

# Habib Insurance Company Limited

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## 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** : M/s. KPMG Taseer Hadi & Co.  
Chartered Accountants  
Karachi

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

**Registered Office** : 1st Floor, State Life Bldg. No. 6,  
Habib Square, M. A. Jinnah Road,  
P.O. Box 5217, Karachi-74000,  
Pakistan  
Tel : (92-21) 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 Ninth Report of the Directors to the Shareholders for the year ended December 31, 2011

The Shareholders,

The Board of Directors have pleasure in presenting the Sixty Ninth Annual Report along with the audited accounts of the Company for the year ended December 31, 2011.

	Rupees in '000
Net profit after tax for 2011	126,296
Amount available after appropriations for the year 2010	<u>47,209</u>
	<u>173,504</u>
The Board of Directors now propose:	
Payment of dividend at Rs. 1.25 per share of Rs. 5/- each i.e. @ 25%	112,613
Issue of one bonus share for every ten shares held i.e. @ 10%	45,045
Unappropriated profit carried forward	<u>15,846</u>
	<u>173,504</u>
Basic earnings per share of Rs. 5/- each	1.40

The Directors are pleased to recommend the payout of 35% to shareholders for the year 2011 as mentioned above.

For the year under review, there was a substantial increase of Rs. 116.8 million in the gross premium, the advantage of which could not be fully attained because of a sizeable reserve having to be provided for the unusual heavy business underwritten in the latter part of the year. This was not the case for the previous year in relative terms. Also there has been an increase in the claims from Rs. 183.8 million of the previous year to Rs. 231.2 million largely because of the heavy rains and floods fiercely raging for the second consecutive year in the Country. This took a heavy toll on our underwriting results in contrast to the previous year when we were spared the ordeal.

The investment income also reduced from Rs. 149.4 million to Rs. 117.4 million, the main factor being impairment to be provided for specific scripts, values of which reduced substantially at the market closing of the year. However, this was partially compensated by a significant increase in the dividend income. As a result the profit after tax was Rs. 126.3 million.

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

# Habib Insurance Company Limited

Generally, on the overall performance of the economy for the fiscal year 2010-11, there was an increase in GDP of 2.4% which is expected to grow to 4%. High inflation with ever increasing fuel price and weakening of the Rupee continue to be of grave concern. The Country's foreign exchange reserves at the end of the year dropped to US\$ 16.9 billion due to rising fiscal and current account deficits. On the positive side, home remittances continue to significantly rise and the bumper cotton crop expected would be of support to the economy. The KSE 100 index which declined by 5.6% to close at 11348, has markedly increased to 13559. Corporate payouts for the 1<sup>st</sup> quarter of 2012 have been excellent and the daily turnover volume of shares has been high.

Finally, the year 2012 will have its usual uncertainties but we will continue to strive for progress with hopefully better underwriting results and sustained investment income, Inshallah.

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

We pray to Allah for Peace and Prosperity for our Nation. Ameen!

## **Corporate Social Responsibility (CSR)**

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

- corporate philanthropy amounting to Rs. 2.0 million by way of donations during the year for social and educational development and welfare of under privileged classes;
- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and "No Smoking Zone", and providing a safe and healthy work environment;
- business ethics, requiring all staff members to sign and comply with the Company's "Statement of Ethics and Business Practices";
- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc.;
- contribution to the national exchequer by the Company by way of direct taxes of over Rs. 22.0 million during the year; furthermore, an additional amount of over Rs. 163.5 million was deducted/ collected by the Company on account of withholding taxes and federal excise duties and paid to the Government of Pakistan.

## **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

# Habib Insurance Company Limited

## 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, 2012, 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.
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, 2011 is Rs. 36.1 million.
10. During the year four Board meetings were held and the attendance of the Directors is as follows:

### Date of Meeting

### Attended by

March 30, 2011

Mr. Rafiq M. Habib  
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

April 30, 2011

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

Chief Executive

# Habib Insurance Company Limited

August 24, 2011

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

Chief Executive

October 25, 2011

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

Chief Executive

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

Karachi: March 29, 2012

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

# Habib Insurance Company Limited

## Six Years' Review at a Glance

(Rupees in '000)

Years	2011	2010	2009	2008	2007	2006
Gross Written Premium	894,331	777,531	702,869	737,442	685,606	559,526
Net Premium Revenue	420,310	394,643	359,040	397,960	335,974	268,075
Investment Income / (Loss)	117,389	149,355	184,886	(390,531)	443,297	604,110
Net Claims	231,180	183,787	175,704	202,219	217,176	122,423
Profit / (Loss) after Tax	126,296	168,482	204,743	(396,428)	420,378	600,945
Paid-up Capital	450,454	400,403	400,403	355,914	296,595	219,700
Reserves & Retained Earnings	427,626	451,482	423,141	307,376	941,080	740,402
Total Assets - at Book Value	1,878,076	1,666,985	1,625,473	1,460,429	2,101,104	1,523,545
Cash Dividend - %	25	25	35	12.5	60	65
Stock Dividend - %	10	12.5	–	12.5	20	35

# Habib Insurance Company Limited

## Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2011

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 with details of pricing methods 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

Karachi: March 29, 2012

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

# Habib Insurance Company Limited

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

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance 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, Listing Regulations of the Stock Exchanges where the company is listed, 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 2011.

Karachi: March 29, 2012

**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) statement of cash flows;
- (v) statement of premiums;
- (vi) statement of claims;
- (vii) statement of expenses; and
- (viii) statement of investment income

of **Habib Insurance Company Limited** ("the Company") as at 31 December 2011 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;
- (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 2011 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.

Karachi: March 29, 2012

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

# Habib Insurance Company Limited

## Balance Sheet as at December 31, 2011

	Note	2011 (Rupees in '000)	2010 (Rupees in '000)		Note	2011 (Rupees in '000)	2010 (Rupees in '000)
<b>Share Capital and Reserves</b>				<b>Cash and Bank Deposits</b>	10		
Authorised share capital [100,000,000 (December 31, 2010: 100,000,000) ordinary shares of Rs. 5 each]		500,000	500,000	Cash and other equivalents		902	409
				Current and other accounts		49,530	57,590
						50,432	57,999
Paid-up share capital	5.1	450,454	400,403	<b>Loans - secured, considered good to employees</b>	11	31,237	3,143
Retained earnings		173,504	197,360				
Reserves		254,122	254,122	<b>Investments</b>	12	916,434	925,540
<b>TOTAL EQUITY</b>		878,080	851,885	<b>Deferred Taxation</b>	13	19,445	15,592
<b>Underwriting Provisions</b>				<b>Current Assets - others</b>			
Provision for outstanding claims (including IBNR)		209,927	134,727	Premiums due but unpaid	14	204,360	181,589
Provision for unearned premium		363,602	311,226	Amounts due from other insurers/ reinsurers	15	123,623	116,498
Commission income unearned		37,137	32,875	Accrued investment income	16	3,006	152
Total underwriting provisions		610,666	478,828	Reinsurance recoveries against outstanding claims		124,995	80,598
				Deferred commission expense		38,170	36,032
<b>Deferred Liability</b>				Advances, deposits and prepayments	17	171,781	149,809
Staff retirement benefits	6	24,036	20,284	Sundry receivables	18	180,468	61,085
						846,403	625,763
<b>Creditors and Accruals</b>				<b>Fixed Assets</b>	19		
Premiums received in advance		13,583	3,836	<b>Tangible and intangible</b>			
Amounts due to other insurers/ reinsurers	7	130,152	88,272	Furniture, fixtures and office equipments		7,840	9,722
Accrued expenses		10,861	9,483	Computers and related equipments		1,139	1,453
Taxation - provision less payments		49,959	48,053	Motor vehicles		898	24,119
Other creditors & accruals	8	134,828	142,717	Capital work in progress - office premises		3,750	3,000
		339,383	292,361	Computer software		498	654
<b>Other liabilities</b>						14,125	38,948
Unclaimed dividends		25,911	23,627				
<b>TOTAL LIABILITIES</b>		999,996	815,100				
				<b>TOTAL ASSETS</b>		1,878,076	1,666,985
<b>TOTAL EQUITY AND LIABILITIES</b>		1,878,076	1,666,985				
<b>Contingencies</b>	9						

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

RAFIQ M. HABIB  
Chairman

ABBAS D. HABIB  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Profit and Loss Account for the year ended December 31, 2011

(Rupees in '000)

	Note	Fire and Property	Marine and Transport	Motor	Other Classes	2011	2010
<b>Revenue Account</b>							
Net premium revenue		107,000	125,243	125,105	62,962	420,310	394,643
Net claims		(36,797)	(53,553)	(93,794)	(47,036)	(231,180)	(183,787)
Expenses	20	(52,967)	(31,585)	(20,215)	(22,538)	(127,305)	(114,238)
Net commission		14,301	(7,340)	(9,763)	1,170	(1,632)	(9,147)
Underwriting result		31,537	32,765	1,333	(5,442)	60,193	87,471
Net investment income						117,389	149,355
Other income - net	21					28,956	5,284
General and administration expenses	20					(57,494)	(49,922)
Profit before tax						149,044	192,188
Taxation - net	22					(22,748)	(23,706)
Profit after tax						126,296	168,482
Other comprehensive income						—	—
Total comprehensive income for the year						126,296	168,482
<b>Profit and loss appropriation account</b>							
Balance at commencement of the year						197,360	219,019
Profit after tax for the year						126,296	168,482
Transfer to general reserve						—	(50,000)
Issuance of bonus shares for the year 2010: 12.5% (2009: Nil%)						(50,051)	—
Cash dividend for the year ended December 31, 2010 at Rs. 1.25 per share (2009: Rs. 1.75 per share)						(100,101)	(140,141)
						(23,856)	(21,659)
Balance of unappropriated profit at end of the year						173,504	197,360
Basic earnings per share of Rs. 5 each	23					Rupees 1.40	1.87

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

RAFIQ M. HABIB  
Chairman

ABBAS D. HABIB  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Changes in Equity for the year ended December 31, 2011

(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 at January 01, 2010	400,403	9,122	195,000	219,019	823,544
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	168,482	168,482
<b>Transaction with owners recorded directly in equity</b>					
Final dividend for the year ended December 31, 2009 of Rs. 1.75 per share	-	-	-	(140,141)	(140,141)
<b>Others</b>					
Transfer to general reserve	-	-	50,000	(50,000)	-
Balance as at December 31, 2010	400,403	9,122	245,000	197,360	851,885
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	126,296	126,296
<b>Transaction with owners recorded directly in equity</b>					
Bonus share distribution for the year ended December 31, 2010 at 12.5%	50,051	-	-	(50,051)	-
Final dividend for the year ended December 31, 2010 of Rs. 1.25 per share	-	-	-	(100,101)	(100,101)
	50,051	-	-	(150,152)	(100,101)
<b>Others</b>					
Transfer to general reserve	-	-	-	-	-
<b>Balance as at December 31, 2011</b>	<b>450,454</b>	<b>9,122</b>	<b>245,000</b>	<b>173,504</b>	<b>878,080</b>

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

RAFIQ M. HABIB  
Chairman

ABBAS D. HABIB  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Cash Flow for the year ended December 31, 2011

	2011 (Rupees in '000)	2010 (Rupees in '000)		2011 (Rupees in '000)	2010 (Rupees in '000)
<b>Operating Cash Flows</b>			<b>Reconciliation to Profit and Loss Account</b>		
<b>a) Underwriting activities</b>			<b>Operating cash flows</b>		
Premiums received	862,779	765,490	Operating cash flows	(77,378)	4,160
Reinsurance premiums paid	(403,268)	(390,518)	Depreciation/ amortisation expense	(8,546)	(9,652)
Claims paid	(361,043)	(332,569)	Profit on disposal of fixed assets	22,769	1,250
Reinsurance and other recoveries received	160,666	149,070	Decrease in assets other than cash	262,415	20,643
Commissions paid	(105,416)	(75,180)	(Decrease)/ Increase in liabilities other than running finance	(176,954)	18,735
Commissions received	97,054	85,168		22,306	35,136
Other underwriting receipts	2,024	241			
Net cash inflow from underwriting activities	252,796	201,702	<b>Other adjustments</b>		
<b>b) Other operating activities</b>			Income tax paid	24,695	6,484
Income tax paid	(24,695)	(6,484)	Provision for premiums due but unpaid	(11,403)	(5,885)
General management expenses paid	(159,311)	(125,649)	Provision for amount due from other insurers/ reinsurers	-	(1,458)
Other operating payments	(118,074)	(64,534)	Provision for impairment	(32,160)	9,970
Loans advanced	(29,984)	(2,116)	Provision for gratuity	(5,041)	(4,234)
Loans repayment received	1,890	1,241	Gratuity paid	1,290	1,849
Net cash outflow from other operating activities	(330,174)	(197,542)	Profit/ Return received	8,000	10,026
Total cash (outflow)/ inflow from all operating activities	(77,378)	4,160	Dividends received	56,778	50,032
<b>Investment activities</b>			Capital gain	84,579	90,268
Profit/ return received	8,000	10,026	Provision for taxation	(22,748)	(23,706)
Dividends received	56,778	50,032		103,990	133,346
Payments for investments	(782,896)	(750,606)		126,296	168,482
Proceeds from disposal of investments	846,700	857,600	<b>Definition of cash</b>		
Fixed capital expenditure	(3,945)	(9,085)	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.		
Proceeds from disposal of fixed assets	42,991	5,509	<b>Cash for the purposes of the Statement of Cash Flows consists of:</b>		
Total cash inflow from investing activities	167,628	163,476	<b>Cash and bank deposits</b>		
<b>Financing activities</b>			Cash and other equivalents		
Dividends paid	(97,817)	(136,157)	Cash in hand	417	289
Total cash outflow from financing activities	(97,817)	(136,157)	Policy stamps	485	120
Net cash (outflow)/ inflow from all activities	(7,567)	31,479		902	409
Cash at beginning of the year	57,999	26,520	Current and other accounts		
Cash at end of the year	50,432	57,999	Current accounts	11,894	11,378
			Profit and loss sharing accounts	37,636	46,212
				49,530	57,590
			<b>Cash and bank deposits as per balance sheet</b>	50,432	57,999

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

RAFIQ M. HABIB  
Chairman

ABBAS D. HABIB  
Director

MANSOOR G. HABIB  
Director

ALI RAZA D. HABIB  
Managing Director  
& Chief Executive

# Habib Insurance Company Limited

## Statement of Premiums for the year ended December 31, 2011

(Rupees in '000)

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2011 Net premium revenue	2010 Net premium revenue
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	372,100	151,047	185,181	337,966	257,876	90,768	117,678	230,966	107,000	113,441
2. Marine and Transport	221,890	27,083	30,538	218,435	96,342	7,945	11,095	93,192	125,243	115,292
3. Motor	142,012	74,809	81,013	135,808	5,763	5,748	808	10,703	125,105	113,188
4. Other Classes	158,329	58,287	66,870	149,746	85,167	34,978	33,361	86,784	62,962	52,722
Grand Total	894,331	311,226	363,602	841,955	445,148	139,439	162,942	421,645	420,310	394,643

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

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Director

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Managing Director  
& Chief Executive



# Habib Insurance Company Limited

## Statement of Claims for the year ended December 31, 2011

(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	2011 Net claims expense	2010 Net claims expense
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	104,379	47,162	99,397	156,614	80,494	36,267	75,590	119,817	36,797	24,056
2. Marine and Transport	59,482	19,160	37,280	77,602	18,761	14,788	20,076	24,049	53,553	37,794
3. Motor	111,619	41,106	42,764	113,277	22,697	11,019	7,805	19,483	93,794	87,711
4. Other Classes	85,563	27,299	30,486	88,750	38,714	18,524	21,524	41,714	47,036	34,226
Grand Total	361,043	134,727	209,927	436,243	160,666	80,598	124,995	205,063	231,180	183,787

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

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Director

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& Chief Executive

# Habib Insurance Company Limited

## Statement of Expenses for the year ended December 31, 2011

(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*	2011 Net underwriting expense	2010 Net underwriting expense
Direct and facultative									
1. Fire and Property	42,991	20,783	21,761	42,013	52,967	94,980	56,314	38,666	40,053
2. Marine and Transport	35,598	4,742	5,218	35,122	31,585	66,707	27,782	38,925	34,066
3. Motor	10,726	7,249	7,645	10,330	20,215	30,545	567	29,978	32,615
4. Other Classes	7,247	3,258	3,546	6,959	22,538	29,497	8,129	21,368	16,651
Grand Total	96,562	36,032	38,170	94,424	127,305	221,729	92,792	128,937	123,385

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

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

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*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, 2011

	Note	2011 (Rupees in '000)	2010
<b>Income from Non-Trading Investments</b>			
<b>Held-to-maturity</b>			
Return on Government Securities		6,011	4,692
<b>Available-for-sale</b>			
Dividend income		57,278	43,325
Return on other fixed income securities		2,458	1,808
Gain on sale of investments		84,579	90,268
		<u>150,326</u>	<u>140,093</u>
(Provision)/ reversal for impairment in value of available-for-sale securities - net	12.5.2	(32,160)	9,970
Investments related expenses		<u>(777)</u>	<u>(708)</u>
Net investment income		<u>117,389</u>	<u>149,355</u>

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

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*Chairman*

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*Director*

MANSOOR G. HABIB  
*Director*

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

# Habib Insurance Company Limited

## Notes to the Financial Statements for the year ended December 31, 2011

### 1. STATUS AND NATURE OF BUSINESS

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

### 2. BASIS OF PREPARATION

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

#### 2.1 Statement of compliance

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

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

#### 2.2 Basis of measurement

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

#### 2.3 Functional and presentation currency

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

#### 2.4 Use of estimates and judgements

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

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

# Habib Insurance Company Limited

	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

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

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2012:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 1, 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective January 1, 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after January 1, 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after January 1, 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. In financial period beginning on July 1, 2013, the Company will be required to recognise unrecognised actuarial gains and losses in other comprehensive income. The unrecognised actuarial loss in aggregate amount to Rs. 1.872 million as at December 31, 2011 (2010: Rs. 1.090 million) as disclosed in note 6.4. In addition actuarial gains and losses which are currently being recognised in profit and loss account would be required to be recognised in other comprehensive income.

# Habib Insurance Company Limited

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 1, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after July 1, 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after January 1, 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement. The amendments have no impact on financial statements of the Company.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after January 1, 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. The amendments have no impact on financial statements of the Company.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after January 1, 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 4.1 Insurance contracts

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

Insurance contracts are classified into following main categories:

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

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

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

### 4.2 Premium

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

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

# Habib Insurance Company Limited

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

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

## **4.3 Reinsurance contracts**

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

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

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

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

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

## **4.4 Claims expense**

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

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

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

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

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

## **4.6 Commission**

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

# Habib Insurance Company Limited

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.

### **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, 2011 using the "Projected Unit Credit Method".

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

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

### **4.8.3 Employees' compensated absences**

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



# Habib Insurance Company Limited

## 4.9 Investments

### 4.9.1 Recognition

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

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

### 4.9.2 Measurement

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

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

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

#### 4.9.2.2 Available-for-sale

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

#### Quoted

Subsequent to initial recognition at cost, quoted investments are stated at 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.

# Habib Insurance Company Limited

## **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 upto the month immediately preceding the deletion.

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

# Habib Insurance Company Limited

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.

### **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.

# Habib Insurance Company Limited

## 4.13 Operating segments

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

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

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

### 4.13.1 Fire and property

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

### 4.13.2 Marine and transport

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

### 4.13.3 Motor

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

### 4.13.4 Other classes

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

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

## 4.14 Financial instruments

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

# Habib Insurance Company Limited

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

## **4.15 Offsetting of financial assets and liabilities**

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

## **4.16 Taxation**

### **4.16.1 Current**

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

### **4.16.2 Deferred**

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

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

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

## **4.17 Cash and cash equivalents**

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

## **4.18 Foreign currency translation**

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

# Habib Insurance Company Limited

## 4.19 Creditors, accruals and provisions

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

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

## 4.20 Impairment

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

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

## 4.21 Dividend declaration and reserve appropriation

Dividend declaration and reserve appropriations are recognised when approved.

## 5. PAID-UP SHARE CAPITAL AND RESERVES

### 5.1 Paid-up capital

2011 (Number of Shares)	2010		2011 (Rupees in '000)	2010 (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
89,090,731	79,080,650	Ordinary shares of Rs. 5/- each issued as fully paid bonus shares	445,454	395,403
<u>90,090,731</u>	<u>80,080,650</u>		<u>450,454</u>	<u>400,403</u>
80,080,650	80,080,650	Ordinary shares of Rs. 5/- each at the beginning of the year	400,403	400,403
10,010,081	—	Fully paid bonus shares issued during the year	50,051	—
<u>90,090,731</u>	<u>80,080,650</u>		<u>450,454</u>	<u>400,403</u>

# Habib Insurance Company Limited

5.1.1 At December 31, 2011, related parties including directors and their dependents held 11.707 million (12.99%) [2010: 10.406 million (12.99%)] number of ordinary shares of Rs. 5/- each.

## 5.2 Reserves for exceptional losses

Under the Income Tax Act, 1922 applicable to insurance companies, the Company set aside in prior years amounts up to ten percent of premium earnings, net of reinsurances of the year as a reserve for exceptional losses, which was treated as 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, 2011 by M/s. Akhtar and Hasan (Private) Limited using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation are as follows:

- Discount rate 13.00% (2010: 14.50%) per annum compounded
- Expected rate of increase in the salaries of the employees 11.00% (2010: 12.50%) per annum compounded
- Expected service length of the employees 15 years (2010:15 years)
- Normal retirement 60 years (2010: 60 years)

	2011	2010
	(Rupees in '000)	
<b>6.1 Liability in balance sheet</b>		
Present value of defined benefit obligations	25,908	21,374
Unrecognised actuarial loss	(1,872)	(1,090)
	24,036	20,284
<b>6.2 Movement in liability during the year</b>		
Opening balance	20,284	17,899
Charged to profit and loss account	5,041	4,234
Benefits paid during the year	(1,289)	(1,849)
Closing balance	24,036	20,284
<b>6.3 Reconciliation of the present value of defined benefit obligations</b>		
Present value of obligations as at January 1,	21,374	19,027
Current service cost	1,904	1,745
Interest cost	3,137	2,489
Benefits paid	(1,289)	(1,849)
Actuarial gain	782	(38)
Present value of obligations as at December 31,	25,908	21,374

# Habib Insurance Company Limited

	2011	2010			
	(Rupees in '000)				
<b>6.4 Movement in the unrecognised gain / (loss)</b>					
Unrecognised loss as at January 1,	(1,090)	(1,128)			
Actuarial (loss)/ gain on obligation during the year	(782)	38			
Unrecognised loss as at December 31,	<u>(1,872)</u>	<u>(1,090)</u>			
<b>6.5 Charge for the defined benefit plan</b>					
Current service cost	1,904	1,745			
Interest cost	3,137	2,489			
Actuarial loss recognised	-	-			
	<u>5,041</u>	<u>4,234</u>			
<b>6.6 Historical data of the fund</b>					
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(Rupees in '000)				
Present value of defined benefit obligations	25,908	21,374	19,027	19,105	17,249
Fair value of plan assets	-	-	-	-	-
Deficit	<u>25,908</u>	<u>21,374</u>	<u>19,027</u>	<u>19,105</u>	<u>17,249</u>
Experience adjustments					
- Actuarial (loss)/ gain on obligation	<u>(782)</u>	<u>38</u>	<u>2,604</u>	<u>1,404</u>	<u>1,324</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. 4.94 million.					
				2011	2010
				(Rupees in '000)	
<b>7. AMOUNT DUE TO OTHER INSURERS / REINSURERS</b>					
Foreign reinsurers				16,756	8,307
Local reinsurers				62,410	34,172
Co-insurers				50,986	45,793
				<u>130,152</u>	<u>88,272</u>
<b>8. OTHER CREDITORS AND ACCRUALS</b>					
Federal excise duty				12,114	11,190
Federal insurance fee				861	735
Withholding tax payable				505	765
Agents commission payable				102,665	111,519
Worker's welfare fund payable				11,392	8,412
Sundry creditors				7,291	10,096
				<u>134,828</u>	<u>142,717</u>



# Habib Insurance Company Limited

## 9. CONTINGENCIES

As at December 31, 2011 there is no contingency.

	Note	2011 (Rupees in '000)	2010
<b>10. CASH AND BANK DEPOSITS</b>			
<b>Cash and other equivalents</b>			
Cash in hand		417	289
Policy stamps		485	120
		<u>902</u>	<u>409</u>
<b>Current and other accounts</b>			
Current accounts		11,894	11,378
Profit and loss sharing accounts	10.1	37,636	46,212
		49,530	57,590
		<u>50,432</u>	<u>57,999</u>

**10.1** These carry profit rates ranging between 5% to 11% (2010: 5% to 11%) per annum.

## 11. LOANS - (secured, considered good)

To employees	<u>31,237</u>	<u>3,143</u>
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This include loans provided during the year to the employees for purchase of vehicles amounting to Rs. 27.43 million. These are secured against title document of vehicles. These loans are recoverable in monthly instalments over a period of five years.

The other loans 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% (2010: 5% to 10%) per annum except loans amounting to Rs. 0.271 million (2010: Rs. 0.722 million) which are interest free.

### 11.1 Reconciliation of carrying amount of loans

Opening balance	3,143	2,268
Mark-up for the year	142	124
Disbursements during the year	29,984	2,116
	<u>33,269</u>	<u>4,508</u>
Repayments during the year	(2,032)	(1,365)
	<u>31,237</u>	<u>3,143</u>

# Habib Insurance Company Limited

	Note	2011 (Rupees in '000)	2010
<b>12. INVESTMENTS</b>			
<b>12.1 Type of investments</b>			
<b>Held-to-maturity</b>			
Government securities (deposited with SBP)			
- Treasury Bills		-	44,266
- Pakistan Investment Bonds	12.2.1	47,941	-
Commercial Paper	12.2.2	-	9,191
		47,941	53,457
<b>Available-for-sale</b>			
- Units of open end mutual funds deposited with the State Bank of Pakistan - quoted	12.3.1	349	349
- Units of open end mutual funds	12.3.2	5,000	5,000
- Term Finance Certificates - quoted	12.3.3	7,988	9,471
- Modaraba Certificates - quoted	12.3.4	14,823	15,012
- Ordinary shares of quoted/ unquoted companies	12.3.5	319,087	455,858
- Ordinary shares of quoted companies/ units of open end mutual funds (related parties)	12.3.6	521,246	386,393
		868,493	872,083
		916,434	925,540

## 12.2 Held-to-maturity - amortised cost

### 12.2.1 Government securities

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

### 12.2.2 Commercial paper

2011 (Number of notes)	2010	Face Value (Rupees)	Name of the investee entity	Note	2011 (Rupees in '000)	2010
-	2	5,000,000	Pak Electron Limited		-	9,191

# 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

2011 (Number of units)	2010	Face Value (Rupees)	Name of the investee entity	Note	2011 (Rupees in '000)	2010
27,500	27,500	10	National Investment (Unit) Trust		252	252
4,381	3,714	50	Pakistan Income Fund		97	97
					349	349

### 12.3.2 Units of open end mutual funds - quoted

2011 (Number of Certificates)	2010				2011	2010
11,278	10,681	500	Atlas Money Market Fund		5,000	5,000

### 12.3.3 Term Finance Certificates - quoted

2011 (Number of Certificates)	2010				2011	2010
1,000	1,000	5,000	Bank Al-Falah Limited	12.3.3.1	3,247	4,764
1,000	1,000	5,000	Engro Fertilizers Limited	12.3.3.1	4,741	4,707
					7,988	9,471

**12.3.3.1** 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.

### 12.3.4 Modaraba certificates - quoted

2011 (Number of Certificates)	2010				2011	2010
–	49,000	10	First Habib Bank Modaraba		–	331
2,015,000	2,015,000	5	First Habib Modaraba		13,695	13,695
109,000	109,000	10	Standard Chartered Modaraba		1,128	986
					14,823	15,012

# Habib Insurance Company Limited

## 12.3.5 Ordinary shares of quoted / unquoted companies

2011 (Number of shares)	2010	Face Value (Rupees)	Name of the investee entity	2011 (Rupees in '000)	2010
<b>Oil &amp; Gas</b>					
50,000	75,000	10	Shell Pakistan Limited	9,514	15,617
75,000	105,000	10	Pakistan Oilfields Limited	27,590	29,040
66,000	135,000	10	Pakistan Petroleum Limited	12,604	28,359
5,000	–	10	Pakistan State Oil Limited	1,577	–
<b>Chemicals</b>					
400,000	122,984	10	Dawood Hercules Chemicals Limited	16,956	24,395
100,000	–	10	Descon Oxychem Limited	373	–
–	100,000	10	Engro Corporation Limited	–	18,817
–	110,000	10	Fauji Fertilizer Company Limited	–	12,970
40,000	50,000	10	Linde Pakistan Limited (formerly BOC Pakistan Limited)	4,040	4,555
13750	11,000	10	Clariant Pakistan Limited	1,922	1,922
–	12,500	10	ICI Pakistan Limited	–	2,133
<b>Industrial Metals &amp; Mining</b>					
50,000	66,000	10	International Industries Limited	2,448	3,231
<b>Construction &amp; Materials</b>					
–	50,000	10	Lucky Cement Limited	–	3,739
<b>General Industries</b>					
230,000	230,000	10	Packages Limited	19,026	33,711
8,257	8,257	10	Ghani Glass Limited	339	407
<b>Electronic &amp; Electrical Equipment</b>					
11,537	11,537	10	Pakistan Cables Limited	369	632
20,000	20,000	10	Electric Lamp Manufacturers Ltd (unquoted)	–	–
<b>Industrial Engineering</b>					
50,000	62,000	5	Al-Ghazi Tractors Limited	12,044	14,934
45,000	57,500	10	Millat Tractors Limited	27,275	28,633
<b>Support Services</b>					
–	80,000	10	TRG Pakistan Limited - Class 'A'	–	286
<b>Automobile &amp; Parts</b>					
20,000	20,000	5	Agriauto Industries Limited	1,190	1,190
23,040	19,200	10	Atlas Battery Limited	2,930	2,930
10,000	18,000	10	Pak Suzuki Motor Company Limited	590	1,257
<b>Beverages</b>					
1,320	1,320	10	Shezan International Limited	124	124
<b>Food Producers</b>					
150	150	10	Nestle Pakistan Limited	79	79
6,400	5,100	50	Unilever Pakistan Limited	34,074	22,472
443	443	10	Colony Sugar Mills Limited	–	–
20,000	20,000	10	Dewan Sugar Mills Limited	40	72
285,000	285,000	5	Habib ADM Limited	4,334	4,334
427	427	10	Kohinoor Sugar Mills Limited	2	2
–	36,300	10	Noon Sugar Mills Limited	–	435

# Habib Insurance Company Limited

2011 (Number of shares)	2010	Face Value (Rupees)	Name of the investee entity	2011 (Rupees in '000)	2010
<b>Personal Goods</b>					
6,000	6,000	10	Bata Pakistan Limited	4,910	4,135
117	117	10	Colony Textile Mills Limited	–	–
12,850	11,174	10	Dawood Lawrencepur Limited	404	486
50,000	50,000	10	Gadoon Textile Mills Limited	2,862	2,862
951,050	475,525	10	Gul Ahmed Textile Mills Limited	16,368	13,904
28,549	28,549	10	Gulistan Spinning Mills Limited	117	197
4,575	4,575	10	Kohinoor Industries Limited	4	7
93	93	10	Kohinoor (Gujarkhan) Mills Limited (unquoted)	–	–
20	20	10	National Silk & Rayon Mills Limited	–	–
–	24,750	10	Nishat (Chunian) Limited	–	518
50,000	159,500	10	Nishat Mills Limited	2,022	9,762
–	8,000	10	Saif Textile Mills Limited	–	36
<b>Pharma &amp; Bio Tech</b>					
200,000	252,000	10	Abbott Laboratories (Pakistan) Limited	21,432	27,004
68,770	59,800	10	Glaxosmithkline Pakistan Limited	5,989	5,989
<b>Fixed Line Telecommunication</b>					
100,000	250,000	10	Pakistan Telecommunication Company Limited	1,039	4,794
<b>Electricity</b>					
400,000	535,000	10	The Hub Power Company Limited	15,220	19,978
50,000	70,000	10	Kot Addu Power Company Limited	2,274	3,199
<b>Banks</b>					
27,500	55,000	10	Habib Bank Limited	2,763	6,078
62,500	100,000	10	National Bank of Pakistan	3,607	7,214
149,906	283,872	10	Soneri Bank Limited	585	2,359
100,000	142,000	10	Standard Chartered Bank (Pakistan) Ltd.	799	1,221
25,000	50,000	10	United Bank Limited	1,471	2,943
<b>Non Life Insurance</b>					
25,000	55,000	10	Adamjee Insurance Company Limited	1,163	4,813
120,000	154,000	10	Atlas Insurance Limited	3,747	5,770
75,000	108,695	10	EFU General Insurance Limited	2,861	4,787
797,596	513,750	10	IGI Insurance Limited	35,270	49,777
			Jubilee General Insurance Company Limited (formerly New Jubilee Insurance Company) Limited)		
198,218	216,720	10		10,567	12,858
100,000	225,000	10	Pakistan Reinsurance Company Limited	1,550	3,656
–	3,500	10	PICIC Insurance Limited	–	28
<b>Life Insurance</b>					
35,070	56,666	10	EFU Life Assurance Limited	2,623	4,275

# Habib Insurance Company Limited

2011 (Number of shares)	2010	Face Value (Rupees)	Name of the investee entity	2011 (Rupees in '000)	2010
<b>Financial Services</b>					
-	31,250	10	Arif Habib Corporation Limited	-	778
-	5,459	10	JS Global Capital Limited	-	154
				319,087	455,858

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

2011 (Number of shares/units)	2010	Face Value (Rupees)	Name of the investee entity	2011 (Rupees in '000)	2010
1,803,465	1,502,888	10	Bank AL Habib Limited	49,704	49,704
140,000	140,000	5	Dynea Pakistan Limited	1,194	1,722
2,377,452	-	100	First Habib Cash Fund (units)	240,629	-
79,253	833,265	100	First Habib Income Fund (units)	8,106	84,452
359,109	350,000	100	First Habib Stock Fund (units)	35,000	35,000
1,665,424	1,387,854	10	Habib Metropolitan Bank Limited	34,697	34,697
995,095	4,236,076	5	Habib Sugar Mills Limited	10,343	55,038
41,600	41,600	10	Indus Motor Company Limited	8,529	10,503
4,330,160	2,165,080	5	Shabbir Tiles and Ceramics Limited	34,858	18,360
1,302,736	1,293,947	5	Thal Limited	98,186	96,917
				521,246	386,393

**12.4** The Company uses stock exchange quotation, at the balance sheet date to determine the market value of quoted equity securities. Had these investment been measured at fair value as required by International Accounting Standard (IAS) - 39, the carrying value of investments and equity of the Company as at December 31, 2011 would have been higher by Rs. 2.178 million (2010: higher by Rs. 176.916 million).

## 12.5 Available-for-sale

Cost	12.5.1	1,375,900	1,347,330
Provision for impairment - net of reversals	12.5.2	(507,407)	(475,247)
		868,493	872,083

**12.5.1** Market value of quoted available-for-sale investments is Rs. 866.315 million (December 31, 2010: Rs. 1,048.999 million).

# Habib Insurance Company Limited

	Note	2011 (Rupees in '000)	2010
<b>12.5.2 Provision for impairment - net of reversals</b>			
Opening provision		475,247	485,217
Charge/(Reversal) for the year		32,160	(9,970)
Closing provision		<u>507,407</u>	<u>475,247</u>
<b>13. DEFERRED TAXATION</b>			
<b>13.1 Deferred tax asset / (liability) - net</b>			
Deferred taxation comprises temporary difference relating to following:			
<b>Taxable temporary differences</b>			
Accelerated tax depreciation allowance		(1,025)	(773)
<b>Deductible temporary differences</b>			
Provisions		20,470	16,365
		<u>19,445</u>	<u>15,592</u>
<b>13.1 Reconciliation of deferred tax</b>			
Opening provision		15,592	7,275
Charge for the year		3,853	8,317
Closing balance		<u>19,445</u>	<u>15,592</u>
<b>14. PREMIUMS DUE BUT UNPAID - unsecured</b>			
Considered good	14.1	204,360	181,589
Considered doubtful		31,538	20,135
		<u>235,898</u>	<u>201,724</u>
Provision against doubtful debts	14.2	(31,538)	(20,135)
		<u>204,360</u>	<u>181,589</u>
<b>14.1</b>	This includes an amount of Rs. 90.504 million (December 31, 2010: Rs. 73.719 million) due from related parties.		

# Habib Insurance Company Limited

	Note	2011 (Rupees in '000)	2010
<b>14.2 Provision against premium due but unpaid - net</b>			
Balance as on January 1,		20,135	14,250
Charge for the year		11,403	5,885
Balance as on December 31,		<u>31,538</u>	<u>20,135</u>
<b>15. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS - unsecured</b>			
Considered good			
- Premiums due from Co-insurers		70,617	77,159
- Foreign reinsurers		7,006	3,946
- Local reinsurers		17,600	17,811
- Claims due from Co-insurers		28,400	17,582
Considered doubtful - Premiums due from Co-insurers		10,249	10,249
		<u>133,872</u>	<u>126,747</u>
Provision against amount due from co-insurers	15.1	(10,249)	(10,249)
		<u>123,623</u>	<u>116,498</u>
<b>15.1 Provision against premium due from Co-insurers - net</b>			
Balance as on January 1,		10,249	8,791
Charge for the year		–	1,458
Balance as on December 31,		<u>10,249</u>	<u>10,249</u>
<b>16. ACCRUED INVESTMENT INCOME</b>			
Dividend income		500	–
Mark-up on term finance certificates		104	141
Mark-up on Government securities		2,396	–
Profit on bank accounts		6	11
		<u>3,006</u>	<u>152</u>
<b>17. ADVANCES, DEPOSITS AND PREPAYMENTS</b>			
Security deposits		1,550	1,550
Advances		3,950	4,267
Prepaid reinsurance premium ceded		162,942	139,439
Others		3,339	4,553
		<u>171,781</u>	<u>149,809</u>



# Habib Insurance Company Limited

	Note	2011 (Rupees in '000)	2010
<b>18. SUNDRY RECEIVABLES</b>			
Federal excise duty receivable	18.1	1,408	1,408
Receivable against sale of investments		163,367	57,217
Other receivables		15,693	2,460
		<u>180,468</u>	<u>61,085</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	9,877	35,294
Capital work in progress	19.2	3,750	3,000
Intangible - computer software	19.3	498	654
		<u>14,125</u>	<u>38,948</u>

### 19.1 Tangible - operating assets

(Rupees in '000)

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

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(Rupees in '000)

	December 31, 2010							
	Cost			Depreciation			Written Down Value as at Dec. 31, 10	Depreciation Rate %
	As at Jan. 01, 10	Additions / (disposals)	As at Dec. 31, 10	As at Jan. 01, 10	for the year/ (disposals)	As at Dec. 31, 10		
Furniture, fixtures and office equipments	29,258	1,636 (946)	29,948	18,102	2,656 (532)	20,226	9,722	10-20
Computers and related equipments	9,721	1,153 (619)	10,255	8,292	1,129 (619)	8,802	1,453	33
Motor vehicles	55,212	5,514 (7,183)	53,543	27,025	5,739 (3,340)	29,424	24,119	20
	<u>94,191</u>	<u>8,303 (8,748)</u>	<u>93,746</u>	<u>53,419</u>	<u>9,524 (4,491)</u>	<u>58,452</u>	<u>35,294</u>	

## 19.2 Capital work in progress

This represents advance to suppliers in respect of application software amounting Rs. 3.75 million (2010: Rs. 3 million).

## 19.3 Intangible assets

(Rupees in '000)

	Cost			Amortisation			Written Down Value as at Dec. 31, 11	Amortisation Rate %
	As at Jan. 01, 11	Additions	As at Dec. 31, 11	As at Jan. 01, 11	for the year	As at Dec. 31, 11		
	Computer software	<u>9,852</u>	<u>—</u>	<u>9,852</u>	<u>9,198</u>	<u>156</u>	<u>9,354</u>	<u>498</u>
2010	<u>9,070</u>	<u>782</u>	<u>9,852</u>	<u>9,070</u>	<u>128</u>	<u>9,198</u>	<u>654</u>	20

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## 19.4 Disposal of tangible assets

	Cost	Accumulated depreciation	Book Value	Sale Proceeds	Net gain / (loss) (note 21)	Sold to
	(Rupees in '000)					
<b>Motor vehicles</b>						
As per Company policy to employees						
1 Toyota Altis	1413	798	615	900	285	Shabbir Gulamali
2 Corolla GLI	978	711	267	900	633	Sultan Ali
3 Suzuki Alto	617	301	316	550	234	Muhammad Farooq Khatri
4 Suzuki Baleno	750	650	100	350	250	Muhammad Raza Rupani
5 Honda City	890	526	364	900	536	Shehzad Rangoonwala
6 Honda City	852	561	291	750	459	Syed Iqbal Hussain
7 Honda City	808	672	136	480	344	Tariq Awan
8 Honda City	857	677	180	575	395	Wasim Abbas
9 Suzuki Alto	492	291	201	525	324	Sultan Baig
10 Suzuki Alto	492	291	201	525	324	Mansoor Ahmed Abbasi
11 Suzuki Alto	492	291	201	525	324	Murtaza Barristor
12 Daihatsu Cuore	433	342	91	425	334	Fawad Habib
13 Suzuki Alto	491	408	83	350	267	Haider Mehboob Maccawala
14 Toyota Corolla GLI	1409	687	722	1100	378	Zeeshan Raza
15 Honda City	857	677	180	575	395	Ch. Muhammad Fayyaz
16 Toyota Corolla GLI	1057	588	469	900	431	Mohd Akber Abbas Naqvi
17 Toyota Corolla XLI	986	717	269	900	631	Javed Mirza
18 Toyota Corolla GLI	1428	697	731	1200	469	Sadiq A. Mirza
19 Toyota Corolla GLI	1392	546	846	1175	329	Tanveer Ahmed Shahid
20 Honda City	908	620	288	725	437	Yasin Ali
21 Honda City	817	680	137	600	463	Zeeshan Bakht
22 Honda City	863	569	294	875	581	Amir Anjum
23 Honda City	851	672	179	500	321	Ayaz Hussain
24 Honda City	894	528	366	875	509	Syed Imran Maqsood
25 Honda City	1441	327	1114	1175	61	Riaz Ahmed Bhatti
26 Suzuki Alto	575	130	445	550	105	Abid Hassan Mirza
27 Suzuki Cultus	628	496	132	600	468	Ali Riaz
28 Suzuki Alto	522	286	236	550	314	Iqbal Khurshid Bodla
29 Suzuki Alto	611	246	365	565	200	Raza Iqbal Naqvi
30 Toyota Corolla GLI	994	648	346	985	639	Syed Ebad Raza
31 Daihatsu Cuore	433	310	123	525	402	M. Hassan Haider Naqvi
32 Suzuki Cultus	618	488	130	400	270	Liaquat Ali
33 Suzuki Cultus	630	411	219	635	416	Muhammad Taqi
34 Suzuki Cultus	732	388	344	675	331	Rehan Ahmed Malik
35 Toyota Corolla	893	706	187	700	513	Zamin Abbas
36 Daihatsu Cuore	407	352	55	325	270	Abdul Rahim Gohar
37 Daihatsu Cuore	619	165	454	585	131	Nasir Iqbal
38 Suzuki Cultus	659	372	287	685	398	Gulshan Abbas
39 Suzuki Cultus	665	375	290	675	385	Saud Ikram Zai
40 Suzuki Cultus	821	230	591	685	94	Zahid Muneer
41 Daihatsu Cuore	385	333	52	300	248	Farman Ali
42 Daihatsu Cuore	449	287	162	535	373	Syed Amir Hussain
43 Daihatsu Cuore	449	287	162	550	388	Syed Tabassum Manzoor Naqvi
	33,558	20,337	13,221	28,880	15,659	

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	Cost	Accumulated depreciation	Book Value	Sale Proceeds	Net gain / (loss) (note 21)	Sold to
	(Rupees in '000)					
Through negotiation to other than employees						
44 Daihatsu Cuore	390	288	102	365	263	Hassan
45 Suzuki Alto	478	278	200	485	285	Imdad Allah
46 Habib Motorcycle	42	25	17	20	3	Habib Charitable Trust
47 Daihatsu Cuore	407	352	55	200	145	Ghulam Abbas
48 Honda Civic	2009	268	1741	1800	59	Zamin Motors
49 Suzuki Cultus	808	248	560	650	90	Zamin Motors
50 Suzuki Alto	477	308	169	500	331	Zamin Motors
51 Honda City	918	605	313	500	187	Zamin Motors
52 Honda City	1418	923	495	1300	805	Zamin Motors
53 Suzuki Alto	611	246	365	575	210	Zamin Motors
54 Suzuki Liana	796	470	326	600	274	Zamin Motors
55 Suzuki Alto	469	419	50	310	260	Zamin Motors
56 Daihatsu Cuore	431	394	37	280	243	Zamin Motors
57 Suzuki Alto	616	301	315	540	225	Zamin Motors
58 Suzuki Alto	493	301	192	500	308	Zamin Motors
59 Suzuki Cultus	680	378	302	600	298	Zamin Motors
60 Daihatsu Cuore	442	305	137	480	343	Habib Esmail Benevolent Trust
61 Daihatsu Cuore	385	320	65	300	235	Habib Esmail Benevolent Trust
62 Toyota Corolla GLI	1217	1054	163	700	537	Habib Esmail Benevolent Trust
63 Corolla Altis	1367	863	504	1100	596	Zamin Motors
64 Toyota Camry	3171	2506	665	1750	1085	Zamin Motors
65 Suzuki Alto	491	289	202	515	313	Zamin Motors
	18,116	11,141	6,975	14,070	7,095	
<b>Sub Total</b>	<u>51,674</u>	<u>31,478</u>	<u>20,196</u>	<u>42,950</u>	<u>22,754</u>	
<b>Computers and related equipments - (Various)</b>	150	132	18	18	-	Various suppliers
<b>Furniture, fixtures and office equipments - (Various)</b>	178	170	8	23	15	Various suppliers
	<u>52,002</u>	<u>31,780</u>	<u>20,222</u>	<u>42,991</u>	<u>22,769</u>	

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	Note	2011 (Rupees in '000)	2010
<b>20. EXPENSES</b>			
Salaries and wages including bonus, contribution to provident fund and staff welfare	20.1	94,150	85,784
Motor car expenses		17,677	14,340
Travelling and entertainment expenses		4,480	4,223
Rent, taxes and electricity		12,982	12,552
Communications		4,896	4,901
Printing and stationery		3,814	3,108
Repair and maintenance		5,053	3,286
Legal and professional expenses		4,589	3,374
Corporate & subscription		4,851	4,108
Depreciation		8,390	9,524
Amortisation		156	128
Donation	20.2	2,000	2,000
Auditors' remuneration	20.3	903	751
Provision against premium due from Co-insurers	15.1	–	1,458
Provision against premiums due but unpaid	14.2	11,403	5,885
Worker's Welfare Fund		2,980	3,922
Other expenses		6,475	4,816
		<u>184,799</u>	<u>164,160</u>

The above expenses represents an amount of Rs. 127.305 million and Rs. 57.494 million (2010 : Rs. 114.238 million and Rs. 49.922 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. 7.885 million (2010: Rs. 6.813 million).

**20.2** An amount of Rs. 2.0 million (2010: Rs. 2.0 million) was donated to the following Trusts in which the Directors' have interest:

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

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		2011 (Rupees in '000)	2010 (Rupees in '000)
<b>20.3 Auditors' remuneration</b>			
Annual audit		360	300
Interim review		150	125
Certifications fees and review of statement of compliance with Code of Corporate Governance		173	175
Out of pocket expenses		220	151
		<u>903</u>	<u>751</u>
<b>21. OTHER INCOME - NET</b>			
<b>Income from financial assets</b>			
Profit on bank accounts		4,163	3,793
Exchange gain		-	5
Mark-up on staff loan	11.1	142	124
		<u>4,305</u>	<u>3,922</u>
<b>Income from non-financial assets</b>			
Net gain on sale of fixed assets	19.4	22,769	1,250
Others		32	112
Liabilities written back		1,850	-
		<u>24,651</u>	<u>1,362</u>
		<u>28,956</u>	<u>5,284</u>
<b>22. TAXATION - NET</b>			
Current		26,601	27,700
Prior		-	4,323
Deferred		(3,853)	(8,317)
		<u>22,748</u>	<u>23,706</u>
<b>22.1 Relationship between tax expense and accounting profit</b>			
Profit before taxation for the year		<u>149,044</u>	<u>192,188</u>
Tax at the applicable rate of 35% (December 31, 2010: 35%)		52,165	67,266
Tax effect of expenses that are not allowable in determining taxable income		11,256	(3,490)
Tax effect of capital gains subject to separate rate of tax		(27,012)	(27,501)
Tax effect of income subject to lower rates		(14,320)	(10,831)
Tax effect of permanent differences		851	-
Others		(192)	(1,738)
		<u>22,748</u>	<u>23,706</u>

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

Further, the tax authorities have also issued orders for the tax year 2008 and 2009 wherein certain disallowances have been made mainly relating to the same matters mentioned above. During the year, the Commissioner Income Tax has decided the matter in favour of the Company in respect of

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tax year 2008 and 2009. The department has filed appeal before the learned Appellate Tribunal Inland Revenue for the tax years 2008 and 2009. Subsequently, with respect to tax year 2009, the Appellate Tribunal Inland Revenue has decided the matter in favour of the company. The Company has filed return of total income for the tax year 2010 and 2011 (financial year ended December 31, 2009 and 2010) which is deemed to have been assessed under the Income Tax Ordinance, 2001 unless selected by the taxation authorities for audit purposes.

## 23. EARNINGS PER SHARE - basic and diluted

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

	2011 (Rupees in '000)	2010 (Rupees in '000)
Profit after tax for the year	<u>126,296</u>	<u>168,482</u>
	(Number of shares) (Restated)	
Weighted average number of shares of Rs. 5/- each	<u>90,090,731</u>	<u>90,090,731</u>
	(Rupees) (Restated)	
Basic earnings per share of Rs. 5/- each	1.40	1.87

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

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

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

	Chief Executive		Directors		Executives / Key Management Personnel		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	(Rupees in '000)							
Fees	<u>-</u>	<u>-</u>	<u>210</u>	<u>210</u>	<u>-</u>	<u>-</u>	<u>210</u>	<u>210</u>
Managerial remuneration	4,800	3,600	-	-	11,336	14,143	16,136	17,743
Bonus	-	-	-	-	2,024	2,555	2,024	2,555
Retirement benefits	257	180	-	-	630	748	887	928
Others	768	733	-	-	600	1,975	1,368	2,708
	<u>5,825</u>	<u>4,513</u>	<u>-</u>	<u>-</u>	<u>14,590</u>	<u>19,421</u>	<u>20,415</u>	<u>23,934</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>6</u>	<u>10</u>	<u>14</u>	<u>18</u>

**24.1** The Chief Executive and Executives of the Company were being provided with Company maintained cars upto December 31, 2011 at which date they had the option to purchase the car as per Company's policy.

In addition to the above, medical expenses are reimbursed at actual as per Company's policy.

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## 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>	2011	2010
	(Rupees in '000)	
<i>Transactions during the year with associated companies</i>		
Premium written	362,299	316,335
Claims paid	98,303	79,437
Dividend received	34,017	10,210
Dividend paid	9,245	11,649
Investment made	625,823	376,500
Investment sold	550,243	477,128
Interest received on bank accounts	4,163	3,793
Bank charges	577	482
Assets purchased	–	1,200
<i>Balances with associated companies</i>		
Premium due but unpaid	90,373	73,074
Claims outstanding	33,922	67,005
Bank balances	48,323	56,336
Profit receivable on bank accounts	6	11
Investment held	521,246	386,393
<i>Bonus from associated companies</i>		
	(Number of shares / units)	
Bonus shares received	1,995,957	1,578,114
Bonus shares issued	799,545	–
Bonus units received	32,707	63,216
<i>Transactions during the year with other related parties including key management personnel</i>		
Premium written	102	2,698
Claims paid	115	2,590
Share registrar fees paid	323	266
Brokerage expenses paid	1,101	1,090
Contribution to the provident fund	2,844	2,579
Proceeds from sale of assets	4,675	8
<i>Balance with other related parties including key management personnel</i>		
Premium due but unpaid	131	–
Claims outstanding	–	2,753
Due (from) / to the provident fund	(12)	27

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, 2011 are disclosed in note 12.3.6 and 14.1 to these financial statements.



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## 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, 2011 and December 31, 2010, allocated capital expenditures and depreciation / amortisation during the year. The above have been assigned to the following segments on the basis of gross premium earned by the segments.

(Rupees in '000)

	Fire and Property		Marine and Transport		Motor		Other Classes		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
<b>Segment Assets</b>										
Segment Assets	268,226	226,907	173,360	148,708	107,784	102,879	118,845	114,609	668,215	593,103
Unallocated corporate assets									1,209,861	1,073,882
Consolidated total assets									<u>1,878,076</u>	<u>1,666,985</u>
<b>Segment Liabilities</b>										
Segment liabilities	344,032	261,091	222,355	171,111	138,245	118,378	152,434	131,875	857,066	682,455
Unallocated corporate liabilities									142,930	132,645
Consolidated total liabilities									<u>999,996</u>	<u>815,100</u>
<b>Capital expenditure</b>										
Capital expenditure	1,584	3,476	1,023	2,278	636	1,576	702	1,756	<u>3,945</u>	<u>9,086</u>
Depreciation/ amortisation	3,431	3,693	2,217	2,420	1,378	1,674	1,520	1,865	<u>8,546</u>	<u>9,652</u>

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## 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.

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## (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>	
	2011	2010	2011	2010
	(Rupees in '000)			
<b>Average claim cost</b>				
Fire and property	3,680	2,406	2,392	1,564
Marine and transport	5,355	3,779	3,481	2,457
Motor	9,379	8,771	6,096	5,701
Other classes	4,704	3,423	3,058	2,225
	<u>23,118</u>	<u>18,379</u>	<u>15,027</u>	<u>11,947</u>

## Concentration of risk

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

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

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

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

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

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

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

	Gross sum insured		Reinsurance		Net	
	2011	2010	2011	2010	2011	2010
	(Rupees in '000)					
Fire and property	16,858	8,276	16,842	8,254	16	22
Marine and transport	491	258	479	246	12	12
Motor	11	19	10	18	1	1
Other classes	4,724	3,520	4,694	3,490	30	30
	<u>22,084</u>	<u>12,073</u>	<u>22,025</u>	<u>12,008</u>	<u>59</u>	<u>65</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

Intimation year	2007 and prior years	2008	2009	2010	2011	Total
	(Rupees in '000)					

Estimate of ultimate claims cost:

At end of intimation year	<u>259,686</u>	<u>151,082</u>	<u>78,056</u>	<u>112,058</u>	<u>450,672</u>	<u>1,051,554</u>
One year later	<u>252,731</u>	<u>137,374</u>	<u>90,349</u>	<u>83,324</u>	<u>-</u>	<u>563,778</u>
Two years later	<u>253,433</u>	<u>99,812</u>	<u>89,155</u>	<u>-</u>	<u>-</u>	<u>442,400</u>
Three years later	<u>253,886</u>	<u>100,956</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>354,842</u>
Four years later	<u>254,106</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,106</u>
Estimate of cumulative claims	254,106	100,956	89,155	83,324	450,672	978,213
Cumulative payment made to date	(253,475)	(97,474)	(80,963)	(71,738)	(264,636)	(768,286)
Liability for outstanding claims	<u>631</u>	<u>3,482</u>	<u>8,192</u>	<u>11,586</u>	<u>186,036</u>	<u>209,927</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, loans to employees, investments (except for investment in government securities and listed equity shares), premium due but unpaid, amount due from other insurers/ reinsurers, reinsurance and other recoveries against outstanding claims and sundry receivable (except receivable against FED). To reduce the credit risk the management continuously reviews and monitors the credit exposure towards the policyholders and other insurers/ reinsurers and makes provision against those balances considered doubtful of recovery.

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

	Note	December 31, 2011		December 31, 2010	
		Balance as per the financial statement	Maximum exposure	Balance as per the financial statement	Maximum exposure
(Rupees in '000)					
Bank balances	10	49,530	49,530	57,590	57,590
Loan to employees	11	31,237	31,237	3,143	3,143
Investments	12	916,434	7,988	925,540	18,662
Premiums due but unpaid	14	204,360	204,360	181,589	181,589
Amounts due from other insurers/ reinsurers	15	123,623	123,623	116,498	116,498
Accrued investment income	16	3,006	3,006	152	152
Reinsurance recoveries against outstanding claims		124,995	124,995	80,598	80,598
Advances and deposits	17	8,839	8,839	10,370	10,370
Sundry receivables	18	180,468	179,060	61,085	59,677
		1,642,492	732,638	1,436,565	528,279

# 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. 47.941 million (2010: 44.266) and listed equity shares of Rs. 853.885 million (2010: 862.613 million) which are not exposed to credit risk. Furthermore, FED receivable of Rs. 1.408 million classified under sundry receivables (2010: 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 12.3.3.1 of the financial statements.

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

## 27.2.1.2 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, 2011		December 31, 2010	
	(Rupees in'000)	%	(Rupees in'000)	%
Automobiles	39,501	16.7	30,388	15.1
Banks, Modaraba and Leasing	35,513	15.1	27,098	13.4
Textile and composite	35,871	15.2	28,703	14.2
Sugar	11,656	4.9	9,979	5.0
Chemicals and allied industries	4,885	2.1	4,632	2.3
Glass, Ceramics and tiles	9,071	3.8	7,341	3.6
Cable, Engineering and steel	4,683	2.0	3,431	1.7
Cement	200	0.1	220	0.1
Food and confectionary	9,400	4.0	4,167	2.1
Fuel and energy	6,519	2.8	3,681	1.8
Insurance	709	0.3	988	0.5
Pharmaceuticals	4,334	1.8	4,311	2.1
Others	73,556	31.2	76,785	38.1
	<u>235,898</u>	<u>100</u>	<u>201,724</u>	<u>100</u>

# Habib Insurance Company Limited

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

	December 31, 2011		December 31, 2010	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	178,009	–	149,645	–
1-2 years	12,491	–	15,672	–
2-3 years	12,544	–	19,131	2,859
Over 3 years	32,854	31,538	17,276	17,276
<b>Total</b>	<b>235,898</b>	<b>31,538</b>	<b>201,724</b>	<b>20,135</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. Further, the Company is required to comply with the requirements of circular no. 32/ 2009 dated October 27, 2009 issued by SECP which requires an insurance company to place at least 80% of their outward treaty cessions with reinsurers rated 'A' or above by Standard & Poors with the balance being placed with entities rated at least 'BBB' by reputable ratings agency. An analysis of all insurer/ reinsurance assets recognised by the rating of the entity from which it is due is as follows:

	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Prepaid reinsurance premium ceded	2011	2010
				(Rupees in '000)	
A or above (including PRCL)	20,160	124,995	162,624	307,779	330,103
BBB	4,334	–	318	4,652	15,944
Others	112	–	–	112	738
	<b>24,606</b>	<b>124,995</b>	<b>162,942</b>	<b>312,543</b>	<b>346,785</b>

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

	2011		2010	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	30,911	–	62,355	–
1-2 years	28,055	–	39,382	–
Over 2 years	74,906	10,249	25,011	10,249
<b>Total</b>	<b>133,872</b>	<b>10,249</b>	<b>126,748</b>	<b>10,249</b>

# Habib Insurance Company Limited

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

	2011		2010	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	96,544	–	64,372	–
1-2 years	19,609	–	13,140	–
Over 2 years	8,842	–	3,086	–
<b>Total</b>	<b>124,995</b>	<b>–</b>	<b>80,598</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 that are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The following are the contractual maturities of financial liabilities:

	2011	2010
	Carrying Amount (Rupees in '000)	
<b>Non-derivative financial liabilities</b>		
Provision for outstanding claims	209,927	134,727
Amount due to other insurers/ reinsurers	130,152	88,272
Accrued expenses	10,861	9,483
Other creditors and accruals	134,828	142,717
Unclaimed dividends	25,911	23,627
	<b>511,679</b>	<b>398,826</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 instruments are:

	2011	2010	2011	2010
	Effective interest rate (in %)		(Rupees in '000)	
Fixed rate instruments				
- Government securities	(11.25 to 11.75)	(11.85 to 12.44)	47,941	44,266
- Commercial paper	–	(16.11)	–	9,191
			<u>47,941</u>	<u>53,457</u>
Variable rate instruments				
- Bank balances	(5 to 11)	(5 to 11)	37,636	46,212
- Term finance certificates	(13.43 to 13.46)	(15.14 to 14.86)	7,988	9,471
			<u>45,624</u>	<u>55,683</u>

### 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 realised in the sale of a particular security may be affected by the relative quantity of the security being sold.

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

For available-for-sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income and equity would have been lower by Rs. 32.297 million (2010: 29.688 million). However, an increase of 10% in equity prices at the reporting date, such increase is restricted to amount of cost of investment of such securities, i.e., Rs. 21.924 million (2010: 20.556 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 the Securities and Exchange Commission of Pakistan.

## 29. NUMBER OF EMPLOYEES

The number of employees at the end of year was 199 (2010: 210).

## 30. SUBSEQUENT EVENT - NON ADJUSTING

In the meeting held on March 29, 2012, the Board of Directors of the Company proposed a final cash dividend of Rs. 1.25 per share (2010: 1.25 per share) amounting to Rs. 112.613 million (2010: 100.101 million) and bonus shares in the ratio of one share for every ten shares held (2010: one share for every eight shares) amounting to Rs. 45.045 million (2010: Rs. 50.050 million) for the year ended December 31, 2011, for approval by the members in the Annual General Meeting to be held on April 28, 2012.

## 31. DATE OF AUTORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors in their meeting held on March 29, 2012.

RAFIQ M. HABIB  
*Chairman*

ABBAS D. HABIB  
*Director*

MANSOOR G. HABIB  
*Director*

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

# Habib Insurance Company Limited

## Pattern of Shareholding as at December 31, 2011

Number of Shareholders	Size of Shareholding Rs. 5/- each	Total Shares Held
307	1	9,839
312	101	91,957
217	501	166,411
517	1,001	1,296,654
169	5,001	1,265,205
64	10,001	783,092
50	15,001	845,744
22	20,001	500,637
20	25,001	560,827
15	30,001	485,232
10	35,001	384,764
17	40,001	701,133
7	45,001	334,443
9	50,001	474,069
10	55,001	570,242
10	60,001	635,977
3	65,001	208,391
8	70,001	581,886
5	75,001	394,403
18	80,001	1,478,989
4	85,001	355,377
4	90,001	373,589
2	95,001	198,625
7	100,001	703,146
5	105,001	539,997
2	110,001	223,284
1	115,001	115,042
4	120,001	484,709
8	125,001	1,026,310
1	135,001	135,688
1	140,001	142,975
3	145,001	440,436
1	150,001	154,856
7	160,001	1,123,574
7	165,001	1,123,574
7	170,001	1,123,574
3	175,001	528,579
3	180,001	551,741
1	195,001	197,811
6	200,001	1,201,200
3	205,001	642,628
2	220,001	445,305
1	225,001	228,775
1	235,001	231,431
1	240,001	243,649
1	245,001	247,093
1	250,001	250,731
1	255,001	265,518
2	260,001	544,106
2	270,001	278,823
2	275,001	577,952
2	295,001	583,749
7	305,001	1,123,574
1	310,001	310,957
1	325,001	918,977
1	340,001	340,632
1	345,001	348,732
3	355,001	1,051,584
1	370,001	371,770
1	380,001	384,246
1	390,001	390,314
5	430,001	2,006,653
1	435,001	409,387
1	450,001	420,661
1	460,001	448,450
1	500,001	504,504
1	535,001	513,000
1	540,001	523,283
1	565,001	528,531
1	575,001	544,185
2	585,001	1,125,131
1	590,001	569,072
1	610,001	640,129
1	630,001	650,449
1	635,001	664,668
1	640,001	688,329
2	720,001	1,407,920
1	730,001	793,266
1	745,001	807,306
1	770,001	840,845
1	790,001	866,949
1	875,001	907,191
1	885,001	1,172,577
1	890,001	1,339,485
1	905,001	1,521,532
1	945,001	1,530,000
1	975,001	1,533,457
1	1,015,001	1,759,280
1	1,315,001	1,884,184
2	1,505,001	3,793,771
1	1,610,001	3,219,240
1	1,685,001	3,467,490
1	1,710,001	3,503,527
1	1,975,001	3,707,732
1	2,115,001	4,022,903
1	2,130,001	4,022,903
1	2,135,001	4,022,903
1	3,620,001	4,022,903
1	3,900,001	4,022,903
1	3,940,001	4,022,903
1	4,170,001	4,022,903
1	4,525,001	4,022,903
2,008	TOTAL	90,090,731

Categories of Shareholders	Numbers	Shares Held	Percentage
1. Individuals	1,839	64,688,848	71.80
2. Insurance companies	6	5,127,433	5.69
3. Joint stock companies	36	9,073,093	10.07
4. Financial institutions	1	1,613,557	1.79
5. Charitable trusts	22	2,780,425	3.09
6. Government institutions	2	1,275	0.00
7. Modaraba companies	1	374,675	0.42
8. Foreign investors	22	6,431,425	7.14
	2,008	90,090,731	100.00

# Habib Insurance Company Limited

## Pattern of Shareholding as at December 31, 2011

### Additional Information

Shareholders' Category	Number of shareholders/ folios	Number of shares held
<b>Associated Companies</b>		
Habib Sugar Mills Limited	1	3,900,926
Thal Limited	1	4,171,198
Karachi Mercantile Co. (Pvt.) Limited	1	248,791
<b>NIT and ICP</b>		
IDBP (ICP Unit)	2	1,275
<b>Directors</b>		
Mr. Rafiq M. Habib	1	121,350
Mr. Abbas D. Habib	2	547,861
Mr. Mazher Ali Jumani	2	7,824
Mr. Mansoor G. Habib	2	24,350
Mr. Mohamedali R. Habib	2	1,413,741
Mr. Sajjad Hussain Habib	1	206,643
Mr. Aun Mohammad A. Habib	1	206,633
<b>Chief Executive Officer</b>		
Mr. Ali Raza D. Habib	1	44,592
<b>Directors' Spouses</b>		
Mrs. Jamila Rafiq w/o Mr. Rafiq M. Habib	2	703,127
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	1	15,184
Mrs. Sayyeda Mohamedali w/o Mr. Mohamedali R. Habib	1	94,592
<b>Banks, Development Financial Institutions, Insurance Companies, Modaraba Companies and Mutual Funds</b>		
	8	7,115,665
<b>Joint Stock Companies and Corporations</b>		
	33	752,178
<b>Individuals/ Others</b>		
	1,902	61,302,951
<b>Charitable Trusts, Societies and Government Institutions</b>		
	22	2,780,425
<b>Foreign Investors</b>		
	22	6,431,425
	2,008	90,090,731

# Habib Insurance Company Limited

## Notice of Annual General Meeting

NOTICE is hereby given that the 69<sup>th</sup> Annual General Meeting of the Shareholders of the Company will be held at The Institute of Chartered Accountants of Pakistan, Kehkashan, Clifton, Karachi, on Saturday, April 28, 2012 at 11:00 a.m. to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended December 31, 2011 together with the Directors' and Auditors' Report thereon.
2. To approve payment of cash dividend @ 25% i.e. Rs. 1.25 per share of Rs. 5/- each for the year ended December 31, 2011 as recommended by the Board of Directors.
3. To approve the issue of bonus shares in the proportion of one share for every ten shares held i.e. 10% for the year ended December 31, 2011 as recommended by the Board of Directors.
4. To appoint Auditors for the year ending December 31, 2012 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for reappointment.
5. To consider any other business of the Company with the permission of the Chair.

### Special Business

6. To consider and pass the following special resolution regarding payment of proceeds of fractional bonus shares to a charitable institution.

"RESOLVED that in the event of any member holding shares which are not an exact multiple of 1:10, the Directors be and are hereby authorised to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realised to a charitable institution.

FURTHER RESOLVED that the Directors be and are hereby authorised and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required."

7. To consider and pass the following special resolution:

"RESOLVED that the approval accorded in the Annual General Meeting held on April 30, 2010 for investment in shares of our associated companies, M/s. Bank AL Habib Limited of Rs. 60 million and balance Rs. 25 million out of Rs. 100 million in M/s. Habib Sugar Mills Limited remaining un-invested be and is hereby revalidated and the said amounts be invested within a period of two years.

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

For item # 6 & 7, statement under section 160 of the Companies Ordinance, 1984 is annexed.

By order of the Board

SHABBIR GULAMALI  
Company Secretary

Karachi: March 29, 2012

# Habib Insurance Company Limited

## Notes:

1. The share transfer books of the Company will remain closed from Saturday, April 14, 2012 to Saturday, April 28, 2012 (both days inclusive).
2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as his/ her proxy to attend and vote on his/ her behalf. Proxy form, in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.
3. The CDC account/ sub account holders are requested to bring with them their Computerised National ID Cards along with the Participant(s) ID number and their account numbers at the time of attending the AGM in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors Resolution/ Power of Attorney with specimen signatures be produced at the time of meeting.
4. Members are requested to promptly communicate any change in their address to our Share Registrar, M/s. Noble Computer Services (Pvt.) Limited situated at First Floor, House of Habib Building, Siddiqsons Tower, 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350.

# Habib Insurance Company Limited

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

The statement is annexed to the Notice of the 69<sup>th</sup> Annual General Meeting to be held on April 28, 2012 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 6 OF THE AGENDA

The Board of Directors of Habib Insurance Company Limited in their meeting held on March 29, 2012 have proposed to issue bonus shares in the proportion of one share for every ten shares held and to pay the proceeds of fractional bonus shares to a charitable institution and in this regard to pass the following special resolution:

“RESOLVED that in the event of any member holding shares which are not an exact multiple of 1:10, the Directors be and are hereby authorised to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realised to a charitable institution.

FURTHER RESOLVED that the Directors be and are hereby authorised and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required.”

The Directors are interested in this business to the extent of their shareholding.

### ITEM NUMBER 7 OF THE AGENDA

The Shareholders previously at the Annual General Meeting held on April 30, 2010 had approved investment in shares of our associated companies, M/s. Bank AL Habib Limited (BAHL) and M/s. Habib Sugar Mills Limited (HSML) of Rs. 60 million and Rs. 100 million respectively and the Managing Director & Chief Executive was authorised to make the investment from time to time as deemed appropriate. Out of the above, Rs. 60 million of BAHL and Rs. 25 million of HSML still remains un-invested. Regulation No. 8 of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012 require revalidation for the remaining un-invested amounts.

#### Bank AL Habib Limited

#### Regulation No. 3(1)a

Sr. No.	Description	Information Required
1	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established	Bank AL Habib Limited being associated on the basis of common directorship. 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
2	Purpose, benefits and period of investment	Long term investment to earn dividend income as well as prospective capital gains
3	Maximum amount of investment	Rs. 60 million
4	Maximum price at which securities will be acquired	Not more than the price quoted on the stock exchange
5	Maximum number of securities to be acquired	Equivalent to the amount of investment

# Habib Insurance Company Limited

Sr. No.	Description	Information Required
6	Number of securities and percentage thereof held before and after the proposed investment	1,803,465 shares (0.2%) held before proposed investment. Number of shares and percentage after proposed investment will depend on the prevailing prices at the time of actual acquisition of shares which could vary with the market price at which shares are purchased in future
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired	Rs. 30.82 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1)	Not Applicable
9	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements	December 31, 2011: Rs. 22.60
10	Earning per share of the associated company or associated undertaking for the last three years	2011: Rs. 5.16 per share 2010: Rs. 4.10 per share 2009: Rs. 3.25 per share
11	Sources of fund from which securities will be acquired	Own source
12	Where the securities are intended to be acquired using borrowed funds:  i) Justification for investment through borrowings; and ii) Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	No Director or Chief Executive has any interest in the proposed investment, except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the Company
15	Any other important details necessary for the members to understand the transaction	None
16	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely:  i) Description of the project and its history since conceptualization; ii) Starting and expected dates of completion of work; iii) Time by which such project shall become commercially operational; and iv) Expected time by which the project shall start paying return on investment	Not Applicable

## Regulation No. 3(3)

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



# Habib Insurance Company Limited

## Regulation No. 4

Sr. No.	Description	Information Required
1	Other information to be disclosed to the members:- If the associated company or associated undertaking in which the investment is being made or any of its sponsors or directors is also a member of the investing company, the information about interest of the associated company or associated undertaking and its sponsors and directors in the investing company shall be disclosed in the notice of general meeting called for seeking members' approval pursuant to section 208 of the Ordinance	Bank AL Habib Limited is not holding any shares of the investing company. No Director or Chief Executive has any interest in the investing company except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the investing company. The shareholding of Directors and Chief Executive is disclosed in the pattern of shareholding
2	In case any decision to make investment under the authority of a resolution passed pursuant to provisions of section 208 of the Ordinance is not implemented either fully or partially till the holding of subsequent general meeting(s), the status of the decision must be explained to the members through a statement having the following details namely:-	
a)	total investment approved;	Rs. 60 million approved by the shareholders at Annual General Meeting held on April 30, 2010
b)	amount of investment made to date;	Nil
c)	reasons for not having made complete investment so far where resolution required it to be implemented in specified time;	No specific time was mentioned in the previous special resolution therefore a fresh special resolution is being proposed to the shareholders for the total amount of investment of Rs. 60 million
d)	material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company	Since the date of passing the resolution by the shareholders of the Company on April 30, 2010 the shareholders equity of the investee company has increased to Rs. 17,837 million from Rs. 12,287 million due to issue of Bonus Shares of Rs. 2,685 million and increase in reserves of Rs. 2,865 million

# Habib Insurance Company Limited

## Habib Sugar Mills Limited Regulation No. 3(1)a

Sr. No.	Description	Information Required
1	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established	Habib Sugar Mills Limited being associated on the basis of common directorship. Mr. Ali Raza D. Habib, Chief Executive of the Company is also Director of Habib Sugar Mills Ltd.
2	Purpose, benefits and period of investment	Long term investment to earn dividend income as well as prospective capital gains
3	Maximum amount of investment	Rs. 25 million
4	Maximum price at which securities will be acquired	Not more than the price quoted on the stock exchange
5	Maximum number of securities to be acquired	Equivalent to the amount of investment
6	Number of securities and percentage thereof held before and after the proposed investment.	5,282,258 shares (3.5%) held before proposed investment. Number of shares and percentage after proposed investment will depend on the prevailing prices at the time of actual acquisition of shares which could vary with the market price at which shares are purchased in future
7	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired	Rs. 19.65 per share
8	In case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1)	Not Applicable
9	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements	September 30, 2011: Rs. 23.45
10	Earning per share of the associated company or associated undertaking for the last three years	2011: Rs. 5.03 per share 2010: Rs. 3.56 per share 2009: Rs. 3.27 per share
11	Sources of fund from which securities will be acquired	Own source
12	Where the securities are intended to be acquired using borrowed funds:  i) Justification for investment through borrowings; and ii) Detail of guarantees and assets pledged for obtaining such funds	Not Applicable
13	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment	Not Applicable
14	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration	No Director or Chief Executive has any interest in the proposed investment, except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the Company
15	Any other important details necessary for the members to understand the transaction	None
16	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely:  i) Description of the project and its history since conceptualization; ii) Starting and expected dates of completion of work; iii) Time by which such project shall become commercially operational; and iv) Expected time by which the project shall start paying return on investment	Not Applicable

# Habib Insurance Company Limited

## Regulation No. 3(3)

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

## Regulation No. 4

Sr. No.	Description	Information Required
1	Other information to be disclosed to the members:- If the associated company or associated undertaking in which the investment is being made or any of its sponsors or directors is also a member of the investing company, the information about interest of the associated company or associated undertaking and its sponsors and directors in the investing company shall be disclosed in the notice of general meeting called for seeking members' approval pursuant to section 208 of the Ordinance	Habib Sugar Mills Limited is holding 3,900,926 shares of the investing company. No Director or Chief Executive has any interest in the investing company except in their individual capacities as Directors/ Chief Executive and/ or as shareholders of the investing company. The shareholding of Directors and Chief Executive is disclosed in the pattern of shareholding
2	In case any decision to make investment under the authority of a resolution passed pursuant to provisions of section 208 of the Ordinance is not implemented either fully or partially till the holding of subsequent general meeting(s), the status of the decision must be explained to the members through a statement having the following details namely:-	
a)	total investment approved;	Rs. 100 million approved by the shareholders at Annual General Meeting held on April 30, 2010
b)	amount of investment made to date;	Rs. 75 million
c)	reasons for not having made complete investment so far where resolution required it to be implemented in specified time;	No specific time was mentioned in the previous special resolution therefore a fresh special resolution is being proposed to the shareholders for the remaining amount of Rs. 25 million
d)	material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company	Since the date of passing the resolution by the shareholders of the Company on April 30, 2010 the shareholders equity of the investee company has increased to Rs. 3,518 million from Rs. 2,454 million due to issue of Bonus Shares of Rs. 270 million and increase in reserves of Rs. 701 million and unrealised gain on long term investments - available for sale of Rs. 93 million

# Habib Insurance Company Limited

## PROXY FORM

I/ We .....

of .....

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

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

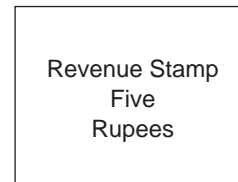
and/ or CDC Account and Participant's I.D. Numbers .....

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

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

another member of Habib Insurance Company Limited as my proxy to vote for me/ us and on my/ our behalf at the Sixty Ninth Annual General Meeting of the Company to be held on April 28, 2012 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 form shall be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.