

# Habib Insurance Company Limited

## Contents

Company Information	1
Directors' Report	2
Six Years' Review at a Glance	6
Statement of Compliance with the Code of Corporate Governance	7
Auditors' Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance	9
Auditors' Report to the Members	10
Balance Sheet	11
Profit and Loss Account	13
Statement of Changes in Equity	14
Statement of Cash Flow	15
Statement of Premiums	17
Statement of Claims	18
Statement of Expenses	19
Statement of Investment Income	20
Notes to the Financial Statements	21
Pattern of Shareholding	61
Notice of Annual General Meeting	63
Proxy Form	

## Company Information

### Board of Directors

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

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

**Company Secretary** : Shabbir Gulamali

**Auditors** : KPMG Taseer Hadi & Co.  
Chartered Accountants  
Karachi

**Share Registrar** : M/s. Noble Computer Services (Pvt.) Ltd.  
Mezzanine Floor, House of Habib Building,  
Siddiqsons Tower, 3 Jinnah Cooperative  
Housing Society, Main Shahrah-e-Faisal,  
Karachi-75350

**Registered Office** : 1st Floor, State Life Bldg. No. 6,  
Habib Square, M. A. Jinnah Road,  
P.O. Box 5217, Karachi-74000,  
Pakistan  
Tel : (92-21) 2424030/38/39  
Fax : (92-21) 2421600  
UAN : (92-21) 111 03 03 03  
Website : [www.habibinsurance.net](http://www.habibinsurance.net)

# Habib Insurance Company Limited

## Sixty Seventh Report of the Directors' to the Shareholders for the year ended December 31, 2009

The Shareholders,

The Board of Directors have pleasure in presenting the Sixty Seventh Annual Report along with the audited accounts of the Company for the year ended December 31, 2009.

	Rupees in '000
Net profit after tax for 2009	204,743
Amount available after appropriations for the year 2008	<u>14,276</u>
	<u>219,019</u>
The Board of Directors now propose:	
Transfer to general reserve	50,000
Payment of dividend at Rs. 1.75 per share of Rs. 5/- each i.e. @ 35%	140,141
Unappropriated profit carried forward	<u>28,878</u>
	<u>219,019</u>
Basic earnings per share of Rs. 5/- each	2.56

By the Grace of Allah, the overall performance of the Company for 2009 has been quite favourable and the Directors are pleased to recommend a payout of 35% to shareholders as mentioned above.

In a planned strategy based on circumstances prevailing during the year under review, the Company took a stance of cautious underwriting of business and also put in place effective cost cutting measures in an effort to restore gradual recovery on the substantial loss of 2008 due to heavy impairment on the Investment portfolio following the Stock Exchange crash.

Because of better performance in all areas of operation, the underwriting results of the Company increased to Rs. 73.5 million from Rs. 62.5 million of the previous year. The net claims benefited from selective underwriting, specifically on Motor Car business along with a reduction in expenses and commission contributing towards the improvement.

Against the investment loss of 2008, as mentioned above, amounting to Rs. 390.5 million, the Company recorded an investment income of Rs. 184.9 million for 2009, mainly arising out of Capital Gains of Rs. 156.7 million and Dividend Income of Rs. 33.5 million through consistent corporate payouts. We might further add that the Company has recorded significant progress despite the background of slow recovery of the Economy for 2009 with GDP growth registering at 2% and menacing inflation of 20.8%. Foreign exchange reserves are at US\$ 12.0 billion and direct foreign investment at US\$ 3.7 billion.

# Habib Insurance Company Limited

We anticipate the year 2010 to be exciting with challenges countering the unpredictable turn of events. We intend to capitalise on whatever favourable and positive features that may arise and it will be our serious endeavour, Inshallah, to attain a respectable growth in the business without compromising on all the cautionary procedures now firmly in place.

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

As always, we are indeed thankful to all our clients and customers who have placed their confidence in our Company and will, Inshallah, continue to meet all their insurance requirements. A special mention must be made for all the support and guidance we have received from our Reinsurers. The Board of Directors would like to express their appreciation to all staff members of the Company for their dedication and hard work throughout the year.

## **Audit Committee**

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

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

## **Auditors**

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Company for the year ending December 31, 2010, at a fee to be mutually agreed.

## **Statement on Corporate and Financial Reporting Framework**

1. The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of 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.

# Habib Insurance Company Limited

8. Key operating and financial data for the last six years is annexed.
9. The value of investments and balance in deposit accounts of Provident Fund as at December 31, 2009 is Rs. 29.6 million.
10. During the year four Board meetings were held and the attendance of the Directors is as follows:

<b>Date of Meeting</b>	<b>Attended by</b>
March 31, 2009	Mr. Rafiq M. Habib Mr. Mazher Ali Jumani Mr. Mansoor G. Habib Mr. Mohamedali R. Habib Mr. Sajjad Hussain Habib Mr. Aun Mohammad A. Habib Mr. Ali Raza D. Habib
	Chief Executive
April 30, 2009	Mr. Mazher Ali Jumani Mr. Mansoor G. Habib Mr. Aun Mohammad A. Habib Mr. Ali Raza D. Habib
	Chief Executive
August 21, 2009	Mr. Abbas D. Habib Mr. Mazher Ali Jumani Mr. Mansoor G. Habib Mr. Mohamedali R. Habib Mr. Sajjad Hussain Habib Mr. Aun Mohammad A. Habib Mr. Ali Raza D. Habib
	Chief Executive
October 20, 2009	Mr. Rafiq M. Habib Mr. Abbas D. Habib Mr. Mazher Ali Jumani Mr. Mansoor G. Habib Mr. Mohamedali R. Habib Mr. Ali Raza D. Habib
	Chief Executive

# Habib Insurance Company Limited

11. The pattern of shareholding and additional information regarding pattern of shareholding is annexed.
12. No trades in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

On behalf of the Board of Directors

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

Karachi: April 07, 2010

# Habib Insurance Company Limited

## Six Years' Review at a Glance

(Rupees in '000)

Years	2009	2008	2007	2006	2005	2004
Gross Written Premium	702,869	737,442	685,606	559,526	452,759	359,883
Net Premium Revenue	359,040	397,960	335,974	268,075	229,715	178,985
Investment Income / (Loss)	184,886	(390,531 )	443,297	604,110	132,579	120,270
Net Claims	175,704	202,219	217,176	122,423	94,606	78,289
Profit / (Loss) after Tax	204,743	(396,428 )	420,378	600,945	147,901	99,747
Paid-up Capital	400,403	355,914	296,595	219,700	169,000	130,000
Reserves & Retained Earnings	423,141	307,376	941,080	740,402	249,307	140,406
Total Assets - at Book Value	1,616,335	1,460,429	2,101,104	1,523,545	863,209	731,115
Cash Dividend - %	35	12.5	60	65	35	30
Stock Dividend - %	–	12.5	20	35	30	30

# Habib Insurance Company Limited

## Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2009

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive Directors on its Board of Directors. All elected 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 members of the Board are well conversant with the listing regulations and corporate requirements and as such fully aware of their duties and responsibilities.
10. 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. No new appointments in these positions were made during the year.
11. 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

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed underwriting / claim settlement / reinsurance & co-insurance committee(s).
16. 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.
17. 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.
18. 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.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. 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.
21. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors.
22. We confirm that all material principles contained in the Code have been complied with.

On behalf of the Board of Directors

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

Karachi: April 07, 2010

# 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 prepared by the Board of Directors of **Habib Insurance Company Limited** ("the Company") to comply with the listing regulations of the respective Stock Exchanges, where the Company is listed, and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(1)/2003, by the Securities and Exchange Commission of Pakistan.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board' statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Company's corporate governance procedures and risks.

Further sub-regulation (xiii-a) of Listing Regulations 35 (previously Regulation No. 37) notified by the Karachi Stock Exchange (Guarantee) Limited vide circular no. KSE/N-269 dated January 19, 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2009.

Karachi: April 07, 2010

**KPMG Taseer Hadi & Co.**  
Chartered Accountants

# Habib Insurance Company Limited

## Auditors' Report to the Members

We have audited the annexed financial statements comprising of:

- (i) balance sheet;
- (ii) profit and loss account;
- (iii) statement of changes in equity;
- (iv) 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** ("the Company") as at 31 December 2009 together with the notes forming part thereof, for the year then ended.

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

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

In our opinion:

- (a) proper books of 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 changes as described in note 2.5 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 31 December 2009 and of the profit, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- (d) 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.

The financial statements of the Company for the year ended 31 December 2008 were audited by another firm of Chartered Accountants who vide their report dated 31 March 2009 issued an unqualified report thereon.

Karachi: April 07, 2010

**KPMG Taseer Hadi & Co.**  
Chartered Accountants  
Mazhar Saleem

# Habib Insurance Company Limited

## Balance Sheet as at December 31, 2009

	Note	2009 (Rupees in '000)	2008 (Rupees in '000)		Note	2009 (Rupees in '000)	2008 (Rupees in '000)
<b>Share Capital and Reserves</b>				<b>Cash and Bank Deposits</b>	10		
Authorised share capital [100,000,000 (December 31, 2008: 100,000,000) ordinary shares of Rs. 5 each]		<u>500,000</u>	<u>500,000</u>	Cash and other equivalents		939	471
Paid-up share capital	5.1	400,403	355,914	Current and other accounts		<u>25,581</u>	<u>56,964</u>
Retained earnings		219,019	(346,746)			26,520	57,435
Reserves		<u>204,122</u>	<u>654,122</u>	<b>Loans - secured, considered good to employees</b>	11	2,268	2,534
<b>TOTAL EQUITY</b>		<b>823,544</b>	<b>663,290</b>	<b>Investments</b>	12	932,041	719,561
<b>Underwriting Provisions</b>				<b>Deferred Taxation</b>	13	7,275	5,728
Provision for outstanding claims (including IBNR)		<u>141,095</u>	<u>171,286</u>	<b>Current Assets - others</b>			
Provision for unearned premium		<u>287,708</u>	<u>306,115</u>	Premiums due but unpaid	14	<u>197,745</u>	<u>186,247</u>
Commission income unearned		<u>30,854</u>	<u>39,792</u>	Amounts due from other insurers / reinsurers	15	<u>123,704</u>	<u>145,581</u>
Total underwriting provisions		459,657	517,193	Accrued investment income	16	6,848	3,486
<b>Deferred Liability</b>				Reinsurance recoveries against outstanding claims		<u>87,254</u>	<u>96,179</u>
Staff retirement benefits	6	17,899	15,243	Deferred commission expense		<u>36,053</u>	<u>41,081</u>
<b>Creditors and Accruals</b>				Advances, deposits and prepayments	17	<u>128,282</u>	<u>154,966</u>
Premiums received in advance		<u>8,855</u>	<u>3,286</u>	Sundry receivables	18	<u>27,137</u>	<u>2,005</u>
Amounts due to other insurers / reinsurers	7	<u>102,823</u>	<u>114,889</u>			607,023	629,545
Accrued expenses		<u>10,552</u>	<u>10,367</u>	<b>Fixed Assets</b>	19		
Taxation - provision less payments		<u>22,514</u>	<u>18,415</u>	<b>Tangible and intangible</b>			
Other creditors & accruals	8	<u>150,848</u>	<u>99,209</u>	Furniture and fixtures and office equipments		<u>11,156</u>	<u>11,990</u>
		295,592	246,166	Computer and related equipments		<u>1,429</u>	<u>2,129</u>
<b>Other liabilities</b>				Motor vehicles		<u>28,187</u>	<u>26,866</u>
Unclaimed dividends		19,643	18,537	Capital work in progress - office premises		<u>436</u>	<u>3,500</u>
				Computer software		<u>-</u>	<u>1,141</u>
<b>TOTAL LIABILITIES</b>		<b>792,791</b>	<b>797,139</b>			41,208	45,626
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>1,616,335</b></u>	<u><b>1,460,429</b></u>	<b>TOTAL ASSETS</b>		<u><b>1,616,335</b></u>	<u><b>1,460,429</b></u>
<b>Contingencies</b>	9						

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
Chairman

MAZHER ALI JUMANI  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Profit and Loss Account for the year ended December 31, 2009

(Rupees in '000)

	Note	Fire and Property	Marine and Transport	Motor	Other Classes	2009	2008
<b>Revenue Account</b>							
Net premium revenue		104,961	99,722	127,415	26,942	359,040	397,960
Net claims		(21,164)	(31,865)	(84,413)	(38,262)	(175,704)	(202,219)
Expenses	20	(40,998)	(25,624)	(21,524)	(14,349)	(102,495)	(116,617)
Net commission		6,159	(4,380)	(11,406)	2,320	(7,307)	(16,670)
Underwriting result		48,958	37,853	10,072	(23,349)	73,534	62,454
Net investment income / (loss)						184,886	(390,531)
Other income - net	21					5,732	2,531
General and administration expenses	20					(52,856)	(53,901)
Profit / loss) before tax						211,296	(379,447)
Taxation - net	22					(6,553)	(16,981)
Profit / (loss) after tax						204,743	(396,428)
Other comprehensive income						-	-
Total comprehensive income / (loss) for the year						204,743	(396,428)
<b>Profit and loss appropriation account</b>							
Balance at commencement of the year						(346,746)	436,958
Profit / (Loss) after tax for the year						204,743	(396,428)
Transfer from / (to) general reserve						450,000	(150,000)
Issuance of bonus shares for the year 2008: 12.5% (2007: 20%)						(44,489)	(59,319)
Cash dividend for the year ended December 31, 2008 at Rs. 0.625 per share (2007: Rs. 3 per share)						(44,489)	(177,957)
						565,765	(783,704)
Balance of unappropriated profit at end of the year						219,019	(346,746)
Basic earnings per share of Rs. 5 each	23					Rupees 2.56	(Restated) (4.95)

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
Chairman

MAZHER ALI JUMANI  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Changes in Equity for the year ended December 31, 2009

(Rupees in '000)

	Share Capital Issued, subscribed and paid up	Reserves		Total	
		Capital Reserves Reserve for exceptional losses (note 5.2)	Revenue Reserves General reserve		Retained earnings
Balance as on January 01, 2008	296,595	9,122	495,000	436,958	1,237,675
<b>Total comprehensive income for the year</b>					
Loss for the year	-	-	-	(396,428)	(396,428)
<b>Transaction with owners recorded directly in equity</b>					
Bonus share distribution for the year ended December 31, 2007 at 20%	59,319	-	-	(59,319)	-
Final dividend for the year ended December 31, 2007 of Rs. 3 per share	-	-	-	(177,957)	(177,957)
	59,319	-	-	(237,276)	(177,957)
<b>Others</b>					
Transfer to general reserve	-	-	150,000	(150,000)	-
Balance as on December 31, 2008	355,914	9,122	645,000	(346,746)	663,290
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	204,743	204,743
<b>Transaction with owners recorded directly in equity</b>					
Bonus share distribution for the year ended December 31, 2008 at 12.5%	44,489	-	-	(44,489)	-
Final dividend for the year ended December 31, 2008 of Rs. 0.625 per share	-	-	-	(44,489)	(44,489)
	44,489	-	-	(88,978)	(44,489)
<b>Others</b>					
Transferred from general reserve	-	-	(450,000)	450,000	-
<b>Balance as at December 31, 2009</b>	<b>400,403</b>	<b>9,122</b>	<b>195,000</b>	<b>219,019</b>	<b>823,544</b>

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
Chairman

MAZHER ALI JUMANI  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Cash Flow for the year ended December 31, 2009

	2009 (Rupees in '000)	2008 (Rupees in '000)		2009 (Rupees in '000)	2008 (Rupees in '000)
<b>Operating Cash Flows</b>			<b>Reconciliation to Profit and Loss Account</b>		
<b>a) Underwriting activities</b>			Operating cash flows	46,815	(88,310)
Premiums received	695,776	652,608	Depreciation / amortisation expense	(11,318)	(11,747)
Reinsurance premiums paid	(353,143)	(376,576)	Profit / (loss) on disposal of fixed assets	1,055	(2,458)
Claims paid	(315,830)	(490,731)	(Increase) / decrease in assets other than cash	(2,812)	53,205
Reinsurance and other recoveries received	118,860	243,584	Decrease in liabilities other than running finance	12,209	72,206
Commissions paid	(81,003)	(69,077)		<u>45,949</u>	<u>22,896</u>
Commissions received	79,000	91,113	<b>Other adjustments</b>		
Other underwriting receipts	127	191	Income tax paid	4,001	4,909
Net cash inflow from underwriting activities	143,787	51,112	Provision for premiums due but unpaid	(14,250)	(8,913)
			Provision for amount due from other insurers / reinsurers	(8,791)	(8,640)
<b>b) Other operating activities</b>			Provision for impairment	(10,661)	(474,556)
Income tax paid	(4,001)	(4,909)	Provision for gratuity	(4,534)	(3,954)
General management expenses paid	(119,544)	(135,052)	Gratuity paid	1,878	422
Other operating payments	26,307	1,526	Profit / Return received	10,861	5,027
Loans advanced	(619)	(2,159)	Dividends received	30,139	32,710
Loans repayment received	885	1,171	Capital gain	156,704	50,652
Net cash outflow from other operating activities	(96,972)	(139,423)	Provision for taxation	(6,553)	(16,981)
Total cash inflow / (outflow) from all operating activities	46,815	(88,311)		<u>158,794</u>	<u>(419,324)</u>
				<u>204,743</u>	<u>(396,428)</u>
<b>Investment activities</b>			<b>Definition of cash</b>		
Profit / return received	10,861	5,027	Cash comprises of cash in hand, policy stamps and bank balances which are readily convertible to cash in hand and which are used in the cash management function on a day-to-day basis. Therefore, cash held with State Bank of Pakistan has been excluded there from.		
Dividends received	30,139	32,710	<b>Cash for the purposes of the Statement of Cash Flows consists of:</b>		
Payments for investments	(1,133,934)	(483,286)	<b>Cash and bank deposits</b>		
Proceeds from disposal of investments	1,067,496	653,436	Cash and other equivalents		
Fixed capital expenditure	(11,318)	(21,158)	Cash in hand	301	94
Proceeds from disposal of fixed assets	2,409	6,052	Policy stamps	638	377
Total cash outflow from investing activities	(34,347)	192,781		<u>939</u>	<u>471</u>
			Current and other accounts		
<b>Financing activities</b>			Current accounts	7,216	12,361
Dividends paid	(43,383)	(176,975)	Profit and loss sharing accounts	18,365	44,603
Total cash inflow from financing activities	(43,383)	(176,975)		<u>25,581</u>	<u>56,964</u>
Net cash outflow from all activities	(30,915)	(72,505)	<b>Cash and bank deposits as per balance sheet</b>	<u>26,520</u>	<u>57,435</u>
Cash at beginning of the year	57,435	129,940			
Cash at end of the year	26,520	57,435			

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
Chairman

MAZHER ALI JUMANI  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Premiums for the year ended December 31, 2009

(Rupees in '000)

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2009 Net premium revenue	2008 Net premium revenue
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	283,158	135,385	130,551	287,992	176,258	75,332	68,559	183,031	104,961	94,904
2. Marine and Transport	150,844	21,938	21,261	151,521	50,343	7,788	6,332	51,799	99,722	92,414
3. Motor	133,534	91,043	70,360	154,217	21,962	11,420	6,580	26,802	127,415	160,488
4. Other Classes	135,333	57,749	65,536	127,546	92,514	49,461	41,371	100,604	26,942	50,154
Grand Total	<u>702,869</u>	<u>306,115</u>	<u>287,708</u>	<u>721,276</u>	<u>341,077</u>	<u>144,001</u>	<u>122,842</u>	<u>362,236</u>	<u>359,040</u>	<u>397,960</u>

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
*Chairman*

MAZHER ALI JUMANI  
*Director*

MANSOOR G. HABIB  
*Director*

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



# Habib Insurance Company Limited

## Statement of Claims for the year ended December 31, 2009

(Rupees in '000)

Business underwritten inside Pakistan

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	2009 Net claims expense	2008 Net claims expense
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	95,579	26,813	31,152	99,918	75,109	17,319	20,964	78,754	21,164	28,106
2. Marine and Transport	39,760	11,216	6,658	35,202	(3,473)	750	7,560	3,337	31,865	25,270
3. Motor	114,096	49,682	37,012	101,426	19,983	8,475	5,505	17,013	84,413	109,765
4. Other Classes	66,395	83,575	66,273	49,093	27,241	69,635	53,225	10,831	38,262	39,078
Grand Total	315,830	171,286	141,095	285,639	118,860	96,179	87,254	109,935	175,704	202,219

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
*Chairman*

MAZHER ALI JUMANI  
*Director*

MANSOOR G. HABIB  
*Director*

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

# Habib Insurance Company Limited

## Statement of Expenses for the year ended December 31, 2009

(Rupees in '000)

Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers*	2009 Net underwriting expense	2008 Net underwriting expense
Direct and facultative									
1. Fire and Property	45,991	23,063	21,527	47,527	40,998	88,525	53,686	34,839	39,703
2. Marine and Transport	24,045	3,691	3,486	24,250	25,624	49,874	19,870	30,004	35,402
3. Motor	9,857	9,590	6,033	13,414	21,524	34,938	2,008	32,930	42,004
4. Other Classes	10,322	4,737	5,007	10,052	14,349	24,401	12,372	12,029	16,178
Grand Total	90,215	41,081	36,053	95,243	102,495	197,738	87,936	109,802	133,287

\* Commission from reinsurers is arrived at after taking the impact of the opening and closing balances of unearned commission.

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
*Chairman*

MAZHER ALI JUMANI  
*Director*

MANSOOR G. HABIB  
*Director*

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

# Habib Insurance Company Limited

## Statement of Investment Income for the year ended December 31, 2009

	Note	2009 (Rupees in '000)	2008
<b>Income from Non-Trading Investments</b>			
<b>Held to maturity</b>			
Return on Government Securities		4,491	–
<b>Available-for-sale</b>			
Dividend income		33,541	33,518
Return on other fixed income securities		1,781	166
Gain on sale of investments		<u>156,704</u>	<u>50,652</u>
		196,517	84,336
Provision for impairment in value of available-for-sale securities - net	12.5.2	(10,661 )	(474,556 )
Investments related expenses		<u>(970 )</u>	<u>(311 )</u>
Net investment income / (loss)		<u><u>184,886</u></u>	<u><u>(390,531 )</u></u>

The annexed notes from 1 to 32 form an integral part of these financial statements.

RAFIQ M. HABIB  
*Chairman*

MAZHER ALI JUMANI  
*Director*

MANSOOR G. HABIB  
*Director*

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

## **Notes to the Financial Statements for the year ended December 31, 2009**

### **1. STATUS AND NATURE OF BUSINESS**

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

### **2. BASIS OF PREPARATION**

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

#### **2.1 Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board as notified under the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002, and directives issued by the SECP. In case requirements differ, the provisions of the Insurance Ordinance, 2000, SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 and 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 "available-for-sale investments". Accordingly, the requirements of IAS-39, to the extent allowed by SECP as aforesaid, have not been considered in the preparation of these financial statements.

#### **2.2 Basis of measurement**

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

#### **2.3 Functional and presentation currency**

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

#### **2.4 Use of estimates and judgements**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

# Habib Insurance Company Limited

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:

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

## 2.5 Changes in accounting policies

Starting January 01, 2009, the Company has changed its accounting policies in the following areas:

- The Company has applied "Revised IAS 1 Presentation of Financial Statements (2007)" which became effective from January 1, 2009. This standard required the Company to present in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in statement of comprehensive income. Total comprehensive income may be presented in either a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. The Company has opted single statement approach to present its comprehensive income for the year ended December 31, 2009 and comparative period.
- The Company has applied IFRS-8 Operating Segments which became effective from January 1, 2009. The application of this IFRS has resulted in increased disclosures.
- The Company has adopted "IFRS-4 Insurance Contracts", which became effective for financial periods beginning on or after January 1, 2009. Although the Securities and Exchange Commission of Pakistan (SECP) through its circular no. 22/2009 dated June 30, 2009 had deferred the applicability of certain requirements of IFRS-4 for the purpose of quarterly accounts for 1st, 2nd and 3rd quarter of the year ended 2009, SECP through its circular no. 4/2010, dated January 23, 2010 has directed the insurance companies to make full compliance with the requirements of IFRS-4 in the annual financial statements for the year ended December 31, 2009 in accordance with the guidelines as well as make necessary disclosures required to be made in the financial statements as framed by the SECP. Accordingly, disclosures have been presented in these financial statements.
- The Company has also applied "IFRS-7 Financial Instruments: Disclosures" from January 1, 2009. As a result, disclosures have been made relating to financial instruments.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. The changes in accounting policies only affects presentation of financial statements and there is no impact on earning per share.

# Habib Insurance Company Limited

## 3. STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, interpretations and amendments of approved accounting standards are effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have a significant impact on the Company's financial statements other than increase in disclosures in certain cases:

- Revised IFRS 3-Business Combinations (applicable for annual periods beginning on or after July 1, 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognised in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by- transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.
- Amended IAS 27-Consolidated and Separate Financial Statements (effective for annual periods beginning on or after July 1, 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.
- IFRIC 15-Agreement for the Construction of Real Estate (effective for annual periods beginning on or after October 1, 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.
- Amendments to IAS 39-Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective for annual periods beginning on or after July 1, 2009 clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.
- IFRIC 17-Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009) states that when a company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognised in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognised in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

The International Accounting Standards Board made certain amendments to existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2010 financial statements. These amendments are unlikely to have an impact on the Company's financial statements.

- Amendment to IFRS 2-Share-based Payment - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2010). Currently effective IFRSs require attribution of group share-based payment transactions only if they are equity-settled. The amendments resolve diversity in practice regarding attribution of cash-settled share-based payment transactions and require an entity receiving goods or services in either an equity-settled or a cash-settled payment

# Habib Insurance Company Limited

transaction to account for the transaction in its separate or individual financial statements. As the Company does not have any share based options therefore amendment is not likely to have an effect on the Company's financial statements.

- Amendment to IAS 32-Financial Instruments: Presentation - Classification of Rights Issues (effective for annual periods beginning on or after February 1, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.
- IFRIC 19-Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 1, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on the Company's financial statements.
- IAS 24-Related Party Disclosures (revised 2009) effective for annual periods beginning on or after January 1, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.
- Amendments to IFRIC 14, IAS 19-The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.
- Improvements to IFRSs 2008 - Amendments to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after July 1, 2009). The amendments specify that if an entity is committed to a plan to sell a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale if criteria in IFRS 5 are met. This applies regardless of the entity retaining an interest (other than control) in the subsidiary; and disclosures for discontinued operations are required by the parent when a subsidiary meets the definition of a discontinued operation. This amendment is not likely to have any impact on Company's financial statements.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Insurance contracts

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

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

# Habib Insurance Company Limited

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

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

## 4.2 Premium

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

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

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

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

## 4.3 Reinsurance contracts

Insurance contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued are reinsurance contracts. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognises the entitled benefits under the contract as various reinsurance assets. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted reinsurance business being reinsured.

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

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

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

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

## 4.4 Claims expense

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



# Habib Insurance Company Limited

The Company recognises liability in respect of all claims incurred upto the balance sheet date which is based on the best estimate of the claims intimated or assessed on or before the end of the financial year and measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract.

The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs. Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. Provision for IBNR is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date.

## **4.5 Reinsurance recoveries against outstanding claims**

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

## **4.6 Commission**

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

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

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

## **4.7 Premium deficiency reserve**

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

The Company determines adequacy of liability of premium deficiency by carrying out analysis of expired periods. For this purpose average loss ratio of last three years inclusive of claims settlement cost but excluding major exceptional claims are taken into consideration to determine ultimate loss ratio to be applied on unearned premium.

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

## **4.8 Staff retirement benefits**

### **4.8.1 Defined contribution plan**

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

# Habib Insurance Company Limited

## 4.8.2 Defined benefit plan

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

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuation was carried out as of December 31, 2009 using the "Projected Unit Credit Method".

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

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

## 4.8.3 Employees' compensated absences

Provisions are made annually to cover the obligations for accumulating compensated absences and are charged to profit and loss account.

## 4.9 Investments

### 4.9.1 Recognition

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case transaction costs are charged to the profit and loss account. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognised and classified as follows:

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

### 4.9.2 Measurement

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

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

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

#### 4.9.2.2 Available for sale

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

# Habib Insurance Company Limited

## **Quoted**

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002 vide S.R.O. 938 dated December 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value. Also see note no.12.4.

In case of fixed income securities redeemable at a given date where the cost is different from the redemption value, such difference is amortised uniformly over the period between the acquisition date and the date of maturity in determining cost at which these investments are stated as per the requirements of the SEC (Insurance) Rules, 2002.

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

## **Unquoted**

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

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

### **4.9.2.3 Held-to-maturity**

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the profit and loss account over the term of the investment.

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

## **4.10 Fixed assets**

### **4.10.1 Tangibles**

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

# Habib Insurance Company Limited

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

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

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

## **4.10.2 Intangibles**

These are stated at cost less accumulated amortisation and any provision for impairment loss. Amortisation of intangible fixed assets is charged to income applying the straight line method at the rates specified in note 19.3 to the financial statements after taking into account residual value, if any.

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

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

## **4.11 Investment and other income**

### **Gain / (loss) on sale of investments**

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

### **Dividend income and bonus shares**

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

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.

### **Return on term finance certificates**

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

# Habib Insurance Company Limited

## **Return on fixed income securities**

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

## **Income on held to maturity investment**

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

## **Profit on bank accounts and deposits**

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

### **4.12 Management expenses**

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

### **4.13 Operating segments**

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

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

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

#### **4.13.1 Fire and property**

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

#### **4.13.2 Marine and transport**

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

#### **4.13.3 Motor**

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

# Habib Insurance Company Limited

## 4.13.4 Other classes

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

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

## 4.14 Financial instruments

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

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

## 4.15 Offsetting of financial assets and liabilities

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

## 4.16 Taxation

### 4.16.1 Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year, if enacted. The charge for current tax also include adjustments, where considered necessary, to provision for tax made in previous years arising from assessments finalised during the current year for such years.

### 4.16.2 Deferred

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

# Habib Insurance Company Limited

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

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

## **4.17 Cash and cash equivalents**

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

## **4.18 Foreign currency translation**

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

## **4.19 Creditors, accruals and provisions**

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

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

## **4.20 Impairment**

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

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

## **4.21 Dividend declaration and reserve appropriation**

Dividend declaration and reserve appropriations are recognised when approved.

# Habib Insurance Company Limited

## 5. PAID-UP SHARE CAPITAL AND RESERVES

### 5.1 Paid-up capital

2009 (Number of Shares)	2008		2009 (Rupees in '000)	2008 (Rupees in '000)
1,000,000	1,000,000	Ordinary shares of Rs. 5/- each issued as fully paid in cash	5,000	5,000
79,080,650	70,182,800	Ordinary shares of Rs. 5/- each issued as fully paid bonus shares	395,403	350,914
<u>80,080,650</u>	<u>71,182,800</u>		<u>400,403</u>	<u>355,914</u>
71,182,800	59,319,000	Ordinary shares of Rs. 5/- each at the beginning of the year	355,914	296,595
8,897,850	11,863,800	Fully paid bonus shares issued during the year	44,489	59,319
<u>80,080,650</u>	<u>71,182,800</u>		<u>400,403</u>	<u>355,914</u>

**5.1.1** At December 31, 2009 related parties including directors and their dependents held 10.388 million (12.97%) [2008: 9.234 million (12.97%)] number of ordinary shares of Rs. 5/- each.

### 5.2 Reserves for exceptional losses

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

## 6. STAFF RETIREMENT BENEFITS

### Defined benefit plan - unfunded gratuity scheme

The latest actuarial valuation was carried out on December 31, 2009 by Akhtar and Hasan (Private) Limited using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation are as follows:

- Discount rate 12.75% (2008: 15%) per annum compounded.
- Expected rate of increase in the salaries of the employees 10.75% (2008: 13%) per annum compounded.
- Expected service length of the employees 15 years (2008: 15 years).
- Normal retirement 60 years (2008: 60 years).

	2009 (Rupees in '000)	2008 (Rupees in '000)
<b>6.1 Liability in balance sheet</b>		
Present value of defined benefit obligations	19,027	19,105
Unrecognised actuarial gain / (loss)	(1,128)	(3,862)
	<u>17,899</u>	<u>15,243</u>



# Habib Insurance Company Limited

	2009	2008			
	(Rupees in '000)				
<b>6.2 Movement in liability during the year</b>					
Opening balance	15,243	11,711			
Charged to profit and loss account	4,534	3,954			
Benefits paid during the year	(1,878)	(422)			
Closing balance	<u>17,899</u>	<u>15,243</u>			
<b>6.3 Reconciliation of the present value of defined benefit obligations</b>					
Present value of obligations as at January 1,	19,105	17,249			
Current service cost	1,741	1,912			
Interest cost	2,663	1,770			
Benefits paid	(1,878)	(422)			
Actuarial gain	(2,604)	(1,404)			
Present value of obligations as at December 31,	<u>19,027</u>	<u>19,105</u>			
<b>6.4 Movement in the unrecognised gain / (loss)</b>					
Unrecognised loss as at January 1,	(3,862)	(5,538)			
Recognised during the year	130	272			
Actuarial gain on obligation during the year	2,604	1,404			
Unrecognised gain / (loss) as at December 31,	<u>(1,128)</u>	<u>(3,862)</u>			
<b>6.5 Charge for the defined benefit plan</b>					
Current service cost	1,741	1,912			
Interest cost	2,663	1,770			
Actuarial loss recognized	130	272			
	<u>4,534</u>	<u>3,954</u>			
<b>6.6 Historical data of the fund</b>					
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(Rupees in '000)				
Present value of defined benefit obligations	19,027	19,105	17,249	13,378	10,672
Fair value of plan assets	-	-	-	-	-
Deficit	<u>19,027</u>	<u>19,105</u>	<u>17,249</u>	<u>13,378</u>	<u>10,672</u>
Experience adjustments					
- Actuarial gain on obligation	<u>2,604</u>	<u>1,404</u>	<u>1,324</u>	<u>1,028</u>	<u>1,857</u>
<b>6.7</b>	Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 4.243 million.				

# Habib Insurance Company Limited

	2009	2008
	(Rupees in '000)	
<b>7. AMOUNT DUE TO OTHER INSURERS / REINSURERS</b>		
Foreign reinsurers	46,905	36,851
Local reinsurers	5,450	24,834
Co-insurers	50,468	53,204
	<u>102,823</u>	<u>114,889</u>
<b>8. OTHER CREDITORS AND ACCRUALS</b>		
Federal excise duty	9,110	6,032
Federal insurance fee	617	686
Withholding tax payable	830	429
Agents commission payable	94,425	85,213
Amount payable against purchase of securities	33,728	–
Worker's welfare fund payable	4,490	264
Sundry creditors	7,648	6,585
	<u>150,848</u>	<u>99,209</u>

## 9. CONTINGENCIES

Contingencies relating to income tax are disclosed in note 22.2 to these financial statements.

	Note	2009	2008
		(Rupees in '000)	
<b>10. CASH AND BANK DEPOSITS</b>			
<b>Cash and other equivalents</b>			
Cash in hand		301	94
Policy stamps		638	377
		<u>939</u>	<u>471</u>
<b>Current and other accounts</b>			
Current accounts		7,216	12,361
Profit and loss sharing accounts	10.1	18,365	44,603
		<u>25,581</u>	<u>56,964</u>
		<u>26,520</u>	<u>57,435</u>

**10.1** These carry profit rates ranging between 5% to 11% (2008: 8% to 12.50%) per annum.

# Habib Insurance Company Limited

	Note	2009 (Rupees in '000)	2008
<b>11. LOANS - (secured, considered good)</b>			
<b>To employees</b>		<u>2,268</u>	<u>2,534</u>

This represents loans provided to the employees of the Company and are secured against provident fund balances or deposit of title documents. These loans are recoverable in monthly instalments over various period.

These loans carry a mark-up rate of 5% to 10% (2008: 7% to 10%) per annum except loans amounting to Rs. 0.722 million (2008: Rs. 0.865 million) which are interest free.

## 11.1 Reconciliation of carrying amount of loans

Opening balance		2,534	1,546
Mark-up for the year		89	103
Disbursements during the year		619	2,056
		<u>3,242</u>	<u>3,705</u>
Repayments during the year		(974)	(1,171)
Closing balance		<u>2,268</u>	<u>2,534</u>

## 12. INVESTMENTS

### 12.1 Type of investments

#### Held-to-maturity

Government securities (deposited with SBP)	12.2	40,067	-
--	------	--------	---

#### Available-for-sale

	12.3		
- Units of open end mutual funds deposited with the State Bank of Pakistan - quoted	12.3.1	349	349
- Term Finance Certificates - quoted	12.3.2	9,317	9,145
- Units of closed end mutual funds - quoted	12.3.3	-	1,271
- Modaraba Certificates - quoted	12.3.4	10,206	9,424
- Ordinary shares of quoted / unquoted companies	12.3.5	424,992	352,589
- Ordinary shares of quoted companies / units of open end mutual funds (related parties)	12.3.6	447,110	346,783
		<u>891,974</u>	<u>719,561</u>
		<u>932,041</u>	<u>719,561</u>

### 12.2 Held to maturity - amortised cost

This represents 1 year Treasury bills with a fixed mark-up rate ranging from 11.72% to 14.11% and maturing between January 14, 2010 to July 21, 2010. The fair value of the treasury bills as at December 31, 2009 is Rs. 40.052 million (face value being Rs. 40.5 million) [2008: Nil]. These securities are deposited with the State Bank of Pakistan in compliance of section 29 of Insurance Ordinance, 2000.

# Habib Insurance Company Limited

## 12.3 Available-for-sale

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

2009 (Number of units)	2008 (Number of units)	Face Value (Rupees)	Name of the investee entity	Note	2009 (Rupees in '000)	2008 (Rupees in '000)
27,500	27,500	10	National Investment (Unit) Trust		252	252
3,714	2,018	50	Pakistan Income Fund		97	97
					349	349

### 12.3.2 Term Finance Certificates - quoted

Details are as follows:

2009 (Number of Certificates)	2008 (Number of Certificates)				2009	2008
1,000	1,000	5,000	Bank Al-Falah Limited	12.3.2.1	4,632	4,510
1,000	1,000	5,000	Engro Fertilizers Limited	12.3.2.1	4,685	4,635
					9,317	9,145

**12.3.2.1** These carry mark-up rate equal to six months KIBOR plus 1.50% and 1.55% per annum respectively, receivable semi-annually in arrears with no floor or cap. The credit ratings of the above securities are AA- and AA respectively.

### 12.3.3 Units of closed end mutual funds - quoted

2009 (Number of Certificates)	2008 (Number of Certificates)				2009	2008
-	199,500	10	PICIC Investment Fund		-	405
-	155,000	10	PICIC Growth Fund		-	866
					-	1,271

### 12.3.4 Modaraba certificates - quoted

2009 (Number of Certificates)	2008 (Number of Certificates)				2009	2008
49,000	49,000	10	First Habib Bank Modaraba		203	148
1,525,000	1,505,000	5	First Habib Modaraba		9,017	8,534
109,000	109,000	10	Standard Chartered Modaraba		986	742
					10,206	9,424

# Habib Insurance Company Limited

## 12.3.5 Ordinary shares of quoted / unquoted companies

2009 (Number of shares)	2008	Face Value (Rupees)	Name of the investee entity	2009 (Rupees in '000)	2008
			<b>Leasing</b>		
–	48,300	10	Askari Leasing Limited	–	300
			<b>Investment Companies / Banks</b>		
31,250	31,250	10	Arif Habib Securities Limited	1,540	1,314
443,18	443,188	10	Jahangir Siddiqui & Company Limited	13,327	23,170
5,459	5,459	10	JS Global Capital Limited	258	258
			<b>Commercial Banks</b>		
–	311,075	10	Askari Bank Limited	–	4,532
–	33,000	10	Habib Bank Limited	–	2,470
50,000	60,000	10	MCB Bank Limited	11,097	7,549
50,000	42,500	10	National Bank of Pakistan	3,738	2,139
262,940	262,940	10	NIB Bank Limited	1,262	1,228
250,000	200,000	10	Soneri Bank Limited	2,763	2,200
142,000	142,000	10	Standard Chartered Bank (Pakistan) Limited	1,271	1,228
35,000	25,000	10	United Bank Limited	2,095	923
			<b>Insurance</b>		
50,000	40,000	10	Adamjee Insurance Company Limited	6,235	4,074
140,000	111,800	10	Atlas Insurance Limited	5,770	4,911
83,190	58,190	10	EFU General Insurance Limited	8,837	6,378
25,000	–	10	EFU Life Assurance Limited	3,482	–
428,125	403,125	10	IGI Insurance Limited	37,628	46,468
180,600	180,600	10	New Jubilee Insurance Company Limited	10,518	17,728
225,000	223,888	10	Pakistan Reinsurance Company Limited	5,906	5,304
3,500	3,500	10	PICIC Insurance Limited	18	36
			<b>Textile Spinning</b>		
48,900	48,900	10	Gadoon Textile Mills Limited	1,450	1,450
28,549	25,954	10	Gulistan Spinning Mills Limited	214	186
8,000	8,000	10	Saif Textile Mills Limited	44	76
			<b>Textile Weaving</b>		
5,861	5,861	10	Nakshbandi Industries Limited	50	44
			<b>Textile Composite</b>		
117	117	10	Colony Textile Mills Limited	1	1
11,174	11,174	10	Dawood Lawrencepur Limited	659	557
475,525	413,500	10	Gul Ahmed Textile Mills Limited	12,839	15,369
93	93	10	Kohinoor (Gujarkhan) Mills Limited (unquoted)	–	–
4,575	4,575	10	Kohinoor Industries Limited	9	7
24,750	16,500	10	Nishat (Chunian) Limited	430	160
110,000	110,000	10	Nishat Mills Limited	7,782	2,486
			<b>Synthetic &amp; Rayon</b>		
20	20	10	National Silk & Rayon Mills Limited	–	–

# Habib Insurance Company Limited

2009 (Number of shares)	2008	Face Value (Rupees)	Name of the investee entity	2009 (Rupees in '000)	2008
<b>Sugar and Allied Industries</b>					
443	443	10	Colony Sugar Mills Limited	–	–
20,000	20,000	10	Dewan Sugar Mills Limited	48	36
285,000	280,000	5	Habib ADM Limited	4,334	2,786
427	427	10	Kohinoor Sugar Mills Limited	2	2
33,000	33,000	10	Noon Sugar Mills Limited	906	426
<b>Cement</b>					
50,000	30,000	10	Lucky Cement Limited	3,739	938
22,750	22,750	10	Maple Leaf Cement Factory Limited	86	93
22,500	22,500	10	Lafrage Pakistan Cement Company Limited	49	72
<b>Power Generation &amp; Distribution</b>					
325,000	311,000	10	The Hub Power Company Limited	10,099	4,382
70,000	70,000	10	Kot Addu Power Company Limited	3,199	2,209
47,000	47,000	10	Sitara Energy Limited	836	836
<b>Oil and Gas Marketing Companies</b>					
76,625	76,625	10	Shell Pakistan Limited	19,184	23,778
150,345	75,345	10	Sui Southern Gas Company Limited	2,012	792
<b>Oil &amp; Gas Exploration Companies</b>					
15,000	110,000	10	Oil and Gas Development Company Limited	1,665	5,499
25,000	96,000	10	Pakistan Oilfields Limited	5,742	9,839
–	55,000	10	Pakistan Petroleum Limited	–	5,534
<b>Engineering</b>					
55,000	24,000	10	International Industries Limited	3,231	1,103
<b>Automobile Assembler</b>					
62,000	61,300	5	Al Ghazi Tractors Limited	14,934	12,246
45,000	34,375	10	Millat Tractors Limited	17,299	4,603
18,000	18,000	10	Pak Suzuki Motor Company Limited	1,601	1,433
<b>Automobile Parts &amp; Accessories</b>					
20,000	18,000	5	Agriauto Industries Limited	1,190	556
16,000	12,561	10	Atlas Battery Limited	2,930	904
<b>Cable &amp; Electrical Goods</b>					
20,000	20,000	10	Electric Lamp Manufacturers Limited (unquoted)	–	–
11,537	11,537	10	Pakistan Cables Limited	589	693
<b>Technology &amp; Communication</b>					
200,000	200,000	10	Pakistan Telecommunication Company Limited	3,530	3,378
80,000	80,000	10	TRG Pakistan Limited - Class 'A'	170	142
<b>Fertilizers</b>					
111,804	111,804	10	Dawood Hercules Chemicals Limited	20,103	24,631
250,000	146,000	10	Engro Corporation Limited	45,376	14,083
100,000	50,000	10	Fauji Fertilizer Company Limited	10,501	2,937

# Habib Insurance Company Limited

2009 (Number of shares)	2008	Face Value (Rupees)	Name of the investee entity	2009 (Rupees in '000)	2008
			<b>Pharmaceuticals</b>		
252,000	252,000	10	Abbot Laboratories (Pakistan) Limited	27,004	22,582
59,800	59,800	10	GlaxoSmithKline Pakistan Limited	5,989	4,541
			<b>Chemicals</b>		
40,000	40,000	10	BOC Pakistan Limited	5,078	4,513
11,000	10,500	10	Clariant Pakistan Limited	1,922	1,323
–	12,500	10	ICI Pakistan Limited	–	859
			<b>Paper and Board</b>		
230,000	200,000	10	Packages Limited	33,711	16,238
			<b>Leather and Tanneries</b>		
6,000	5,992	10	Bata Pakistan Limited	5,440	312
			<b>Food Personal Care - Products</b>		
150	150	10	Nestle Pakistan Limited	79	79
1,320	1,320	10	Shezan International Limited	124	124
14,000	13,940	50	Unilever Pakistan Limited	32,680	25,199
			<b>Glass and Ceramics</b>		
7,507	6,825	10	Ghani Glass Limited	387	342
				424,992	352,589

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

2009 (Number of shares/units)	2008	Face Value (Rupees)	Name of the investee entity	2009 (Rupees in '000)	2008
1,252,407	982,280	10	Bank Al Habib Limited	41,029	24,429
140,000	140,000	5	Dynea Pakistan Limited	1,722	1,722
1,209,951	1,140,725	100	First Habib Income Fund (units)	125,000	110,090
350,000	–	100	First Habib Stock Fund (units)	35,000	–
1,196,426	957,141	10	Habib Metropolitan Bank Limited	34,697	25,202
3,388,861	2,541,646	5	Habib Sugar Mills Limited	55,038	55,038
41,600	41,600	10	Indus Motor Company Limited	8,175	5,112
2,165,080	1,180,080	5	Shabbir Tiles and Ceramics Limited	23,816	26,680
1,444,956	1,204,130	5	Thal Limited	122,633	98,510
				447,110	346,783

# Habib Insurance Company Limited

**12.4** The Company uses stock exchange quotation, 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, 2009 would have been higher by Rs. 85.35 million (2008: higher by Rs. 48.24 million).

	Note	2009 (Rupees in '000)	2008
<b>12.5 Available for sale - quoted</b>			
Cost	12.5.1	1,377,191	1,194,117
Provision for impairment - net of reversals	12.5.2	(485,217)	(474,556)
		<u>891,974</u>	<u>719,561</u>

**12.5.1** Market value of quoted available for sale investments is Rs. 977.327 million (December 31, 2008: Rs. 767.798 million).

**12.5.2 Provision for impairment - net of reversals**

Opening provision	474,556	–
Charge for the year - net of reversals	10,661	474,556
Closing provision	<u>485,217</u>	<u>474,556</u>

**13. DEFERRED TAXATION**

**Deferred tax asset / (liability) - net**

Deferred taxation comprises temporary difference relating to following:

**Taxable temporary differences**

Accelerated tax depreciation allowance	(1,104)	(1,383)
--	---------	---------

**Deductible temporary differences**

Tax loss	–	7,111
Provisions	8,379	–
	<u>7,275</u>	<u>5,728</u>

**13.2 Reconciliation of deferred tax**

Opening provision	5,728	19,357
Reversal / (charge) for the year	1,547	(13,629)
Closing balance	<u>7,275</u>	<u>5,728</u>

**14. PREMIUMS DUE BUT UNPAID - unsecured**

Considered good	14.1	197,745	186,247
Considered doubtful		14,250	8,913
		<u>211,995</u>	<u>195,160</u>
Provision against doubtful debts	14.2	(14,250)	(8,913)
		<u>197,745</u>	<u>186,247</u>



# Habib Insurance Company Limited

**14.1** This includes an amount of Rs. 89.291 million (December 31, 2008: Rs. 79.072 million) due from related parties.

	Note	2009 (Rupees in '000)	2008
<b>14.2 Provision against premium due but unpaid - net</b>			
Balance as on January 1,		8,913	4,986
Charge for the year		5,337	3,927
Balance as on December 31,		<u>14,250</u>	<u>8,913</u>
<b>15. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS - unsecured</b>			
Considered good			
- Premiums due from Co-insurers		87,496	69,279
- Foreign reinsurers		7,943	37,228
- Local reinsurers		15,251	14,226
- Claims due from Co-insurers		13,014	24,848
Considered doubtful - Premiums due from Co-insurers		8,791	8,640
		<u>132,495</u>	<u>154,221</u>
Provision against amount due from insurers / reinsurers	15.1	(8,791 )	(8,640 )
		<u>123,704</u>	<u>145,581</u>
<b>15.1 Provision against premium due from Co-insurers - net</b>			
Balance as on January 1,		8,640	6,055
Charge for the year		151	2,585
Balance as on December 31,		<u>8,791</u>	<u>8,640</u>
<b>16. ACCRUED INVESTMENT INCOME</b>			
Available-for-sale investments			
- Dividend income		6,707	3,305
- Mark-up on term finance certificates		135	151
Profit on bank accounts		6	30
		<u>6,848</u>	<u>3,486</u>
<b>17. ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
Security deposits		1,674	1,403
Advances		829	7,014
Prepaid reinsurance premium ceded		122,842	144,001
Others		2,937	2,548
		<u>128,282</u>	<u>154,966</u>

# Habib Insurance Company Limited

	Note	2009 (Rupees in '000)	2008
<b>18. SUNDRY RECEIVABLES</b>			
Federal excise duty receivable	18.1	1,408	1,408
Receivable against sale of investments		25,000	–
Other receivables		729	597
		<u>27,137</u>	<u>2,005</u>

**18.1** The amount represents Federal Excise Duty (FED) paid by the Company under protest pertaining to prior years on the order of the Collector of Customs, Sales Tax and Federal Excise. The Company is of the view that it is not liable to pay FED 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.

## 19. FIXED ASSETS

Tangible - operating fixed assets	19.1	40,772	40,985
Capital work in progress - office premises	19.2	436	3,500
Intangible - computer software	19.3	–	1,141
		<u>41,208</u>	<u>45,626</u>

### 19.1 Tangible - operating assets

(Rupees in '000)

	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 09	Depreciation Rate %
	As at Jan. 01, 09	Additions / (disposals)	As at Dec. 31, 09	As at Jan. 01, 09	for the year/ (disposals)	As at Dec. 31, 09		
Furniture, fixtures and office equipments	27,588	1,837 (167)	29,258	15,598	2,610 (106)	18,102	11,156	10-20
Computers and related equipment	9,673	636 (588)	9,721	7,544	1,322 (574)	8,292	1,429	33
Motor vehicles	50,534	8,845 (4,167)	55,212	23,668	6,245 (2,888)	27,025	28,187	20
	<u>87,795</u>	<u>11,318 (4,922)</u>	<u>94,191</u>	<u>46,810</u>	<u>10,177 (3,568)</u>	<u>53,419</u>	<u>40,772</u>	

# Habib Insurance Company Limited

(Rupees in '000)

	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 08	Depreciation Rate %
	As at Jan. 01, 08	Additions / (disposals)	As at Dec. 31, 08	As at Jan. 01, 08	for the year/ (disposals)	As at Dec. 31, 08		
Furniture, fixtures and office equipments	24,336	9,380 (6,128)	27,588	13,023	3,109 (534)	15,598	11,990	10-20
Computers and related equipment	8,712	1,455 (494)	9,673	6,796	1,240 (492)	7,544	2,129	33
Motor vehicles	49,742	10,323 (9,531)	50,534	24,050	6,235 (6,617)	23,668	26,866	20
	<u>82,790</u>	<u>21,158</u> <u>(16,153)</u>	<u>87,795</u>	<u>43,869</u>	<u>10,584</u> <u>(7,643)</u>	<u>46,810</u>	<u>40,985</u>	

## 19.2 Capital work in progress

This represents advance to suppliers and contractors in respect of renovation amounting Rs. 0.436 million (2008: Rs. 3.5 million).

## 19.3 Intangible assets

(Rupees in '000)

	Cost			Amortisation			Written Down Value as at Dec. 31, 09	Amortisation Rate %
	As at Jan. 01, 09	Additions	As at Dec. 31, 09	As at Jan. 01, 09	for the year	As at Dec. 31, 09		
Computer software	<u>9,070</u>	<u>–</u>	<u>9,070</u>	<u>7,929</u>	<u>1,141</u>	<u>9,070</u>	<u>–</u>	20
2008	<u>9,070</u>	<u>–</u>	<u>9,070</u>	<u>6,766</u>	<u>1,163</u>	<u>7,929</u>	<u>1,141</u>	20

# Habib Insurance Company Limited

## 19.4 Disposal of tangible assets

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Book Value</u>	<u>Sale Proceeds</u>	<u>Net gain / (loss) (note 21)</u>	<u>Mode of disposal</u>	<u>Sold to</u>
(Rupees in '000)							
<b>MOTOR VEHICLES</b>							
Star DS Motorcycle	41	26	15	15	–	Negotiation	Mr. Anees Ahmed, Karachi
Toyota Corolla	858	634	224	325	101	Negotiation	Mr. Ejaz, Karachi
Habib Motorcycle	40	18	22	17	(5)	Negotiation	Syed Intizar Hussain, Karachi
Totota Corolla	951	701	250	400	150	Negotiation	Mr. Shariq Abdullah, Karachi (Ex-employee)
Suzuki Splinter	65	38	27	22	(5)	Negotiation	Mr. Irfan Bhemani, Karachi
Suzuki Alto	464	386	78	230	152		
Dihatsu Coure	376	277	99	230	131		
Toyota Corolla	986	549	437	800	363		
	1,826	1,212	614	1,260	646	Negotiation	Mr. Kashif Abbas Karjatwala
Dihatsu Coure	386	259	127	245	118	Negotiation	Mr. Ali Abbas, Karachi
<b>Furniture &amp; fixtures - (Various)</b>							
Various	38	11	27	11	(16)	Negotiation	Mr. Dost Muhammad, Hyderabad
<b>Computer and related equipments - (Various)</b>							
	337	337	–	4	4	Negotiation	Mr. Mushtaq Ahmed, Karachi
	39	39	–	3	3	Negotiation	M/s. C-Link, Techno City, Karachi
	79	65	14	26	12	Negotiation	Mr. Babar Mirza, Karachi (Ex-employee)
	133	133	–	41	41	Negotiation	M/s. Powerware Technology Karachi
<b>Office equipment - (Various)</b>							
	32	11	21	25	4	Negotiation	M/s. Imdad Trading Company, Sialkot
	27	14	13	5	(8)	Negotiation	Mr. Sadiq A. Mirza, Karachi.
	70	70	–	10	10	Negotiation	Mr. Muhammad Ashfaq, Karachi
	<u>4,922</u>	<u>3,568</u>	<u>1,354</u>	<u>2,409</u>	<u>1,055</u>		

# Habib Insurance Company Limited

	Note	2009	2008
		(Rupees in '000)	
<b>20. EXPENSES</b>	<b>20.1</b>		
Salaries and wages including bonus, contribution to provident fund and staff welfare		78,155	91,842
Motor car expenses		12,691	15,537
Travelling and entertainment expenses		4,025	4,289
Rent, taxes and electricity		11,587	12,240
Communications		5,502	6,469
Printing and stationery		3,020	3,564
Repair and maintenance		2,769	3,691
Legal and professional expenses		3,083	4,196
Corporate & subscription		4,384	2,362
Depreciation		10,177	10,584
Amortisation		1,141	1,163
Donation	20.2	2,000	1,800
Auditors' remuneration	20.3	649	602
Provision for amount due from other insurers / reinsurers		151	2,585
Provision for premiums due but unpaid		5,337	3,927
Worker's Welfare Fund		4,226	264
Other expenses		6,454	5,403
		<u>155,351</u>	<u>170,518</u>

The above expenses represents an amount of Rs. 102.495 million and Rs. 52.856 million (2008: Rs. 116.617 million and Rs. 53.901 million) charged appropriately to underwriting under their respective classes and general and administration expenses respectively.

**20.1** This includes staff retirement benefits amounting to Rs. 7.094 million (2008: Rs. 6.625 million).

**20.2** An amount of Rs. 2.0 million (2008: Rs. 1.8 million) was donated to the following Trusts in which the Directors' have interest:

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

# Habib Insurance Company Limited

		2009	2008
		(Rupees in '000)	
<b>20.3 Auditors' remuneration</b>			
Annual audit		275	225
Interim review		115	90
Certifications fees and review of statement of compliance with Code of Corporate Governance		175	153
Out of pocket expenses		84	134
		649	602
<b>21. OTHER INCOME - NET</b>		649	602
<b>Income from financial assets</b>			
Profit on bank accounts		4,203	4,796
Exchange gain		345	-
Mark-up on staff loan		89	103
		4,637	4,899
<b>Income from non-financial assets</b>			
Net gain / (loss) on sale of fixed assets	19.4	1,055	(2,458)
Others		40	90
		1,095	(2,368)
		5,732	2,531
<b>22. TAXATION - NET</b>			
Current		8,100	3,352
Deferred		(1,547)	13,629
		6,553	16,981
		6,553	16,981
<b>22.1 Relationship between tax expense and accounting profit</b>			
Profit / (loss) for the year before taxation		211,296	(379,447)
Tax at the applicable rate of 35% (December 31, 2008: 35%)		73,954	(132,806)
Tax effect of expenses that are to allowable in determining taxable income		1,593	179,001
Tax effect of capital gains exempt from tax		(54,846)	(17,728)
Tax effect of income subject to lower rates		(8,385)	(8,380)
Tax effect of tax losses		(5,829)	(4,908)
Others		66	1,802
		6,553	16,981
		6,553	16,981
<b>22.2</b>	In respect of tax years 2004 to 2007, the tax authorities have served notices under section 122 (9) to the Company for amendment under section 122(5A), in the returns filed by the Company for the aforesaid years on certain matters including proration of expenses against dividend and capital gains. Further, disallowances have also been made by the tax authorities on account of the same matter in respect of tax years 2008 and 2009. The above matters may result in additional tax aggregating approximately to Rs. 92 million.		

The management of the Company in consultation with their tax consultants believes these disallowances to be unjustified and is confident that the eventual outcome of the cases will be in favour of the Company.

# Habib Insurance Company Limited

## 23. EARNINGS / (LOSS) PER SHARE - basic and diluted

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

	2009 (Rupees in '000)	2008 (Rupees in '000)
Profit / (loss) after tax for the year	<u>204,743</u>	<u>(396,428 )</u>
		(Number of shares) (Restated)
Weighted average number of shares of Rs. 5/- each	<u>80,080,650</u>	<u>80,080,650</u>
		(Rupees) (Restated)
Basic earnings / (loss) per share of Rs. 5/- each	<u>2.56</u>	<u>(4.95)</u>

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

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

## 24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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

	Chief Executive		Directors		Executives / Key Management Personnel		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	(Rupees in '000)							
Fees	<u>-</u>	<u>-</u>	<u>210</u>	<u>178</u>	<u>-</u>	<u>-</u>	<u>210</u>	<u>178</u>
Managerial remuneration	3,600	3,240	-	-	14,956	15,095	18,556	18,335
Bonus	-	-	-	-	2,033	2,144	2,033	2,144
Retirement benefits	183	180	-	-	831	630	1,014	810
Others	860	773	-	-	2,330	736	3,190	1,509
	<u>4,643</u>	<u>4,193</u>	<u>-</u>	<u>-</u>	<u>20,150</u>	<u>18,605</u>	<u>24,793</u>	<u>22,798</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>9</u>	<u>9</u>	<u>17</u>	<u>17</u>

**24.1** In addition to the above, the Chief Executive and Executives of the Company are provided with Company maintained cars and medical reimbursement at actual as per the Company's policy.

# Habib Insurance Company Limited

## 25. TRANSACTIONS WITH RELATED PARTIES

25.1 Related parties of the Company comprise of associated companies, companies with common directors, major shareholders, staff retirement funds, directors and key management personnel.

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

<b><i>Transactions and balances with associated companies</i></b>	2009	2008
	(Rupees in '000)	
<i>Transactions during the year with associated companies</i>		
Premium written	259,776	224,412
Claims paid	98,419	182,115
Dividend received	9,158	10,737
Dividend paid	4,109	20,776
Investment made	638,394	120,000
Investment sold	579,136	88,589
Interest received on bank accounts	4,204	5,857
Bank charges	358	302
Assets purchased	4,132	2,440
<i>Balances with associated companies</i>		
Premium due but unpaid	88,500	77,640
Claims outstanding	10,360	29,397
Bank balances	24,732	41,952
Profit receivable on bank accounts	6	30
Advance against purchase of fixed assets	–	2,778
Investment held	447,110	346,783
<i>Bonus from associated companies</i>		
	(Number of shares / units)	
Bonus shares received	1,597,452	1,435,250
Bonus shares issued	821,818	1,538,967
Bonus units received	40,874	31,335
<i>Transactions during the year with other related parties including key management personnel</i>		
Contribution to the provident fund	2,560	2,659
Proceeds from sale of assets	177	–
<i>Transactions with other related parties including key management personnel</i>		
Premium written	2,379	2,636
Claims paid	2,164	1,552
Share registrar fees paid	191	–
Brokerage expenses paid	1,299	621
Sale proceeds of fixed assets	426	–



# Habib Insurance Company Limited

	2009	2008
	(Rupees in '000)	
<i>Balances with other related parties including key management personnel</i>		
Premium due but unpaid	791	1,432
Claims outstanding	373	366
Due to the provident fund	544	578

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

**25.3** Details of other balances and transactions with related parties during year ended December 31, 2009 are disclosed in note 12.3.6, and 14.1 to these financial statements.

# Habib Insurance Company Limited

## 26. SEGMENT INFORMATION

Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirement of Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The following table presents information regarding segment assets and liabilities as at December 31, 2009 and December 31, 2008, allocated capital expenditures and depreciation / amortisation during the year. The above have been assigned to the following segments on the basis of gross premium earned by the segments.

(Rupees in '000)

	Fire and Property		Marine and Transport		Motor		Others		Total	
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
<b>Segment Assets</b>										
Segment Assets	243,085	228,393	127,894	139,477	130,170	170,575	107,657	120,270	608,806	658,715
Unallocated corporate assets									1,007,529	801,714
Consolidated total assets									<u>1,616,335</u>	<u>1,460,429</u>
<b>Segment Liabilities</b>										
Segment liabilities	265,826	249,843	139,859	152,576	142,347	186,595	117,728	131,567	665,760	720,581
Unallocated corporate liabilities									127,031	76,558
Consolidated total liabilities									<u>792,791</u>	<u>797,139</u>
<b>Capital expenditure</b>										
Capital expenditure	4,519	7,336	2,378	4,480	2,420	5,479	2,001	3,863	<u>11,318</u>	<u>21,158</u>
Depreciation / amortisation	4,519	4,073	2,378	2,487	2,420	3,042	2,001	2,145	<u>11,318</u>	<u>11,747</u>

# Habib Insurance Company Limited

## 27. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

### 27.1 Insurance risk management

#### Insurance risk

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

The Company accepts insurance through issuance of general insurance contracts. For these general insurance contracts the most significant risks arise from fire, atmospheric disturbance, earthquakes, transit, theft and third party liabilities etc.

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

#### (a) Frequency and severity of claims

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

The reinsurance arrangements against major risk exposure include excess of loss, quota share, surplus arrangements and catastrophic coverage. The objective of having such arrangements is to mitigate adverse impacts of severe losses on Company's net retentions.

#### (b) Uncertainty in the estimation of future claim payments

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

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

There are several variable factors which affect the amount and timing of recognised claim liabilities. The Company takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from initial recognised amount. Similarly, the provision for claims incurred but not reported is based on historic reporting pattern of the claims; hence, actual amount of incurred but not reported claims may differ from the amount estimated. Outstanding claims are reviewed on a periodic basis.

# Habib Insurance Company Limited

## (c) Key assumptions

The principal assumption underlying the liability estimation of IBNR and Premium Deficiency Reserves is that the Company's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgement to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgement includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

## (d) Changes in assumptions

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

## (e) Sensitivity analysis

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

	<u>Underwriting results</u>		<u>Shareholder's equity</u>	
	2009	2008	2009	2008
	(Rupees in '000)			
<b>Average claim cost</b>				
Fire and property	2,116	2,811	1,376	1,826
Marine and transport	3,187	2,527	2,071	1,643
Motor	8,441	10,976	5,487	7,135
Others	3,826	3,908	2,487	2,540
	<u>17,570</u>	<u>20,222</u>	<u>11,421</u>	<u>13,144</u>

## Concentration of risk

To optimise benefits form the principle of average and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risk with reference to the geographical location, the most important of which is risk survey.

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

# Habib Insurance Company Limited

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

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

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

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

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

	Gross sum insured		Reinsurance		Net	
	2009	2008	2009	2008	2009	2008
	(Rupees in '000)					
Fire and property	6,028	6,923	6,006	6,906	22	17
Marine and transport	610	869	598	857	12	12
Motor	13	13	12	12	1	1
Others	2,605	3,780	2,575	3,750	30	30
	<u>9,256</u>	<u>11,585</u>	<u>9,191</u>	<u>11,525</u>	<u>65</u>	<u>60</u>

## Claims development tables

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

### Analysis on gross basis

Accident year	2005	2006	2007	2008	2009	Total
	(Rupees in '000)					
Estimate of ultimate claims cost:						
At end of accident year	<u>31,991</u>	<u>56,946</u>	<u>259,686</u>	<u>151,082</u>	<u>78,056</u>	<u>577,761</u>
One year later	<u>31,447</u>	<u>56,260</u>	<u>252,731</u>	<u>137,374</u>	<u>-</u>	<u>477,812</u>
Two years later	<u>30,933</u>	<u>49,546</u>	<u>253,433</u>	<u>-</u>	<u>-</u>	<u>333,912</u>
Three years later	<u>28,224</u>	<u>49,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,449</u>
Four years later	<u>28,419</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,419</u>
Estimate of cumulative claims	28,419	49,225	253,433	137,374	78,056	546,507
Liability recognised in the balance sheet	<u>(28,419)</u>	<u>(48,658)</u>	<u>(251,444)</u>	<u>(76,891)</u>	<u>-</u>	<u>(405,412)</u>
Liability for outstanding claims	<u>-</u>	<u>567</u>	<u>1,989</u>	<u>60,483</u>	<u>78,056</u>	<u>141,095</u>

# Habib Insurance Company Limited

## 27.2 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

### Risk management framework

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

#### 27.2.1 Credit risk

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

##### 27.2.1.1 Exposure to credit risk

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

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

	Note	December 31, 2009		December 31, 2008	
		Balance as per the financial statement	Maximum exposure	Balance as per the financial statement	Maximum exposure
(Rupees in '000)					
Bank balances	10	25,581	25,581	56,964	56,964
Loans to employees	11	2,268	2,268	2,534	2,534
Investments	12	932,041	9,317	719,561	9,145
Premiums due but unpaid	14	197,745	197,745	186,247	186,247
Amounts due from other insurers / reinsurers	15	123,704	132,495	145,581	145,581
Accrued investment income	16	6,848	6,848	3,486	3,486
Reinsurance recoveries against outstanding claims		87,254	87,254	96,179	96,179
Advances and deposits	17	5,440	5,440	10,965	10,965
Sundry receivables	18	27,137	25,729	2,005	597
		1,408,018	492,677	1,223,522	511,698

# Habib Insurance Company Limited

Differences in the balances as per financial statements and maximum exposure in investments is due to investments in government securities of Rs. 40.067 million (2008: Nil) and listed equity shares of Rs. 882.657 million (2008: 710.416 million) which are not exposed to credit risk. Furthermore, FED receivable of Rs. 1.408 million classified under sundry receivables (2008: Rs. 1.408 million) is also not considered to carry credit risk.

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

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

The credit quality of Company's exposure in Term Finance Certificates are disclosed in note 12.3.2 of the financial statements.

The management monitors exposure to credit risk in premium receivable from customers through regular review of credit exposure and prudent estimates of provisions for doubtful receivables as disclosed in note 14 to the financial statements.

## Concentration of credit risk

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

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

	December 31, 2009		December 31, 2008	
	(Rupees in'000)	%	(Rupees in'000)	%
Automobiles	40,338	19.0	17,580	9.0
Banks, Modaraba and leasing	25,407	12.0	26,179	13.4
Textile and composite	26,501	12.5	56,499	29.0
Sugar	9,432	4.4	7,273	3.7
Chemicals and allied industries	5,673	2.7	5,217	2.7
Glass, Ceramics and tiles	11,155	5.3	10,159	5.2
Cable, engineering and steel	2,242	1.1	4,490	2.3
Cement	176	0.1	1,804	0.9
Food and confectionary	6,479	3.1	9,688	5.0
Fuel and energy	2,209	1.0	2,616	1.3
Insurance	1,180	0.6	—	0.0
Pharmaceuticals	11,831	5.6	6,301	3.2
Others	69,372	32.6	47,354	24.3
	<u>211,995</u>	<u>100</u>	<u>195,160</u>	<u>100</u>

# Habib Insurance Company Limited

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

	December 31, 2009		December 31, 2008	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	163,962	–	153,532	–
1-2 years	26,586	–	17,530	–
2-3 years	7,365	168	14,785	–
Over 3 years	14,082	14,082	9,313	8,913
<b>Total</b>	<b>211,995</b>	<b>14,250</b>	<b>195,160</b>	<b>8,913</b>

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

	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Prepaid reinsurance premium ceded	2009	2008
				(Rupees in '000)	
A or above (including PRCL)	125,840	87,155	118,227	331,222	383,623
BBB	5,213	2	1,228	6,443	7,885
Others	1,442	97	3,387	4,926	2,893
	<b>132,495</b>	<b>87,254</b>	<b>122,842</b>	<b>342,591</b>	<b>394,401</b>

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

	2009		2008	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	87,056	–	120,503	–
1-2 years	22,939	–	14,696	–
Over 2 years	22,500	8,791	19,022	8,640
<b>Total</b>	<b>132,495</b>	<b>8,791</b>	<b>154,221</b>	<b>8,640</b>



# Habib Insurance Company Limited

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

	2009		2008	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	36,923	–	91,280	–
1-2 years	49,972	–	4,440	–
Over 2 years	359	–	459	–
<b>Total</b>	<b>87,254</b>	<b>–</b>	<b>96,179</b>	<b>–</b>

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

## 27.2.2 Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting its financial obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The following are the contractual maturities of financial liabilities:

	2009	2008
	Carrying Amount (Rupees in '000)	
<b>Non-Derivative Financial liabilities</b>		
Provision for outstanding claims	141,095	171,286
Amount due to other insurers / reinsurers	102,823	114,889
Accrued expenses	10,552	10,367
Other creditor and accruals	150,848	99,209
Unclaimed dividends	19,643	18,537
	<b>424,961</b>	<b>414,288</b>

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

## 27.2.3 Market risk

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

# Habib Insurance Company Limited

## 27.2.3.1 Interest rate risk

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

	2009 Effective interest rate (in %)	2008	2009 (Rupees in '000)	2008
Fixed rate instruments				
- Government securities	(11.8 to 14.1)	-	40,067	-
Variable rate instruments				
- Bank balances	(5 to 11)	(8 to 12.5)	18,365	44,603
- Term finance certificates	(13.9 to 14.2)	(17.1 to 17.2)	9,317	9,145
			27,682	53,748

### Fair value sensitivity analysis for fixed rate instruments

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

### Cash flow sensitivity analysis for variable rate instruments

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

## 27.2.3.2 Equity price risk

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

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

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

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

For available for sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income and equity would have been lower by Rs. 34.675 million (2008: 47.462 million). However, an increase of 10% in equity prices at the reporting such increase is restricted to amount of cost of investment of such securities, i.e., Rs. 27.403 million (2008: 47.876 million) as per the policy of the Company.

# Habib Insurance Company Limited

## 27.3 Fair value of financial instruments

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

## 28. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

The Company currently meets the paid up capital requirement as required by Securities and Exchange Commission of Pakistan.

## 29. NUMBER OF EMPLOYEES

The number of employees at the end of year was 217 (2008: 258).

## 30. SUBSEQUENT EVENT - NON ADJUSTING

In the meeting held on April 07, 2010, the Board of Directors of the Company proposed a final cash dividend of Rs. 1.75 per share (2008: 0.625 per share) for the year ended December 31, 2009, amounting to Rs. 140.141 million (2008: 44.489 million) for approval by the members in the Annual General Meeting to be held on April 30, 2010. In addition, the Board has approved the transfer to General Reserve of Rs. 50 million (2008: transfer from general reserve of Rs. 450 million).

## 31. RECLASSIFICATION

Following corresponding figures have been reclassified for better presentation.

	From	To	2008 (Rupees in '000)
Premium received in advance	Premium due but unpaid	Premium received in advance	2,963
Loans to employees	Sundry receivables	Loan to employees	635
Other advances	Sundry receivables	Advances, deposits and prepayments	3,013
Security deposits	Security deposits	Advances, deposits and prepayments	1,403
Depreciation expenses	General & administration expenses	Management Expenses	5,233
Unclaimed dividends	Other creditors and accruals	Unclaimed dividends	18,537

## 32. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors in their meeting held on April 07, 2010.

RAFIQ M. HABIB  
*Chairman*

MAZHER ALI JUMANI  
*Director*

MANSOOR G. HABIB  
*Director*

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

# Habib Insurance Company Limited

## Pattern of Shareholding as at December 31, 2009

Number of Shareholders	Size of Shareholding Rs. 5/- each	Total Shares Held
286	1 to 100	9,481
320	101 to 500	90,999
227	501 to 1,000	174,785
538	1,001 to 5,000	1,318,694
175	5,001 to 10,000	1,288,971
56	10,001 to 15,000	702,249
47	15,001 to 20,000	792,604
27	20,001 to 25,000	610,011
16	25,001 to 30,000	439,633
15	30,001 to 35,000	483,013
10	35,001 to 40,000	387,929
21	40,001 to 45,000	868,628
8	45,001 to 50,000	388,392
7	50,001 to 55,000	366,514
9	55,001 to 60,000	511,755
9	60,001 to 65,000	568,552
5	65,001 to 70,000	343,486
9	70,001 to 75,000	656,841
6	75,001 to 80,000	469,303
18	80,001 to 85,000	1,478,989
3	85,001 to 90,000	262,522
2	90,001 to 95,000	185,241
2	95,001 to 100,000	198,625
8	100,001 to 105,000	807,889
5	105,001 to 110,000	539,997
2	110,001 to 115,000	223,264
1	115,001 to 120,000	115,042
5	120,001 to 125,000	604,828
8	125,001 to 130,000	1,026,310
6	130,001 to 135,000	801,926
1	135,001 to 140,000	135,688
2	140,001 to 145,000	287,119
3	145,001 to 150,000	440,436
1	150,001 to 155,000	154,856
5	155,001 to 160,000	783,888
7	160,001 to 165,000	1,123,574
3	175,001 to 180,000	528,579
2	180,001 to 185,000	367,357
1	195,001 to 200,000	197,811
6	200,001 to 205,000	1,201,200
3	210,001 to 215,000	642,628
2	220,001 to 225,000	445,305
1	225,001 to 230,000	228,775
1	230,001 to 235,000	231,431
2	240,001 to 245,000	483,890
1	245,001 to 250,000	247,093
1	250,001 to 255,000	250,731
1	265,001 to 270,000	265,518
2	270,001 to 275,000	544,106
1	275,001 to 280,000	278,823
2	285,001 to 290,000	577,952
1	290,001 to 295,000	292,150
1	305,001 to 310,000	307,290
1	315,001 to 320,000	315,295
1	325,001 to 330,000	328,500
2	330,001 to 335,000	663,304
1	340,001 to 345,000	340,632
1	345,001 to 350,000	348,732
3	350,001 to 355,000	1,051,584
1	370,001 to 375,000	371,770
1	380,001 to 385,000	384,246
1	385,001 to 390,000	389,029
1	390,001 to 395,000	390,314
5	400,001 to 405,000	2,006,053
1	405,001 to 410,000	409,387
1	420,001 to 425,000	420,661
1	445,001 to 450,000	448,450
2	480,001 to 485,000	960,966
1	510,001 to 515,000	513,000
1	520,001 to 525,000	523,283
1	525,001 to 530,000	528,531
1	540,001 to 545,000	544,185
2	560,001 to 565,000	1,125,131
1	565,001 to 570,000	569,072
1	640,001 to 645,000	640,129
1	650,001 to 655,000	650,449
1	660,001 to 665,000	664,668
1	685,001 to 690,000	688,329
3	700,001 to 705,000	1,407,920
1	790,001 to 795,000	793,266
1	805,001 to 810,000	807,306
1	840,001 to 845,000	840,845
1	865,001 to 870,000	866,949
1	905,001 to 910,000	907,191
1	1,170,001 to 1,175,000	1,172,577
1	1,335,001 to 1,340,000	1,339,485
1	1,520,001 to 1,525,000	1,521,532
1	1,525,001 to 1,530,000	1,526,179
1	1,530,001 to 1,535,000	1,530,900
2	1,755,001 to 1,760,000	1,759,280
1	1,880,001 to 1,885,000	1,884,184
1	1,895,001 to 1,900,000	3,793,771
1	3,215,001 to 3,220,000	3,219,240
1	3,465,001 to 3,470,000	3,467,490
1	3,500,001 to 3,505,000	3,503,527
1	3,705,001 to 3,710,000	3,707,732
1	4,020,001 to 4,025,000	4,022,903
1,956	TOTAL	80,080,650

Categories of Shareholders	Numbers	Shares Held	Percentage
1. Individuals	1,855	60,258,310	75.25
2. Insurance Companies	7	4,572,968	5.71
3. Joint Stock Companies	49	8,287,373	10.35
4. Financial Institutions	1	1,526,179	1.90
5. Charitable Trusts	20	2,145,510	2.68
6. Government Institutions	2	1,664	0.00
7. Modaraba Companies	1	333,045	0.42
8. Foreign Investors	21	2,955,601	3.69
	1,956	80,080,650	100.00

# Habib Insurance Company Limited

## Pattern of Shareholding as at December 31, 2009

### Additional Information

Shareholders' Category	Number of Shareholders / Folios	Number of Shares Held
<b>Associated Companies</b>		
Habib Sugar Mills Limited	1	3,467,490
Thal Limited	1	3,707,732
Karachi Mercantile Co. (Pvt.) Limited	1	221,148
<b>NIT and ICP</b>		
IDBP (ICP Unit)	2	1,664
<b>Directors</b>		
Mr. Rafiq M. Habib	1	107,867
Mr. Abbas D. Habib	2	486,988
Mr. Mazher Ali Jumani	2	6,955
Mr. Mansoor G. Habib	1	3,645
Mr. Mohamedali R. Habib	2	1,256,659
Mr. Sajjad Hussain Habib	1	183,683
Mr. Aun Mohammad A. Habib	1	183,674
<b>Chief Executive Officer</b>		
Mr. Ali Raza D. Habib	1	39,638
<b>Directors' Spouses</b>		
Mrs. Jamila Rafiq w/o Mr. Rafiq M. Habib	2	625,002
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	1	13,497
Mrs. Sayyeda Mohamedali w/o Mr. Mohamedali R. Habib	1	84,082
<b>Banks, Development Financial Institutions, Insurance Companies, Modaraba Companies and Mutual Funds</b>		
	9	6,432,192
<b>Joint Stock Companies and Corporations</b>		
	46	891,003
<b>Individuals / Others</b>		
	1840	57,266,620
<b>Charitable Trusts, Societies and Government Institutions</b>		
	20	2,145,510
<b>Foreign Investors</b>		
	21	2,955,601
	1,956	80,080,650

# Habib Insurance Company Limited

## Notice of Annual General Meeting

NOTICE is hereby given that the 67th Annual General Meeting of the Shareholders of the Company will be held at The Institute of Chartered Accountants of Pakistan, Kehkashan, Clifton, Karachi, on Friday, April 30, 2010 at 11:30 a.m. to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended December 31, 2009 together with the Directors' and Auditors' Report thereon.
2. To approve payment of cash dividend @ 35% i.e. Rs. 1.75 per share of Rs. 5/- each for the year ended December 31, 2009 as recommended by the Board of Directors.
3. To appoint Auditors for the year ending December 31, 2010 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for reappointment.
4. To consider any other business of the Company with the permission of the Chair.

### Special Business

5. To consider and pass the following special resolution for authorising investment by way of purchase of shares of under-mentioned associated companies:

"RESOLVED that the Company be and is hereby authorised to invest the under-mentioned amounts in the purchase of ordinary shares of the under-mentioned associated companies:

Sr. No.	Name of the Company	Rs. in million
1	Bank AL Habib Limited	60
2	Dynea Pakistan Limited	2
3	Habib Sugar Mills Limited	100
4	Habib Metropolitan Bank Limited	35
5	Shabbir Tiles & Ceramics Limited	30
6	Thal Limited	135

FURTHER RESOLVED that the Managing Director & Chief Executive be and is hereby authorised to make the aforesaid investments as and when deemed appropriate and to dispose off and buy a part or all of such investments through any mode from time to time, to take any and all actions which may be required in respect of these investments, and to delegate the aforesaid powers to any two officers of the Company or a committee of such officers."

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

By order of the Board

SHABBIR GULAMALI  
Company Secretary

Karachi: April 07, 2010

# Habib Insurance Company Limited

## Notes:

1. The share transfer books of the Company will remain closed from Thursday, April 22, 2010 to Friday, April 30, 2010 (both days inclusive).
2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as his / her proxy to attend and vote on his / her behalf. Proxy form, in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.
3. The CDC account / sub account holders are requested to bring with them their Computerised National ID Cards along with the Participant(s) ID number and their account numbers at the time of attending the AGM in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors Resolution / Power of Attorney with specimen signatures be produced at the time of meeting.
4. Members are requested to promptly communicate any change in their address to our Share Registrar, M/s. Noble Computer Services (Pvt.) Limited situated at Mezzanine Floor, House of Habib Building, Siddiqsons Tower, 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350.

# Habib Insurance Company Limited

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

The statement is annexed to the Notice of the 67th Annual General Meeting to be held on April 30, 2010 at which certain business are to be transacted. The purpose of this statement is to set forth material facts concerning such special business.

### ITEM NUMBER 5 OF THE AGENDA

The Board of Directors of Habib Insurance Company Limited in their meeting held on April 07, 2010 approved to make investment by way of purchase of shares of our associated companies. In this regard the Company seeks the approval of the shareholders under section 208 of the Companies Ordinance, 1984.

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 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	Bank AL Habib Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 60 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 31, 2010 is Rs. 33.39 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	December 31, 2009: Rs. 23.12 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	2007: Rs. 3.62 per share 2008: Rs. 3.67 per share 2009: Rs. 4.68 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



# Habib Insurance Company Limited

Sr. No.	Description	Information Required
2. 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 31, 2010 is Rs. 11.19 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, 2009: Rs. 20.81 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	2007: Rs. 0.94 per share 2008: Rs. 2.11 per share 2009: Rs. 2.98 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 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

Sr. No.	Description	Information Required
3. i	Name of the Investee Company	Habib Sugar Mills Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 100 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 31, 2010 is Rs. 30.04 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, 2009: Rs. 25.56 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	2007: Rs. 3.00 per share 2008: Rs. 4.21 per share 2009: Rs. 5.10 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
4. i	Name of the Investee Company	Habib Metropolitan Bank 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 31, 2010 is Rs. 30.65 per share
iv	Break-up value of shares intended to be purchased on the basis of last published financial statement	December 31, 2009: Rs. 24.90 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	2007: Rs. 5.37 per share 2008: Rs. 5.47 per share 2009: Rs. 3.64 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
5. 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 31, 2010 is Rs. 11.28 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, 2009: Rs. 17.54 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	2007: Rs. 2.50 per share 2008: Rs. 1.85 per share 2009: Rs. 0.71 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

# Habib Insurance Company Limited

Sr. No.	Description	Information Required
6. i	Name of the Investee Company	Thal Limited
ii	Nature, amount and extent of investment	Long term equity investment upto Rs. 135 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 31, 2010 is Rs. 89.97 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, 2009: Rs. 102.95 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	2007: Rs. 17.36 per share 2008: Rs. 17.13 per share 2009: Rs. 15.34 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 .....

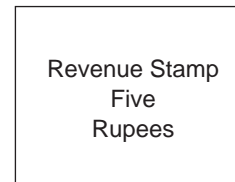
and/or CDC Account and Participant's I.D. Numbers .....

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

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

another member of Habib Insurance Company Limited as my proxy to vote for me / us and on my / our behalf at the Sixty Seventh Annual General Meeting of the Company to be held on April 30, 2010 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.