Deferred Taxation	17	3,496	384
Provision for unearned premium		238,844	191,387	Current Assets – others			
Commission income unearned		27,430	23,119	Premiums due but unpaid	18	125,948	85,654
Total underwriting provisions		340,431	260,763	Amounts due from other insurers / reinsurers	19	68,647	61,892
Deferred Liability				Accrued investment income	20	1,254	2,147
Staff retirement benefit	9	8,484	6,165	Reinsurance recoveries against outstanding claims		26,094	12,476
Creditors and Accruals				Deferred commission expense		38,878	29,373
Premium received in advance	10	363	7,064	Prepayments			
Amounts due to other insurers / reinsurers	11	88,391	78,296	- Prepaid reinsurance premium ceded		95,941	88,964
Accrued expenses		10,358	10,256	- Others	21	1,518	1,712
Taxation - provision less payments		29,593	31,371	Sundry receivables	22	306,364	7,035
Other creditors & accruals	12	85,823	50,987			664,644	289,253
		214,528	177,974	Fixed Assets – at cost less depreciation	23		
TOTAL LIABILITIES		563,443	444,902	Tangible			
				Furniture, fixtures and renovation		7,290	7,966
TOTAL EQUITY AND LIABILITIES		1,523,545	863,209	Office equipments		2,144	2,129
				Computer and related equipments		1,519	1,167
Contingencies	13			Motor vehicles		22,582	21,409
				Intangible			
				Computer software		3,467	4,750
						37,002	37,421
				TOTAL ASSETS		1,523,545	863,209

The annexed notes 1 to 37 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

ABBAS D. HABIB
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, 2006

(Rupees in '000)

	Note	Fire & Property	Marine & Transport	Motor	Other Classes	2006	2005 (Restated)
Revenue Account							
Net premium revenue		58,487	90,582	90,867	28,139	268,075	229,715
Net claims		(11,011)	(34,111)	(58,177)	(19,124)	(122,423)	(94,606)
Premium deficiency reversal / (expense)		—	—	—	—	—	2,715
Expenses	24	(32,417)	(20,260)	(17,019)	(11,346)	(81,042)	(66,733)
Net commission		12,561	(5,521)	(13,103)	(5,593)	(11,656)	(4,841)
Underwriting result		27,620	30,690	2,568	(7,924)	52,954	66,250
Investment income						606,676	133,261
Profit on sale of fixed assets	23					1,182	733
Other Income						64	33
General and administration expenses	24					(55,043)	(34,879)
						552,879	99,148
Profit before tax						605,833	165,398
Provision for taxation	25					(4,888)	(17,497)
Profit after tax						600,945	147,901
Profit and loss appropriation account							
Balance at commencement of the year						160,185	110,284
Profit after tax for the year						600,945	147,901
Final dividend @ 35% (2005: 30%)						(59,150)	(39,000)
Transfer to reserve for issue of bonus shares @ 30% (2005: 30%)						(50,700)	(39,000)
Transfer to general reserve						(40,000)	(20,000)
Balance unappropriated profit at end of the year						611,280	160,185
Earnings per share (Basic and diluted) of Rs. 5/- each – Rupees	33					13.68	3.37

The annexed notes 1 to 37 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

ABBAS D. HABIB
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Changes in Equity for the year ended December 31, 2006

(Rupees in '000)

	Share Capital	Capital Reserves		Revenue Reserves		Total
	Issued, subscribed and paid up	Reserve for exceptional losses	Reserve for issue of bonus shares	General reserve	Retained earnings	
Balance as on January 01, 2005 as previously reported	130,000	9,122	39,000	80,000	12,284	270,406
Effects of change in accounting policy (note 6.1)						
– Proposed final dividend @ 30% for the year ended December 31, 2004	–	–	–	–	39,000	39,000
– Transfer to reserve for issue of bonus shares in the ratio of 3:10	–	–	(39,000)	–	39,000	–
– Transfer to general reserve	–	–	–	(20,000)	20,000	–
Balance as on January 01, 2005 - restated	130,000	9,122	–	60,000	110,284	309,406
Issue of bonus shares in the ratio of 3:10	39,000	–	–	–	(39,000)	–
Final dividend @ 30% for the year ended December 31, 2004	–	–	–	–	(39,000)	(39,000)
Transfer to general reserve	–	–	–	20,000	(20,000)	–
Profit for the year	–	–	–	–	147,901	147,901
Transfer to reserve for issue of bonus shares in the ratio of 3:10	–	–	50,700	–	(50,700)	–
Transfer to general reserve	–	–	–	40,000	(40,000)	–
Proposed final dividend @ 35% for the year ended December 31, 2005	–	–	–	–	(59,150)	(59,150)
Balance as on December 31, 2005 as previously reported	169,000	9,122	50,700	120,000	10,335	359,157
Effects of change in accounting policy (note 6.1)						
– Proposed final dividend @ 35% for the year ended December 31, 2005	–	–	–	–	59,150	59,150
– Reserve for issue of bonus shares in the ratio of 3:10	–	–	(50,700)	–	50,700	–
– Transfer to general reserve	–	–	–	(40,000)	40,000	–
Balance as on January 01, 2006 - restated	169,000	9,122	–	80,000	160,185	418,307
Final cash dividend for 2005	–	–	–	–	(59,150)	(59,150)
Issue of bonus shares	50,700	–	–	–	(50,700)	–
Transfer to general reserve	–	–	–	40,000	(40,000)	–
Profit for the year	–	–	–	–	600,945	600,945
Balance as on December 31, 2006	219,700	9,122	–	120,000	611,280	960,102

The annexed notes 1 to 37 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

ABBAS D. HABIB
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Statement of Cash Flows for the year ended December 31, 2006

Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Operating Cash Flows		
a) Underwriting activities		
Premiums received	496,001	438,806
Reinsurance premiums paid	(240,875)	(206,963)
Claims paid	(188,998)	(164,026)
Reinsurance and other recoveries received	80,857	63,676
Commissions paid	(64,323)	(62,310)
Commissions received	73,360	62,029
Other underwriting receipts	64	16,455
Net cash flow from underwriting activities	156,086	147,667
b) Other operating activities		
Income tax paid	(9,777)	(14,631)
General management expenses paid	(117,010)	(85,382)
Loans advanced	(1,067)	(1,395)
Loans repayments received	827	1,091
Other operating payments	(292,337)	(19,039)
Net cash flow from other operating activities	(419,364)	(119,356)
Total cash flow from all operating activities	(263,278)	28,311
Investment activities		
Profit / Return received	2,493	699
Dividends received	41,935	45,851
Payments for investments	(870,925)	(364,705)
Proceeds from disposal of investments	1,224,733	342,852
Fixed capital expenditure	(10,382)	(22,580)
Proceeds from disposal of fixed assets	2,640	2,733
Total cash flow from investing activities	390,494	4,850
Financing activities		
Dividends paid	(57,317)	(37,884)
Total cash flow from financing activities	(57,317)	(37,884)
Net cash inflow / (outflow) from all activities	69,899	(4,723)
Cash at the beginning of the year	56,536	61,259
Cash at the end of the year	14 126,435	56,536

Reconciliation to Profit and Loss Account

Note	2006 (Rupees in '000)	2005 (Rupees in '000)
Operating cash flows	(263,278)	(28,311)
Depreciation expense	(9,343)	(10,676)
Profit on disposal of fixed assets	1,182	733
Dividend paid	1,833	1,116
Increase in assets other than cash	385,879	14,460
Increase in liabilities other than running finance	(118,002)	(20,074)
	(1,729)	13,870
Other adjustments		
Income tax paid	9,777	14,631
Provision for premiums due but unpaid	(5,293)	-
Provision for amount due from other insurers / reinsurers	(4,482)	-
Provision for gratuity	(2,798)	(2,079)
Gratuity paid	480	329
Profit / Return received	2,493	699
Dividends received	41,935	45,851
Capital gain	565,450	92,097
Provision for taxation	(4,888)	(17,497)
	602,674	134,031
Profit after taxation	600,945	147,901

Definition of cash

Cash comprises of cash in hand, policy stamps, bank balances and other deposits 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 other equivalents		
Cash in hand	160	116
Policy stamps	549	352
	709	468
Current and other accounts with banks		
Current Accounts	6,540	2,855
PLS Savings Accounts	117,436	52,713
	123,976	55,568
Deposits with banks maturing within 12 months		
Deposit Accounts	1,750	500
Total	14 126,435	56,536

The annexed notes 1 to 37 form an integral part of these financial statements.

RAFIQ M. HABIB
Chairman

ABBAS D. HABIB
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, 2006

(Rupees in '000)

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2006 Net premium revenue	2005 Net premium revenue
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	201,111	83,501	105,422	179,190	132,969	54,501	66,767	120,703	58,487	57,964
2. Marine and Transport	149,841	20,152	22,214	147,779	56,593	7,015	6,411	57,197	90,582	75,809
3. Motor	124,313	48,893	72,950	100,256	10,480	756	1,847	9,389	90,867	76,405
4. Other Classes	84,261	38,841	38,258	84,844	50,929	26,692	20,916	56,705	28,139	19,537
Total	559,526	191,387	238,844	512,069	250,971	88,964	95,941	243,994	268,075	229,715

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*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Statement of Claims for the year ended December 31, 2006

Business underwritten inside Pakistan

(Rupees in '000)

Class	Claims paid	Outstanding claims		Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	2006 Net claims expense	2005 Net claims expense
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	48,082	11,100	22,965	59,947	38,783	6,181	16,334	48,936	11,011	7,984
2. Marine and Transport	56,451	8,448	15,444	63,447	27,631	2,296	4,001	29,336	34,111	20,655
3. Motor	57,135	20,461	25,926	62,600	1,802	712	3,333	4,423	58,177	45,731
4. Other Classes	27,330	6,248	9,822	30,904	12,641	3,287	2,426	11,780	19,124	20,236
Total	188,998	46,257	74,157	216,898	80,857	12,476	26,094	94,475	122,423	94,606

The annexed notes 1 to 37 form an integral part of these financial statements.

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Habib Insurance Company Limited

Statement of Expenses for the year ended December 31, 2006

(Rupees in '000)

Business underwritten inside Pakistan									
Class	Commissions paid or payable	Opening deferred commission	Closing deferred commission	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers	2006 Net underwriting expense	2005 Net underwriting expense
Direct and facultative									
1. Fire and Property	34,038	14,480	18,423	30,095	32,417	62,512	42,656	19,856	14,992
2. Marine and Transport	25,248	3,288	3,760	24,776	20,260	45,036	19,255	25,781	21,631
3. Motor	16,870	6,793	10,290	13,373	17,019	30,392	270	30,122	23,869
4. Other Classes	14,053	4,812	6,405	12,460	11,346	23,806	6,867	16,939	11,082
Total	90,209	29,373	38,878	80,704	81,042	161,746	69,048	92,698	71,574

The annexed notes 1 to 37 form an integral part of these financial statements.

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Habib Insurance Company Limited

Statement of Investment Income for the year ended December 31, 2006

	Note	2006 (Rupees in '000)	2005
Income from Non-Trading Investments			
Available-for-Sale			
Dividend income	26	40,969	41,871
Others (Profit on bank accounts)		2,566	682
		43,535	42,553
Net gain on sale of 'available-for-sale' investments		565,450	92,097
Less: Investment related expenses		(2,309)	(1,389)
Net investment income		606,676	133,261

The annexed notes 1 to 37 form an integral part of these financial statements.

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Habib Insurance Company Limited

Notes to the Financial Statements for the year ended December 31, 2006

1. THE COMPANY AND ITS OPERATIONS

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 PRESENTATION

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.

3. STATEMENT OF COMPLIANCE

3.1 These financial statements have been prepared in accordance with the requirements of SRO 938 issued by the SECP in December 2002, the Companies Ordinance, 1984, the Insurance Ordinance, 2000 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, and the SEC (Insurance) Rules, 2002 or directives issued by the SECP differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 or the requirements of the said directives take precedence.

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 "investments-available-for-sale" until suitable amendments have been made in the laws. 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.

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

The following amendments to existing standards have been published that are mandatory to the Company's financial statements covering accounting periods beginning on or after January 01, 2007 or later periods.

i) IAS 1 – Presentation of Financial Statements – Capital Disclosures January 1, 2007

Adoption of the above amendment would result in an impact on the nature and extent of disclosures made in the future financial statements.

3.3 International Financial Reporting Standards (IFRSs) that are not yet effective:

A new series of standards called "International Financial Reporting Standards (IFRSs)" have been introduced and eight IFRSs have been issued by IASB under such series. Out of these, following four IFRSs have been adopted by Institute of Chartered Accountants of Pakistan (ICAP) and also notified by the SECP.

IFRS-2 (Share based Payments);

IFRS-3 (Business Combinations);

IFRS-5 (Non-current Assets held for Sale and Discontinued Operations); and

IFRS-6 (Exploration for and Evaluation of Mineral Resources).

The adoption of the above pronouncements is not expected to be relevant for activities of the Company.

Habib Insurance Company Limited

4. 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.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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 judgment in the process of applying the company's accounting policies. The estimates / judgments 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 / judgments 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 judgment or complexity, or areas where assumption and estimates are significant to the financial statements, or judgments was exercised in application of accounting policies, are as follows:

- | | |
|--|-----------|
| • Provision for outstanding claims (including IBNR) | 6.2 |
| • Premium deficiency reserves | 6.4 |
| • Defined benefit plan | 6.6.2 & 9 |
| • Classification of investments | 6.8 & 16 |
| • Useful lives of assets and methods of depreciation | 6.9 & 23 |
| • Provision for taxation – current and deferred | 6.16 & 25 |

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Change in accounting policy

In accordance with the Circular 06-2006 dated June 19, 2006 issued by the Institute of Chartered Accountants of Pakistan, the Company now recognises all appropriations of reserves including in respect of bonus issues made after the balance sheet date, other than statutory appropriations, in the period in which such appropriations are approved. Previously, the appropriation of reserves were considered as adjusting events and recorded at the balance sheet date. This change in the accounting policy has been accounted for retrospectively and comparative information has been restated in accordance with the treatment specified in International Accounting Standard - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS-8). The effect of change in accounting policy is reflected in the statement of changes in equity.

6.2 Provision for Outstanding Claims including Incurred But Not Reported (IBNR)

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

Consistent with prior years, provisions for outstanding claims include amounts in relation 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 made for the cost of settling claims incurred but not reported at the balance sheet date, on the basis of management's judgement and the Company's prior experience.

Reinsurance recoveries against outstanding claims and salvage recoveries are recognised as an asset and measured at the amount expected to be received.

6.3 Premiums

6.3.1 Premium income earned

Premium income under a policy is recognised over the period of insurance from the date of issue of the policy to which it relates to its expiry as follows:

Habib Insurance Company Limited

- (a) for direct business, evenly over the period of the policy
- (b) for retrocession business received from Pakistan Reinsurance Company Limited (PRCL), at the time when statement is received.

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

6.3.2 Provision for unearned premium

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage.

The Company has opted for the 1/24th method to calculate provision for unearned premium as specified in the SEC (Insurance) Rules, 2002.

6.3.3 Premiums due but unpaid

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

6.4 Premium Deficiency Reserve

The Company provides, if applicable, a premium deficiency reserve as a liability to meet the deficit, where the unearned premium liability for any class of business 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 balance sheet date in respect of policies in that class of business in force at balance sheet date.

The movement in premium deficiency reserve is recorded as an expense / reversal in the profit and loss account for the year.

6.5 Commissions

6.5.1 Deferred commission expense

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

6.5.2 Commission income unearned

Commission and other forms of revenue (apart from recoveries) from reinsurers 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.

6.5.3 Commission income

Commission income from reinsurers / co-insurers / others is recognised at the time of issuance of the underlying insurance policy by the Company. This income is deferred and brought to account as revenue in accordance with the pattern of recognition of reinsurance / co-insurance / other premium to which they relate. Profit commission, if any, which the Company may be entitled under the terms of reinsurance is recognised on accrual basis.

6.6 Staff Retirement Benefits

6.6.1 Defined Contributory 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 rate of one basic salary per year.

6.6.2 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 income. The most recent valuation was carried out as of December 31, 2006 using the "Projected Unit Credit Actuarial Cost Method".

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

Cumulative net unrecognised 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.

Habib Insurance Company Limited

6.7 Compensated Absences

The Company accounts for these benefits in the period in which the absences are earned.

6.8 Investments

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 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:

6.8.1 Investments at fair value through profit and loss account

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.

6.8.2 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 rate are classified as available-for-sale.

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the SRO 938 issued by the SECP in December 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value. Had these investments 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, 2006 would have been higher by Rs. 60.69 million. (2005 : Rs. 576.8 million)

Unquoted

Unquoted investments are recorded at cost less provision for impairment, if any.

6.8.3 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 interest rate method.

6.9 Operating Fixed Assets and Depreciation

6.9.1 Tangible

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 23 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 upto the month immediately preceding the deletion.

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.

Refer note 23.2 for change in accounting estimates in respect of depreciation on fixed assets.

Habib Insurance Company Limited

6.9.2 Intangible

These are stated at cost less accumulated amortisation and any provision for impairment. Depreciation on intangible fixed assets is charged to income applying the straight line method at the rates specified in note 23 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.

6.10 Investment and Other Income

6.10.1 Dividend income and bonus shares

- i) Dividend income is recognised when the right to receive the same is established.
- ii) Entitlement of bonus shares is recognised when the right to receive the same is established by increasing the number of shares to which the Company is entitled without giving any monetary effect in the financial statements either in terms of cost or value thereof which is in accordance with the requirement of the ICAP's Technical Release-15.

6.10.2 Income on held-to-maturity investment

Profit / Interest on government securities and Term Finance Certificates (TFCs) of listed entities is recognised on a time proportion basis taking into account the effective yield on the investment.

6.10.3 Profit on bank accounts and deposits

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

6.11 Expenses

Underwriting expenses have been allocated to various classes of business on a basis deemed equitable by the management.

6.12 Segment Reporting

The Company's operating business is organised and managed separately according to the nature of the services provided with each segment representing a strategic business unit that serves different markets.

The Company has three major segments namely fire, marine and accident (motor and miscellaneous).

6.12.1 Fire

The perils covered under this segment include damages by fire, riot and strike, explosion, earthquake, atmospheric damages, floods, electrical fluctuation, impact and other coverage.

6.12.2 Marine

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

6.12.3 Accident

6.12.3.1 Motor

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

6.12.3.2 Miscellaneous

Miscellaneous insurance provides cover against burglary, loss of cash in safe and in transit, personal accident, engineering losses and other coverage.

6.13 Financial Instruments

All financial assets and liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Any gain or loss on the de-recognition of the financial assets and liabilities are included in the net profit or loss for the period in which it arises.

Habib Insurance Company Limited

6.14 Off-setting

A financial asset and a financial liability is off-set and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

6.15 Transfer Pricing Policy

Transfer pricing policy of the Company for insurance and other businesses is to ensure that the transactions with related parties are at arms length. The basis of charging is comparable uncontrolled price. Any departure from the above needs Board of Directors approval.

6.16 Taxation

Current

Provision for current taxation is based on taxable income taking into account applicable tax credits and exemptions available, if any.

Deferred

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilised.

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

Deferred income 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 tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

6.17 Amount due to / from other insurers / reinsurers

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

6.18 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.

6.19 Foreign Currencies

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 currently.

6.20 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.

6.21 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognised in the profit and loss account currently.

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 / expense currently.

Habib Insurance Company Limited

7. SHARE CAPITAL

7.1 Authorised Share Capital

2006	2005		2006	2005
Number of Shares (in '000)			(Rupees in '000)	
<u>50,000</u>	<u>50,000</u>	Ordinary shares of Rs. 5/- each	<u>250,000</u>	<u>250,000</u>

7.2 Paid up Share Capital

Issued, subscribed and fully paid:

1,000	1,000	Ordinary shares of Rs. 5/- each fully paid in cash	5,000	5,000
<u>42,940</u>	<u>32,800</u>	Ordinary shares of Rs. 5/- each issued as fully paid bonus shares - note 7.2.1	<u>214,700</u>	<u>164,000</u>
<u>43,940</u>	<u>33,800</u>		<u>219,700</u>	<u>169,000</u>

7.2.1

33,800	26,000	Ordinary shares of Rs. 5/- each at the beginning of the year	169,000	130,000
<u>10,140</u>	<u>7,800</u>	Fully paid bonus shares issued during the year	<u>50,700</u>	<u>39,000</u>
<u>43,940</u>	<u>33,800</u>	Balance as at December 31st	<u>219,700</u>	<u>169,000</u>

7.2.2 As at December 31, 2006 related parties held 4,058,368 (2005: 3,121,822) number of ordinary shares of Rs. 5/- each.

8. RESERVES

Capital reserves

Reserve for exceptional losses	9,122	9,122
--------------------------------	-------	-------

Revenue reserves

Balance at beginning of the year	80,000	60,000
Transfer from profit and loss appropriation	40,000	20,000
	<u>120,000</u>	<u>80,000</u>
	<u>129,122</u>	<u>89,122</u>

9. STAFF RETIREMENT BENEFITS – Unfunded Gratuity Scheme

	<u>8,484</u>	<u>6,165</u>
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The latest valuation of scheme was carried out as at December 31, 2006 using the Projected Unit Credit Actuarial Cost Method. Provision has been made in the financial statements to cover the related obligation in accordance with the actuarial recommendations.

Habib Insurance Company Limited

The following principal actuarial assumptions were used for the valuation of the scheme:

Discount rate	10% per annum compounded
Salary Increase	10% per annum
Rate of return on investment	10% per annum
Normal retirement	60 years

2006 2005
(Rupees in '000)

The amounts recognised in the balance sheet are as follows:

Present value of defined benefit obligation	13,378	10,672
Unrecognised actuarial gain	(4,436)	(3,589)
Unrecognised transitional obligation	(458)	(918)
Recognised liability	<u>8,484</u>	<u>6,165</u>

Movement in the net liability recognised in the balance sheet are as follows:

Balance at commencement of the year	6,165	4,415
Cost for the year	2,798	2,079
Benefits paid during the year	(479)	(329)
Balance at the end of the year	<u>8,484</u>	<u>6,165</u>

The following amounts have been charged to the profit and loss account for the year ended December 31, 2006 in respect of the staff gratuity:

Current service cost	1,239	937
Interest cost	919	607
Annual amortisation of transition obligation	460	460
Annual amortisation of loss	180	75
Cost for the year	<u>2,798</u>	<u>2,079</u>

10. PREMIUMS RECEIVED IN ADVANCE

Clients' premium deposit	325	365
Premiums received in advance	38	6,699
	<u>363</u>	<u>7,064</u>

11. AMOUNTS DUE TO OTHER INSURERS / REINSURERS

Foreign reinsurers	5,045	24,446
Local reinsurers	25,061	15,841
Premium payable to co-insurers	58,285	38,009
	<u>88,391</u>	<u>78,296</u>

Habib Insurance Company Limited

2006
(Rupees in '000)

2005

12. OTHER CREDITORS AND ACCRUALS

Federal insurance fee	809	421
Central excise duty	3,753	2,403
Withholding tax	261	336
Unclaimed dividends	13,197	11,364
Agents commission payable	58,094	32,207
Sundry creditors – others	9,709	4,256
	<u>85,823</u>	<u>50,987</u>

13. CONTINGENCIES

13.1 Represents Central Excise Duty (CED) paid by the Company under protest pertaining to prior years' on the order of the Collector of Customs, Sales Tax and Central Excise. The Company is of the view that it is not liable to pay CED as the same was not charged and collected. Presently, the matter is under appeal with the appellate authorities. Based on the merits of the case, the Company is confident that the ultimate decision would be in its favour, hence, no provision has been made in these financial statements against receivable (See note 22).

2006
(Rupees in '000)

2005

14. CASH AND BANK DEPOSITS

Cash and other equivalents

Cash in hand	160	116
Policy stamps	549	352
	709	468

Current and other accounts

Current accounts	6,540	2,855
PLS savings accounts	117,436	52,713
	123,976	55,568

Deposits maturing within 12 months

Deposit account	1,750	500
	<u>126,435</u>	<u>56,536</u>

14.1 These carry mark-up rates ranging from 7.00% to 8.50% (2005: 1.75% to 2%) per annum.

15. LOANS – considered good

Secured

Employees	1,658	1,419
Less: Recoverable within one year	(753)	(1,225)
	<u>905</u>	<u>194</u>

Loans to employees are granted in accordance with the rules specified in the SEC (Insurance) Rules, 2002. These loans are recoverable in monthly instalments over various periods and are secured against provident fund balances or deposit of title documents.

The interest bearing loans carry a mark-up rate of 7% (2005: 7%) per annum.

Habib Insurance Company Limited

	Note	2006 (Rupees in '000)	2005 (Rupees in '000)
15.1 Reconciliation of carrying amount of loans			
Opening balance		1,419	1,115
Disbursements		1,067	1,407
		2,486	2,522
Repayments		(828)	(1,103)
Closing balance		1,658	1,419
16. INVESTMENTS			
Held-to-Maturity	16.1	78	78
Available-for-Sale	16.2	690,985	479,343
		691,063	479,421
16.1 Held-to-Maturity			
No. of Shares/Units/ Certificates	Face Value (Rupees)	Company's Name	2006 2005 (Rupees in '000)
2006	2005		
Debentures			
12	12	50,000 Tariq Cotton Mills Limited (under liquidation)	78 78
16.2 Available-for-Sale			
Quoted securities deposited with the State Bank of Pakistan	16.2.1	357	357
Quoted – Mutual Funds	16.2.2	8,818	14,858
Quoted – Modaraba Certificates	16.2.3	4,970	5,010
Quoted – Shares	16.2.4	676,840	436,740
Quoted – Investments in related parties	16.2.5	–	22,378
		690,985	479,343

Habib Insurance Company Limited

16.2.1 Deposited with the State Bank of Pakistan

No. of Shares/Units/ Certificates		Face Value (Rupees)	Company's Name	2006 (Rupees in '000)	2005
2006	2005				
27,500	27,500	10	National Investment (Unit) Trust	252	252
2,018	2,018	50	Pakistan Income Fund (PIF)	105	105
				<u>357</u>	<u>357</u>

16.2.2 Quoted – Mutual funds

MUTUAL FUND

12,948	11,268	100	Crosby Dragon Fund	1,000	1,000
199,500	484,895	10	PICIC Investment Fund	2,353	5,719
155,000	230,000	10	PICIC Growth Fund	5,465	8,139
				<u>8,818</u>	<u>14,858</u>

16.2.3 Quoted - Modaraba certificates

MODARABA

146,000	135,962	10	Standard Chartered Modaraba	1,610	1,650
49,000	49,000	10	First Habib Bank Modaraba	332	332
421,000	421,000	5	First Habib Modaraba	3,028	3,028
				<u>4,970</u>	<u>5,010</u>

16.2.4 Quoted – Shares

LEASING

47,000	122,073	10	Askari Leasing Limited	362	1,080
–	81,437	10	Orix Leasing Pakistan Limited	–	1,700

INVESTMENT COMPANIES / BANKS

150,000	201,205	10	Askari Commercial Bank Limited	15,673	15,979
150,000	123,875	10	Faysal Bank Limited	9,090	6,345
300,000	125,000	10	Bank Alfalah Limited	12,893	7,003
38,000	45,000	10	Jahangir Siddiqui & Company Limited	1,878	2,224
190,000	115,493	10	MCB Bank Limited	46,186	10,508
190,000	107,000	10	National Bank of Pakistan	43,875	11,089
–	425	10	Orix Investment Bank Pakistan Limited	–	9
–	436,171	10	Soneri Bank Limited	–	10,889
250,000	–	10	Pakistan Industrial Credit & Investment Corp. Ltd.	15,255	–
75,000	75,000	10	PICIC Commercial Bank Limited	2,555	2,555
2,600	16,100	10	Jahangir Siddiqui Capital Markets Limited	258	905
152,500	70,200	10	The Bank of Punjab	15,368	4,299
–	187,500	10	Saudi Pak Commercial Bank Limited	–	2,479
–	75,000	10	Union Bank Limited	–	4,709
50,000	–	10	United Bank Limited	8,014	–

Habib Insurance Company Limited

No. of Shares/Units/ Certificates		Face Value (Rupees)	Company's Name	2006 (Rupees in '000)	2005
2006	2005				
INSURANCE					
300,000	57,477	10	Adamjee Insurance Co. Limited	38,930	4,987
–	72,601	10	IGI Insurance Limited	–	3,000
209,300	133,722	5	New Jubilee Insurance Co. Limited	14,012	10,252
41,960	21,960	10	Pakistan Reinsurance Co. Limited	2,070	5
–	50,142	10	EFU General Insurance Co. Limited	–	6,460
2,000	–	10	PICIC Insurance Limited	21	–
57,200	17,000	10	Atlas Insurance Limited	4,802	978
TEXTILE COMPOSITE					
18,346	16,679	10	Dawood Lawrencepur Limited	328	328
117	117	10	Colony Mills Limited	1	1
48,900	48,900	10	Gadoon Textile Mills Limited	1,450	1,450
346,843	317,940	10	Gul Ahmed Textile Mills Limited	6,151	5,573
21,450	19,500	10	Gulistan Spinning Mills Limited	251	251
93	93	10	Kohinoor (Gujarkhan) Mills Limited (unquoted)	–	–
4,358	4,358	10	Kohinoor Industries Limited	14	14
–	141	10	Kohinoor Textile Mills Limited	–	–
66,000	60,000	10	Nishat Mills Limited	4,000	4,000
5,861	4,187	10	Nakshbandi Industries Limited	50	25
20	20	10	National Silk & Rayon Mills Limited	–	–
60,000	–	10	Nishat (Chunian) Limited	5,100	–
8,000	8,000	10	Saif Textile Mills Limited	285	285
SUGAR AND ALLIED					
–	283,060	5	Habib ADM Limited	–	541
372	372	10	Kohinoor Sugar Mills Limited	2	2
20,000	20,000	10	Dewan Sugar Mills Limited	295	295
25,000	25,000	10	Noon Sugar Mills Limited	1,278	1,278
CEMENT					
–	22,000	10	Dadex Eternit Limited	–	343
91,000	116,000	10	Maple Leaf Cement Factory Limited	3,414	4,150
57,750	50,000	10	D.G. Khan Cement Company Limited	3,699	2,803
65,000	80,000	10	Lucky Cement Limited	5,039	4,012
40,000	40,000	10	Dewan Cement Limited	860	860
–	26,250	10	Kohat Cement Company Limited	–	991
50,000	–	10	Pakistan Cement Company Limited	767	–
111,827	100,000	10	Pioneer Cement Limited	5,774	5,000
TOBACCO					
–	54,640	10	Lakson Tobacco Company Limited	–	101
FUEL AND ENERGY					
1,000,000	817,500	10	Hub Power Company Limited	26,639	22,121
300,000	100,000	10	Kot Addu Power Company Limited	13,977	4,278
–	38,900	10	National Refinery Limited	–	2,633
500,000	93,558	10	Oil & Gas Development Company Limited	60,477	9,235
132,000	50,156	10	Pakistan Oilfields Limited	45,300	13,830
–	44,082	10	Pakistan Refinery Limited	–	1,428
46,900	26,894	10	Pakistan State Oil Company Limited	14,710	8,926
68,500	46,075	10	Shell Pakistan Limited	28,961	19,995
50,000	–	10	Sitara Energy Limited	889	–
80,345	132,845	10	Sui Southern Gas Company Limited	1,906	2,854
110,000	–	10	Pakistan Petroleum Limited	25,737	–

Habib Insurance Company Limited

No. of Shares/Units/ Certificates		Face Value	Company's Name	2006	2005
2006	2005	(Rupees)		(Rupees in '000)	
AUTO & ALLIED ENGINEERING					
61,600	28,668	5	Al Ghazi Tractors Limited	8,330	745
10,923	9,499	10	Atlas Battery Limited	904	904
-	52,500	10	Dewan Farooque Motors Limited	-	1,751
172,830	112,400	10	Atlas Honda Limited	5,086	4,485
-	22,425	10	Millat Tractors Limited	-	1,278
-	30,300	10	Pak Suzuki Motor Company Limited	-	3,799
CABLE & ELECTRICAL GOODS					
20,000	20,000	10	Electric Lamp Manufacturers Limited (unquoted)	-	-
2,767	1,476	10	Pakistan Cables Limited	22	22
TECHNOLOGY & COMMUNICATIONS					
680,000	400,000	10	Pakistan Telecommunication Company Limited	32,543	19,910
80,000	100,000	10	TRG Pakistan Limited	886	1,173
CHEMICAL & PHARMACEUTICAL					
-	177,661	10	Abbott Laboratories (Pakistan) Limited	-	7,617
-	39,494	10	BOC (Pakistan) Limited	-	1,178
8,400	6,000	10	Clariant Pakistan Limited	1,323	1,323
-	73,612	10	Dawood Hercules Chemicals Limited	-	297
250,000	326,493	10	Engro Chemical Pakistan Limited	42,737	41,469
250,000	702,653	10	Fauji Fertilizer Company Limited	26,954	50,345
-	50,000	10	Fauji Fertilizer Bin Qasim Limited	-	1,908
50,000	29,492	10	GlaxoSmithKline Pakistan Limited	3,692	1,541
12,500	-	10	ICI Pakistan Limited	2,005	-
PAPER AND BOARD					
288,722	295,922	10	Packages Limited	36,340	37,246
-	6,900	10	Merit Packaging Limited	-	517
LEATHER AND TANNERIES					
5,992	5,992	10	Bata Pakistan Limited	312	312
FOOD AND ALLIED					
150	150	10	Nestle Pakistan Limited	79	79
20,240	26,202	50	Unilever Pakistan Limited	26,907	33,659
1,100	1,100	10	Shezan International Limited	124	124
				676,840	436,740

Habib Insurance Company Limited

	No. of Shares/Units/ Certificates	Face Value (Rupees)	Company's Name	2006 (Rupees in '000)	2005 (Rupees in '000)
16.2.5 Quoted – Investments in related parties					
–	15,750	5	Agriauto Industries Limited	–	74
–	146,402	5	Dynea Pakistan Limited	–	323
–	1,156,866	5	Habib Sugar Mills Limited	–	9,579
–	358,212	10	Habib Metropolitan Bank Limited	–	6,898
–	267,696	5	Pakistan Papersack Corporation Ltd.	–	672
–	692,924	5	Shabbir Tiles & Ceramics Limited	–	1,222
–	466,478	5	Thal Limited	–	3,610
				–	22,378
			Total Available-for-Sale	690,985	479,342
			Market value of quoted investments	751,752	1,056,241
17. DEFERRED TAXATION					
17.1 Deferred taxation comprises temporary differences relating to:					
–	Provisions			5,274	2,870
–	Accelerated tax depreciation			(1,778)	(2,486)
				3,496	384
17.2 Reconciliation of deferred tax asset					
	Opening balance			384	1,881
	Recognised / (Reversal) during the year			3,112	(1,497)
	Closing balance			3,496	384
18. PREMIUMS DUE BUT UNPAID - unsecured					
	Considered good			125,948	85,654
	Considered doubtful			5,293	–
				131,241	85,654
	Less: Provision for doubtful balances			(5,293)	–
				125,948	85,654
18.1 Premiums due but unpaid includes a sum of Rs. 60.081 million (2005: Rs. 33.5 million) due from related parties.					

Habib Insurance Company Limited

	Note	2006 (Rupees in '000)	2005
19. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS - unsecured, considered good			
Considered good - Premium due from co-insurers		50,242	54,033
- Foreign reinsurers		10,590	3,637
- Local reinsurers		3,036	-
- Claim due from co-insurers		4,779	4,222
		68,647	61,892
Considered doubtful - Premium due from co-insurers		4,482	-
Less : Provision against amount due from co-insurers		(4,482)	-
		68,647	61,892
20. ACCRUED INVESTMENT INCOME			
Dividend receivable		1,148	2,113
Profit receivable		106	34
		1,254	2,147
		1,254	2,147
21. PREPAYMENTS - others			
Prepaid rent		1,343	1,348
Prepaid expenses		175	364
		1,518	1,712
		1,518	1,712
22. SUNDRY RECEIVABLES - considered good			
Current portion of long term loan to employees		754	1,225
Advance against purchase of assets		39	2,907
CED receivable	13	1,408	1,408
Security deposits		1,151	1,070
Against sale of investments		302,000	-
Other advances		735	131
Other receivables		277	294
		306,364	7,035
		306,364	7,035

Habib Insurance Company Limited

23. FIXED ASSETS

(Rupees in '000)

	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 06	Depreciation Rate %
	As at Jan. 01, 06	Additions / (disposals)	As at Dec. 31, 06	As at Jan. 01, 06	Charge/adjustment for the year	As at Dec. 31, 06		
Tangible								
Furniture and Fixtures	5,674	667 (495)	5,846	3,693	446 (451)	3,688	2,158	10
Renovation	8,909	40	8,949	2,924	893	3,817	5,132	10
Office Equipments	4,946	913 (275)	5,584	2,817	852 (229)	3,440	2,144	20
Computers and related equipment	6,550	1,229 (400)	7,379	5,383	877 (400)	5,860	1,519	33
Motor Vehicles	40,984	7,521 (4,810)	43,695	19,575	4,980 (3,442)	21,113	22,582	20
Intangible								
Computer Software	9,058	12	9,070	4,308	1,295	5,603	3,467	20
2006	76,121	10,382 (5,980)	80,523	38,700	9,343 (4,522)	43,521	37,002	

(Rupees in '000)

	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 05	Depreciation Rate %
	As at Jan. 01, 05	Additions / (disposals)	As at Dec. 31, 05	As at Jan. 01, 05	Charge/adjustment for the year	As at Dec. 31, 05		
Tangible								
Furniture and Fixtures	5,295	379	5,674	3,249	444	3,693	1,981	10
Renovation	6,826	2,083	8,909	2,033	891	2,924	5,985	10
Office Equipments	5,030	768 (852)	4,946	2,778	838 (798)	2,817	2,129	20
Computers and related equipment	7,719	1,350 (2,519)	6,550	6,433	1,340 (2,390)	5,383	1,167	33
Motor Vehicles	34,438	12,331 (5,785)	40,984	18,191	5,352 (3,968)	19,575	21,409	20
Intangible								
Computer Software	3,389	5,669	9,058	2,496	1,812	4,308	4,750	20
2005	62,697	22,580 (9,156)	76,121	35,180	10,676 (7,156)	38,700	37,421	

Habib Insurance Company Limited

23.1 Disposals of Fixed Assets

Description	(Rupees in '000)						Particulars of Purchaser
	Cost	Accumulated depreciation	Written Down Value	Sale Proceeds	Profit/(Loss) on Sale	Mode of Sale	
VEHICLES							
Suzuki Khyber - LXH 2682	347	288	59	190	131	Negotiation	Mr. Mohammad Naveed Abbasi H. No. 179, Allama Iqbal Colony, Jamshed Town, Karachi.
Suzuki Khyber - LXL 7652	416	328	88	225	137	Negotiation	Mr. Mohammad Naveed Abbasi H. No. 179, Allama Iqbal Colony, Jamshed Town, Karachi.
Suzuki Margalla - ABM 614	410	200	210	310	100	Negotiation	Khurram Gul Ghori. H. No. E-71, Cantt Bazar, Malir Cantt, Malir, Karachi.
Daihatsu Cuore - ADC 392	438	323	115	210	95	Negotiation	Nadeem-ur-Rehman, Flat No. E-14 KDA Centre, Bufferzone, North Karachi.
Suzuki Khyber - MNU 5115	382	331	51	125	74	Negotiation	Seemi Faisal, H. No. A-308, Sea Breeze Centre, Flat No. 17, Block 5, Clifton, Karachi.
Daihatsu Cuore - AKV 725	433	14	419	423	4	Claim	
Toyota Corolla - LXJ 9287	679	537	142	340	198	Negotiation	Shamim Javed H. No. 73, Block M, Gulberg, Lahore.
Honda City - LXL 7970	664	525	139	330	191	Negotiation	Zulfiqar Ahmed
Honda City - ABM 284	573	477	96	250	154	Negotiation	Abdullah Amir, Flat No. 11, Shaheen Arcade, Block 8, Hyderabad.
Suzuki Margalla - MNT 6701	465	415	50	150	100	Negotiation	Agha Fahad Shah, H. No. 4-1/28, Abdul Sattar Road, Quetta.
FURNITURE & FIXTURES							
Various Furniture & Fixtures	495	452	43	23	(20)	Negotiation	Various Parties
OFFICE EQUIPMENTS							
Various Office Equipments	277	231	46	62	16	Negotiation	Various Parties
COMPUTER EQUIPMENTS							
Various Computer Equipments	401	401	-	2	2	Negotiation	Various Parties
	<u>5,980</u>	<u>4,522</u>	<u>1,458</u>	<u>2,640</u>	<u>1,182</u>		

23.2 Change in accounting estimates

During the current year, the company has made a change in accounting estimate in respect of charging depreciation on fixed assets. Previously, depreciation was being charged for the full year in the year of addition with no depreciation in the year of disposal. Now the Company is charging depreciation on additions from the month in which the asset is acquired or capitalised with no depreciation charge from the month in which the asset is disposed off.

The above change has been accounted for as change in accounting estimate in accordance with the requirements of International Accounting Standard (IAS) - 8 "Accounting Policies, Changes in Accounting Estimates and Errors" whereby the effects of these changes are recognised prospectively by including the same in determination of profit and loss in the period of the change, that is, during the current year and future periods.

Had the company not made the above referred change in accounting estimates, profit for the year would have been lower by Rs. 0.917 million.

Habib Insurance Company Limited

	Note	2006 (Rupees in '000)	2005
24. EXPENSES	24.1		
Salaries, wages including bonus, contribution to provident fund and staff welfare	24.2	65,220	52,649
Motor car expenses		10,172	8,677
Travelling and entertainment expenses		4,116	4,193
Rent, taxes and electricity		16,903	6,092
Communications		4,558	4,559
Printing and stationery		2,364	1,871
Legal and professional expenses		3,450	2,667
Corporate & subscription		2,243	2,054
Depreciation		9,344	10,676
Donation	24.3	1,300	2,730
Auditors' remuneration	24.4	424	452
Other expenses		6,216	4,992
Provision for premiums due but unpaid		5,293	-
Provision for amount due from other insurers / reinsurers		4,482	-
		136,085	101,612

24.1 The above expenses have been appropriately charged to underwriting under their respective classes and to General and Administration expenses.

24.2 This includes staff retirement benefits amounting to Rs.4.697 million (2005: Rs.3.65 million).

24.3 Donations

An amount of Rs. 1.2 million (2005: Rs. 1.3 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	240
Rehmatbai Habib Widows & Orphans Trust, UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Aun Mohammad A. Habib	240
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	240
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	240
Habib Medical Trust, UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Rafiq M. Habib	
	2. Mr. Mohamedali R. Habib	240
		1,200

Habib Insurance Company Limited

	2006 (Rupees in '000)	2005
24.4 Auditors' Remuneration		
Annual audit fee	175	140
Half yearly review	60	50
Special audit	–	90
Other certifications and corporate advisory services	40	80
Out of pocket expenses	149	92
	<u>424</u>	<u>452</u>

25. TAXATION

Current	8,000	16,000
Deferred	(3,112)	1,497
	<u>4,888</u>	<u>17,497</u>

25.1 The appellate authority has set-aside the original assessments in respect of assessment years 2001-2002 and 2002-2003 regarding the allowability of expenses, additional tax etc. therefore, the income tax demand pertaining to the above assessment years is not enforceable at this stage and is subject to the revised assessments which are currently pending.

The income tax return of the Company have been filed upto tax year 2006 corresponding to the income year ended December 31, 2005 which is deemed to be assessed under the provision of the Income Tax Ordinance, 2001.

	2006 (Rupees in '000)	2005
25.2 Relationship between accounting profit and tax expense		
Accounting profit before tax	<u>605,833</u>	<u>165,398</u>
Tax at the applicable rate of 35%	212,042	57,889
Tax effect of capital gains on investments exempted	(197,908)	(32,234)
Tax effect on dividend income taxed at lower rate	(12,291)	(12,561)
Tax effect of expenses that are not deductible for tax purposes	2,868	4,295
Rounding off difference	177	108
Tax expense for the year	<u>4,888</u>	<u>17,497</u>

Habib Insurance Company Limited

	2006	2005
	(Rupees in '000)	
26. DIVIDEND INCOME		
From related parties		
Agriauto Industries Limited	55	39
Dynea Pakistan Limited	110	–
Habib Sugar Mills Limited	–	1,157
Pakistan Papersack Corporation Limited	–	268
Shabbir Tiles & Ceramics Limited	520	433
Thal Limited	2,768	3,032
	<hr/>	<hr/>
	3,453	4,929
From other quoted companies	37,516	36,942
	<hr/>	<hr/>
	40,969	41,871
	<hr/> <hr/>	<hr/> <hr/>

27. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise the Directors, major shareholders and the companies owned by such shareholders, entities owned by the Directors of the Company where they also held directorships, staff retirement funds and key management personnel. Material transactions with related parties, other than remuneration and benefits to Directors and key management personnel under the terms of their employment, which are disclosed in note 32, are given below:

Relationship : Common Directorship

Profit received on bank accounts	2,160	543
Purchase of fixed assets	4,502	8,719
Advance paid for purchase of fixed assets	39	2,907
Dividend received	3,453	4,929
Dividend paid	5,182	3,417
Premium underwritten	209,748	158,757
Claims paid	55,935	60,832

Staff retirement benefits

Provident fund contribution	1,899	1,571
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	(Number of shares)	
Bonus shares received	754,344	198,151
Bonus shares issued	936,546	720,420

Investments in and balance outstanding with related parties have been disclosed in the relevant notes to the financial statements.

Habib Insurance Company Limited

28. FINANCIAL RISK MANAGEMENT

28.1 Foreign currency risk

Currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates.

Foreign exchange risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As at the year end the Company had no material assets or liabilities in foreign currencies.

The Company is not materially exposed to exchange fluctuation risk in foreign currency.

28.2 Reinsurance risk

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

In common with other insurance companies, in order to minimise financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurers' insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from similar geographic regions, activities or economic characteristics of reinsurers.

28.3 Credit risk and its concentration

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

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 affect their ability to meet contractual obligations in a similar manner.

The Company is exposed to its credit risk on premiums due but unpaid, reinsurance recoveries due but unpaid, amounts due from reinsurer / insurers and reinsurance recoveries against outstanding claims. The management monitors and limits Company's exposure to credit risk through monitoring of credit exposure, review and conservative estimates of provisions for doubtful receivables, if any. Company's concentration of credit risk by industry sector is given as under.

Habib Insurance Company Limited

	2006 Rupees in '000	2006 %	2005 Rupees in '000	2005 %
Industry sector				
Automobiles	21,563	11	5,447	4
Banks, Modaraba and Leasing	24,266	12	14,189	10
Textile and Composite	34,190	17	38,781	26
Sugar	9,733	5	7,335	5
Chemicals and Allied Industries	7,509	4	2,106	1
Glass, Ceramics and Tiles	5,139	3	3,087	2
Cable, Engineering and Steel	3,792	2	4,657	3
Cement	1,704	1	2,405	2
Food and Confectionary	2,849	1	2,349	2
Fuel and Energy	1,357	1	1,405	1
Pharmaceuticals	2,325	1	1,555	1
Others	81,168	42	64,230	43
	<u>195,595</u>	<u>100</u>	<u>147,546</u>	<u>100</u>

28.4 Market risk

The Company has invested its funds in ordinary shares, unit trust, mutual funds and modarabas resulting in exposure due to the fluctuation in the rate of interest and dividend earned thereon and the possibility of capital gains or losses arising from the sale of these investments.

The Company minimises such risk by having a diversified investment portfolio. In addition, the Company actively monitors key factors that affect the investment market.

Habib Insurance Company Limited

29. Segment Reporting

(Rupees in '000)

	Fire		Marine		Motor		Other Classes		Total	
	2006	2005 (Restated)	2006	2005 (Restated)	2006	2005 (Restated)	2006	2005 (Restated)	2006	2005 (Restated)
Revenue										
Premiums earned	179,190	154,009	147,779	125,198	100,256	83,536	84,844	62,309	512,069	425,052
Segment Result	<u>27,620</u>	<u>34,988</u>	<u>30,690</u>	<u>36,238</u>	<u>2,568</u>	<u>6,805</u>	<u>(7,924)</u>	<u>(11,781)</u>	<u>52,954</u>	<u>66,250</u>
Investment income									606,676	133,261
Profit on sale of fixed assets									1,182	733
Other income									64	33
General and administration expenses									(55,043)	34,879)
									552,879	99,148
Profit before tax									605,833	165,398
Provision for taxation									(4,888)	(17,497)
Net profit									<u>600,945</u>	<u>147,901</u>
Other Information										
Segment Assets	137,352	114,416	113,276	93,012	76,848	62,061	65,035	46,291	392,511	315,780
Unallocated corporate assets									1,131,034	547,429
Consolidated total assets									<u>1,523,545</u>	<u>863,209</u>
Segment Liabilities	180,219	143,884	148,627	116,967	100,832	78,044	85,331	58,213	515,009	397,108
Unallocated corporate liabilities									48,434	47,794
Consolidated total liabilities									<u>563,443</u>	<u>444,902</u>
Capital expenditure	<u>3,633</u>	<u>8,181</u>	<u>2,996</u>	<u>6,651</u>	<u>2,033</u>	<u>4,438</u>	<u>1,720</u>	<u>3,310</u>	<u>10,382</u>	<u>22,580</u>
Depreciation / amortisation	<u>3,269</u>	<u>3,868</u>	<u>2,697</u>	<u>3,145</u>	<u>1,829</u>	<u>2,098</u>	<u>1,548</u>	<u>1,565</u>	<u>9,343</u>	<u>10,676</u>

Habib Insurance Company Limited

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its funding requirements. To guard against the risk, the Company has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The table below summarises the maturity profile of the Company's assets and liabilities. The contractual maturities of assets and liabilities at the year-end have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities. Assets and liabilities not having a contractual maturity are assumed to mature on the expected date on which the assets / liabilities will be realised / settled.

	Total	Within one Year	More than one year and less than five years	More than five years
	(Rupees in '000)			
As at December 31, 2006				
Assets				
Cash and bank deposits	126,435	126,435	–	–
Loans	905	–	905	–
Investments	691,063	691,063	–	–
Premiums due but unpaid	125,948	125,948	–	–
Amounts due from other insurers / reinsurers	68,647	68,647	–	–
Accrued investment income	1,254	1,254	–	–
Reinsurance recoveries against outstanding claims	26,094	26,094	–	–
Deferred commission expense	38,878	38,878	–	–
Prepayments	97,459	97,459	–	–
Sundry receivables	306,364	305,213	–	1,151
Deferred taxation	3,496	–	–	3,496
Fixed assets	37,002	–	29,711	7,291
	1,523,545	1,480,991	30,616	11,938
Liabilities				
Provision for outstanding claims (including IBNR)	74,157	74,157	–	–
Provision for unearned premium	238,844	238,844	–	–
Commission income unearned	27,430	27,430	–	–
Staff retirement benefits	8,484	8,484	–	–
Premium received in advance	363	363	–	–
Amount due to other insurers / reinsurers	88,391	88,391	–	–
Accrued expenses	10,358	10,358	–	–
Taxation - provision less payments	29,593	29,593	–	–
Other creditors and accruals	85,823	85,823	–	–
	563,443	563,443	30,616	11,938
Net Assets	960,102	917,548	30,616	11,938
Represented by:				
Share capital and reserves	960,102			

Habib Insurance Company Limited

	Total	Within one Year	More than one year and less than five years	More than five years
			(Rupees in '000)	
As at December 31, 2005				
Assets				
Cash and bank deposits	56,536	56,536	–	–
Loans	194	–	194	–
Investments	479,421	479,421	–	–
Premiums due but unpaid	85,654	85,654	–	–
Amounts due from other insurers / reinsurers	61,892	61,892	–	–
Accrued investment income	2,147	2,147	–	–
Reinsurance recoveries against outstanding claims	12,476	12,476	–	–
Deferred commission expense	29,373	29,373	–	–
Prepayments	90,676	90,676	–	–
Sundry receivables	7,035	5,965	–	1,070
Deferred taxation	384	–	–	384
Fixed assets	37,421	–	29,455	7,966
	863,209	824,140	29,649	9,420
Liabilities				
Provision for outstanding claims (including IBNR)	46,257	46,257	–	–
Provision for unearned premium	191,387	191,387	–	–
Commission income unearned	23,119	23,119	–	–
Staff retirement benefits	6,165	6,165	–	–
Premium received in advance	7,064	7,064	–	–
Amount due to other insurers / reinsurers	78,296	78,296	–	–
Accrued expenses	10,256	10,256	–	–
Taxation - provision less payments	31,371	31,371	–	–
Other creditors and accruals	50,987	50,987	–	–
	444,902	444,902	–	–
Net Assets	418,307	379,238	29,649	9,420
Represented by:				
Share capital and reserves	418,307			

Habib Insurance Company Limited

Interest rate risk

The Company invests in securities and has deposits that are subject to interest rate risk. Interest rate risk to the Company is the risk of changes in market interest rates reducing the overall return on its interest bearing securities. The Company limits interest rate risk by monitoring changes in interest rates.

The Company's interest sensitivity and liquidity positions based on maturities are as follows:

	Effective rate per annum	Total	Exposed to interest rate			Not exposed to interest rate / yield risk
			Within one Year	More than one year and less than five years	More than five years	
(Rupees in '000)						
As at December 31, 2006						
Financial Assets						
Loans	7%	905	–	401	–	504
Investments		691,063	78	–	–	690,985
Premiums due but unpaid		125,948	–	–	–	125,948
Amounts due from other insurers / reinsurers		68,647	–	–	–	68,647
Accrued investment income		1,254	–	–	–	1,254
Reinsurance recoveries against outstanding claims		26,094	–	–	–	26,094
Sundry receivables	7%	306,364	753	–	–	305,611
Cash and bank balances	7% - 8%	126,435	119,186	–	–	7,249
		<u>1,346,710</u>	<u>120,017</u>	<u>401</u>	<u>–</u>	<u>1,226,292</u>
Financial Liabilities						
Provision for outstanding claims (including IBNR)		74,157	–	–	–	74,157
Staff retirement benefits		8,484	–	–	–	8,484
Amounts due to other insurers / reinsurers		88,391	–	–	–	88,391
Accrued expenses	10,358	–	–	–	10,358	–
Other creditors and accruals		85,823	–	–	–	85,823
		<u>267,213</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>267,213</u>
Interest rate / yield sensitivity gap			<u>120,017</u>	<u>401</u>	<u>–</u>	
Cumulative interest rate sensitivity gap			<u>120,017</u>	<u>120,418</u>	<u>120,418</u>	
As at December 31, 2005						
Financial Assets						
Loans	7%	194	–	160	–	34
Investments		479,421	78	–	–	479,343
Premiums due but unpaid		85,654	–	–	–	85,654
Amounts due from other insurers / reinsurers		61,892	–	–	–	61,892
Accrued investment income		2,147	–	–	–	2,147
Reinsurance recoveries against outstanding claims		12,476	–	–	–	12,476
Sundry receivables	7%	7,035	259	–	–	6,776
Cash and bank balances	7% - 8%	56,536	53,213	–	–	3,323
		<u>705,355</u>	<u>53,550</u>	<u>160</u>	<u>–</u>	<u>651,645</u>
Financial Liabilities						
Provision for outstanding claims (including IBNR)		46,257	–	–	–	46,257
Staff retirement benefits		6,165	–	–	–	6,465
Amounts due to other insurers / reinsurers		78,296	–	–	–	78,296
Accrued expenses	10,256	–	–	–	10,256	–
Other creditors and accruals		48,163	–	–	–	48,163
		<u>189,137</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>189,137</u>
Interest rate / yield sensitivity gap			<u>53,550</u>	<u>160</u>	<u>–</u>	
Cumulative interest rate sensitivity gap			<u>53,550</u>	<u>53,710</u>	<u>–</u>	

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values except for quoted available-for-sale investments, which are stated at lower of cost and market value in accordance with the requirements of SEC (Insurance) Rules, 2002. The carrying and fair value of these investments have been disclosed in note 16.2 to the financial statements.

Habib Insurance Company Limited

32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2006			(Rupees in '000)			2005		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Fees	-	11	-	-	10	-	-	10	-
Managerial Remuneration	2,640	-	11,624	2,100	-	7,863	-	-	-
Contribution to Provident Fund	149	-	509	123	-	373	-	-	-
Other Perquisites	370	-	564	593	-	336	-	-	-
Total	3,159	-	12,697	2,816	-	8,572	-	-	-
Number of persons	1	7	8	1	7	6	-	-	-

32.1 In addition to the above, the Chief Executive and Executives of the Company are provided with Company maintained cars and medical reimbursement at actuals upto a maximum of two basic salaries, where applicable.

33. EARNINGS PER SHARE – BASIC AND DILUTED

There is no dilutive effect on basic earnings per share which is based on:

	Note	2006	2005 (Restated)
Profit after tax (Rupees in '000)		600,945	147,901
Weighted average number of shares (in '000)	33.1	43,940	43,940
Earnings per share – basic (Rupees)		13.68	3.37

33.1 The number of shares for the prior period has also been adjusted for the effect of bonus shares issued during the current year. Hence the figure for the prior year's earnings per share has also been restated.

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

34. NUMBER OF EMPLOYEES

The number of employees at the end of the year was 220 (2005 : 197).

35. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Company in its meeting held on March 26, 2007.

36. MOVEMENT BETWEEN RESERVES AND PROPOSED DIVIDEND

In the meeting held on March 26, 2007, the Board of Directors of the Company recommended a final cash dividend of 65 percent and bonus shares in the ratio of 35 shares for every 100 shares held of Rs. 5/ each for the year ended December 31, 2006, amounting to Rs. 142.805 million and Rs. 76.895 million respectively, for approval of the members at the Annual General Meeting. In addition, the Board has approved appropriation to the general reserve of Rs. 375 million (2005: Rs. 40 million).

37. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. There is no material reclassification to report.

RAFIQ M. HABIB
Chairman

ABBAS D. HABIB
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Pattern of Shareholding as at December 31, 2006

Number of Shareholders	Size of Shareholding Rs. 5/- each		Total Shares Held
249	1	to 100	8,688
252	101	to 500	69,212
154	501	to 1,000	116,417
413	1,001	to 5,000	1,044,692
103	5,001	to 10,000	761,761
38	10,001	to 15,000	469,877
23	15,001	to 20,000	397,830
23	20,001	to 25,000	521,099
7	25,001	to 30,000	191,652
11	30,001	to 35,000	354,273
15	35,001	to 40,000	564,742
16	40,001	to 45,000	697,574
15	45,001	to 50,000	697,308
10	50,001	to 55,000	531,092
8	55,001	to 60,000	460,261
3	60,001	to 65,000	187,236
7	65,001	to 70,000	467,327
14	70,001	to 75,000	1,016,636
5	75,001	to 80,000	391,335
4	80,001	to 85,000	324,190
13	85,001	to 90,000	1,133,054
1	90,001	to 95,000	93,514
3	95,001	to 100,000	289,408
2	100,001	to 105,000	201,569
7	105,001	to 110,000	767,639
1	110,001	to 115,000	113,235
3	115,001	to 120,000	352,610
2	120,001	to 125,000	244,339
2	125,001	to 130,000	252,150
2	130,001	to 135,000	265,510
2	135,001	to 140,000	272,844
1	140,001	to 145,000	142,250
4	145,001	to 150,000	591,572
1	150,001	to 155,000	152,625
2	155,001	to 160,000	317,122
1	180,001	to 185,000	181,058
2	185,001	to 190,000	373,054
3	190,001	to 195,000	575,127
1	195,001	to 200,000	198,723
1	200,001	to 205,000	203,990
3	205,001	to 210,000	619,238
3	210,001	to 215,000	637,522
5	215,001	to 220,000	1,097,913
2	220,001	to 225,000	446,196
1	230,001	to 235,000	230,816
1	245,001	to 250,000	246,064
2	260,001	to 265,000	527,280
1	265,001	to 270,000	268,309
1	270,001	to 275,000	270,375
1	275,001	to 280,000	276,181
1	285,001	to 290,000	287,125
1	290,001	to 295,000	290,004
1	295,001	to 300,000	298,593
1	305,001	to 310,000	307,580
2	325,001	to 330,000	659,100
1	335,001	to 340,000	335,445
1	360,001	to 365,000	364,702
1	365,001	to 370,000	366,239
1	375,001	to 380,000	377,685
1	435,001	to 440,000	435,263
1	440,001	to 445,000	442,967
1	460,001	to 465,000	461,370
1	475,001	to 480,000	475,693
1	545,001	to 550,000	546,861
1	620,001	to 625,000	624,804
1	640,001	to 645,000	643,390
1	815,001	to 820,000	817,000
1	830,001	to 835,000	834,860
1	835,001	to 840,000	837,411
1	965,001	to 970,000	965,312
1	1,030,001	to 1,035,000	1,033,847
1	1,040,001	to 1,045,000	1,041,378
1	1,045,001	to 1,050,000	1,045,740
1	1,765,001	to 1,770,000	1,766,388
1	1,900,001	to 1,905,000	1,902,602
1	1,920,001	to 1,925,000	1,922,375
1	2,030,001	to 2,035,000	2,034,422
1	2,205,001	to 2,210,000	2,207,355
1,473	TOTAL		43,940,000

Categories of Shareholders	Numbers	Shares Held	Percentage
1. Individuals	1,393	27,239,638	61.99
2. Investment Companies	4	2,098	0.00
3. Insurance Companies	7	2,733,342	6.22
4. Joint Stock Companies	27	4,347,366	9.89
5. Financial Institutions	3	1,122,624	2.56
6. Charitable Trusts	18	6,193,246	14.09
7. Government Institutions	2	648,971	1.48
8. Foreign Investors	19	1,652,715	3.77
	1,473	43,940,000	100.00

Habib Insurance Company Limited

Pattern of Shareholding as at December 31, 2006

Additional Information

Shareholders' Category	Number of Shareholders / Folios	Number of Shares Held
Associated Companies		
Habib Sugar Mills Limited	1	1,902,602
Thal Limited	1	2,034,422
Karachi Mercantile Co. (Pvt.) Limited	1	121,344
NIT and ICP		
Investment Corporation of Pakistan	2	915
Directors		
Mr. Rafiq M. Habib	1	59,187
Mr. Abbas D. Habib	2	265,960
Mr. Mansoor G. Habib	1	2,000
Mr. Mohamedali R. Habib	2	689,527
Mr. Sajjad Hussain Habib	1	100,787
Mr. Aun Mohammad A. Habib	1	100,782
Mr. Mazher Ali Jumani	2	3,818
Chief Executive Officer		
Mr. Ali Raza D. Habib	1	21,750
Directors' Spouses		
Mrs. Jamila Rafiq w/o Mr. Rafiq M. Habib	2	342,938
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	1	4,968
Mrs. Sayyeda Mohamedali w/o Mr. Mohamedali R. Habib	1	46,137
Banks, Development Financial Institutions, Insurance Companies, Modarabas and Mutual Funds		
	10	3,592,985
Joint Stock Companies and Corporations		
	24	288,998
Individuals / Others		
	1378	25,574,567
Charitable Trusts, Societies and Government Institutions		
	22	7,133,598
Foreign Investors		
	19	1,652,715
	1,473	43,940,000

Habib Insurance Company Limited

Notice of Annual General Meeting

NOTICE is hereby given that the 64th Annual General Meeting of the Shareholders of the Company will be held at Pearl Continental Hotel, Club Road, Karachi, on Saturday, April 28, 2007 at 10:00 a.m. to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended December 31, 2006 together with the Directors' and Auditors' Report thereon.
2. To approve payment of cash dividend @ 65% i.e. Rs. 3.25 per share of Rs. 5/- each for the year ended December 31, 2006 as recommended by the Board of Directors.
3. To approve the issue of bonus shares as recommended by the Board of Directors, subject to approval of increase in Company's Authorised Share Capital as mentioned in item No. 6 as "Special Business" and in this regard to pass the following Ordinary Resolution:

"RESOLVED that a sum of Rs.76,895,000 (Rupees seventy six million eight hundred ninety five thousand only) out of the un-appropriated profit be capitalised and distributed by issuing 15,379,000 fully paid ordinary shares of Rs. 5/- each as bonus shares in the proportion of thirty five shares for every hundred shares held, to those members whose names appear in the register of members as at the close of business on Monday, April 16, 2007 and that the shares so distributed shall be treated for all purposes as an increase in the paid-up capital of the Company.

FURTHER RESOLVED that the bonus shares so distributed shall rank pari passu in all respects with the existing shares of the Company except that they shall not qualify for dividend for the year ended December 31, 2006.

FURTHER RESOLVED that in the event of any member holding shares which are not an exact multiple of 35:100, the Directors be and are hereby authorised to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realised to a charitable institution.

FURTHER RESOLVED that the Directors be and are hereby authorised and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of 15,379,000 ordinary shares."

4. To appoint Auditors for the year ending December 31, 2007 and to fix their remuneration. Messrs Ford Rhodes Sidat Hyder & Co., Chartered Accountants, being eligible, offer themselves for reappointment.
5. To consider any other business of the Company with the permission of the Chair.

Special Business

6. To consider and pass the following Special Resolution to increase the Authorised Share Capital of the Company.

"RESOLVED that the authorised share capital of the Company be and is hereby increased to Rs. 500,000,000 by the creation of 50,000,000 ordinary shares of Rs. 5/- each, such new shares to rank pari passu in all respects with the existing ordinary shares in the capital of the Company.

FURTHER RESOLVED that the figures and words "Rs. 250,000,000/- (Rupees two hundred fifty million) divided into 50,000,000 (fifty million) ordinary shares of the denomination of Rs. 5/- each" appearing in Clause # 5 of the Memorandum of Association and in Article # 3 of the Articles of Association of the Company be and are hereby substituted by the figures and words "Rs. 500,000,000 (Rupees five hundred million) divided into 100,000,000 (One hundred million) ordinary shares of the denomination of Rs. 5/- each".

Habib Insurance Company Limited

7. To consider and pass the following resolution for authorising investment in the following associated companies:

“RESOLVED that the approval of the shareholders of the Company be and is hereby accorded in terms of Section 208 of the Companies Ordinance, 1984 for the investment of the respective amounts in the purchase of ordinary shares and income fund of the following associated companies:

Sr. No.	Name of the Company	Rs. in million
1	Agriauto Industries Limited	3
2	Bank AL Habib Limited	50
3	Dynea Pakistan Limited	2
4	First Habib Income Fund managed by Habib Asset Management Limited	75
5	Habib Sugar Mills Limited	75
6	Habib Metropolitan Bank Limited	50
7	Indus Motor Company Limited	35
8	Shabbir Tiles & Ceramics Limited	30
9	Thal Limited	130

FURTHER RESOLVED that the Chief Executive & Managing Director of the Company be and is hereby authorised to take any and all actions which may be required for the investment of the respective amounts in the purchase of ordinary shares and income fund of the above mentioned associated companies.”

For item No's 6 & 7, statement under section 160(1)(b) of the Companies Ordinance, 1984 is annexed.

By order of the Board

SHABBIR GULAMALI
Company Secretary

Karachi: March 26, 2007

Notes:

1. The share transfer books of the Company will remain closed from Tuesday, April 17, 2007 to Saturday, April 28, 2007 (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 Annual General Meeting 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 to the Company any change in their address.

Habib Insurance Company Limited

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

The statement is annexed to the Notice of the 64th Annual General Meeting of Habib Insurance Company Ltd to be held on April 28, 2007 at which certain business are to be transacted. The purpose of this statement is to set forth the material facts concerning such special business.

ITEM NUMBER 6 OF THE AGENDA

With the issuance of 35% bonus shares as proposed, the Paid-up Capital of the Company would increase to Rs. 296,595,000. Therefore, the present Authorised Capital of the Company needs to be increased to facilitate the issuance of the proposed bonus shares. Accordingly, the Board of Directors, in their meeting held on March 26, 2007 has recommended to increase the Authorised Capital from Rs. 250,000,000/- (Rupees two hundred fifty million) to Rs. 500,000,000/- (Rupees five hundred million) divided into 100,000,000 (One hundred million) ordinary shares of Rs. 5/- each. Increase in Authorised Capital will also necessitate amendments in Clause # 5 of the Memorandum of Association and Article # 3 of the Articles of Association of the Company.

ITEM NUMBER 7 OF THE AGENDA

The Board of Directors of Habib Insurance Company Ltd in their meeting held on March 26, 2007 approved to make investment in associated companies. In this regard the Company seeks the approval of the shareholders under section 208 of the Companies Ordinance, 1984, for investment in the Associated Companies.

According to S.R.O. No. 865(i)/2000 dated December 6, 2000, the following information is required to be annexed with the notice for approval of investment in Associated Companies and for the purpose of section 208 of the Companies Ordinance, 1984. Hence the same is set out below:

Sr. No.	Description	Information Required
1. i	Name of the Investee Company	Agriauto Industries Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 3 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 79 per share - Face value of Rs. 5 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	June 30, 2006: Rs. 34.61 per share - Face value of Rs. 5 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 7.45 per share 2005: Rs. 10.52 per share 2006: Rs. 12.57 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Mansoor G. Habib, Director of the Company, is also Director of Agriauto Industries Ltd. He is interested in this business to the extent of his investment in this Company

Habib Insurance Company Limited

Sr. No.	Description	Information Required
2. i	Name of the Investee Company	Bank AL Habib Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 50 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 69 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	December 31, 2006: Rs. 24.80 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 2.05 per share 2005: Rs. 5.57 per share 2006: Rs. 6.69 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Ali Raza D. Habib, Chief Executive and Mr. Abbas D. Habib, Director of the Company, are also Chairman and Chief Executive respectively of Bank AL Habib Limited. They are interested in this business to the extent of their investment in this Company

Sr. No.	Description	Information Required
3. i	Name of the Investee Company	Dynea Pakistan Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 2 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 12 per share - Face value of Rs. 5 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	June 30, 2006: Rs. 15.52 per share - Face value of Rs. 5 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. (0.05) per share 2005: Rs. 0.06 per share 2006: Rs. 1.94 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Rafiq M. Habib, Chairman of the Company, is also Director of Dynea Pakistan Ltd. He is interested in this business to the extent of his investment in this Company

Habib Insurance Company Limited

Sr. No.	Description	Information Required
4. i	Name of the Investee Company	First Habib Income Fund managed by Habib Asset Management Limited
ii	Nature, amount and extent of investment	Investment upto Rs. 75 million in units of First Habib Income Fund
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Not applicable being a new fund
iv	Break-up value of shares / Net Asset Value of certificates intended to be purchased on the basis of last published financial statement	Not applicable being a new fund
v	Price at which shares / certificates will be purchased	Offer / Issue price
vi	Earnings per share of investee Company in last three years	Not applicable being a new fund
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable, may be bought and sold depending on market opportunities as per the terms and conditions mentioned on fund fact sheet
ix	Purpose of Investment	To enable the Company to benefit from the investment opportunities available in the mutual fund's market
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Ali Raza D. Habib, Chief Executive of the Company is also Chairman of Habib Asset Management Ltd. He is interested in this business to the extent of his investment in this Company

Sr. No.	Description	Information Required
5. i	Name of the Investee Company	Habib Sugar Mills Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 75 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 35 per share - Face value of Rs. 5 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	September 30, 2006: Rs. 36.18 per share - Face value of Rs. 5 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 4.44 per share 2005: Rs. 3.76 per share 2006: Rs. 4.99 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Ali Raza D. Habib, Chief Executive of the Company is also Director of Habib Sugar Mills Ltd. He is interested in this business to the extent of his investment in this Company

Habib Insurance Company Limited

Sr. No.	Description	Information Required
6. i	Name of the Investee Company	Habib Metropolitan Bank Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 50 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 79 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	December 31, 2006: Rs. 36.17 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 5.23 per share 2005: Rs. 7.24 per share 2006: Rs. 9.32 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Mohamedali R. Habib, Director of the Company, is also Director of Habib Metropolitan Bank Limited. He is interested in this business to the extent of his investment in this Company

Sr. No.	Description	Information Required
7. i	Name of the Investee Company	Indus Motor Company Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 35 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 210 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	December 31, 2006: Rs. 79.62 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 18.74 per share 2005: Rs. 18.89 per share 2006: Rs. 33.70 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Mohamedali R. Habib, Director of the Company, is also Director of Indus Motor Company Limited. He is interested in this business to the extent of his investment in this Company

Habib Insurance Company Limited

Sr. No.	Description	Information Required
8. i	Name of the Investee Company	Shabbir Tiles & Ceramics Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 30 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 34 per share - Face value of Rs. 5 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	June 30, 2006: Rs. 22.07 per share - Face value of Rs. 5 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 2.10 per share 2005: Rs. 4.02 per share 2006: Rs. 3.14 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Rafiq M. Habib, Chairman & Mr. Mansoor G. Habib, Director of the Company, are also Directors of Shabbir Tiles & Ceramics Ltd. They are interested in this business to the extent of their investment in this Company

Sr. No.	Description	Information Required
9. i	Name of the Investee Company	Thal Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 130 million in the shares of the investee company
iii	Average market price of the shares intended to be purchased during preceding six months in case of listed companies	Average market price upto March 26, 2007 is Rs. 176 per share - Face value of Rs. 5 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	June 30, 2006: Rs. 124.59 per share - Face value of Rs. 5 per share
v	Price at which shares will be purchased	At fair market value
vi	Earnings per share of investee Company in last three years	2004: Rs. 22.59 per share 2005: Rs. 25.22 per share 2006: Rs. 33.98 per share
vii	Sources of funds from where shares will be purchased	Own source
viii	Period for which investment will be made	Not applicable being long term equity investment
ix	Purpose of Investment	Long term investment to earn dividend income as well as prospective capital gains
x	Benefits likely to accrue to the Company and the shareholders from the proposed investment	Dividend income / Capital gains
xi	Interest of Directors and their relatives in the investee Company	Mr. Rafiq M. Habib, Chairman & Mr. Mohamedali R. Habib, Director of the Company, are also Chairman & Director respectively of Thal Ltd. They are interested in this business to the extent of their investment in this Company

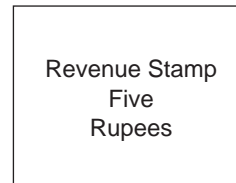
Habib Insurance Company Limited

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 appointFolio Noof.....
or failing him/her Folio Noof.....
another member of Habib Insurance Company Limited as my proxy to vote for me/us and on my/our behalf at the Sixty Fourth Annual General Meeting of the Company to be held on April 28, 2007 and at any adjournment thereof.

Signed this day of



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