



COMPANY INFORMATION

BOARD OF DIRECTORS

Air Vice Marshal (R) Syed Imtiaz Haider

Air Commodore (R) Tayyab N. Akhtar

Shaan Taseer

M. Naveed Tariq

Miles Louis Japhet

Robert Collings Hallier

Hamid Gulzar

CHIEF EXECUTIVE OFFICER

Shehryar Akber

CHIEF FINANCIAL OFFICER

Asif Suleman

COMPANY SECRETARY

Asif Suleman

AUDITORS

Taseer Hadi Khalid & Company

Chartered Accountants

LEGAL ADVISOR

Shaukat Law Associates

REGISTERED OFFICE

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

HEAD OFFICE

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

SHARE REGISTRAR

M/s Corplink (Pvt) Ltd

Wings Arcade, 1-K, Commercial, Model Town, Lahore.



PROXY FORM

I / We _____ of _____
 being a
 Member(s) of Shaheen Insurance Company Limited, and holder of _____
 ordinary shares as per Registered Folio No. _____ and / or CDC
 Participant I.D.No. _____ and Sub Account No. _____ do
 hereby appoint _____ of _____ or
 failing him / her _____ of _____
 who is also a member of the Company vide Registered Folio No. _____ to
 attend and vote for me / us and on my / our behalf at the 10th Annual General Meeting of the Company to be held at 10th
 Floor, Shaheen Complex M.R. Kayani Road, Karachi on April 30, 2005 at 3:00 P.M. and at any adjournment thereof.

Signed by : _____

Witness : _____

Date : _____

<p>Affix Revenue Stamp</p>

Note:

1. A member entitled to attend and vote at the meeting may appoint in writing another member as his / her proxy to attend and vote instead of him / her at the meeting. If the member is a corporation, its common seal should be affixed on the instrument.
2. This form of proxy in order to be effective, must be deposited duly completed, at 10th Floor Shaheen Complex M.R. Kayani Road, Karachi not less than 48 hours before the time of holding of the meeting.
3. CDC shareholders and their Proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.
4. A proxy must be a member of the Company. Signature should agree with the specimen registered with the Company.





OFFICES

Head Office

10th Floor, Shaheen Complex
M.R. Kayani Road, Karachi E- 74200
Tel. # 2630370-73, 2213950-51, Fax # 2626674
E - mail : sihifc@cyber.net.pk

Lahore

Branch Manager - Mr. Naveed Butt
14 Askari Villas, Main Shami Road Lahore Cantt.
Tel. # (042)6667008, 6675243, 6681107, 6689541, Fax. # (042) 6669819
E - mail : lh_zone@shaheeninsurance.com

Karachi

Progressive Plaza Branch

Branch Manager - Mr. Sohail Najam Kidwai

605, Progressive Plaza, 7th Floor,
Beaumont Road, Near P.I.D.C
Tel. # (021) 5653041-2, (021) 5658251-2
Fax. # (021) 5653043
E - mail : ppb@shaheeninsurance.com

Madina City Mall Branch

Branch Manager - Mr. Athar Jalil Jafree
Office # 317, 3rd floor, Madina City Mall,
Abdullah Haroon Road, Karachi
Tel # (021)5651120-21, Fax # (021)5651122
E - mail : mcm@shaheeninsurance.com

Hyderabad

Branch Manager - Syed Shaukat Ali

Upper 2nd Floor
H # 75, Soldier Bazar
Tel. # (0221) 720487, Fax. # (0021) 720489
E - mail : hyd@shaheeninsurance.com

Islamabad

Branch Manager - Mr. Khalid Sarwar

H. # 46, Khaybane-e-Suhurwardy, G-6/4, Islamabad
Tel. # (051) 2829590, 2873204, 2829552, Fax. # (051) 2829515
E - mail : Isb@shaheeninsurance.com



Faisalabad

Branch Manager - Mr. Kashif Ghamza

2nd Floor, Sitara Towers, Bila Chowk
Civil Lines, Faisalabad
Tel. # (041)614112-621370, 630645,
630644, Fax. # (041) 631514
E - mail : fsd@shaheeninsurance.com

Peshawar

Branch Manager - Mr. Muhammad Shoaib Khan
6th Floor, State Life Building
34 - The Mall Peshawar Cantt.
Tel. # (091) 273122, Fax. # (091) 273106
E - mail : psw@shaheeninsurance.com

Sialkot

Branch Manager - Mr. Mujahid Ali Khan

Opposite Grays of Cambridge
Shahab Pura, Sialkot
Tel. # (0432) 550131,(0432) 252322
Fax. # (0432) 257412
E - mail : sil@shaheeninsurance.com

Multan

Contact person - Mr. Arshad Mehmood Khan
Khawaja Centre, 1st Floor,
Muhammad Arcade L.M.Q Road, Multan.
Tel # (061) 750001-5, Fax # (061) 750004
E - mail : mul@shaheeninsurance.com



PATTERN OF HOLDING OF SHARES
HELD BY THE SHARE HOLDERS AS AT 31st Dec.2004

No of Shareholders Shareholding....		Total Shares Held
	From	To	
91	101	500	45487
18	501	1000	17666
19	1001	5000	54500
5	5001	10000	44000
2	10001	15000	26500
1	45001	50000	49500
1	120001	125000	122500
1	185001	190000	187973
1	225001	230000	226000
1	735001	470000	738119
1	785001	790000	785500
1	995001	1000000	1000000
1	1270001	1275000	1274000
1	1625001	1630000	1628255
1	1795001	1800000	1800000
145			8000000

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

As on 31st December,2004

Name	Holding	% AGE
Associated Companies	2,628,255	32.8532%
Directors,CEO their Spouse & Minor Childern	3,500	0.0438%
Public Sector Companies & Corporation	1,840,473	23.0059%
Bank, Devolpment Finance Institution,Non Banking Finance Institutions	-	-
Insurance Companies	2,538,119	31.7265%
Modaraba & Mutual Funds	785,500	9.8188%
Share Held by the General Public	204,153	2.5519%
Share Holders Holding 10% or more of total Capital	6,451,874	80.6484%



34. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated companies, directors, key management personnel and provident fund. The company has a policy whereby all transactions with related parties are based on commercial terms. Transactions with related parties during the year are as follows:

	2004	2003
	(Rupees)	
Balances outstanding as at the year end		
Premium due but unpaid	<u>19,149,524</u>	9,151,819
Claims outstanding	<u>423,121</u>	689,911
Payment for purchase of computer software	<u>189,667</u>	-
Receivable from the provident fund	<u>421,823</u>	25,353
Due to the provident fund	<u>834,745</u>	424,857
Prepaid rent	<u>1,206,000</u>	360,000
Investment in securities	<u>2,372,284</u>	1,993,075
Balance due for securities purchased under resale arrangement (due from the related brokers)	<u>25,200,000</u>	24,998,108
Other receivable	<u>2,383,363</u>	5,800,000
Profit / Expense for the year		
Insurance premium underwritten	<u>28,902,861</u>	22,957,176
Insurance claims paid	<u>2,189,340</u>	1,841,290
Dividend paid	<u>11,270,772</u>	9,448,534
Contribution to the provident fund	<u>1,560,971</u>	1,261,931
Rental income	<u>1,500,000</u>	1,500,000
Rental expense	<u>1,614,113</u>	1,178,000
Brokerage and commission expenses	<u>3,681,862</u>	701,950
Gain on trading securities	<u>2,092,192</u>	531,170
Income from reverse repo transactions in listed equity securities	<u>3,091,236</u>	2,715,917
Advertisement expenses	<u>885,877</u>	375,000

35. DATE OF ISSUE

These financial statement were authorised for issue in the Board of Directors meeting held on 07 April 2005.

26. COMPARATIVES

Following significant prior year's figures have been reclassified and rearranged for comparison purposes.

From	To	Nature	Rupees
Other creditors and accruals	Accrued Expenses	Bonus	4,500,000
Premium due but unpaid	Agent Balances	Agent Commission	14,726,746
Loans to employees - others	Advances, deposits and prepayments	Staff Loans	2,824,272
Investments	Balance receivable for securities purchased under resale arrangements	Reverse repo deals	24,998,100
Other receivables	Advances, deposits and prepayments	Advances and Deposits	5,202,814

37. NUMBER OF EMPLOYEES

Total number of employees as at 31 December 2004 was 131 (2003: 110).

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



MISSION STATEMENT

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

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



STATEMENT OF ETHICS AND BUSINESS PRACTICES

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

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

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

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



29. FOREIGN CURRENCY RISK

The company is not materially exposed to risk from foreign currency exchange rate fluctuation.

30. MARKET RISK

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market.

The company is exposed to market risk with respect to its investments.

The company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in equity and term finance certificates (TFCs) markets. In addition, the company actively monitors the key factors that affect stock and TFCs market movements.

31. CREDIT RISK AND CONCENTRATION OF CREDIT RISK

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

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 a similar manner.

The company is exposed to credit risk on premiums receivable from customers and coinsurers; and for commission and claim recoverable from reinsurers. The management monitors exposure to credit risk through regular review of credit exposure and prudent estimates of provisions for doubtful receivables.

32. REINSURANCE RISK

Reinsurance ceded do not relieve the company from its obligation to policy holders and as a result the company remain liable for the portion of outstanding claims reinsured to the extent that reinsurer fails to meet the obligation under the reinsurance agreements. In common with other insurance companies, in order to minimise the financial exposure arising from large claims, the company, in the normal course of business, enters into agreement with other reinsurers. To minimise its exposure to significant losses from reinsurer insolvencies, the company obtains reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transactions. Consequently, difference may arise between the carrying values and the fair values estimates.

The fair value of all the financial instruments are estimated to be not significantly different from their carrying values except for quoted investments. The carrying value and fair value of quoted investment is Rs. 110.907 million (2003: Rs. 76.709 million) and Rs. 116.105 million (2003: Rs. 82.397 million) respectively.



28. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

28.1 Liquidity risk

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

28.2 Interest rate risk

The company invests in securities, maintains profit bearing bank accounts (including term deposit accounts) and has a liability that is subject to interest rate risk. Interest rate risk to the company is the risk of changes in market interest rates reducing the overall return on its interest bearing assets. The company limits interest rate risk by monitoring the changes in interest rates. The company's interest sensitivity and liquidity positions based on the contractual and maturity dates, whichever is earlier is as follows:

	2004										
	Effective rate %	Interest / mark-up bearing financial instruments				Financial assets and Liabilities					
		Maturity upto one year	Maturity over five years	Maturity more than five years	Sub Total	Non-interest bearing assets / Liabilities	Maturity one year	Maturity five years	Maturity one year to than five years	Sub Total	Total
Financial assets											
Cash and bank deposits	1 - 3.25	68,702,936	-	68,702,936	66,599,629	-	-	-	66,599,629	135,302,565	
Investments	6.09 - 16.73	76,427,019	814,200	35,224,974	112,466,193	-	-	-	-	112,466,193	
Balance receivable for securities purchased under resale arrangements	6 - 18	25,200,000	-	25,200,000	-	-	-	-	-	25,200,000	
Amount due from other insurers / reinsurers		-	-	-	-	16,784,339	-	-	16,784,339	16,784,339	
Reinsurance recoveries against outstanding claims		-	-	-	-	27,871,033	-	-	27,871,033	27,871,033	
Accrued investment income	1 - 14.50	1,377,653	-	1,377,653	-	-	-	-	-	1,377,653	
Advance, deposits and prepayments		-	-	-	4,677,724	-	-	-	4,677,724	4,677,724	
Other receivable		-	-	-	2,805,186	-	-	-	2,805,186	2,805,186	
		171,707,608	814,200	35,224,974	207,746,782	74,082,539	44,655,372	-	118,737,911	326,484,695	
Financial assets											
Amounts due to other insurers / reinsurers		-	-	-	-	18,742,195	-	-	14,742,195	18,742,195	
Liability against asset subject to finance lease		-	-	-	-	-	-	-	-	-	
Accrued expenses	8.4	236,305	604,702	-	841,007	-	-	-	5,834,745	841,007	
Agent balances		-	-	-	-	5,834,745	-	-	5,834,745	5,834,745	
Deposits and other receivable		-	-	-	-	21,506,790	-	-	21,506,790	21,506,790	
Dividend payable		-	-	-	-	8,532,374	-	-	8,532,374	8,532,374	
Inter risk sensitivity gap		236,305	604,702	-	841,007	55,015,038	-	-	398,934	398,934	
		171,471,303	209,498	35,224,974	171,471,303	74,082,539	44,655,372	-	55,015,038	55,856,045	
Cumulative interest risk sensitivity gap											
		171,471,303	209,498	35,224,974	171,471,303	74,082,539	44,655,372	-	55,015,038	55,856,045	



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that 10th Annual General Meeting of Shaheen Insurance Company Limited will be held on Saturday, April 30, 2005 at the Registered Office of the Company at 10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi at 3.00 p.m. to transact the following;

Ordinary Business

1. To confirm the minutes of the 9th Annual General Meeting of the members.
2. To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2004 together with the Directors' and Auditors report thereon.
3. To appoint auditors for the year ended December 31, 2005 and to fix their remuneration.
4. To transact any other business with the permission of the Chair.

By the Order of Board

Asif Suleman
Company Secretary
Karachi, April 08, 2005

Notes;

1. The share transfer Books of the Company will remain close from April 23, 2005 to April 30, 2005 (both days inclusive). Shareholders are requested to intimate any change in their addresses immediately.
2. CDC share holders are requested to bring their original National Identity Cards, Account, Sub-Account number and participant number in Central Depository System for identification purpose for attending the meeting. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.
3. A member entitle to attend and vote at the Meeting may appoint another person on his/her behalf as his/her proxy to attend, speak and vote, and a proxy so appointed shall have such right with respect to attending, speaking and voting at the Meeting as are available to the Members. Proxy forms must be deposited at the Company's Registered Office not less then 48 hours before the time for holding the Meeting.
4. Shareholders are requested to intimate any change in their addresses immediately.



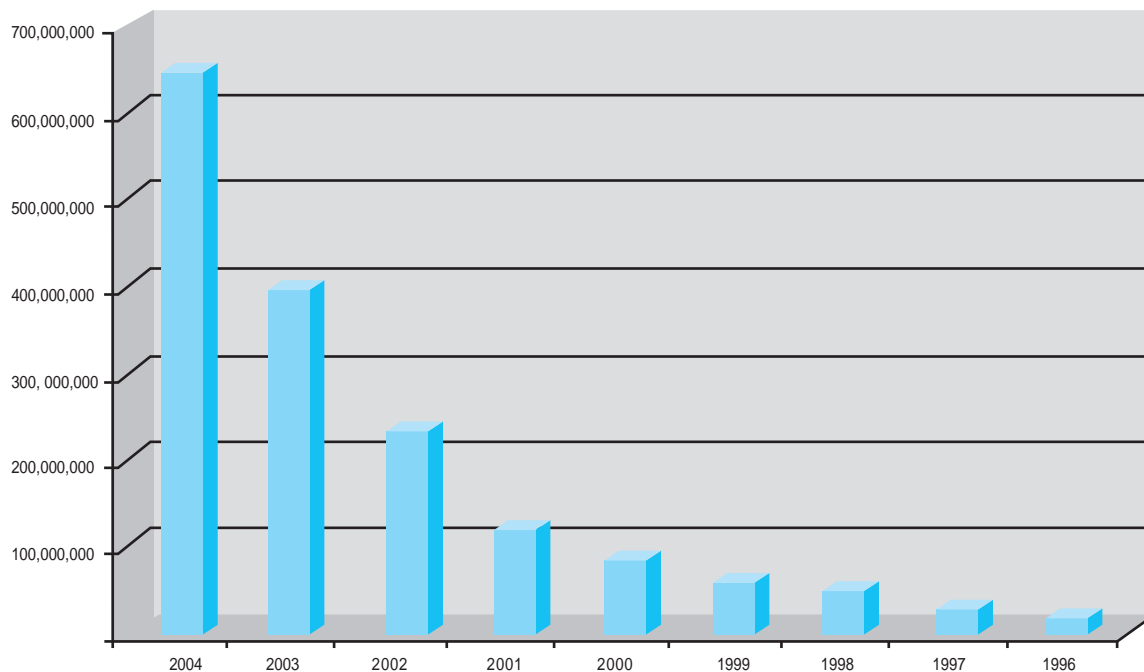
DIRECTORS REPORT

The Directors of your Company take pleasure in presenting to you the 10th Annual Report along with the audited financial statements for the year ended December 31, 2004.

COMPANY'S PERFORMANCE

The Gross Written Premiums of your Company has shown an enormous growth of 62% from Rs. 395 million in 2003 to Rs.641 million in 2004 whilst the net premium revenue increased by 84% from Rs. 205 million to Rs. 377 million.

Gross Premium Written



The bottomline of the year 2004 is not reflective of the sustained all round efforts over the last few years to maintain profitable growth. Pre tax profits have decreased to Rs. 17.32 million as compared to Rs. 31.779 million of the preceding year. This decrease in profitability is mainly attributable to the recovery campaign of the old outstanding premiums and the strategy of aggressive provisioning against the doubtful receivables. During the year under review Company either recovered or written-off all of its premium receivables from direct business against policies of 2003 and prior years. Further, a provision of Rs. 4.01 million is created in the current year against outstanding balances of other insurers / re-insurers.



27. SEGMENT REPORTING

The following table presents revenue and profit information regarding segments for the year ended 31 December 2004 and 31 December 2003 and estimated information regarding certain assets and liabilities of these segments as at 31 December 2004 and 31 December 2003.

(Rupees)

	FIRE AND PROPERTY DAMAGE		MARINE & AVIATION		MOTOR		OTHER		TREATY		TOTAL	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Net Premiums earned	20,139,430	17,411,000	9,511,725	8,621,000	332,275,789	164,890,000	13,994,633	14,314,541	843,388	-	376,764,965	205,236,541
Segment result	15,145,922	9,414,000	10,429,495	6,578,000	(6,877,622)	29,033,000	(259,293)	(2,869,413)	995,961	-	19,434,423	42,155,587
Investment income												
Other income												
General and administration expenses												
Profit before tax												
Provision for taxation												
Net profit												
OTHER INFORMATION :												
Segments assets	41,463,650	30,403,492	17,316,652	17,432,261	440,330,572	290,066,339	22,194,790	22,244,275	753,430	-	522,059,094	360,146,367
Unallocated corporate assets												
Consolidated assets												
Segment liabilities	36,087,490	25,615,201	23,314,296	41,948,660	372,766,627	206,850,876	16,620,654	13,541,960	61,349	-	448,850,416	287,956,697
unallocated corporate liabilities												
Consolidated total liabilities												
Capital expenditure	2,199,862	1,894,768	1,038,981	938,188	33,446,698	17,944,309	1,528,656	1,557,734	92,125	-	38,306,322	22,334,999
Depreciation	478,524	480,204	226,004	237,772	7,895,058	4,547,749	332,520	394,787	20,039	-	8,952,146	5,660,512

(Restated)

26,851,575	13,728,365
10,728,277	1,128,727
(39,688,720)	(25,233,083)
(2,108,868)	(10,375,991)
17,325,555	31,779,596

(5,455,785)

(11,135,163)

11,869,770

20,644,433



23.2 At 31 December 2004, deductible temporary differences amounted to Rs. 0.496 million (2003: Rs. 0.295 million). Deferred tax assets against these difference have not been recognised in view of the uncertainties concerning its allowability by the tax authorities.

24. EARNINGS PER SHARE - basic and diluted

		2004	2003
Profit for the year	<i>Rupees</i>	<u>11,869,770</u>	<u>20,644,433</u>
Weighted average of number of shares of Rs. 10 each	<i>Number</i>	<u>8,000,000</u>	<u>8,000,000</u>
Earning per share of Rs. 10 each	<i>Rupees</i>	<u>1.48</u>	<u>2.58</u>

25. REMUNERATION TO THE EXECUTIVES

		<u>Chief Executive Officer</u>	
		2004	2003
Managerial remuneration		<u>1,112,000</u>	1,032,000
Contribution to the provident fund		<u>70,572</u>	68,856
Bonus		<u>600,000</u>	1,500,000
	<i>Rupees</i>	<u>1,782,572</u>	<u>2,600,856</u>
Number of persons		<u>*2</u>	<u>1</u>

* Remuneration for the year includes payment to / on behalf of two chief executive officers who had worked at different times during the year.

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

26. NET PREMIUM

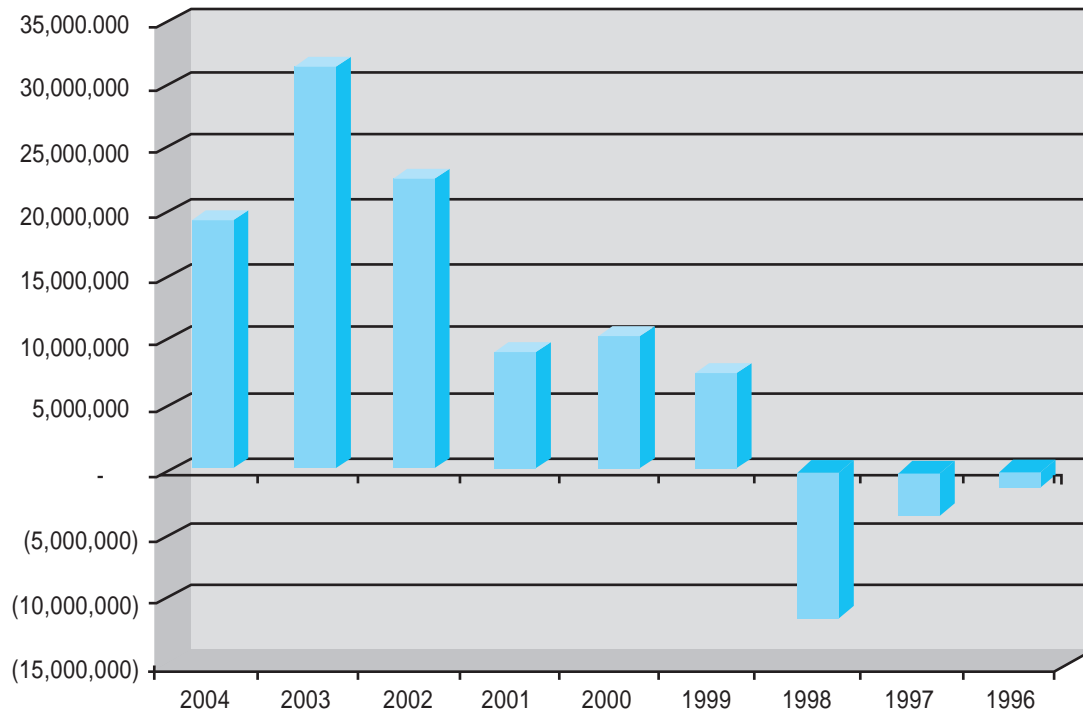
Premium written and net premium revenue include administrative surcharge, class-wise detail of which is given below:

Direct and facultative

Fire and property damage		<u>1,167,607</u>	670,196
Marine, aviation and transport		<u>634,029</u>	539,476
Motor		<u>21,925,448</u>	10,146,342
Others		<u>239,853</u>	192,407
	<i>Rupees</i>	<u>23,966,937</u>	<u>11,548,421</u>



Profits Before Tax 1996 to 2004



UNDERWRITING RESULTS

Underwriting profitability shows a decline of 25.36 % as compared to last year. A bad debt expense of Rs. 12.577 million was charged to the underwriting results of the year to reflect the correct state of affairs. The decline is also due to claim ratio of Motor portfolio which increased during the year by 21% during the year. Management of your Company was able to cut the losses of miscellaneous class by 90 % from the last year. Company prepared a working of Premium Deficiency Reserve as required under Accounting Regulation No. 12 for non-life insurance companies issued by the Securities and Exchange Commission of Pakistan and although on individual class basis there was no Premium Deficiency Reserve required your Company created a reserve of Rs.1.0 million in the classes showing loss during the year.

FIRE

During the year under review your Company was able to get few large accounts on its credit. The gross premium from underwriting of fire business stands at Rs. 54.275 million. This shows an increase of 31.84% from last year's underwritten premium of Rs. 41.167 million. This increase is also evident in the underwriting profitability of this class of business which stands at Rs. 15.146 million showing an increase of 60.08 % as compared to last year's profits of Rs. 9.414 million. This substantial growth was also made possible by reducing net claims' to net premium revenue from 27.35% in year 2003 to 18.29% in current year.



SHAHEEN INSURANCE COMPANY LIMITED

ANNUAL REPORT 2004

SHAHEEN INSURANCE COMPANY LIMITED



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ANNUAL REPORT 2004

SHAHEEN INSURANCE COMPANY LIMITED



12.6 At 31 December 2004, the fair value of available-for-sale securities was Rs. 82.339 million (2003: Rs. 36.494 million). As mentioned in note 2.8 to these financial statements, available for sale investments are stated at lower of cost or market value. However, International Accounting Standard 39 dealing with the recognition and measurement of financial instruments requires that these instruments should be measured at fair value. Accordingly, had these investments been measured at fair value, their carrying value as at 31 December 2004 would have been higher by Rs. 6.531 million (2003: Rs. 4.120 million), while the company's equity would have been higher by Rs. 4.245 million (2003: Rs. 2.678 million) (net of tax).

12.7 Fair value of available for sale instruments have been determined on the basis of values quoted on the stock exchanges / applicable redemption price of relevant mutual funds.

13. INVESTMENT PROPERTIES - at cost less accumulated depreciation

	Note	Cost			Depreciation			Written down value as at 31 December 2004	Depreciation rate %
		At 1 January 2004	Additions/(deletions)/Transfers*	At 31 December 2004	At 1 January 2004	For the year	At 31 December 2004		
Freehold lands	13.1	13,400,000	14,755,000 (18,600,000)	9,555,000	-	-	-	9,555,000	-
Shop premises		7,900,000	-	7,900,000	1,580,000	395,000	1,975,000	5,925,000	5
Office premises		-	2,848,320	2,848,320	854,496	142,416	996,912	1,851,408	5
2004	<i>Rupees</i>	21,300,000	14,755,000 (18,600,000) 2,848,320	20,303,320	2,434,496	537,416	2,971,912	17,331,408	
2003	<i>Rupees</i>	7,900,000	13,400,000	21,300,000	1,185,000	395,000	1,580,000	19,720,000	

13.1 Title to leasehold lands of Rs. 9.555 million is held in the name of former chief executive of the company. These properties are situated at Defence Housing Authority, Islamabad and its rules does not allow membership to corporate entities. The management is arranging to dispose off these properties.

13.2 Particular of disposal of immovable properties

	Cost	Written down value	Sale proceeds	Gain	Mode of Disposal	Sold to
Freehold land - Defence Housing Authority, Karachi	13,400,000	13,400,000	17,200,000	3,800,000	Negotiation	Mr. Zakaria Ilyas
Freehold land - Defence Housing Authority, Karachi	5,200,000	5,200,000	6,350,000	1,150,000	Negotiation	Syed Hassan
	<u>18,600,000</u>	<u>18,600,000</u>	<u>23,550,000</u>	<u>4,950,000</u>		

13.2 At 31 December 2004, premises and leasehold lands were valued under the market value basis by F.J. Enterprises (surveyors and engineering consultants), Baddar and company and Mustafa Haider and company, professional valuers. Market value of lands and premises based on the valuations as of the above date amounted to Rs. 11.50 million and Rs. 30.067 million, respectively (2003: Rs. Nil and Rs.11.6 million, respectively).

14. BALANCE RECEIVABLE FOR SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS

This represents financing under reverse repurchase (reverse-repo) transactions (securities purchased under resale arrangements) and carry mark-up at 13.2% per annum (2003: 12% per annum). Above arrangements have been executed through a related party M/s. First Capital Equities Limited (as brokers). Subsequent to the yearend, the deals had matured.



EARNING PER SHARE

Basic and Diluted Earning per Share of the Company for the year ended December 31, 2004 is worked out to be Rs. 1.48.

INVESTMENT PROPERTY

The Auditors at the end of their report have drawn attention to the investment property costing Rs. 9.555 Million which is in the name of Ex-CEO of the Company. The said properties were purchased in Defence Housing Islamabad (DHI) with an aim of disposing off at good prices. As per rules of DHI membership to corporate entities is not allowed therefore these properties were purchased in the name of the CEO. The management is intending to sale out these properties during the current year.

Also they have highlighted vehicles with carrying value of Rs. 3.5 million which are not transferred in the name of the Company. All of these vehicles are theft recovered and transferring these recovered assets involves legal proceedings which are underway.

CONTRIBUTORY PROVIDENT FUND

The investments of Employees' Provident Fund as at December 31, 2004 are Rs. 1.082 million. These investments are in Term Finance Certificates and return ranges from 8.45% to 9.5% p.a. which is distributed semi annually.

STATUTORY PAYMENTS ON ACCOUNT OF TAXES, DUTIES ETC.

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

AUDIT COMMITTEE

The Audit committee of the Company comprises the following members,:

1. Air Vice Marshall R. Syed Imtiaz Hyder (Chairman)
2. Mr. Hamid Gulzar (Member)
3. Mr. Naveed Tariq (Member)

KEY OPERATIONAL AND FINANCIAL DATA

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



	2004	2003	2002	2001	2000	1999	1998
Reserve and earning	112.966	102.451	92.45	86.04	60.72	51.35	43.99
Investment Income	26.852	12.62	6.83	5.34	7.57	4.98	4.86
Gross Premium written	641.164	395.30	231.50	117.25	82.56	57.00	46.24
Net Premium Revenue	376.765	276.65	128.40	75.62	54.12	33.93	24.91
Net Claims	273.807	126.82	59.89	36.84	21.68	10.03	9.98
Profit after Tax	11.870	20.65	16.409	5.324	9.366	7.358	(11.453)
Dividend declared -cash		15%	12.5%	-	-	-	-

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

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

- 1) The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- 2) The Company has maintained proper books of accounts as required under the Companies.
- 3) The Company has followed consistently appropriate accounting policies in preparation of the financial statements except for changes in policy of dividend payments as explained in note 2.25 of the financial statements to comply with the International Accounting Standard – 10 due to revision in the 4th Schedule of the Companies Ordinance, 1984. Changes wherever made, have been adequately disclosed and accounting estimates are on the basis of prudent and reasonable judgment.
- 4) Financial Statements have been prepared by the Company in accordance with the International Accounting Standards as applicable in Pakistan. It is stated here that although IAS 39 requires all companies to record marketable securities classified as available for sale subsequent to initial recognition at the market value your Company has not done so in view of the exemption since obtained by the insurance companies from SECP vide its letter No. SC/MF/D/229/2002 dated October 16, 2002.
- 5) A sound system of internal control is under implementation. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and provide reasonable but not absolute assurance against material misstatements or loss.
- 6) The fundamentals of the Company are strong and there are no doubts about its ability to continue as a going concern.



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No. of shares		Name of the investee entity	Carrying Value	
2004	2003		2004	2003
-	10,600	Engineering Bolan castings	-	672,756
3,400	-	Investment banks/companies Javed Omer Vohra & Company	1,035,510	-
21,938	-	Pakistan Industrial Credit and Investment Corporation Limited	1,206,810	-
3,600	-	Arif Habib Securities Limited	1,031,127	-
22,000	-	Jahangir Saddiqui Investment Bank	895,831	-
12,500	-	Cement Charat Cement Limited	851,492	-
-	22,500	D.G.Khan Cement Limited	-	896,390
-	10,000	Fauji Cement Limited	-	110,440
-	20,000	Lucky Cement Limited	-	476,900
7,000	21,000	Refinery Attock Refinery	745,896	2,237,665
20,000	-	Chemical ICI Pakistan Limited	1,878,151	-
55,000	-	Pakistan PTA Limited	672,245	-
2,200	2,200	BOC Pakistan Limited	347,886	347,886
1,000	-	Berger Paints Limited	145,463	-
16,500	-	Cable & Electronic Goods Singer Pakistan Limited	614,057	-
-	1,920	Food & Personal Care Uni Lever Pakistan Limited	-	2,760,398
			53,837,261	32,006,122

12.5 Available-for-sale of mutual fund

No. of shares		Name of the investee entity	Carrying Value	
2004	2003		2004	2003
		Mutual Funds-close ended		
25,000	-	PICIC Growth Fund	1,298,296	-
35,000	-	PICIC Investment Fund	672,496	-
5000,000	-	Pakistan Strategic Allocation Fund	5,000,000	-
-	10,000	State Enterprise Mutual Fund	-	367,878
		Mutual Funds-open ended		
5,545.54	4,060.00	Pakistan Stock Market Fund	321,800	200,000
93,441.97	90,456.36	Pakistan Income Fund	5,016,402	4,800,000
9,608.60	9,057.00	UTP Income Fund	5,280,764	5,000,000
50,000.00	-	Faysal Growth Fund	5,000,000	-
-	19,642.00	United Money Market Fund	-	2,000,000
			22,589,758	12,367,878

The face value of unit of closed ended mutual fund is Rs. 10 each.



12.4 Available-for-sale investments - quoted shares

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

No. of shares		Name of the investee entity	Carrying Value	
2004	2003		2004	2003
Related parties				
18,700	-	World Call Broad Band Limited	2,362,007	-
833	-	World Call Communication Limited	10,287	-
-	192,833	World Call Multimedia Limited	-	1,993,075
Others				
-	6,000	Synthetic and Rayon		
-	5,000	Ibrahim Fibres Limited	-	135,211
		Dewan Salman Fibers Limited	-	92,053
Power Generation				
187,000	107,000	Hub Power Company Limited	7,302,441	4,185,124
17,000	17,000	Sitara Energy Limited	565,931	548,535
-	25,000	Karachi Electricity Supply Corporation	-	158,883
20,000	-	Japan Power Generation Limited	143,586	-
20,000	20,000	Southern Electric Power Company Limited	323,790	323,790
Oil & Gas Marketing				
18,500	8,400	Pakistan State Oil Company Limited	4,828,873	1,128,803
8,500	6,500	Shell Pakistan Limited	3,507,273	2,718,832
-	28,000	Sui Northern Gas Pipelines Limited	-	775,887
8,000	10,000	Sui Southern Gas Company Limited	250,930	239,287
Oil & Gas Exploration				
39,497	12,500	Pakistan Oilfields Limited	-	2,329,814
1,000	-	Pakistan Petroleum Limited	55,000	-
-	59,497	Oil and Gas Development Company Limited	2,208,964	1,904,499
Fertilizers				
9,000	10,500	Engro Chemical Pakistan Limited	848,335	906,368
5,000	10,000	Fauji Fertilizer Company Limited	568,070	954,302
2,608	20,000	Fauji Fertilizer Bin Qasim Limited	44,037	355,667
Insurance				
23,225	-	Adamjee Insurance Company Limited	1,752,500	-
Transport				
125,000	-	Pakistan International Airline Corporation Limited	3,253,750	-
Technology & Communication				
115,000	50,000	Pakistan Tele Communication Limited	4,788,110	1,283,669
50,000	-	TRG Pakistan Limited	919,898	-
Paper & Board				
6,500	6,500	Packages Limited	1,049,682	1,049,682
20,000	-	Crescent Board Limited	236,465	-
Modaraba				
1,500	1,500	Standard Chartered Modaraba	54,618	54,618
Commercial banks				
33,751	7,955	Muslim Commercial Bank Limited	1,988,314	242,102
65,000	30,000	Bank of Punjab	3,631,266	1,042,152
18,000	18,000	National Bank of Pakistan	1,154,195	773,875
10,500	5,000	Askari Commercial Bank Limited	758,005	234,183
49,000	25,000	Faysal Bank Limited	1,806,466	1,073,276



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

BOARD OF DIRECTORS

During the year 2004 Mr. Usman Hyder resigned from the Board of Directors on February 6, 2004 and Mr. Mohammad Naveed Tariq was appointed unanimously by the Board of Directors to fill the casual vacancy. On September 13, 2004 Chairman Board of Directors Air Vice Marshall R. Saeed Anwar resigned from the Board of the Company and Air Vice Marshall R. Syed Imtiaz Hyder was appointed to fill the casual vacancy.

On September 19, 2004 Mrs. Nasreen Rashid, CEO of the Company resigned from the Company and Mr. Shahryar Akbar was appointed as CEO of the Company by the Board of Directors with effect from September 19, 2004. Before appointment as CEO Mr. Akbar was serving with the Company for last seven years as General Manager and was heading the North Zone of the Company comprising of Punjab and N.W.F.P. province.

On behalf of the Company we would like to place on record our gratitude and thank Mr. Hyder, Mr. Anwar and Mrs. Rashid for their services to the Company and wish them luck in all their future endeavors of life.

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

S.No	Name of Director	No. of meetings held during the tenure	No. of meetings attended
1	Air Vice Marshall R. Saeed Anwar	3	3
2	Hamid Gulzar	4	4
3	Tayyab Naeem Akhtar	4	4
4	Usman Hyder	0	0
5	Shaan Taseer	4	4
6	Robert Collings Hallier	4	4
7	Miles Louis Japhet	4	4
8	Air Vice Marshall R. Syed Imtiaz Hyder	1	1
9	Mohammad Naveed Tarique	4	4

PATTERN OF SHAREHOLDING

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

TRADING IN COMPANY'S SHARES

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



FUTURE OUTLOOK OF THE COMPANY

There has been an outstanding growth in the Gross Domestic Products of the Country during last couple of years and so much so that Government is expecting a GDP growth rate of 7% for the running fiscal year. Exports are increasing and target of over 12.0 billion USD is expected to be achieved. Foreign currency reserves are increasing. Stock markets and real estate markets are moving upwards at an exceptional pace. Overall economic environment of the country looks to be very positive. Despite all this new insurance business seems to be a rare commodity in the market. PICIC, Saudi Pak and Pak Kuwait /Meezan Bank Group launched their own insurance Companies into the market during the current year. Couples of other groups are busy in finalizing their licensing formalities and may be launched during the year 2005. All these factors has made the market highly competitive.

As you all are aware our Company is relatively new in the market as compared to our competitors. Insurance Companies historically takes time to build their reputation in the market and fetch business. With the help of Almighty we were able to make our name a household and that was made possible by our motor portfolio. Besides age another bottleneck is our thin bank limits and banks are the only sources of procuring business nowadays. However, the management is very much sure that despite all these difficulties we will keep on growing and devise strategies which will lead us to success.

Our Company has shown an exceptional growth in Premiums Underwritten over last four years and now we rank in the top five insurance Companies of Pakistan in terms of Premiums Written which is the most commonly used yardstick of measuring the size of the Company. Now our focus has turned to bottomline growth and management is planning to make a steady growth in the profits of the Company and maintaining our position in the market. We aim to be the best Insurance Company in Pakistan and not the largest.

In next five years or so management is planning to put more balance to composition of the portfolio. However, although GDP is expected to grow by more than 7 % this fiscal year there is no real economic activity except for consumer financing by the financial institutions. Therefore the only new business which is available in the insurance market is Motor which carries high risk of losses due to law and order situation in the country and ever increasing number of cars on the roads. Our growth in the motor business is exceptional and unlike general market perception we have been able to run our motor portfolio in profits with good management. Although more risky but Motor provides more liquid resources than other classes which help us in building-up our investment portfolio and earning from there. Therefore an immediate cut down on motor portfolio is not an objective at the moment.

The management is aiming to increase its fire and marine business by more than 40% of the current year as it is more profitable than Motor portfolio. However, efforts will be made to make motor portfolio more profitable to the Company. The future overall looks bright though competition is tough but we are sure that will bring best out of us and we will be the best insurance Company in Pakistan in due course of time.



Current and other accounts

- Current accounts
- Savings accounts

46,202,979	7,654,504
58,513,673	34,269,827
104,716,652	41,924,331
10,189,263	17,607,000
<u>135,302,565</u>	<u>59,794,332</u>

Deposit maturing within 12 months - term deposits

Rupees

10.1 Subsequent to the year-end, this balance was realised by the Company.

11. LOANS TO EMPLOYEES - unsecured, considered good

- Due from - an executive
- others

2004	2003
256,405	-
319,371	286,150
<u>575,776</u>	<u>286,150</u>

Rupees

This represents mark-up free loans to the employees of the company in accordance with the terms of their employment. These loans are recoverable in monthly installments over a period of one year. The maximum amount due from executives calculated with reference to month end balances was Rs. 344,742 (2003: Nil). None of the above loans are due for more than one year.

12. INVESTMENTS

12.1 Type of investments

Held to maturity

Government security:

- Defence Saving Certificates- deposited with the State Bank of Pakistan in 12.2 accordance with section 26 of Insurance Ordinance, 2000

939,804 350,000

Other fixed income securities:

12.3

35,099,370	32,335,000
<u>36,039,174</u>	<u>32,685,000</u>

- Term finance certificates - listed

Available-for-sale

- Investments in ordinary shares of listed companies
- Units of mutual funds

12.4	53,837,261	32,006,122
12.5	22,589,758	12,367,878
12.6	76,427,019	44,374,000
Rupees	<u>112,466,193</u>	<u>77,059,000</u>

12.2 The Defence Saving Certificate will mature in 20 August 2008 and carry effective profit rate of 16.73 % per annum.

12.3 Held to maturity - Term Finance Certificates

Name of Investment	Copon rate %	No. of Certificates 2004	2003	Maturity	Principal repayment	Copon Payment	2004	2003
Orix Leasing Limited	14.00	400	400	Mar . 2005	Semi-annually	Semi-annually	814,200	1,938,400
Orix Leasing Limited	10.00	800	800	July . 2006	Semi-annually	Semi-annually	4,000,000	4,000,000
Crescent Leasing Limited	14.50	-	75	Apr . 2007	Semi-annually	Semi-annually	-	375,000
Pakistan Services Limited	9.75	75	-	Apr . 2007	Semi-annually	Semi-annually	374,925	-
Engro Chemical Pakistan Limited	11.00	220	220	July . 2007	Semi-annually	Semi-annually	1,099,120	1,099,340
Trust Leasing Limited	9.50	189	189	Jun . 2007	Semi-annually	Semi-annually	918,929	940,150
Ittehad Chemicals Limited	10.00	190	190	Jun . 2008	Semi-annually	Semi-annually	949,430	949,810
Crescent leasing Limited	11.97	109	109	Oct . 2007	Semi-annually	Semi-annually	545,000	545,000
Muslim Commercial Bank Limited	11.75	600	600	Feb . 2008	Semi-annually	Semi-annually	2,997,600	2,998,800
Union Bank Limited	11.00	2,000	2,000	Jun . 2008	Semi-annually	Semi-annually	9,992,000	9,996,000
Union Bank Limited	6.09	1,000	1,000	Jan . 2011	Maturity	Semi-annually	4,999,000	-
Dawood leasing Limited	13.50	800	800	Sept . 2006	Maturity	Semi-annually	4,000,000	4,000,000
Dawood leasing Limited	12.25	611	611	July . 2006	Quarterly	Quarterly	3,055,000	3,055,000
Securetel SPV Limited	12.00	650	650	Apr . 2006	Semi-annually	Semi-annually	1,354,166	2,437,500
							<u>35,099,370</u>	<u>32,335,000</u>

At 31 December 2004, market value of Term Finance certificates was Rs. 38.068 million (2003: 32.65 million).



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4. AMOUNT DUE TO OTHER INSURERS / REINSURERS - unsecured

This represents unsecured amount due to the co-insurers and reinsurers. 2004 2003

5. ACCRUED EXPENSES

	5.1	834,745	424,857
Due to the provident fund		5,000,000	4,500,000
Staff bonus payable		935,355	589,606
Others	Rupees	<u>6,770,100</u>	<u>5,514,463</u>

5.1 Subsequent to the year end, this amount was paid by the company.

6. AGENTS BALANCES

This represents commission payable to the agents in respect of insurance business arranged by them.

7. LIABILITY AGAINST AN ASSET SUBJECT TO FINANCE LEASE

		2004	
		Minimum lease payments	Financial charges for future periods
			Principal outstanding
Not later than one year		282,060	236,305
Later than one year and not later than five years		634,395	604,702
	Rupees	<u>916,455</u>	<u>841,007</u>

The company has entered in a lease agreement with a banking company. Lease rentals are payable on monthly basis and include finance charge at 8.4 percent per annum which have been used as discounting factor. The company has the option to purchase the asset on the completion of lease period by adjusting the security deposit and has the intention to exercise it.

8. OTHER PAYABLES

		2004	2003
		8,498,854	549,105
Reinsurance expense payable		33,520	-
Security deposits against lease obligation		-	691,293
Claim payable		6,958,833	6,530,027
Central excise duty payable		1,358,223	2,223,348
Federal insurance fee payable		167,600	-
Unearned rental income		3,407,203	176,742
Withholding tax payable	8.1	844,064	7,122
Others	Rupees	<u>21,268,297</u>	<u>10,177,637</u>

8.1 This includes Rs. 0.626 million representing the amount paid by the employees to the company against purchase of vehicles.

9. COMMITMENTS

Commitments in respect of resale transactions of listed equity securities (under reverse repo deals)	Rupees	<u>25,208,280</u>	<u>25,009,005</u>
Commitment in respect of acquisition of computer software	9.1 Rupees	<u>379,333</u>	-

9.1 This represents amount committed by the company for the upgradation of its computer software system.

10. CASH AND BANK DEPOSIT

		2004	2003
Cash and other equivalents		143,405	246,344
- Cash in hand	10.1	20,199,557	-
- Cheques in hand		53,688	16,657
- Policy stamps and bond papers in hand		<u>20,396,650</u>	<u>263,001</u>



ACKNOWLEDGEMENTS

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

Our special thanks and appreciation are due to the Executive Director (Insurance Division, SECP) Mr. Shafaat Ahmed and all other officials of SECP for their guidance and support.

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

We are also grateful to our customers for their continued trust and confidence which has made it possible for us to achieve these results. We would also like to convey our profound gratitude to the management and staff at all levels for their loyalty, devotion and hard work which helped the Company to accomplish good results in 2004.

For and on behalf of the Board

Syed Imtiaz Hyder
Air Vice Marshal (Retd.)
Chairman

Karachi : April 07, 2004



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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

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

of Shaheen Insurance Company Limited (the Company) as at 31 December 2004 together with the notes forming part thereof, for the year then ended.

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

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

In our opinion:

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes stated in notes 2.5 and 2.25 with which we concur;
- c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31 December 2004 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



2.5 Premium deficiency reserve

The company maintains a provision in respect of premium deficiency for the individual class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve is recognised in the profit and loss account for the year.

Up to last year the premium deficiency reserve was calculated on overall company basis. During the year this policy was changed from overall company basis to individual class-wise basis to comply with the requirements of the Securities and Exchange Commission's Insurance Rules, 2002. This change in accounting policy has been accounted for under allowed alternative treatment of International Accounting Standard 8 (dealing with Net Profit for the period, Fundamental Errors and changes in Accounting Policies). Pro forma information is not presented as the impact of change is not material. Had there been no change, profit before tax for the year would have been higher by Rs. 1 million and premium deficiency reserve would have been lower by the same amount.

2.6 Reinsurance premium ceded

Premium for reinsurance contract operative on a proportional or non-proportional basis is respectively recorded as a liability on the attachment of the underlying policies reinsured or inception of the reinsurance contract. Reinsurance premium is recognised as an expense evenly over the period of the underlying policies / indemnity. The portion of reinsurance premium not yet recognised as expense is recognised as prepayment.

2.7 Operating fixed assets

Owned

- n Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. However, land is stated at cost.
- n Depreciation is calculated so as to write off the assets over their expected economic lives under the straight line balance method at rates given in note 20 to these financial statements.
- n A full year's depreciation is charged on fixed assets acquired during the year, while no depreciation is charged in the year of disposal.
- n Gains and losses on disposal of fixed assets are taken to profit and loss account currently.
- n Expenditure incurred subsequent to the initial acquisition of asset is capitalised only when it increases the future economic lives embodied in the items of fixed assets. All other expenditure is recognised in the profit and loss account as an expense.

Leased

Leased assets in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses, if any. Lease payments are accounted for as described in note 2.10 to these financial statements.

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

2.8 Investments

Investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs. Subsequently, these are recognised and classified as follows:



Shaheen Insurance Company Limited
Notes to the Financial Statements
For the year ended 31 December 2004

1. STATUS AND NATURE OF BUSINESS

Shaheen Insurance Company Limited was incorporated under the Companies Ordinance, 1984, as a Public Company in March 1995 and obtained the certificate for commencement of business in July 1995. It was registered with the Controller of Insurance in November 1995 to carry out non-life insurance business comprising. Fire, Marine, Motor, aviation, engineering, transportation, etc. The shares of the company are listed on Karachi, Lahore and Islamabad Stock Exchanges.

Its registered office is located at Shaheen Complex, Karachi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of presentation

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

2.2 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan, requirements of the Companies Ordinance, 1984 and the Insurance Ordinance, 2000. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Where the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 or directives issued by the Securities and Exchange Commission of Pakistan differ with requirements of these standards, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000 or the requirements of the said directives take precedence.

2.3 Basis of measurement

These financial statements have been prepared under the historical cost convention, except that held for trading investments are carried at fair value.

2.4 Underwriting provisions

Underwriting provisions consist of provision for outstanding claims including claim incurred but not reported (IBNR), provisions for deferment of premium (unearned premium) and commission income (unearned commission income) and premium deficiency reserve.

A liability is recognised for outstanding claims incurred up to the balance sheet date and is considered to be incurred at the time of the incident giving rise to the claim, except as otherwise expressly indicated in an insurance contract. Provision for IBNR is made for the cost of settling claims incurred but not reported at the balance sheet date, on the basis of management's judgement. The liability is measured at undiscounted value and includes expected additional settlement costs.

Unearned premium income and commission income are determined on the basis of 1/24th method for all classes of business. Under this method, the liability for above unearned income is equal to 1/24 of the premiums / commission relating to policies commencing in the first month of financial year, 3/24 of the premiums / commission relating to policies commencing in the second month of the financial year, and so on.



- 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.

Without qualifying our opinion, we draw attention to notes 13.1 and 20.2 to the financial statements. Certain investment properties of the Company are in the name of former chief executive officer of the Company. Further, title to certain repossessed vehicles included in operating fixed assets in these financial statements are not held in the company's name. The Insurance Ordinance, 2000 requires that title to the company's assets should be held in its corporate name.

The financial statements of the Company for the year ended 31 December 2003 were audited by another firm of auditors, whose report dated 30 March 2004 expressed an unqualified opinion on those financial statements.

Dated: April 07,2005
Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants



BALANCE SHEET

	Note	2004	2003 Restated
SHARE CAPITAL AND RESERVES			
Authorised share capital: 20,000,000 (2003: 10,000,000) ordinary shares of Rs. 10 each		<u>200,000,000</u>	<u>100,000,000</u>
Issued, subscribed and paid-up 8,000,000 (2003: 8,000,000) ordinary shares of Rs. 10 each fully paid in cash	3	80,000,000	80,000,000
General reserve		20,000,000	20,000,000
Accumulated profit		<u>12,965,632</u>	<u>13,095,862</u>
		112,965,632	113,095,862
UNDERWRITING PROVISIONS			
Provision for outstanding claims (including IBNR)		118,380,682	65,012,231
Premium Deficiency Reserve		1,000,000	-
Provision for unearned premium		290,097,100	191,958,631
Commission income unearned		13,331,241	10,567,334
Total underwriting provisions		<u>422,809,023</u>	<u>267,538,196</u>
CREDITORS AND ACCRUALS			
Premium received in advance		-	7,152,521
Amount due to other insurers / reinsurers	4	18,742,195	14,904,038
Accrued expenses	5	6,770,100	5,514,463
Agents balances	6	21,506,790	14,726,746
Taxation - provision less payment		9,367,052	14,290,721
		<u>56,386,137</u>	<u>56,588,489</u>
BORROWING			
Liability against an asset subject to finance lease	7	841,007	-
OTHER LIABILITIES			
Other payables	8	21,268,297	10,177,637
Dividend payable - unclaimed		398,934	518,646
		<u>21,667,231</u>	<u>10,696,283</u>
Total liabilities		501,703,398	334,822,968
Total equity and liabilities		<u>614,669,030</u>	<u>447,918,830</u>
COMMITMENTS			
	9		

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



STATEMENT OF INVESTMENT INCOME

For the year ended 31 December 2004

	Note	2004	2003
Income from trading investments-net		2,092,192	433,677
Income from non-trading investments			
<i>Held to maturity</i>			
Return on government security		266,917	322,887
Return on other fixed income securities and deposits		4,501,669	5,309,000
		4,768,586	5,631,887
<i>Available-for-sale</i>			
Dividend income		4,061,439	1,604,464
		8,830,025	7,236,351
Gain on sale of non-trading investments - available-for-sales		10,406,280	2,939,370
Income from reverse repo transactions in listed equity securities		3,091,236	2,715,917
Investment related expenses		(3,681,862)	(701,950)
		<u>20,737,871</u>	<u>12,623,365</u>
Income from investment properties			
Gain on sale of investment properties	13.2	1,701,120	1,500,000
		4,950,000	-
		6,651,120	1,500,000
Investment property related expenses	13	(537,416)	(395,000)
		6,113,704	1,105,000
Net investment income	<i>Rupees</i>	<u>26,851,575</u>	<u>13,728,365</u>

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



STATEMENT OF EXPENSES

For the year ended 31 December 2004

Business underwritten inside Pakistan

	Commission paid or payable	Opening deferred commission	Closing deferred commission	Net Commission expenses	Management (underwriting) expenses	Underwriting expenses	*Commission from reinsurers	2004 Net underwriting expenses	2003 Net underwriting expenses
Direct and facultative									
Fire and property damage	7,940,132	1,766,921	4,199,880	5,507,173	2,630,105	8,137,278	6,827,601	1,309,677	3,227,456
Marine, aviation and transport	2,194,584	1,521,140	875,133	2,840,591	1,242,182	4,082,773	5,754,221	(1,671,448)	222,410
Motor	65,533,022	16,818,302	33,019,071	49,332,253	43,393,500	92,725,753	10,784,035	81,941,718	31,296,266
Others	990,333	298,317	523,967	764,683	1,827,627	2,592,310	1,709,601	882,709	1,517,558
	<u>76,658,071</u>	<u>20,404,680</u>	<u>38,618,051</u>	<u>58,444,700</u>	<u>49,093,414</u>	<u>107,538,114</u>	<u>25,075,458</u>	<u>82,462,656</u>	<u>36,263,690</u>
Treaty	60,941	-	-	60,941	-	60,941	-	60,941	-
<i>Rupees</i>	<u>76,719,012</u>	<u>20,404,680</u>	<u>38,618,051</u>	<u>58,505,641</u>	<u>49,093,414</u>	<u>107,599,055</u>	<u>25,075,458</u>	<u>82,523,597</u>	<u>36,263,690</u>

*Note: 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 37 from an integral part of these financial statements.

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



AS AT 31 DECEMBER 2004

	Note	2004	2003
CASH AND BANK DEPOSITS	10		
Cash and other equivalents		20,396,650	263,001
Current and saving accounts		104,716,652	41,924,331
Deposits maturing within 12 months		10,189,263	17,607,000
		135,302,565	59,794,332
LOANS TO EMPLOYEES			
- unsecured, considered good	11	575,776	286,150
INVESTMENTS	12	112,466,193	77,059,000
INVESTMENT PROPERTIES	13	17,331,408	19,720,000
OTHER ASSETS			
Balance receivable for securities purchased under resale arrangements	14	25,200,000	24,998,100
Premium due but unpaid	15	114,488,653	83,718,426
Amount due from insurers / reinsurers	16	16,784,339	37,330,149
Deferred commission expense		38,618,051	20,404,680
Accrued investment income	17	1,377,653	2,148,000
Reinsurance recoveries against outstanding claims		27,871,033	17,935,042
Salvage receivable		2,867,339	-
Advances, deposits and prepayments	18	85,590,403	80,484,780
Other receivables	19	8,655,186	7,287,683
		296,252,657	249,308,760
FIXED ASSETS	20		
Tangible			
Land and buildings		-	1,994,000
Furniture and fixtures		4,749,112	2,339,837
Motor vehicles		18,848,981	10,430,000
Office equipment		1,659,742	927,089
Computer equipments		2,092,929	1,061,562
Capital work in progress		189,667	-
		27,540,431	16,752,488
Total assets		614,669,030	447,918,830

Rupees

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	Fire and property	Marine, aviation and transport	Motor	Others	Treaty	2004 Aggregate	2003 Aggregate Restated
Revenue account								
Net premium revenue		20,139,430	9,511,725	332,275,789	13,994,633	843,388	376,764,965	205,236,541
Net claims		(3,683,831)	(753,678)	(256,261,733)	(13,321,217)	213,514	(273,806,945)	(126,817,264)
Premium deficiency reserve		-	-	(950,000)	(50,000)	-	(1,000,000)	-
Management expenses	21	(2,630,105)	(1,242,182)	(43,393,500)	(1,827,627)	-	(49,093,414)	(23,742,078)
Net commission		1,320,428	2,913,630	(38,548,218)	944,918	(60,941)	(33,430,183)	(12,521,612)
Net underwriting expenses		(1,309,677)	1,671,448	(81,941,718)	(882,709)	(60,941)	(82,523,597)	(36,263,690)
Underwriting result	<i>Rupees</i>	<u>15,145,922</u>	<u>10,429,495</u>	<u>(6,877,662)</u>	<u>(259,293)</u>	<u>995,961</u>	<u>19,434,423</u>	<u>42,155,587</u>
Investment income							26,851,575	13,728,365
Other income	22						10,728,277	1,128,727
General and administration expenses	21						(39,688,720)	(25,233,083)
Profit before tax							<u>17,325,555</u>	<u>31,779,596</u>
Provision for taxation - current	23						(5,455,785)	(11,135,163)
Net profit after tax						<i>Rupees</i>	<u>11,869,770</u>	<u>20,644,433</u>
Profit and loss appropriation account:								
Balance at commencement of the year							13,095,862	22,451,429
Profit for the year							11,869,770	20,644,433
Final dividend for the year ended 31 December 2003 (2003: For the year ended 31 December 2002)							(12,000,000)	(10,000,000)
Transfer to general reserve							-	(20,000,000)
Balance of unappropriated profit at end of the year						<i>Rupees</i>	<u>12,965,632</u>	<u>13,095,862</u>
Earnings per share- basic and diluted	24					<i>Rupees</i>	<u>1.48</u>	<u>2.58</u>

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



STATEMENT OF CLAIMS

For the year ended 31 December 2004

Business underwritten inside Pakistan	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	2004 Net claims expense	2003 Net claims expense
		Opening	Closing			Opening	Closing			
Direct and facultative										
Fire and property damage	10,398,489	5,854,613	6,998,511	11,542,387	7,415,484	4,558,983	5,002,055	7,858,556	3,683,831	4,763,006
Marine, aviation and transport	3,506,294	1,230,366	373,951	2,649,879	2,536,626	908,849	268,424	1,896,201	753,678	1,836,170
Motor	272,249,551	55,358,199	109,403,907	326,295,259	59,150,127	11,011,885	21,895,284	70,033,526	256,261,733	104,594,614
Others	17,134,526	2,569,053	1,604,313	16,169,786	3,598,624	1,455,325	705,270	2,848,569	13,321,217	15,623,474
	303,288,860	65,012,231	118,380,682	356,657,311	72,700,861	17,935,042	27,871,033	82,636,852	274,020,459	126,817,264
Treaty	(213,514)	-	-	(213,514)	-	-	-	-	(213,514)	-
<i>Rupees</i>	<u>303,075,346</u>	<u>65,012,231</u>	<u>118,380,682</u>	<u>356,443,797</u>	<u>72,700,861</u>	<u>17,935,042</u>	<u>27,871,033</u>	<u>82,636,852</u>	<u>273,806,945</u>	<u>126,817,264</u>

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

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SHAAN TASEER
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ASIF SULEMAN
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STATEMENT OF PREMIUM

For the year ended 31 December 2004

Business underwritten inside Pakistan	*Premiums written (Note 26)	Unearned Premium reserve		Premium earned	Reinsurance	Prepaid reinsurance premium ceded		Reinsurance	2004 Net premium revenue	2003 Net premium revenue	
		Opening	Closing			Opening	Closing				
Direct and facultative											
Fire and property damage	54,275,191	15,610,648	24,477,191	45,408,648	30,456,492	7,763,899	12,951,173	25,269,218	20,139,430	17,411,179	
Marine, aviation and transport	54,719,249	36,583,161	20,417,700	70,884,710	45,472,411	32,902,315	17,001,741	61,372,985	9,511,725	8,621,220	
Motor	507,168,862	131,095,732	232,200,622	406,063,972	92,873,574	25,842,679	44,928,070	73,788,183	332,275,789	164,890,074	
Others	24,157,048	8,669,090	13,001,587	19,824,551	6,910,471	2,679,670	3,760,223	5,829,918	13,994,633	14,314,068	
		640,320,350	191,958,631	290,097,100	542,181,881	175,712,948	69,188,563	78,641,207	166,260,304	375,921,577	205,236,541
Treaty	843,388			843,388					843,388		
	<i>Rupees</i>	641,163,738	191,958,631	290,097,100	543,025,269	175,712,948	69,188,563	78,641,207	166,260,304	376,764,965	205,236,541

* This include administrative surcharge collected from customers along with premium but have not been deferred as this surcharge is levied to recover the administrative cost relating to policies issued during the year.

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital	General reserve	Accumulated profit	Total
Balance at 1 January 2003	80,000,000	-	12,451,429	92,451,429
Effect of change in accounting policy- final dividend for the year ended 31 December 2002 declared subsequent to the year and	-	-	10,000,000	10,000,000
Balance as at 1 January 2003 (restated)	80,000,000	-	22,451,429	102,451,429
Net profit for the year ended 31 December 2003	-	-	20,644,433	20,644,433
Final dividend for the year ended 31 December 2002	-	-	(10,000,000)	(10,000,000)
Transfer to general reserve	-	20,000,000	(20,000,000)	-
Balance as at 31 December 2003 (restated)	80,000,000	20,000,000	13,095,862	113,095,862
Net profit for the year ended 31 December 2004	-	-	11,869,770	11,869,770
Final dividend for the year ended 31 December 2003	-	-	(12,000,000)	(12,000,000)
Balance at 31 December 2004	80,000,000	20,000,000	12,965,632	112,965,632

Rupees

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



STATEMENT OF CASH FLOW

	2004	2003
Operating cash flows		
<i>a) Underwriting activities</i>		
Premiums received	581,435,463	326,298,680
Reinsurance premium paid	(153,335,006)	(17,343,424)
Claims paid	(303,075,346)	(169,586,376)
Reinsurance and other recoveries received	72,700,861	15,398,269
Commissions paid	(69,938,968)	(38,267,353)
Commissions received	31,016,214	3,615,801
Other underwriting receipts	23,975,937	-
Net cash flow from underwriting activities	182,779,155	120,115,597
 <i>b) Other operating activities</i>		
Income tax paid	(4,219,930)	(4,831,638)
General management expenses paid	(65,744,388)	(39,149,655)
Loans advanced	(963,309)	(499,482)
Loans disbursement / repayments received (net)	673,679	410,528
Net cash flow from other operating activities	(70,253,948)	(44,070,247)
Total cash flows from operating activities	112,525,207	76,045,350
 Investment activities		
Profit / Return received	9,600,372	12,379,342
Rental received received	1,500,000	1,500,000
Payments for investments	(57,104,053)	(68,059,118)
Proceeds from disposal of investments	39,078,325	9,160,392
Fund Capital Expenditure	(20,983,722)	(21,798,322)
Proceeds from disposal of fixed assets	3,129,340	2,618,800
Total cash flows from investing activities	(24,779,738)	(64,198,906)



For the year ended 31 December 2004

	2004	2003
Financing activities		
Financial Charges	(19,532)	(69,098)
Lease payments	(97,992)	(1,221,393)
Dividends paid	(12,119,712)	-
Total cash flows from financing activities	(12,237,236)	(1,290,491)
Net cash flows from all activities	75,508,233	10,555,953
Cash and cash equivalents at beginning of the year	59,794,332	49,238,379
Cash and cash equivalents at end of the year	135,302,565	59,794,332
	<i>Rupees</i>	
Reconciliation to profit and loss account		
Operating cash flows	112,525,207	76,045,350
Depreciation expense	(8,953,548)	(5,660,506)
Profit on disposal of fixed assets	585,024	916,784
Provision for doubtful debts	(7,499,800)	-
Taxes paid	(4,219,930)	(4,831,638)
Financial charges	(19,532)	(69,098)
Decrease in assets other than cash	47,132,381	33,426,163
Decrease in liabilities other than running finance	(159,804,099)	(87,716,189)
Investment and other income	37,579,852	19,688,730
Provision for tax	(5,455,785)	(11,135,163)
Profit after taxation	11,869,770	20,664,433
	<i>Rupees</i>	
Cash and cash equivalents		
Cash and other equivalents	20,396,650	263,001
Current and saving accounts	104,716,652	41,924,331
Deposit maturing within 12 months	10,189,263	17,607,000
	<i>Rupees</i>	
	135,302,565	59,794,332

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

AIR VICE MARSHAL (R) SYED IMTIAZ HYDER
Chairman

SHEHRAYAR AKBER
Chief Executive Officer

SHAAN TASEER
Director

ASIF SULEMAN
Chief Financial Officer



Held-for-trading

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

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

Held-to-maturity

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

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

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

Available-for-sale

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

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at cost less impairment losses if any. Impairment loss is recognised where the decline in value is other than temporary. Under a directive of the Securities and Exchange Commission of Pakistan, available-for-sale securities are carried at cost less impairment losses, in any.

Unquoted

Unquoted investments are recorded at cost less impairment (if any).

Basis of measurement and recognition / derecognition of investments

The fair value of investments held for trading is their quoted bid price at the balance sheet date. Investments held for trading and available-for-sale investments are recognised / derecognised by the company on the date it commits to purchase / sell the investments. Investments held-to-maturity are recognised / derecognised on the day they are transferred to / sold by the company.

2.9 Investment properties

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

nFreehold land is stated at cost



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 Shaheen Insurance Company Limited (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 by the Securities and Exchange Commission of Pakistan.

The responsibility for compliance with the above Codes 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 Codes 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 Codes.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

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

Date: 07 April, 2005

Karachi

Taseer Hadi Khalid & Co.
Chartered Accountants



10. The Board has approved the appointment, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
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.
12. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
13. The directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee comprising of three members. All the members are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board is in the process of setting-up an effective internal audit function.
18. 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.
19. 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.
20. We confirm that all other material principles contained in the Code have been complied with.

Syed Imtiaz Hyder
Air Vice Marshall (Retd.)
Chairman

Sheharyar Akbar
Chief Executive Officer

Date: 07 April 2005
Karachi



- n Premises is depreciated so as to write-off the assets over their expected economic lives under the straight line method at rates given in note 13 to these financial statements.
- n Subsequent expenditure and gains or losses on disposals are accounted for in the same manner as operating fixed assets.

2.10 Lease obligations

The company accounts for lease obligations by recording the asset and the corresponding liability there against determined on the basis of discounted value of minimum lease payments. Financial charge is recognised in the profit and loss account using the effective mark up rate method.

2.11 Trade and other receivables

These are stated net of provision for impairment, if any. Full provision is made against impaired debts.

2.12 Retirement benefit - *provident fund*

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

2.13 Claims recoveries

Claims recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised and are measured at the amount expected to be received. Claims expenses are reported net off reinsurance in the profit and loss account.

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

2.14 Taxation

Current taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account available tax credits and rebates.

Deferred taxation

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is recognised based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

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

2.15 Foreign currency transaction

Foreign currency transactions are translated into Pak. Rupees at exchange rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pak. rupees at the rates of exchange prevailing at the balance sheet date. Exchange differences, if any, are taken to profit and loss account.



MARINE

Gross Underwritten Premiums in Marine business remained at almost the same levels as were in last year and showing a nominal increase of only 1.35 %. However, with effective claims management your Company was able to manage an increase of 58.54 % in the underwriting profitability of this class of business. Net claim to net premium revenue ratio was decreased from 21.30% in year 2003 to 7.93% in current year.

MOTOR

Motor portfolio of your Company continued to grow at a rapid pace. During the year your Company registered a growth of 227.043 million (81.05 %) in Gross Underwritten Premium from Rs. 280.126 million in year 2003 to Rs. 507.169 million in year 2004. That increase in premium is recognition of the brand name of your Company by household in the country. Year 2004 again was a record production year for vehicle manufacturers and financial institutions kept on providing cheap consumer finances. However, underwriting profitability of this account decreased by Rs. 35.910 million. That decrease was mainly due to increase in net claims in this class and due to bad debts written-off and provisions of Rs. 10.9 million. Net claims to net premium revenue ratio increased from 63.43% in year 2003 to 77.12 % in year 2004. Major factors in this increase in claim ratio were worsening of Law & Order situation throughout the country and especially in Karachi, increased number of vehicles on roads and only average infrastructure and road conditions.

MISCELLANEOUS

Gross underwritten premium in miscellaneous class of business showed an increase of 15.17 % from last year. The major highlight of the year was that the loss of this class was reduced by 90 % as compared to last year.

INVESTMENT INCOME

Investment income of your Company stands at Rs. 26.851 million as compared to Rs. 12.624 million in year 2003 thereby showing an increase of 1.12 times during the year. This substantial rise in income was contributed by management's decision to invest in real estate which resulted in realizing profits of Rs. 6.113 million in the current year only. As at December 31, 2004 the market value of investment property of the Company was Rs. 41.567 million as against the cost of 17.331 million only. Another major factor was increase in capital gains on sale of equity investments of the Company to book gains during the year considering above average performances of the stock exchanges.



21. MANAGEMENT EXPENSES AND GENERAL AND ADMINISTRATION EXPENSES

	2004			2003		
	Management expenses	General and administration expenses	Total	Management expenses	General and administration expenses	Total
Salaries and other benefits	17,041,429	13,273,423	30,314,852	10,631,000	10,339,000	20,970,000
Rent	2,884,516	1,952,864	4,837,380	2,090,000	1,369,000	3,459,000
Utilities	4,742,114	2,116,872	6,858,986	3,226,000	1,483,000	4,709,000
Repair maintenance	1,043,229	1,170,045	2,213,274	1,224,000	1,222,000	2,446,000
Legal and professional charges	4,000	614,237	618,237	47,000	346,000	393,000
Auditors' remuneration	21.1 -	200,000	200,000	-	75,000	75,000
Depreciation	20.1 -	8,414,720	8,414,730	-	5,265,512	5,265,512
Financial charges	115,759	29,803	145,562	95,000	86,000	181,000
Zakat	-	132,686	132,686	-	55,000	55,000
Advertisement and sales promotion	557,974	1,558,277	2,116,251	537,000	188,000	725,000
Provident Fund	-	1,560,971	1,560,971	-	794,000	794,000
Travelling and entertainment	6,764,331	3,170,590	9,934,921	3,616,000	1,230,000	4,846,000
Printing and stationary	1,435,987	2,969,606	4,405,593	1,000,000	1,406,000	2,406,000
Bad debts written off	12,577,396	-	12,577,396	-	-	-
Miscellaneous	1,926,697	2,524,616	4,451,295	1,276,078	1,374,571	2,650,649
<i>Rupees</i>	<u>49,093,414</u>	<u>39,688,720</u>	<u>88,782,134</u>	<u>23,742,078</u>	<u>25,233,083</u>	<u>48,975,161</u>

21.1 Auditors' remuneration

	2004 Tasser Hadi Khalid & Co.	2003 Mushtaq & Co.
Annual audit	125,000	60,000
Interim review	50,000	15,000
Certification fees	25,000	-
<i>Rupees</i>	<u>200,000</u>	<u>75,000</u>

22. OTHER INCOME

Gain on sale of fixed assets	20.4	585,024	916,784
Exchange loss		(46,219)	-
Income from salvage recoveries		2,867,339	-
Liability no longer required written back		6,332,883	-
Others		989,250	211,943
<i>Rupees</i>		<u>10,728,277</u>	<u>1,128,727</u>

23. TAXATION

Relationship between tax expense and accounting profit is as follows:

Profit before taxation	<i>Rupees</i>	17,325,555	31,779,596
Tax charge at enacted tax rate of 35 % (2003 : 35%)		6,063,944	11,122,859
Tax effect of temporary differences on which deferred tax asset has not been recognised		173,649	103,390
Tax effect of expenses that are not deductible in determining the taxable profit		436,624	390,253
Tax effect of dividend income taxable at lower tax rate		(1,218,432)	(481,339)
<i>Rupees</i>		<u>5,455,785</u>	<u>11,135,163</u>

23.1 The income tax assessments of the company have been finalised up to and including the assessment year 2002-03 (financial year ended 31 December 2001), while returns have been filed for the financial years ended 31 December 2002 and 31 December 2003, which under the Income Tax Ordinance, 2000 is considered to be deemed assessments.



20. FIXED ASSETS

		2004	2003
Operating fixed assets		27,350,764	16,754,488
Capital work-in progress	20.1	189,667	-
	20.3	<u>27,540,431</u>	<u>16,754,488</u>

20.1 Operating fixed assets - at cost less accumulated depreciation

Note	Cost				Depreciation			Written down value as at 31 December 2004	Depreciation rate %
	At 1 January 2004	Additions/ (deletions)/	Transfer to investment property	At 31 December 2004	At 1 January 2004	For the year ended 31 December 2004	Transfer to investment property		
Owned									
Office premises	2,848,000	-	(2,848,000)	-	854,000	-	(854,000)	-	5
Furniture and fixtures	5,672,863	3,315,406 (19,428)	-	8,968,841	3,333,026	896,417 (9,714)	-	4,219,729	4,749,112 10
Office equipments	4,080,236	1,299,092 (120,220)	-	5,259,108	3,153,147	541,238 (95,079)	-	3,599,366	1,659,742 20
Computer equipment	3,537,647	1,730,395	-	5,268,042	2,476,085	699,028	-	3,175,113	2,092,929 20
Motor vehicles 20.2	20,631,584	16,267,429 (3,829,683)	-	33,069,330	10,201,584	6,090,247 (1,320,282)	-	14,971,549	18,097,781 20
Leased-									
motor vehicles	-	939,000	-	939,000	-	187,800	-	187,800	751,200 20
2004 Rupees	36,770,330	23,551,322 (3,969,331)	(2,848,000)	53,504,321	20,017,842	8,414,730 (1,425,015)	(854,000)	26,153,557	27,350,764
2003 Rupees	32,103,000	8,935,330 (4,266,000)		36,772,330	16,379,000	5,265,512 (1,626,670)		20,017,842	16,754,488

20.2 Owned motor vehicles include carrying value of Rs. 3.5 million, title of which has not been transferred in the company's name. However, arrangements are being made for the transfer of their title in the company's name.

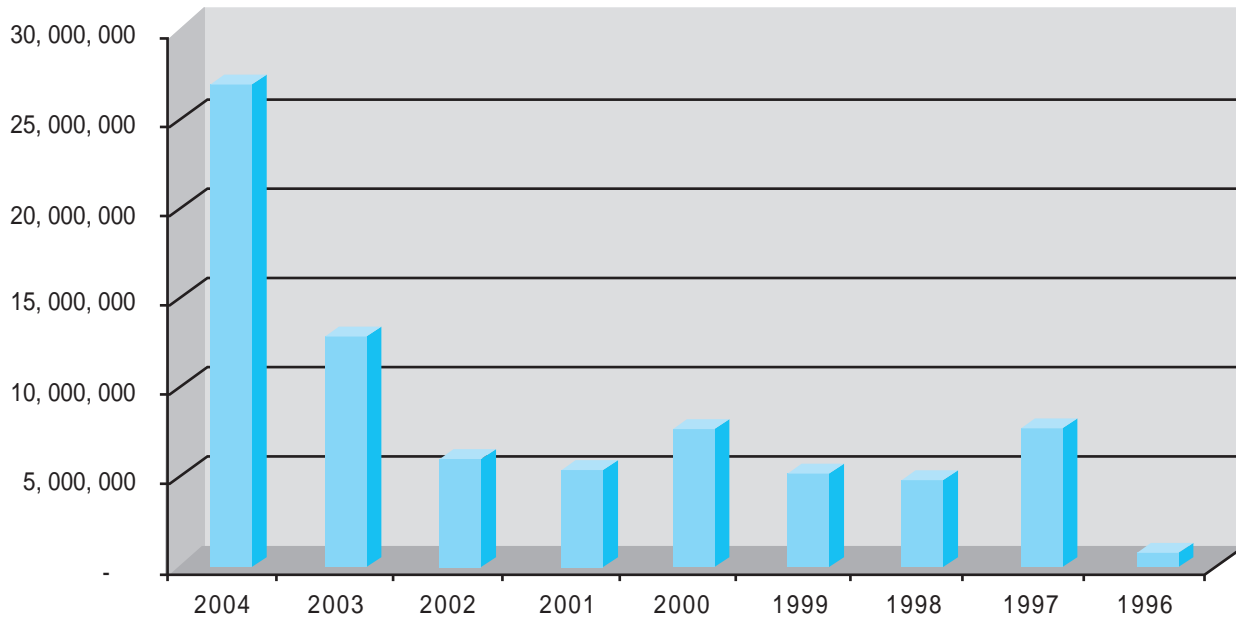
20.3 This represents payment made upto the balance sheet date for purchase of computer software system (refer note 9.1).

20.4 Particulars of disposal of fixed assets

	Cost	Written down value	Sale proceeds	Profit / Loss	Mode of Disposal	Sold to
Motor vehicles	303,683	-	70,000	70,000	Negotiation	Mr. M. Ali
	120,000	120,000	180,000	60,000	Negotiation	Mr. M. Ali
	675,000	540,000	700,000	160,000	Negotiation	Mr. M. Ali
	800,000	800,000	693,200	(106,800)	Negotiation	Mr. Zahid Qadri
	342,000	1	272,200	272,199	Negotiation	Mr. Waseem Mirza
	340,000	68,000	250,000	182,000	Negotiation	Mr. Zameer ul Nabi
	600,000	600,000	519,000	(81,000)	Negotiation	Mr. Zameer ul Nabi
	180,000	180,000	105,000	(75,000)	Negotiation	Mr. M. Ali
	400,000	160,000	300,000	140,000	Negotiation	Mr. M. Ali
	69,000	41,400	-	(41,400)	Theft	
Office equipment						
Airconditioner	78,220	1	4,500	4,499	Negotiation	Mr. Abid Ali
Photocopy machine	42,000	25,200	25,000	(200)	Negotiation	Universal Marketing
Furniture and fixtures						
Carpet	19,428	9,714	10,440	726	Negotiation	G.M. Khan Furniture
Rupees	3,969,331	2,544,316	3,129,340	585,024		



Investment Income



CAPITAL GAINS

The stock exchanges of the country have shown a remarkable increase in market capitalization over the past couple of years. The Karachi Stock Exchange 100 Index stood at 6218 points on December 31, 2004 as compared to 4471 points on same day in year 2003. Company like all other investors booked substantial gains by disposing off equity investments at good prices. However, as the Company is relatively new and started its investments in equity market only few years ago and did not have a large portfolio and need of building a strong portfolio of investments instead of disposing off the whole portfolio the gains were also limited. Values of properties also saw extraordinary increases during the year. Management of your Company invested in investment property during the year and recorded exceptional gains.

INVESTMENT POLICY

It has been the Company's policy to hold all its investments in stock/shares and mutual funds as investments "available for sale". According to the Securities and Exchange Commission of Pakistan (Insurance) Rules, 2002, such investments are to be shown at the lower of cost or market value (market value being taken as lower if the fall is other than temporary). Accordingly, management believes that there is no other than temporary decline in the market value of the marketable investments of the Company. The book value of Company's investments in stocks/shares and mutual funds aggregated to Rs. 76.427 million as compared to its market value of Rs. 82.339 million or an appreciation/unrealized gain of Rs. 4.245 million net of tax, which speaks volumes of the sound investment policies pursued by the Company over the years



CASH AND BANK DEPOSITS

The cash and bank deposits aggregated to Rs. 135.302 million at the year end as compared to Rs. 59.794 million at the last yearend thereby showing an increase of 126.28 % during the year. The management of your Company follows prudent approach to fund management and like to keep the liquid assets in banks accounts to meet any unusual demand which is very much usual in insurance sector.

INVESTMENT PORTFOLIO

Your Company continues to pursue its policy of increasing its overall investments. However, this increase in investment is well planned and well directed and the management of your Company applies the theory of diversification of portfolio and thereby diversifying the associated risks with each segment of investment. Total investments of the Company including investment property showed an increase 27.27 % that is Rs. 33.217 million during the year 2004. The size of total investments on December 31, 2004 stood at Rs. 154.996 million as compared to Rs. 121.779 at the end of year 2003. These investments are made-up as under

	(Rupees in millions)	
	2004	2003
1) Shares	60.808	32.374
2) Mutual Funds	15.619	12.000
3) Lending in REPO	25.200	24.998
4) TFC's	35.099	32.335
5) Government Securities	0.939	0.350
6) Investment Property	17.331	19.720
Total	154.996	121.779

Total investments alongwith cash and bank balances except for investment property stands at Rs. 272.967 Million which makes these liquid assets 44.29 % of the total asset size of the Company. This reflects the prudent approach towards the management of assets of your Company. Total assets of the Company also grew by 37.59 % and stood at Rs.616.305 million at the end of year 2004 as compared to Rs. 447.918 million at the end of year 2003. This substantial increase in asset size during the year is proof of objective management of assets of your Company.

DIVIDEND PAYMENT TO THE SHAREHOLDERS

As you are aware, your Company did remarkably well in last two years by declaring dividends in year 2002 and year 2003. That was a major achievement for an insurance Company barely 6 to 7 years old. Insurance market is becoming more open by each passing year and financial institutions play a major role in procurement of business. All the Financial Institutions have placed some kind of yardsticks for enlistment to their panel of approved insurers and assign exposure limits accordingly. Almost all of them want equity of the Company much higher for enhancing our limits. Therefore, in the circumstances your directors has decided not to recommend any payment on account of dividend.



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15. PREMIUM DUE BUT UNPAID - unsecured

	2004	2003
Considered good	114,488,653	83,718,426
Considered doubtful	-	1,778,000
	<u>114,488,653</u>	<u>85,496,426</u>
Provision against doubtful debts	-	(1,778,000)
	<u>114,488,653</u>	<u>83,718,426</u>

15.1 It includes Rs. 19.15 million (2003: Rs. 6.544 million) due from related parties.

15.2 Reconciliation of provision against doubtful balances

Balance as on 1 January	1,778,000	1,778,000
Charge for the year	9,135,453	-
Bad debts written off	(10,913,453)	-
Balance as on 31 December	<u>-</u>	<u>1,778,000</u>

15.3 The maximum balance from related parties at the end of any month during the year was Rs. 13.589 million (2003: Rs. 9.524 million).

16. AMOUNT DUE FROM OTHER INSURERS / REINSURERS

Considered good	16,784,339	37,330,149
Considered doubtful	4,008,028	-
	<u>20,792,367</u>	<u>37,330,149</u>
Provision against doubtful debts	(4,008,028)	-
	<u>16,784,339</u>	<u>37,330,149</u>

17. ACCRUED INVESTMENT INCOME

Return accrued on Term Finance Certificates	858,275	1,580,238
Dividend income	244,979	244,875
Profit accrued on Defence Saving Certificate	274,399	322,887
	<u>1,377,653</u>	<u>2,148,000</u>

18. ADVANCES, DEPOSITS AND PREPAYMENTS

Advances	344,536	2,824,272
Advance for the purchase of marketable securities	3,000,000	5,375,000
Deposits	1,333,188	1,195,535
Prepaid reinsurance premium ceded	78,641,207	69,188,563
Prepayments	2,271,472	1,901,410
	<u>85,590,403</u>	<u>80,484,780</u>

18.1 This represents pre initial public offering contribution for the purchase of marketable securities (which were received subsequent to the year end).

19. OTHER RECEIVABLES - considered good (unsecured)

Receivable from a related party	19.1	2,383,363	5,800,159
Receivable from the provident fund		421,823	25,353
Other	19.2	5,850,000	1,462,171
		<u>8,655,186</u>	<u>7,287,683</u>

19.1 This represents amount receivable on account of dealings in marketable securities, which were received subsequent to the year-end.

19.2 This represents amount receivable on account of sale of an investment property, which was received subsequent to year-end.

SHAHEEN INSURANCE COMPANY LIMITED



OPERATIONAL RESULTS AND FINANCIAL STRENGTH

From 1996 to 2004

	2004	2003	2002	2001	2000	1999	1998	1997	1996
	(In Thousand of Rupees)								
1 Gross Direct Premium	641,164.00	395,302	231,500	117,254	82,561	57,000	46,240	26,800	14,496
<i>Increase %</i>	62.20	70.76	97.43	42.02	44.84	23.27	72.54	84.88	
2 Net Premium	376,765.00	276,649	128,396	75,624	54,121	33,931	24,913	10,643	5,979
<i>Increase %</i>	36.19	115.47	69.78	39.73	59.50	36.20	134.08	78.01	
<i>% to 11</i>	470.96	345.81	160.50	94.53	90.20	56.55	41.52	17.74	9.97
3 Claims Incurred	273,807.00	126,816	59,891	36,836	21,678	10,034	9,979	4,415	634
<i>% to 2</i>	72.67	45.84	46.65	48.71	40.05	29.57	40.06	41.48	10.60
4 Commission	33,430.00	12,523	2,552	2,067	2,411	(854)	798	(2,343)	(523)
<i>% to 2</i>	8.87	4.53	1.99	2.73	4.45	(2.52)	3.20	(22.01)	(8.75)
5 Management Expenses	49,093.00	23,741	17,509	9,237	8,889	8,950	8,965	7,459	3,375
<i>% to 1</i>	7.66	6.01	7.56	7.88	10.77	15.70	19.39	27.83	23.28
<i>% to 2</i>	13.03	8.58	13.64	12.21	16.42	26.38	35.99	70.08	56.45
6 Interest & Dividend Income	26,851.00	12,623	6,832	5,335	7,569	4,984	4,857	7,486	4,364
<i>% to 21</i>	10.84	7.80	6.40	7.04	10.59	8.69	9.39	14.64	5.67
7 Other Income	10,728.00	2,629	1,115	1,134	2,334	1,801	157	(5)	
8 Provision for Taxation	5,456.00	11,135	6,580	4,268	1,113	493	-	-	-
9 Profit/(Loss) before Tax	17,326.00	31,780	22,989	9,592	10,479	7,851	(11,453)	(3,502)	(1,119)
10 Profit/(Loss) after Tax	11,870.00	20,645	16,409	5,324	9,366	7,358	(11,453)	(3,502)	(1,191)
<i>% to 2</i>	3.15	7.46	12.78	7.04	17.31	21.69	(45.97)	(32.90)	(19.92)
11 Paid-up Capital	80,000.00	80,000	80,000	80,000	60,000	60,000	60,000	60,000	60,000
11 General Reserve	20,000.00	20,000	-	-	-	-	-	-	-
12 Reserve for Unexpired Risks	211,456.00	73,306	51,359	30,249	21,648	13,572	9,965	4,257	2,392
13 Unappropriated Profit	12,966.00	1,095	12,450	6,040	716	(8,650)	(16,007)	(4,555)	(1,052)
Capital Available for Shares	112,966.00	101,095	92,450	86,040	60,716	51,350	43,993	55,445	58,948
14 Total Outstanding Claims	90,509.00	47,077	20,405	9,743	6,161	3,959	4,485	2,442	267
<i>% to 2</i>	24.02	17.02	15.89	12.88	11.38	11.67	18.00	22.94	4.47
15 Other Liabilities	78,053.00	64,558	27,185	16,133	8,842	7,178	1,973	7,690	6,269
16 Total Capital & Liabilities	472,984.00	266,036	191,399	142,165	97,367	76,059	60,416	69,834	67,876
17 Land & Properties	17,331.00	21,714	8,851	9,389	10,734	2,706	-	-	-
<i>% to 2</i>	4.60	7.85	6.89	12.42	19.83	7.98	-	-	-
18 Shares Investment	60,807.00	32,374	5,742	8,743	2,053	-	-	-	-
<i>% to 21</i>	24.54	20.00	5.38	11.54	2.87	-	-	-	-
19 Cash & Bank Balances	135,302.00	59,794	49,239	47,052	22,281	20,125	33,361	20,523	37,781
<i>% to 2</i>	35.91	21.01	38.35	62.22	41.17	59.31	133.91	192.83	631.89
20 Investment & Cash Deposits	112,466.00	102,059	57,536	28,715	49,165	37,235	18,370	30,602	39,232
21 Total Investment	247,768.00	161,853	106,775	75,767	71,446	57,360	51,731	51,125	77,013
22 O/S Premium	131,272.00	106,322	66,635	42,051	23,162	18,887	11,662	5,443	6,739
<i>% to 1</i>	20.47	26.90	28.78	35.86	28.05	33.14	25.22	20.31	46.49
24 Fixed Assets	27,540.00	14,759	13,589	8,625	8,338	8,243	12,948	8,885	5,801
<i>% to 2</i>	7.31	5.33	10.58	11.41	15.41	24.29	51.97	83.48	97.02
25 Total Assets	614,669.00	325,663	204,091	145,371	99,003	76,581	60,445	69,864	67,904
26 Break-up Value Per Share	14.12	12.64	11.56	10.76	10.12	8.56	7.33	9.24	9.82
27 Earning Per Share (After Tax)	1.46	2.58	2.05	0.67	1.17	0.92	(1.43)	(0.44)	(0.15)



2.22 Segment reporting

The company has four primary business segments for reporting purposes as follows.

- n The fire and property damage segment provides coverage against, fire engineering and allied perils, atmospheric disturbances.
- n Marine, aviation and transport insurance segment provides coverage against cargo, by land, sea, air, hull and third party liability.
- n Motor insurance provides comprehensive vehicle coverage.
- n Others insurance provides cover against cash in safe, cash in-transit, personal accident, health insurance and fidelity guarantees, etc.

2.23 Cash and cash equivalents

Cash and cash equivalents include cash and balances with banks in current, saving and deposit accounts.

2.24 Securities under repurchase / resale agreements

Transactions of purchase under resale (reverse-repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not recognised in the financial statements as investments, as the company does not obtain control over the assets. Amounts paid under these agreements are included in the financial statements as balance receivable for securities purchased under resale arrangements in respect of reverse repurchase transactions. The difference between purchase and resale price is treated as income from the date of reverse repurchase transaction and accrued over the period of the reverse-repo agreement.

Transactions of sale under repurchase (repo) of marketable securities are entered into at contracted rates for specified periods of time. These securities are not derecognised from the financial statements and continue to be recognised as investments and measured in accordance with accounting policies for investment securities. The counterparty liabilities for amounts received under these transactions are recorded as liabilities. The difference between sale and repurchase price is treated as borrowing charges and accrued over the period of the repo agreement.

2.25 Change in accounting policy relating to proposed dividend

During the year, the Securities and Exchange Commission of Pakistan substituted Fourth Schedule to the Companies Ordinance, 1984 which is effective from financial year ending on or after 5 July 2004. This has resulted in the change in accounting policy pertaining to the recognition of dividend proposed subsequent to the year end. Such a change in policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with the recommended benchmark treatment of International Accounting Standard 8 (dealing with Net Profit for the period, Fundamental Errors and changes in Accounting Policies). Had there been no change, unappropriated profit and current liabilities for the year ended 31 December 2003 would have been lower and higher respectively by Rs. 12 million.

3. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2004	2003		2004	2003
(Number of shares)				
8,000,000	8,000,000	Ordinary shares of Rs. 10	80,000,000	80,000,000
		each fully paid in cash		
<u>8,000,000</u>	<u>8,000,000</u>	<i>Rupees</i>	<u>80,000,000</u>	<u>80,000,000</u>

At 31 December 2004 shares of the company held by associated undertakings amount to Rs. 6.452 million ordinary shares of Rs. 10 each.



2.16 Financial instruments

Financial assets and liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument. Gains or losses on de-recognition of financial assets and liabilities are taken to the profit and loss account currently.

2.17 Revenue recognition

Premium and commission

- n Premium received / receivable under a policy are recognized from the date of the attachment of the policy to which it relates (at the time of the issuance of the policy).
- n Commission and other forms of revenue receivable from reinsures are recognised at the time of the issuance of policy. These are deferred and brought to account as revenue in accordance with the pattern of the recognition of the insurance premium to which they relate.

Investments

- n Profit on held-to-maturity instruments is recognised on a time proportion basis taking into account the effective yield on the investments.
- n Dividend income is recognised when the right to receive the same is established, i.e., at the time of the closure of share transfer books of the company declaring the dividend.
- n Gains / losses on sale of investments are recognised in the profit and loss account at the time of sale.
- n Rent income on investment properties and return on bank and other saving deposits are recognised on time portion basis.

2.18 Expenses of management

Expenses of management allocated to the underwriting business represent directly attributable expenses and indirect expenses allocated. Directly identifiable expenses are charged to respective classes, where indirect management expenses are allocated on the basis of gross premium written.

2.19 Off setting

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

2.20 Impairment

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

2.21 Provisions

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of past events, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of the Listing Regulations of Karachi Stock Exchange and Chapters XIII and XI of the Listing Regulations of the Lahore and Islamabad Stock Exchanges respectively and the Code of Corporate Governance applicable to listed insurance companies issued by the Securities and Exchange Commission of Pakistan 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 and directors representing minority interests on its Board of Directors. At present all the seven directors 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 have confirmed that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution or a Non Banking Finance Company and none of them is a member of any stock exchange.
4. Casual vacancies occurring in the Board on 6 February 2004 and 13 September 2004 was filled up by the directors within three days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and is under the process of being signed by the employees of the Company.
6. The Board has developed and approved a mission statement. However, overall corporate strategy and significant policies of the Company are in the process of development and approval. A complete record of particulars of significant policies along with the dates on which they were approved or amended is under the process of being maintained.
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 Chief Executive Officer have been taken by the Board.
8. All the meetings of the Board were presided over by the Chairman and the Board has met once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.