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COMPANY INFORMATION

BOARD OF DIRECTORS

Air Vice Marshal (R) Syed Imtiaz Hyder
Air Commodore (R) Qazi Mahmood Gul
Ahmed Bilal
M. Naveed Tariq
Ian Howell Ross
Robert Collings Hallier
Hamid Gulzar

CHIEF EXECUTIVE OFFICER

Sheharyar Akbar

CHIEF FINANCIAL OFFICER

Asif Suleman

COMPANY SECRETARY

Asif Suleman

AUDITORS

KPMG Taseer Hadi & Co.
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.



OFFICES

Head Office

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

Lahore

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

Karachi

Progressive Plaza Branch

Branch Manager - Mr. Sohail Najam Kidwai

705, 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

Hyderabad

Branch Manager - Syed Shaukat Ali

Upper 2nd Floor
H # 75, Soldier Bazar
Tel. # (0222) 720487, Fax. # (0022) 720489
E - mail : hyd@shaheeninsurance.com

Islamabad

Zonal Head - Mr. Khalid Sarwar

Madina City Mall Branch

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

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



Faisalabad

Zonal Head - Mr. Kashif Ghamza

2nd Floor, Sitara Towers, Bilal Chowk
Civil Lines, Faisalabad
Tel. # (041)2614112, 2621370, 2630645,
2630644, Fax. # (041) 2631514
E - mail : fsd@shaheeninsurance.com

Peshawar

Branch Manager - Mr. Muhammad Shoaib Khan
6th Floor, State Life Building
34 - The Mall, Peshawar Cantt.
Tel. # (091) 5273122, Fax. # (091) 5273106
E - mail : psw@shaheeninsurance.com

Mirpur Azad Kashmir

Branch Manager - Mr. Younis Malik
House No. 122, Sector F-2
Mirpur Azad Kashmir
Tel # (058610) 35823
E – mail: mpajk@shaheeninsurance.com

Sialkot

Branch Manager - Mr. Muhammad Mujahid Ali

Opposite Grays of Cambridge
Shahab Pura, Sialkot
Tel. # (0523)550131, (0523)252322
Fax. # (0523) 257412
E - mail : sil@shaheeninsurance.com

Multan

Branch Manager - Mr. Arshad Mehmood Khan
1st Floor, Muhammad Arcade L.M.Q Road, Multan.
Tel # (061) 6750001-5, Fax # (061) 6750004
E - mail : mul@shaheeninsurance.com



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.

It is because the reinsurers provide underwriting capacity to the Company, 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.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that 12th Annual General Meeting of Shaheen Insurance Company Limited will be held on Monday, April 30, 2007 at the Registered Office of the Company at 10th Floor, Shaheen Complex, M.R.Kayani Road, Karachi at 11.00 a.m. to transact the following;

Ordinary Business

1. To confirm the minutes of the 11th Annual General Meeting of the members.
2. To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2006 together with the Directors' and Auditors report thereon.
3. To approve the issuance of bonus shares @ 75% i.e. 75 ordinary shares for every 100 ordinary shares held, as recommended by the directors.
4. To appoint auditors for the year ended December 31, 2007 and to fix their remuneration.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Asif Suleman
Company Secretary
Karachi, April 09, 2007

Notes:

1. The share transfer Books of the Company will remain closed from April 23, 2007 to April 30, 2007 (both days inclusive).
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

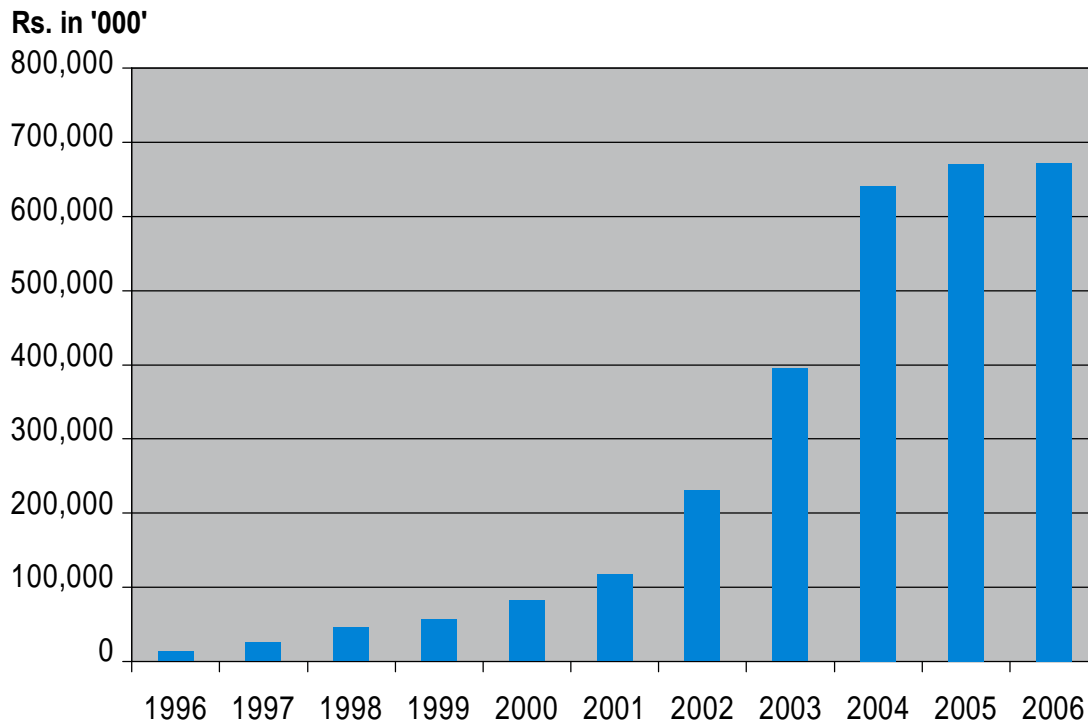
The Directors of your Company take pleasure in presenting to you the 12th Annual Report along with the audited financial statements for the year ended December 31, 2006.

COMPANY'S PERFORMANCE

You will be pleased to note that year 2006 was another year of success for the company. Underwriting profitability of your Company increased by 25.9% to Rs. 68.4 million in year 2006 as compared to Rs. 54.3 million for the year 2005. Pre-tax profits increased by 2.76% to Rs. 59.4 million as compared to Rs. 57.8 million for the year 2005. The management of your Company focused on portfolio diversification and portfolio consolidation during the year 2006.

Our total portfolio has become a lot more balanced than it was only a couple of years ago. Our fire and miscellaneous classes of business has showed a remarkable growth of 35% and 49% respectively in the year 2006 as compared to the year 2005. Whereas, motor business decreased by further 2%. Our motor business stands at 68.22% of aggregate gross written premium for the year 2006.

GROSS PREMIUM UNDERWRITTEN

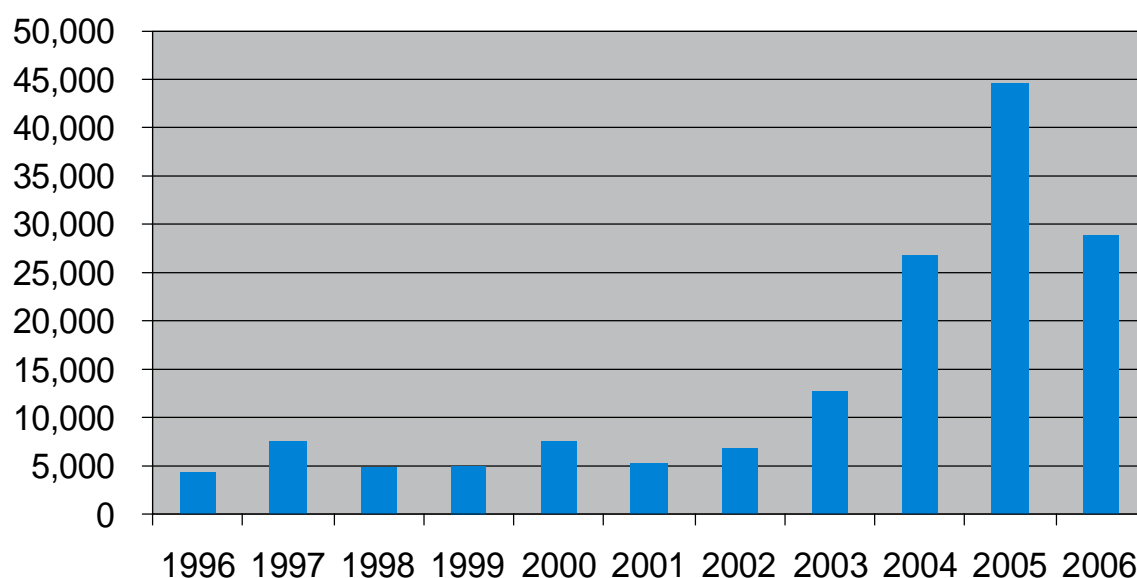


Our net profit after tax for the year 2006 is truly reflective of the sustained all round efforts over the last few years to maintain profitable portfolio. Our pre-tax profits increased by only 2.5% when compared with 25.9% increase in our underwriting profitability, which is the core activity of the Company. However, this considerable increase in underwriting profits is mitigated by stock market falls near yearend 2006. The Company recorded an unrealized loss of Rs. 14.3 million on its held for trading investments in line with the requirements of International Accounting Standard 39 "Financial Instruments: Recognition and Measurement"



INVESTMENT INCOME

Rs. In '000'



CAPITAL GAINS

The stock exchanges of the country did not post substantial positive closing in the year 2006 as compared to last couple of year. The Karachi Stock Exchange 100 Index stood at 10040 points on December 31, 2006 as compared to 9556 points on the same day last year. Thereby, posting a net gain of 5.06% only as compared to net gain of 53.68% in year 2005 and 39% in year 2004. Karachi Stock Exchange 100 index touched its highest level in March 2006 of approx. 12400 and declined to 10040 at the end of the year 2006. This downfall also resulted badly for your Company and on held for trading investments an unrealized loss of Rs. 14.3 million was recorded which compromised the over all profitability of the Company. Favorable difference between the fair value and carrying value of the investment properties stands at Rs. 52.348 million as at December 31, 2006 as against Rs. 42.9 million at the end of the year 2005. However, this has not been recognized in the profit and loss account as the same is not allowed under accounting regulations for non life insurance companies issued by the Securities and Exchange Commission of Pakistan.

INVESTMENT POLICY

Available for sale investments are required to be stated at the lower of cost or market value (market value being taken as lower if the fall is other than temporary) under the Accounting Regulation for Non-Life Insurers prescribed by the Securities and Exchange Commission of Pakistan, whereas, held for trading investments are carried at their fair values and resultant unrealized gains/ losses are taken in to profit and loss account through Statement of Investment Income. The total market value of company's investment in marketable securities is Rs. 195.733 million against the carrying value of Rs. 196.82 million resulting in net unrealized loss of Rs. 1.088 million which was not recorded in the books being temporary.



CREDIT RATING

It's a matter of great satisfaction that the Pakistan Credit Rating Agency Limited has improved the Insurer Financial Strength Rating of your Company during the year under review to 'A – ' (single A minus) with stable outlook, which signifies good credit quality. The stable outlook of the Company provides more assurance of the consistency of the Company's financial strength.

DIVIDEND PAYMENT TO THE SHAREHOLDERS

The growth of your company has increased the need to retain capital in the business. Therefore, in the circumstances your directors have decided not to recommend payment of a cash dividend. However, Bonus shares in the ratio of seventy five shares for every hundred shares held (75%) is recommended by the Board for your approval.

EARNING PER SHARE

Basic and Diluted Earning per Share of the Company for the year ended December 31, 2006 is Rs. 5.10 (December 31, 2005: Rs. 5.54)

CONTRIBUTORY PROVIDENT FUND

The investments of Employees' Provident Fund as per fund's un-audited financial statements as at December 31, 2006 are Rs. 1.062 million. These investments are in Term Finance Certificates and the return ranges from 8.45% to 9.5% p.a. which is distributed bi 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 disclosed in the financial statements.

AUDIT COMMITTEE

During the year under review four meetings of the audit committee were held which were attended by all the members of the 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:



	2006	2005	2004	2003	2002	2001	2000
Reserve and Earning	219.333	168.353	112.966	101.10	92.45	86.04	60.72
Investment Income	28.819	44.102	20.737	12.62	6.83	5.34	7.57
Gross Premium Written	671.328	670.609	641.164	395.30	231.50	117.25	82.56
Net Premium Revenue	565.327	527.103	376.765	276.65	128.40	75.62	54.12
Net Claims	352.571	353.150	270.939	126.82	59.89	36.84	21.68
Profit After Tax	50.979	55.387	11.870	20.65	16.409	5.324	9.366
Dividend Declared -Cash	-	-	15%	12.5%	-	-	-
Dividend Declared -Bonus	75%	25%	-	-	-	-	-

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The corporate laws, rules and regulations framed here-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 Ordinance, 1984 and Insurance Ordinance, 2000.
- 3) The Company has consistently followed appropriate accounting policies in preparation of the financial statements except for the changes disclosed in notes 6.1 and 6.6 to the financial statements 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 requirements of S.R.O. 938 issued by the SECP in December 2002, Insurance Ordinance, 2000, Companies Ordinance, 1984 and approved accounting standards as applicable to insurance companies in Pakistan.
- 5) The Board has established a system of internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal control given in the code.
- 6) The fundamentals of the Company are strong and there is no doubt about its ability to continue as a going concern.
- 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

On February 1, 2006 Mr. Tayyab Naeem Akhtar resigned from the Board of Directors and the Board appointed Mr. Qazi Mahmood Gul to fill the casual vacancy on the same day. On March 29, 2006 Mr. Miles Louis Japhet resigned from the Board of Directors and the Board appointed Mr. Ian Howell Ross to fill the casual vacancy on the same day. On August 31, 2006 Mr. Ahsan Hamid Malik resigned from the Board of Directors and the Board appointed Mr. Ahmed Bilal to fill the casual vacancy on the same day.



On behalf of the Company we would like to place on record our gratitude and thank Mr. Tayyab Naeem Akhtar, Mr. Miles Louis Japhet and Mr. Ahsan Hamid Malik for their services to the Company and wish them luck in their future endeavors.

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 he tenure	No. of meetings attended
1	Air Vice Marshall R. Syed Imtiaz Hyder	4	4
2	Hamid Gulzar	4	4
3	Tayyab Naeem Akhtar	0	0
4	Ahsan Hamid Malik	3	3
5	Robert Collings Hallier	4	4
6	Miles Louis Japhet	1	1
7	Ian Howell Ross	3	3
8	Ahmed Bilal	1	1
9	Qazi Mahmood Gul	4	4
10	Mohammad Naveed Tariq	4	4

PATTERN OF SHAREHOLDING

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

TRADING IN COMPANY'S SHARES

Except as stated below, on trading in the shares of the Company was carried out by the Directors, CEO, CFO, Company Secretary, their spouses or minor children.

Name	No. of Shares	
	Sold	Purchased
Air Vice Marshall R. Syed Imtiaz Hyder	125	Nil
Mr. Qazi Mahmood Gul	125	Nil
Mr. Hamid Gulzar	125	Nil



FUTURE OUTLOOK OF THE COMPANY

Macro economic indicators of the country are showing constant improvements year on year. Pakistan is expected to achieve Gross Domestic Product growth of 7% for the fiscal year. Our export products are performing better and better. Stock markets and real estate markets are showing signs of stability. Foreign investment is flowing in and the balance of Special Rupee Convertible Account is around US\$ 530 million. Government is going ahead with the privatization of state owned entities. Overall economic environment of the country looks to be very positive. All these activities are generating new insurance businesses as well of which Motor and other consumer businesses is a major portion still.

As you all are aware that your Company is relatively new in the market as compared to the competitors. Insurance Companies historically take time to build their reputation in the market and fetch business. However, we are confident that your Company will continue to grow profitably and will provide a valuable service to the policyholders.

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 aviation business.

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

Most of all 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 2006.

For and on behalf of the Board

Syed Imtiaz Hyder
Air Vice Marshal (Retd.)
Chairman

Karachi : 6 April, 2007



OPERATIONAL RESULTS AND FINANCIAL STRENGTH

From 1997 to 2006

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
	(In Thousand of Rupees)									
1 Gross Direct Premium	671,328.00	670,609.00	641,164.00	395,302	231,500	117,254	82,561	57,000	46,240	26,800
Increase %	0.11	4.59	62.20	70.76	97.43	42.02	44.84	23.27	72.54	84.88
2 Net Premium	565,327.00	527,103.00	376,765.00	276,649	128,396	75,624	54,121	33,931	24,913	10,643
Increase %	7.25	39.90	36.19	115.47	69.78	39.73	59.50	36.20	134.08	78.01
% to 11	565.33	658.88	470.96	345.81	160.50	94.53	90.20	56.55	41.52	17.74
3 Claims Incurred	352,571.00	353,150.00	273,807.00	126,816	59,891	36,836	21,678	10,034	9,979	4,415
% to 2	62.37	67.00	72.67	45.84	46.65	48.71	40.05	29.57	40.06	41.48
4 Commission	87,891.00	69,613.00	33,430.00	12,523	2,552	2,067	2,411	(854)	798	(2,343)
% to 2	15.55	13.21	8.87	4.53	1.99	2.73	4.45	(2.52)	3.20	(22.01)
5 Management Expenses	56,488.00	49,623.00	49,093.00	23,741	12,393	9,237	8,889	8,950	8,965	7,459
% to 1	8.41	7.40	7.66	6.01	5.35	7.88	10.77	15.70	19.39	27.83
% to 2	9.99	9.41	13.03	8.58	9.65	12.21	16.42	26.38	35.99	70.08
6 Interest & Dividend Income	28,820.00	44,103.00	26,851.00	12,623	6,832	5,335	7,569	4,984	4,857	7,486
% to 22	7.06	13.46	10.84	7.80	6.40	7.04	10.59	8.69	9.39	14.64
7 Other Income	9,061.00	129.00	10,728.00	2,629	1,115	1,134	2,334	1,801	157	(5)
8 Provision for Taxation	8,371.00	2,464.00	5,456.00	11,135	6,580	4,268	1,113	493	-	-
9 Profit/(Loss) before Tax	59,350.00	57,852.00	17,326.00	31,780	22,989	9,592	10,479	7,851	(11,453)	(3,502)
10 Profit/(Loss) after Tax	50,979.00	55,388.00	11,870.00	20,645	16,409	5,324	9,366	7,358	(11,453)	(3,502)
% to 2	9.02	10.51	3.15	7.46	12.78	7.04	17.31	21.69	(45.97)	(32.90)
11 Paid-up Capital	100,000.00	80,000.00	80,000.00	80,000	80,000	80,000	60,000	60,000	60,000	60,000
12 General Reserve	20,000.00	20,000.00	20,000.00	20,000	-	-	-	-	-	-
13 Reserve for Unexpired Risks	225,820.00	212,175.00	211,456.00	73,306	51,359	30,249	21,648	13,572	9,965	4,257
14 Unappropriated Profit	99,333.00	68,354	12,966.00	1,095	12,450	6,040	716	(8,650)	(16,007)	(4,555)
15 Capital Available for Shares	219,333.00	168,354	112,966.00	101,095	92,450	86,040	60,716	51,350	43,993	55,445
16 Total Net Outstanding Claims	98,646.00	85,384.00	90,509.00	47,077	20,405	9,743	6,161	3,959	4,485	2,442
% to 2	17.45	16.20	24.02	17.02	15.89	12.88	11.38	11.67	18.00	22.94
17 Other Liabilities	61,251.00	96,287.00	78,053.00	64,558	27,185	16,133	8,842	7,178	1,973	7,690
18 Total Capital & Liabilities	585,050.00	542,200	472,984.00	266,036	191,399	142,165	97,367	76,059	60,416	69,834
19 Land & Properties	6,701.00	16,794.00	17,331.00	21,714	8,851	9,389	10,734	2,706	-	-
% to 2	1.19	3.19	4.60	7.85	6.89	12.42	19.83	7.98	-	-
20 Cash & Bank Balances	197,362.00	155,720.00	135,302.00	59,794	49,239	47,052	22,281	20,125	33,361	20,523
% to 2	34.91	29.54	35.91	21.61	38.35	62.22	41.17	59.31	133.91	192.83
21 Investment	211,114.00	172,032.00	112,466.00	102,059	57,536	28,715	49,165	37,235	18,370	30,602
22 Total Cash & Investment	408,476.00	327,752.00	247,768.00	161,853	106,775	75,767	71,446	57,360	51,731	51,125
23 O/S Premium	84,586.00	131,929.00	131,272.00	106,322	66,635	42,051	23,162	18,887	11,662	5,443
% to 1	12.60	19.67	20.47	26.90	28.78	35.86	28.05	33.14	25.22	20.31
24 Fixed Assets	24,084.00	21,995.00	27,540.00	14,759	13,589	8,625	8,338	8,243	12,948	8,885
% to 2	4.26	4.17	7.31	5.33	10.58	11.41	15.41	24.29	51.97	83.48
25 Total Assets	674,977.00	635,735.00	614,669.00	447,918	204,091	145,371	99,003	76,581	60,445	69,864
26 Break-up Value Per Share	21.93	18.54	14.12	12.64	11.56	10.76	10.12	8.56	7.33	9.24
27 Earning Per Share (After Tax)	5.10	6.92	1.46	2.58	2.05	0.67	1.17	0.92	(1.43)	(0.44)



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges, where Shaheen Insurance Company Limited (the Company) is listed and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(I)/2003 by the Securities and Exchange Commission of Pakistan (the Codes) 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 Codes 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 directors are non-executive directors other than the Chief Executive Officer of the Company.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including the 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 (DFI) or a Non Banking Finance Company (NBFC) and none of them is a member of any stock exchange.
4. Three casual vacancies occurred in the Board of Directors during the years which were filled within 30 days thereof.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and the employees of the Company.
6. The Board has developed and approved a mission statement. However, overall corporate strategy and certain significant policies of the Company are in the process of development. A complete record of particulars of these significant policies will be maintained and approved after these are developed and approved.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board. There was no new appointment of the Chief Executive Officer. His remuneration and terms and conditions of employment have been approved by the Board of Directors.
8. All the meetings of the Board were presided over by the Chairman and the Board met once in every quarter. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board has established a system of internal control, which is implemented at all levels within the company. The company is making efforts and arrangements to include all the necessary aspects of internal control given in the code.
10. An orientation course was arranged for the directors of the company to update them about their duties and responsibilities. All the directors attended the course except for a director who was appointed subsequent to a casual vacancy.



11. There was no new appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit during the year. The remuneration and the terms and conditions of the employment of Chief Financial Officer, Company Secretary and Head of Internal Audit, as determined by the Chief Executive Officer, were approved by the Board in the earlier year.
12. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
14. 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.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed underwriting, claim settlement and reinsurance committees.
17. The Company has formed an audit committee comprising of three members. All the members are non-executive directors including the Chairman of the committee.
18. The meetings of the audit committee were held once every quarter prior to the approval of interim and final results of the Company, as required by the Code. There was no change in terms of reference of the committee which was formed and advised to the committee for compliance in previous years.
19. The Board is in the process of setting up an effective internal audit functions.
20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. 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

Dated 6 April, 2007
Karachi.



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** (“the Company”) to comply with the Listing Regulations of the respective stock exchanges where the Company is listed and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(I)/2003, 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 as applicable to the Company.

**Date: 6 April, 2007
Karachi**

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



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 2006 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 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 1984);
- b) The financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 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 6.1 and 6.6 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 2006 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 (XXXIX of 2000) and the Companies Ordinance, 1984 (XLVII of 1984); and

- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Date: 6 April, 2007
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants



BALANCE SHEET

	Note	2006	2005 Restated
SHARE CAPITAL AND RESERVES			
Authorised share capital: 20,000,000 (2005: 20,000,000) ordinary shares of Rs. 10 each		<u>200,000,000</u>	<u>200,000,000</u>
Issued, subscribed and paid-up 10,000,000 (2005: 8,000,000) ordinary shares of Rs. 10 each	7	100,000,000	80,000,000
General reserve		20,000,000	20,000,000
Accumulated profit		99,333,313	68,353,627
		<u>219,333,313</u>	<u>168,353,627</u>
UNDERWRITING PROVISIONS			
Provision for outstanding claims (including IBNR)		112,559,585	98,818,385
Premiums deficiency reserve	6.3	1,413,098	1,413,098
Provision for unearned premiums	6.4	271,845,162	262,268,235
Commission income unearned		8,574,796	8,595,151
Total underwriting provisions		394,392,641	371,094,869
CREDITORS AND ACCRUALS			
Premiums received in advance		3,349,099	7,434,050
Amounts due to other insurers / reinsurers		6,702,919	40,366,977
Accrued expenses	8	10,869,713	10,243,798
Agents balances		10,451,230	15,759,260
Taxation - provision less payments		10,113,562	4,167,633
		41,486,523	77,971,718
OTHER LIABILITIES			
Other payables	9	19,366,105	17,916,715
Dividend payable - unclaimed		398,934	398,934
		19,765,039	18,315,649
Total liabilities		455,644,203	467,382,236
Total equity and liabilities	Rupees	<u>674,977,516</u>	<u>635,735,863</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.



AS AT 31 DECEMBER 2006

	Note	2006	2005
CASH AND BANK DEPOSITS	10		
Cash and other equivalents		59,419,992	52,711,995
Current and saving accounts		96,369,749	53,794,128
Deposits maturing within 12 months		41,572,338	49,213,609
		197,362,079	155,719,732
LOANS TO EMPLOYEES			
- secured, considered good	11	922,408	739,289
INVESTMENTS	12	211,113,838	172,032,487
INVESTMENT PROPERTIES	13	6,701,576	16,793,992
OTHER ASSETS			
Premiums due but unpaid	14	84,586,173	131,929,193
Amounts due from other insurers / reinsurers	15	27,794,768	25,962,291
Deferred commission expense		50,923,952	41,433,424
Accrued investment income	16	1,783,888	1,352,406
Reinsurance recoveries against outstanding claims		13,913,950	13,434,255
Advances, deposits and prepayments	17	51,547,654	53,120,051
Other receivables	18	4,242,796	1,223,919
		234,793,181	268,455,539
FIXED ASSETS	19		
Tangible			
Furniture and fixtures		3,570,542	3,943,081
Motor vehicles		15,955,370	12,387,894
Office and electrical equipments		1,810,003	1,565,995
Computer equipments		1,408,519	2,097,854
		22,744,434	19,994,824
Intangible			
Computer software		1,340,000	-
Capital work in progress		-	2,000,000
		1,340,000	2,000,000
Total assets	Rupees	674,977,516	635,735,863

Chairman

Chief Executive Officer

Director

Chief Financial Officer



PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

Note	Fire and property damage	Marine, aviation and transport	Motor	Others	Treaty	2006 Aggregate	2005 Aggregate
Revenue account							
	39,532,404	18,878,403	458,208,683	48,707,582	-	565,327,072	527,103,119
	(4,707,299)	(3,132,520)	(310,396,376)	(34,334,957)	-	(352,571,152)	(353,149,967)
	-	-	-	-	-	-	(413,098)
20	(3,950,154)	(1,886,367)	(45,785,097)	(4,866,956)	-	(56,488,574)	(49,623,256)
	(14,045,340)	(2,349,386)	(66,912,843)	(4,583,186)	-	(87,890,755)	(69,612,979)
	(17,995,494)	(4,235,753)	(112,697,940)	(9,450,142)	-	(144,379,329)	(119,236,235)
Underwriting result	Rupees 16,829,611	11,510,130	35,114,367	4,922,483	-	68,376,591	54,303,819
						28,819,578	44,102,737
						1,784,805	1,902,240
21						9,061,009	129,011
20						(48,691,384)	(42,586,116)
Profit before tax						59,350,599	57,851,691
22						(14,488,917)	(4,070,000)
- prior year						6,118,004	1,606,304
						(8,370,913)	(2,463,696)
Net profit after tax					Rupees	50,979,686	55,387,995
Profit and loss appropriation account:							
						2006	2005 Restated
						68,353,627	12,965,632
						50,979,686	55,387,995
						(20,000,000)	-
					Rupees	99,333,313	68,353,627
Earnings per share- basic and diluted	23				Rupees	5.10	5.54

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

	Note	Share capital	General reserve	Reserve for proposed issue of bonus shares	Accumulated profit	Total
Balance as at 1 January 2005		80,000,000	20,000,000	-	12,965,632	112,965,632
Net profit for the year ended 31 December 2005 (total recognised income and expense for the year)		-	-	-	55,387,995	55,387,995
Transfer to reserve for proposed issue of bonus shares		-	-	20,000,000	(20,000,000)	-
Balance as at 31 December 2005 (as previously stated)		80,000,000	20,000,000	20,000,000	48,353,627	168,353,627
Reversal due to change in accounting policy	6.1	-	-	(20,000,000)	20,000,000	-
Balance as at 31 December 2005 (restated)		80,000,000	20,000,000	-	68,353,627	168,353,627
Issue of bonus shares	6.1	20,000,000	-	-	(20,000,000)	-
Net profit for the year ended 31 December 2006 (total recognised income and expense for the year)		-	-	-	50,979,686	50,979,686
Balance as at 31 December 2006	Rupees	<u>100,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>99,333,313</u>	<u>219,333,313</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF CASH FLOW

	2006	2005
Operating cash flows		
a) Underwriting activities		
Premiums received	689,474,417	633,786,273
Reinsurance premium paid	(127,458,604)	(144,551,673)
Claims paid	(438,562,924)	(420,497,555)
Reinsurance and other recoveries received	99,253,277	65,522,069
Commissions paid	(115,908,385)	(104,974,305)
Commissions received	16,415,988	22,114,294
Other underwriting receipts	22,510,126	24,603,783
Net cash flow from underwriting activities	145,723,895	76,002,886
b) Other operating activities		
Income tax paid	(2,424,984)	(7,632,934)
General management expenses paid	(84,546,846)	(69,271,742)
Loans advanced	(183,119)	(163,513)
Net cash flow from other operating activities	(87,154,949)	(77,068,189)
Total cash flows from operating activities	58,568,946	(1,065,303)
Investment activities		
Profit / return received	16,573,404	9,685,079
Rentals received	1,784,805	1,902,240
Payments for investments	(56,337,659)	(26,580,412)
Proceeds from disposal of investments	25,488,740	38,801,958
Fixed capital expenditure	(13,329,222)	(2,688,588)
Proceeds from disposal of fixed assets	8,893,333	1,203,200
Total cash flows from investing activities	(16,926,599)	22,323,477



For the year ended 31 December 2006

	2006	2005
Financing activities		
Financial charges	-	-
Lease payments	-	(841,007)
Dividends paid	-	-
Total cash flows from financing activities	-	(841,007)
Net cash flows from all activities	41,642,347	20,417,167
Cash and cash equivalents at beginning of the year	155,719,732	135,302,565
Cash and cash equivalents at end of the year	197,362,079	155,719,732
	Rupees	
Reconciliation to profit and loss account		
Operating cash flows	58,568,946	(1,065,304)
Depreciation expense	(9,701,964)	(8,535,945)
Gain on disposal of fixed assets	1,020,352	129,011
Provision for doubtful debts	(3,800,205)	(8,091,731)
Taxes paid	2,424,984	7,632,934
Financial charges	-	(70,312)
Assets written off	-	(189,667)
(Increase) / decrease in assets other than cash	(16,664,773)	(19,690,973)
Increase / (decrease) in liabilities	(11,141,781)	41,191,195
Investment and other income	38,645,040	46,542,393
Provision for tax	(8,370,913)	(2,463,606)
Profit after taxation	50,979,686	55,387,995
	Rupees	
Cash and cash equivalents		
Cash and other equivalents	59,419,992	52,711,995
Current and saving accounts	96,369,749	53,794,128
Deposit maturing within 12 months	41,572,338	49,213,609
	Rupees	
	197,362,079	155,719,732

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF PREMIUMS

For the year ended 31 December 2006

Business underwritten inside Pakistan

Class	Premiums written (Note 25)	Unearned premium reserve		*Premium earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2006	2005
		Opening	Closing			Opening	Closing		Net premium revenue	Net premium revenue
	a	b	c	d=a+b-c	e	f	g	h=e+f-g	i=d-h	
Direct and facultative										
Fire and property damage	91,622,792	24,247,216	48,799,922	67,070,086	27,188,617	14,412,513	14,063,448	27,537,682	39,532,404	37,056,505
Marine, aviation and transport	61,910,617	28,718,464	24,513,206	66,115,875	42,912,271	21,042,772	16,717,571	47,237,472	18,878,403	15,039,813
Motor	458,005,776	191,171,759	174,200,243	474,977,292	16,693,361	8,789,617	8,714,369	16,768,609	458,208,683	453,819,020
Others	59,789,532	18,130,796	24,331,791	53,588,537	**5,563,100	7,260,817	7,942,962	4,880,955	48,707,582	21,187,781
Total	<u>671,328,717</u>	<u>262,268,235</u>	<u>271,845,162</u>	<u>661,751,790</u>	<u>92,357,349</u>	<u>51,505,719</u>	<u>47,438,350</u>	<u>96,424,718</u>	<u>565,327,072</u>	<u>527,103,119</u>
Treaty	-	-	-	-	-	-	-	-	-	-
Grand total Rupees	<u>671,328,717</u>	<u>262,268,235</u>	<u>271,845,162</u>	<u>661,751,790</u>	<u>92,357,349</u>	<u>51,505,719</u>	<u>47,438,350</u>	<u>96,424,718</u>	<u>565,327,072</u>	<u>527,103,119</u>

* 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.

** This includes the effect of the reversal of Rs. 9.461 million due to revision of re-insurance arrangements with the re-insurers in miscellaneous class of business during the year ended 31 December 2006.

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF CLAIMS

For the year ended 31 December 2006

Business underwritten inside Pakistan				Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	2006 Net claims expense	2005 Net claims expense
Class	Claims paid	Outstanding claims				Opening	Closing			
	a	b	c	d=a+c-b	e	f	g	h=e+g-f	i=d-h	
Direct and facultative										
Fire and property damage	26,822,752	11,647,927	3,515,677	18,690,502	19,465,469	7,416,198	1,933,932	13,983,203	4,707,299	6,006,409
Marine, aviation and transport	25,269,656	495,957	7,306,154	32,079,853	23,322,042	326,026	5,951,317	28,947,333	3,132,520	1,206,300
Motor	344,803,427	84,248,814	91,959,527	352,514,140	47,041,431	5,339,827	416,160	42,117,764	310,396,376	321,195,231
Others	41,667,089	2,425,687	9,778,227	49,019,629	9,424,335	352,204	5,612,541	14,684,672	34,334,957	24,742,027
Total	438,562,924	98,818,385	112,559,585	452,304,124	99,253,277	13,434,255	13,913,950	99,732,972	352,571,152	353,149,967
Treaty	-	-	-	-	-	-	-	-	-	-
Grand total	Rupees 438,562,924	98,818,385	112,559,585	452,304,124	99,253,277	13,434,255	13,913,950	99,732,972	352,571,152	353,149,967

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF EXPENSES

For the year ended 31 December 2006

Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission		Net Commission expenses	Other Management expenses (Note 20)	Underwriting expenses	*Commission from reinsurers	2006	2005
		Opening	Closing					Net underwriting expenses	Net underwriting expenses
	a	b	c	d=a+b-c	e	f=d+e	g	h=f-g	
Direct and facultative									
Fire and property damage	33,542,738	7,772,448	18,689,644	22,625,542	3,950,154	26,575,696	8,580,202	17,995,494	11,246,269
Marine, aviation and transport	6,547,048	3,148,992	3,100,073	6,595,967	1,886,367	8,482,334	4,246,581	4,235,753	(683,451)
Motor	63,945,015	28,672,112	25,666,599	66,950,528	45,785,097	112,735,625	37,685	112,697,940	107,972,511
Others	6,984,037	1,839,872	3,467,636	5,356,273	4,866,956	10,223,229	**773,087	9,450,142	700,906
Total	111,018,838	41,433,424	50,923,952	101,528,310	56,488,574	158,016,884	13,637,555	144,379,329	119,236,235
Treaty	-	-	-	-	-	-	-	-	-
Grand total Rupees	111,018,838	41,433,424	50,923,952	101,528,310	56,488,574	158,016,884	13,637,555	144,379,329	119,236,235

* Commission from reinsures is arrived at after taking the impact of the opening and closing balance of unearned commission.

** This includes the effect of the reversal of Rs. 2.838 million due to adjustment of commission receivable from the re-insurers for health business during the year ended 31 December 2006.

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



STATEMENT OF INVESTMENT INCOME

For the year ended 31 December 2006

	Note	2006	2005
Income from trading investments			
Capital gain on sale of held for trading investments		12,373,860	7,506,479
Dividend income		3,731,592	458,877
Income from non-trading investments			
<i>Held-to-maturity</i>			
Return on government security		308,425	157,298
Return on other fixed income securities and deposits		8,270,328	4,712,794
		8,578,753	4,870,092
<i>Available-for-sale</i>			
Dividend income		5,002,966	5,785,178
		13,581,719	10,655,270
Gain on sale of non-trading investments (available-for-sale)		7,065,180	20,022,775
(Loss)/gain on revaluation of held for trading investments	22.3	(14,281,160)	4,009,188
Income from reverse repo transactions in listed equity securities		15,712,980	9,669,483
Loss on sale of investment properties	13.1	(3,219,667)	-
Investment related expenses	12.10	(9,663,280)	(4,700,981)
		25,301,224	47,621,091
Reversal of impairment/(Provision) for in value of available for sale investments		3,518,354	(3,518,354)
Net investment income	Rupees	28,819,578	44,102,737

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



Shaheen Insurance Company Limited
Notes to the Financial Statements
For the year ended 31 December 2006

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 Commercial Complex, Karachi.

2. BASIS OF PRESENTATION

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

3. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of S.R.O. 938 issued by the SECP in December 2002, Insurance Ordinance, 2000, Companies Ordinance, 1984 and approved accounting standards as applicable to insurance companies in Pakistan. 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.

4. 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. These financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency.

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.



Judgements made by the management in the application of approved accounting standards as applicable in Pakistan that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are as follows:

Provision for outstanding claims (including IBNR)

The company records claims based on the amount of claim lodged by the insured. However, the settlement of all the claims is made based on the surveyor's assessment appointed for ascertainment of company's liability. The surveyor's assessment could differ significantly with the claims lodged by the insured, and accordingly amount of claims settled could materially differ with the amount of liability accrued.

The provision of claims incurred but not reported (IBNR) is made on the basis of actuarial valuation. The actuarial valuation is made on the basis of past trend and pattern of reporting of claims. The actual amount of IBNR may materially differ from the actuarial estimates.

Premium deficiency reserve

Premium deficiency reserve (PDR) is based on actuarial valuation for class wise insurance business. The actuary considers the trends of gross and net loss ratio of the company. Accordingly the actual results may differ with the assumption (based on historical trend) used by the actuary.

Reinsurance recoveries against outstanding claims

Reinsurance recoveries are accrued on the basis of share of reinsurers in outstanding claims including IBNR as stated above. The recoveries are finalised when the amounts of outstanding claims are finalized based on surveyor's assessment. Therefore, reinsurance recoveries booked could proportionately differ with the amount of reinsurance recoveries accrued at the balance sheet date.

Income taxes

In making the estimates for income taxes currently payable by the company, the management looks at the current income tax law and the decisions of appellate authorities on certain issues in the past.

Impairment of investments

The Company determines that investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in prices. In addition the impairment may be appropriate when there is an evidence of deterioration in the financial health of the invested industry and sector performance, changes in technology and operational financial cash flows.

Impairment of other assets, including premium due but unpaid

The Company also considers the need for impairment provision against other assets, including the premium due but un-paid. While assessing such a requirement, various factors including the delinquency in the account, financial position of the counterparty, etc. are considered.



5. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards effective for accounting period beginning on or after 01 January 2007, are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures in certain cases:

IAS – 1	Presentation of Financial Statements- Amendments Relating to Capital Disclosures
IFRS – 2	Share Based Payments
IFRS – 3	Business Combination
IFRS – 5	Non-Current Assets Held for Sale and Discontinued Operations
IFRS – 6	Exploration for and Evaluation of Mineral Resources
IFRIC – 8	Scope of IFRS 2 Share Based Payments
IFRIC – 9	Reassessment of Embedded Derivates
IFRIC – 10	Interim Financial Reporting and Impairment
IFRIC – 11	Group and Treasury Share Transactions
IFRIC – 12	Services Concession Arrangements

6. SIGNIFICANT ACCOUNTING POLICIES

6.1 Change in accounting policy in respect of appropriation for issue of bonus shares and transfer to general reserve

The Company during the period changed its accounting policy in respect of appropriation for issue of bonus shares and reserves, except statutory reserves, which are now recognised in the period in which these are declared / approved. Previously, financial statements were adjusted for the proposed issue of bonus shares and appropriations to reserves, approved subsequent to the balance sheet date. The change was considered necessary in light of a circular issued by the Institute of Chartered Accountant of Pakistan whereby the requirement of international Accounting Standard 10 “Events after the Balance Sheet date”, are now fully applicable to the Company. This change has been applied retrospectively and the comparative figures have been restated to confirm to the changed policy under the requirements of International Accounting Standard 8, “Accounting Policies, Change in Accounting Estimates and Errors”. Had there been no change in accounting policy, the balances of reserve for the proposed issue of bonus shares and unappropriated profit would have been respectively higher and lower as follows:

	31 December 2006	31 December 2005
Reserves for issue of bonus shares – higher by	-	20,000,000
Unappropriated profit – lower by	-	(20,000,000)
Net impact	-	-
	Rupees	

6.2 Claims liability

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

Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not



reported (IBNR) and expected claims settlement costs based on which liability of Rs. 4.555 million (2005: Rs. 7.237 million) has been recognized by the Company. Provision for IBNR is made for the cost of settling claims incurred but not reported at the balance sheet date on the basis of actuarial valuation. The latest valuation was carried out as of 31 December 2006. Any significant event may effect the judgement which could effect the provision made for IBNR. Reinsurance recoveries against outstanding claims and salvage recoveries are recognised as an asset and measured at the amount expected to be received.

6.3 Premium deficiency reserve (PDR)

The company is required under SEC (Insurance) Rules, 2002 to maintain 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.

The requirement for PDR is determined on the basis of an actuarial valuation. The latest valuation was carried out as of 31 December 2006. Based on the actuarial valuation so carried out, the company is not required to make any provision for PDR in respect of fire, marine and motor insurance classes of business. Provision of Rs. 1.413 million (2005: Rs. 1.413 million) required against the 'others' class of insurance business determined through the actuarial valuation has been recognised by the company.

6.4 Premiums

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

Revenue from premiums is recognised after taking into account the unearned portion of premium which is calculated using the 1/24th method. The unearned portion of premium income is recognised as a liability. 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.

Reinsurance premium is recognised as expense after taking into account the proportion of deferred premium expense which is calculated using 1/24th method. The deferred portion of premium expense is recognised as a prepayment.

Pakistan Reinsurance Company Limited (PRCL) retrocession business is recognized on the basis of PRCL statements pertaining to the previous years.

Administrative surcharge is included in the profit and loss accounts (as premium income) at the time the policies are issued and are not amortized.

6.5 Operating fixed assets

Tangibles

Owned

- Operating fixed assets are stated at cost less accumulated depreciation and impairment losses, if any.



- 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 19 to these financial statements.
- Depreciation is charged from the month the asset is available for intended use. No depreciation is charged in the month of the disposal of the asset.
- Gains and losses on disposal of fixed assets are taken to profit and loss account currently.
- 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.

Intangibles

- These are stated at cost less accumulated amortisation and impairment loss. Amortisation is charged over the estimated useful life of the asset on a systematic basis to income applying the straight line method at the rates specified in note 19.1 to the financial statements.
- Software development costs are only capitalised to the extent that future economic benefits are expected to be derived by the Company.
- The carrying amounts are reviewed at each balance sheet date to assess whether these are recorded in excess of their recoverable amounts, and where carrying values exceed estimated recoverable amount, assets are written down to their estimated recoverable amounts.

6.6 Investments

Investments are initially recognised at cost, being the fair value of the consideration given including transaction costs associated with investments, excluding those pertaining to held-for-trading which is charged to the profit and loss account. During the year the Company changed its accounting policy in respect of the transaction costs such as brokerage fee, commission, etc. that are directly attributable to the acquisition of held for trading investments. From the current year transaction costs are being recognized in the profit and loss account for the year. Previously, the same were included in the cost of acquisition of held for trading investments. This change has been made to comply with the requirements of the revised International Accounting Standard 39 Financial Instruments: Recognition and Measurement. This change did not had a material impact on the current year or the previous year's financial statements.

Subsequent to the initial recognition, the investments are recognised and classified as follows:

6.6.1 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.

6.6.2 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.

Profit on held-to-maturity instruments is recognised on a time proportion basis taking into account the effective yield on the investments.

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

6.6.3 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 the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirement of the S.R.O. 938 issued by the SECP in December 2002.

Un-quoted

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

6.6.4 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 are recognised / derecognised by the company on the date it commits to purchase / sell the investments.

6.7 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.



6.8 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;

- 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.
- Subsequent capital expenditures on existing properties and gains or losses on disposals are accounted for in the same manner as operating fixed assets.

6.9 Trade and other receivables

These are stated at cost less impairment losses, if any. Full provision is made against the impaired debts.

6.10 Retirement benefits – Defined Contribution Plan (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 at the rate of 10 % of their basic salaries.

6.11 Taxation

Current

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

Deferred

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 the 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.

6.12 Foreign currency translation

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 currently.

6.13 Financial instruments

Financial instruments carried on the balance sheet include cash and bank, loans, premiums due but unpaid, amount due from other insurers / reinsurers, premium and claim reserves retained by cedants, accrued investment income, reinsurance recoveries against outstanding claims, sundry receivables, amount due to other insurers /



reinsurers, accrued expenses, other creditors and accruals, deposits and other payables and unclaimed dividends.

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. At the time of initial recognition all financial assets and financial liabilities are measured at cost, which is the fair value of the consideration given or received for it. Any gain or loss on derecognising of financial assets and financial liabilities are taken to income directly.

6.14 Revenue recognition

Premiums and commission

- 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). Refer note 6.4 for details.
- Commission and other forms of revenue receivable from reinsures are recognised at the time of the issuance of policy. These are deferred and recognised in the profit and loss account in accordance with the pattern of the recognition of the reinsurance premium to which they relate.

Investments and investment properties

- Profit on held-to-maturity instruments and bank balances is recognised on a time proportion basis taking into account the effective yield on the instruments.
- 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.
- Gains / losses on sale of investments are recognised in the profit and loss account at the time of sale.
- Rent income on investment properties are recognised on a time portion basis.

6.15 Expenses of management

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

6.16 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.

6.17 Commission expense

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

6.18 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.

6.19 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.

6.20 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.

6.21 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The company accounts for segment reporting using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 as the primary reporting format.

As the operations of the company are predominantly carried out in Pakistan, information relating to geographical segment is not relevant.

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

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

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them, while the carrying amount of certain assets / liabilities used / incurred jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets and liabilities which can not be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

6.22 Cash and cash equivalents

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



7. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2006	2005		2006	2005
(Number of shares)				
8,000,000	8,000,000	Ordinary shares of Rs. 10 each fully paid in cash	80,000,000	80,000,000
2,000,000	-	Ordinary shares of Rs. 10 each issued as fully paid bonus shares	20,000,000	-
<u>10,000,000</u>	<u>8,000,000</u>		<u>100,000,000</u>	<u>80,000,000</u>
		Rupees		

At 31 December 2006, 9.262 million (2005: 6.717 million) shares of the company were held by associated undertakings. Details of these holdings are as follows:

Shaheen Foundation, Pakistan Airforce	2,050,318	1,639,755
Central Non Public Fund, Pakistan Airforce	1,250,000	1,000,000
The Hollard Company Limited, South Africa	3,173,898	2,539,119
First Capital Securities Corporation Limited	91	29,973
First Capital Equities Limited	1,217,500	1,281,000
Worldcall Telecom Limited	1,570,875	227,000
	<u>9,262,682</u>	<u>6,716,847</u>

8. ACCRUED EXPENSES

Staff bonus payable	9,000,000	9,098,000
Advisory fee payable to a related party	410,845	253,854
Due to the provident fund	600,876	-
Others	857,992	891,944
	<u>10,869,713</u>	<u>10,243,798</u>
	Rupees	

9. OTHER PAYABLES

Liabilities payable to policy holders in respect of cancelled policies	6,495,757	9,445,617
Central excise duty payable	9.1	8,234,312
Federal insurance fee payable	9.1	1,174,960
Unearned rental income		221,232
Withholding tax payable	9.1	640,273
Others	9.2	2,599,571
	<u>19,366,105</u>	<u>17,916,715</u>
	Rupees	

9.1 Subsequent to the year-end, the amount was paid by the company.

9.2 This includes Rs. 2.037 million (2005: Rs. 1.458 million) representing the amount paid by the employees to the company against purchase of vehicles.

The amount also includes Rs. 0.713 million (2005: Rs. 0.407 million) received from the Chief Executive Officer of the Company.



	2006	2005
10. CASH AND BANK DEPOSITS		
Cash and other equivalents		
- Cash in hand	70,606	57,697
- Cheque in hand	59,225,710	52,580,588
- Policy stamps and bond papers in hand	123,676	73,710
	<u>59,419,992</u>	<u>52,711,995</u>
Current and saving accounts		
- Current accounts	51,897,850	31,522,337
- Savings accounts	44,471,899	22,271,791
	<u>96,369,749</u>	<u>53,794,128</u>
Deposit maturing within 12 months - term deposits	41,572,338	49,213,609
	<u>Rupees 197,362,079</u>	<u>155,719,732</u>

10.1 This represents a cheque dated 27 December 2006 which was deposited in the bank on 6 January 2007. The balance was credited in the company's bank account on the same day.

11. LOANS TO EMPLOYEES - secured, considered good

Due from - an executive	199,996	-
- others	722,412	739,289
	<u>Rupees 922,408</u>	<u>739,289</u>

This represents mark-up free loans to the employees of the company in accordance with the terms of their employment and are secured against their retirement benefits. These loans are recoverable in monthly installments over a period of one year. The maximum amount due from an executive calculated with reference to month end balances was Rs. 0.400 million (2005: Rs. 0.384 million). None of the above loans are due for more than one year.

12. INVESTMENTS

12.1 Type of investments

	2006	2005
Held-to-maturity		
Government security:		
Defence Saving Certificate	12.2 1,405,526	1,097,102
Certificate of Investments	12.3 12,886,283	5,000,000
Term Finance Certificates - listed	12.4 22,935,349	31,810,491
	<u>37,227,158</u>	<u>37,907,593</u>
Held for trading	12.5 146,151,942	67,458,438
Available-for-sale		
Investments in ordinary shares of listed companies	12.6 5,991,415	52,518,268
Provision for impairment	-	(3,518,354)
	<u>5,991,415</u>	<u>48,999,914</u>
Units of mutual funds	12.7 21,743,323	17,666,542
	12.8 27,734,738	66,666,456
	<u>Rupees 211,113,838</u>	<u>172,032,487</u>



12.2 The Defence Saving Certificate will mature on 20th August 2008 and carry effective profit rate of 18.036 % per annum. The certificate is pledged with the State Bank of Pakistan accordance with the provision of section 29 of the Insurance Ordinance (XXXIX of 2000).

12.3 These represent Certificate of Investments of Leasing Companies and Investment Banks carrying rate of return of 9.5% to 10.5% per annum. These will mature on 26 March 2007 and 26 September 2007.

12.4 Held to maturity - Term Finance Certificates (TFCs)

Number of Certificates		Name of Investment	Face value per certificate (Rupees)	Profit payment	Maturity date	2006	2005
2,000	2,000	Union Bank Limited - 1st issue	5,000	Semi-annually	June 2008	9,984,000	9,988,000
1,000	1,000	Union Bank Limited - 2nd issue	5,000	Semi-annually	January 2011	4,995,000	4,997,000
		First Dawood Investment Bank					
611	611	Limited -2nd issue	5,000	Semi-annually	July 2007	3,055,000	3,055,000
600	600	MCB Bank Limited	5,000	Semi-annually	February 2008	2,995,200	2,996,400
		Trust Leasing & Investment Bank					
189	189	Limited - 1st issue	5,000	Semi-annually	June 2007	672,368	845,691
109	109	Crescent Leasing Corporation Limited	5,000	Semi-annually	September 2007	545,000	545,000
190	190	Ittehad Chemicals Limited	5,000	Semi-annually	June 2008	474,624	791,034
75	75	Pakistan Services Limited	5,000	Semi-annually	November 2008	214,157	321,311
-	800	Orix Leasing Pakistan Limited - 2nd issue				-	4,000,000
		First Dawood Investment Bank					
-	800	Limited -1st issue				-	4,000,000
-	650	Securetel SPV Limited				-	271,055
						Rupees	
						<u>22,935,349</u>	<u>31,810,491</u>

Details of rates of returns are as follows:

Particulars	Profit rate per annum
Union Bank Limited - 1st issue	Five years Pakistan Investment Bond rate plus 2.25% per annum subject to floor of 11% per annum and cap of 15.5% per annum.
Union Bank Limited - 2nd issue	Five years Pakistan Investment Bond rate plus 0.75% per annum subject to floor of 5% per annum and cap of 10.75% per annum.
First Dawood Investment Bank Limited -2nd issue	State Bank of Pakistan discount rate plus 1.75% per annum subject to floor of 13.5% per annum and cap of 17.5% per annum.
MCB Bank Limited	Five years Pakistan Investment Bond rate plus 1.5% per annum subject to floor of 11.75% per annum and cap of 15.75% per annum.
Trust Leasing & Investment Bank Limited - 1st issue	State Bank of Pakistan discount rate plus 2% per annum subject to floor of 9% per annum and cap of 14% per annum.
Crescent Leasing Corporation Limited	Five years Pakistan Investment Bond rate plus 2% per annum subject to floor of 12% per annum and cap of 15.75% per annum.
Ittehad Chemicals Limited	State Bank of Pakistan discount rate plus 2.50% per annum subject to floor of 4.5% per annum and cap of 9.5% per annum.
Pakistan Services Limited	State Bank of Pakistan discount rate plus 2.25% per annum subject to floor of 9.75% per annum and cap of 13% per annum.

At 31 December 2006, market value of term finance certificates, based on rates quoted by certain brokers, was Rs. 22.90 million (2005: 34.51 million).



12.5 Held for trading investments - quoted shares

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

<u>Number of shares</u>		<u>Name of Investment</u>	<u>Carrying (market) value</u>	
<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
		Oil & Gas Marketing		
-	5,000	Pakistan State Oil Company Limited	-	2,084,250
		Oil & Gas Exploration		
60,000	30,000	Pakistan Oilfields Limited	20,985,000	12,840,000
130,000	90,000	Oil and Gas Development Company Limited	14,911,000	10,620,000
40,000	-	Pakistan Petroleum Limited	9,280,000	-
		Fertilizers		
150,000	167,400	Fauji Fertilizer Bin Qasim Limited	4,275,000	6,386,310
35,000	-	Engro Chemical Pakistan Limited	5,915,000	-
		Technology & Communication		
140,000	60,000	Pakistan Telecommunication Limited	6,202,000	3,924,000
		Commercial Banks		
70,750	57,093	The Bank of Punjab	7,163,437	5,849,178
70,000	70,000	National Bank of Pakistan	15,697,500	13,961,500
61,681	-	MCB Bank Limited	15,179,694	-
25,000	-	Faysal Bank Limited	1,512,500	-
		Investment banks/companies		
60,000	-	Pakistan Industrial Credit and Investment Corporation Limited	3,747,000	-
		Power Generation		
55,000	-	Kot Addu Power Company Limited	2,238,500	-
		Cement		
158,500	60,000	D.G.Khan Cement Limited	9,977,575	6,396,000
50,000	75,000	Fauji Cement Limited	755,000	1,725,000
110,000	-	Lucky Cement Limited	6,589,000	-
70,000	-	Dewan Cement Limited	735,000	-
		Automobile Assembler		
22,700	-	Pak Suzuki Motor Company Limited	9,534,000	-
		Textile Composite		
40,000	43,000	Nishat Chunia Mills Limited	1,526,000	3,672,200
109,120	-	Nishat Mills Limited	9,580,736	-
40,000	-	Colony Mills Limited	348,000	-
			Rupees	
			<u>146,151,942</u>	<u>67,458,438</u>



12.6 Available for sale investments - quoted shares

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

<u>Number of shares</u>		<u>Name of Investment</u>	<u>Carrying value</u>	
<u>2006</u>	<u>2005</u>		<u>2006</u>	<u>2005</u>
Power Generation				
-	187,000	Hub Power Company Limited	-	7,302,436
65,000	100,000	Kot Addu Power Company Limited	2,698,027	4,150,811
Fertilizers				
-	68,000	Fauji Fertilizer Company Limited	-	8,288,001
-	32,600	Fauji Fertilizer Bin Qasim Limited	-	905,333
Transport				
-	12,000	Pakistan National Shipping Corporation Limited	-	1,176,258
Technology & Communication				
-	99,538	Callmate Teleps Limited	-	7,796,445
Commercial banks				
-	2,907	The Bank of Punjab	-	107,460
-	15,000	National Bank of Pakistan	-	1,666,192
-	35,000	Union Bank Limited	-	2,082,408
-	50,000	Bank Al Falah Limited	-	2,909,296
Investment banks/companies				
-	5,100	Javed Omer Vohra & Company	-	1,035,510
-	5,730	Pakistan Industrial Credit and Investment Corporation Limited	-	289,724
-	5,900	Arif Habib Securities Limited	-	1,387,301
-	3,900	Jahangir Siddiqui & Company Limited	-	838,974
-	10,000	First National Equities Limited	-	463,046
Cement				
-	10,000	Lucky Cement Limited	-	815,782
Refinery				
-	3,000	Attock Refinery Limited	-	504,512
Textile Composite				
33,880	80,000	Nishat Mills Limited	3,293,388	8,554,255
Miscellaneous				
-	40,000	Tri-Pack Films	-	2,244,524
			Rupees	
			5,991,415	52,518,268



12.7 Available-for-sale investments - mutual funds

Number of units		Name of the fund	Carrying value	
2006	2005		2006	2005
Closed ended				
75,000	75,000	Pakistan Strategic Allocation Fund	750,750	750,750
19,500	-	First Capital Mutual Fund	149,265	-
			900,015	750,750
Open ended				
10,387	7,661	Pakistan Stock Market Fund	701,548	471,722
124,774	94,035	Pakistan Income Fund	6,586,415	5,046,061
11,835	10,574	UTP Income Fund	6,412,756	5,773,009
69,435	56,225	Faysal Growth Fund	7,142,589	5,625,000
			20,843,308	16,915,792
			21,743,323	17,666,542

Rupees

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

12.7.1 This includes units of Rs. 6.18 million pledged with the State Bank of Pakistan under the provisions of Insurance Ordinance (XXXIX of 2000).

12.8 At 31 December 2006, the fair value of available-for-sale securities was Rs. 26.682 million (2005: Rs. 74.812 million). As mentioned in note 6.6.3 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 and the company's equity as at 31 December 2006 would have been lower by Rs. 1.052 million (2005: higher by Rs. 4.658 million).

12.9 The fair value of available-for-sale and held for trading instruments have been determined on the basis of values quoted on the stock exchanges / applicable redemption price of relevant mutual funds.

12.10 Investment related expenses (refer the statement of investment income)

	2006	2005
Brokerage commission	2,555,320	3,812,869
Coustodian fees	403,868	96,842
Investment advisory fees	2,126,984	253,854
Performance fee to investment advisor	4,039,692	-
Depreciation on investment properties	537,416	537,416
	9,663,280	4,700,981

13
Rupees



13. INVESTMENT PROPERTIES - at cost less accumulated depreciation

2006

		Cost			Depreciation			Written down	Depreciation
		At 1 January 2006	Additions/ (deletions)	At 31 December 2006	At 1 January 2006	For the year	At 31 December 2006	value as at 31 December 2006	rate %
Freehold land	13.1	9,555,000	(9,555,000)	-	-	-	-	-	-
Shop premises	13.2	7,900,000	-	7,900,000	2,370,000	395,000	2,765,000	5,135,000	5
Office premises	13.2	2,848,320	-	2,848,320	1,139,328	142,416	1,281,744	1,566,576	5
Rupees		20,303,320	(9,555,000)	10,748,320	3,509,328	537,416	4,046,744	6,701,576	

2005

		Cost			Depreciation			Written down	Depreciation
		At 1 January 2005	Additions/ (deletions)	At 31 December 2005	At 1 January 2005	For the year	At 31 December 2005	value as at 31 December 2005	rate %
Freehold land	13.1	9,555,000	-	9,555,000	-	-	-	9,555,000	-
Shop premises	13.2	7,900,000	-	7,900,000	1,975,000	395,000	2,370,000	5,530,000	5
Office premises	13.2	2,848,320	-	2,848,320	996,912	142,416	1,139,328	1,708,992	5
Rupees		20,303,320	-	20,303,320	2,971,912	537,416	3,509,328	16,793,992	

13.1 During the period, the Company disposed of investment properties, comprising of two plots of land located in Islamabad, title to which were previously held in the name of the Ex-Chief Executive Officer of the Company. The properties were disposed off for Rs. 6.5 million, against the cumulative carrying value of Rs. 9.555 million, resulting in a loss of Rs. 3.22 million (including the disposal charges).

13.2 Shop and Office Premises have been valued under the market value basis by BFA (Pvt) Limited and MJ Surveyors (Pvt) Limited. Market value of shop and office premises based on the valuations as of 21 March 2007 and 15 March 2007 amounted to Rs.49 million and Rs. 10.05 million respectively.

14. PREMIUMS DUE BUT UNPAID - unsecured

	Note	2006	2005
Considered good	14.1	84,586,173	131,929,193
Considered doubtful		10,891,936	7,091,731
		95,478,109	139,020,924
Provision against doubtful debts	14.2	(10,891,936)	(7,091,731)
Rupees		84,586,173	131,929,193

14.1 It includes Rs. 18.082 million (2005: Rs. 29.84 million) due from related parties. The maximum balance from related parties at the end of any month during the year was Rs. 29.76 million (2005: Rs. 32.86 million).

14.2 Reconciliation of provision against doubtful balances

Balance as on 1 January		7,091,731	-
Charge for the year		3,800,205	7,091,731
Balance as on 31 December	Rupees	10,891,936	7,091,731



	Note	2006	2005
15. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS			
Considered good		27,794,768	25,962,291
Considered doubtful		-	3,644,884
		<u>27,794,768</u>	<u>29,607,175</u>
Provision against doubtful debts	15.1	-	(3,644,884)
	Rupees	<u>27,794,768</u>	<u>25,962,291</u>
15.1 Reconciliation of provision against doubtful balances			
Balance as on 1 January		3,644,884	2,644,884
(Reversal) / charge for the year		(3,644,884)	1,000,000
Balance as on 31 December	Rupees	<u>-</u>	<u>3,644,884</u>
16. ACCRUED INVESTMENT INCOME			
Mark-up accrued on term finance certificates		668,524	846,265
Dividend income		222,501	202,907
Profit accrued on term deposits with banks		892,863	303,234
	Rupees	<u>1,783,888</u>	<u>1,352,406</u>
17. ADVANCES, DEPOSITS AND PREPAYMENTS			
Advances		334,314	336,637
Deposits		955,870	935,870
Prepaid reinsurance premium ceded		47,438,350	51,505,719
Prepayments		2,819,120	341,825
	Rupees	<u>51,547,654</u>	<u>53,120,051</u>
18. OTHER RECEIVABLES - unsecured, considered good			
Receivable from First Dawood Investment Bank Limited against final redemption of Term Finance Certificate (TFC)	18.1	4,000,000	-
Receivable from a related party	18.2	242,796	337,464
Receivable from the provident fund		-	651,815
Other		-	234,640
	Rupees	<u>4,242,796</u>	<u>1,223,919</u>
18.1 Subsequent to year end, the amount was received by the Company.			
18.2 This represents amount receivable from First Capital Equity Limited on account of dealings in marketable securities.			
19. FIXED ASSETS			
Tangible - operating fixed assets	19.1	22,744,434	19,994,824
Intangible-computer software	19.1	1,340,000	-
Intangible - capital work in progress		-	2,000,000
	Rupees	<u>24,084,434</u>	<u>21,994,824</u>



19.1 Operating fixed assets - at cost less accumulated depreciation

	2006							
	C O S T			D E P R E C I A T I O N			Written down value as at 31 December 2006	Depreciation rate %
	At 1 January 2006	Additions (Deletion)	At 31 December 2006	At 1 January 2006	For the year	At 31 December 2006		
Tangible								
Furnitures and fixtures	9,069,441	280,835	9,350,276	5,126,360	653,374	5,779,734	3,570,542	10
Motor vehicles	32,654,354	11,522,500 (4,748,700)	39,428,154	20,266,460	6,417,376 (3,211,052)	23,472,784	15,955,370	20
Office and electrical equipments	5,647,788	856,250	6,504,038	4,081,793	612,242	4,694,035	1,810,003	15 - 20
Computer equipments	<u>6,099,520</u> 53,471,103	<u>669,637</u> 13,329,222 (4,748,700)	<u>6,769,157</u> 62,051,625	<u>4,001,666</u> 33,476,279	<u>1,358,972</u> 9,041,964 (3,211,052)	<u>5,360,638</u> 39,307,191	<u>1,408,519</u> 22,744,434	33.3
Intangible								
Computer software	-	2,000,000	2,000,000	-	660,000	660,000	1,340,000	33.3
Rupees	<u>53,471,103</u>	<u>15,329,222</u> <u>(4,748,700)</u>	<u>64,051,625</u>	<u>33,476,279</u>	<u>9,701,964</u> <u>(3,211,052)</u>	<u>39,967,191</u>	<u>24,084,434</u>	
	2005							
	C O S T			D E P R E C I A T I O N			Written down value as at 31 December 2005	Depreciation rate %
	At 1 January 2005	Additions (Deletion)	At 31 December 2005	At 1 January 2005	For the year	At 31 December 2005		
Tangible								
Furnitures and fixtures	8,968,841	100,600	9,069,441	4,219,729	906,631	5,126,360	3,943,081	10
Motor vehicles	33,069,330	1,189,000 (1,603,976)	32,654,354	14,971,549	5,636,901 (341,990)	20,266,460	12,387,894	20
Office and electrical equipments	5,259,108	534,700 (146,020)	5,647,788	3,599,366	628,444 (146,017)	4,081,793	1,565,995	15 - 20
Computer equipments	<u>5,268,042</u>	<u>864,288</u> <u>(32,810)</u>	<u>6,099,520</u>	<u>3,175,113</u>	<u>826,553</u>	<u>4,001,666</u>	<u>2,097,854</u>	33.3
	<u>52,565,321</u>	<u>2,688,588</u> <u>(1,782,806)</u>	<u>53,471,103</u>	<u>25,965,757</u>	<u>7,998,529</u> <u>(488,007)</u>	<u>33,476,279</u>	<u>19,994,824</u>	
Leased								
Motor vehicle	939,000	- (939,000)	-	187,800	- (187,800)	-	-	
Rupees	<u>53,504,321</u>	<u>2,688,588</u> <u>(2,721,806)</u>	<u>53,471,103</u>	<u>26,153,557</u>	<u>7,998,529</u> <u>(675,807)</u>	<u>33,476,279</u>	<u>19,994,824</u>	

Owned motor vehicles include repossessed vehicles of carrying value of Rs. 0.8 million (2005: 1.6 million), title of which has not been transferred in the company's name. However, the letters of subrogation has been executed in favour of the company. Arrangements are being made for the transfer of their title in the company's name.



19.2 Particulars of disposal of fixed assets

	Cost	Written down value	Sale proceeds	Profit	Mode of disposal	Sold to	Address
Motor vehicles	840,500	294,176	633,000	338,824	Negotiation	M. Ejaz Alam	H.No. 26/1 Course Road Lahore
	715,000	381,333	600,000	218,667	Negotiation	Faridoon Shah	Fazal Abad Nari Takhat Bhai Mardan Peshawar
	61,800	24,720	25,000	280	Negotiation	Rehman Malik	H.No.22 Gali Mohala Islam Gaung Lasbela Karachi
	857,500	400,167	600,000	199,833	Negotiation	Gul Zaman	House No. 3 Near Qazi Chowk Rawalpindi
	1,017,500	220,458	320,000	99,542	Negotiation	M. Javed Nusrat	Flate # 712 Block-2 Clifton Karachi
	943,900	199,794	320,000	120,206	Negotiation	S. Asif Raza	House No. E 8/2 H-1 Gali No.7 Lahore
	270,000	-	50,000	50,000	Negotiation	Rizwan ul Haq	House No. R-1162 F.B Area Sector 20 Karachi
	42,500	17,000	10,000	(7,000)	Negotiation	Adnan Khan	House No. E 8/2 J-1 North Nazimabad
Rupees	<u>4,748,700</u>	<u>1,537,648</u>	<u>2,558,000</u>	<u>1,020,352</u>			

20. MANAGEMENT AND GENERAL AND ADMINISTRATION EXPENSES

	2006			2005		
	Management expenses	General and administration expenses	Total	Management expenses	General and administration expenses	Total
Salaries and other benefits	35,716,980	16,372,498	52,089,478	27,735,349	15,379,840	43,115,189
Provident fund	-	1,790,702	1,790,702	-	1,334,649	1,334,649
Rent	3,762,861	2,406,595	6,169,456	3,318,449	1,930,437	5,248,886
Utilities	4,705,355	1,843,237	6,548,592	4,502,128	2,127,157	6,629,285
Repair and maintenance	1,576,986	1,157,031	2,734,017	1,788,705	919,863	2,708,568
Legal and professional charges	125,000	718,849	843,849	12,000	1,190,570	1,202,570
Auditors' remuneration	20.1	-	400,000	-	200,000	200,000
Depreciation	19.1	-	9,701,964	-	7,998,529	7,998,529
Insurance expenses	-	294,445	294,445	-	1,258,670	1,258,670
Financial charges	361,474	12,440	373,914	-	70,311	70,311
Advertisement and sales promotion	139,380	3,644,88	3,784,260	31,662	1,698,440	1,730,102
Travelling and entertainment	3,810,167	3,130,136	6,940,303	1,864,082	2,263,766	4,127,848
Printing and stationary	1,915,259	3,746,726	5,661,985	1,626,924	2,449,295	4,076,219
Newspaper and periodicals	35,469	19,237	54,706	32,180	37,964	70,144
Fee and subscription	138,646	2,813,599	2,952,245	2,848	2,407,276	2,410,124
Provision for impaired premium receivable balance	3,800,205	-	3,800,205	8,091,731	-	8,091,731
Intangible asset (software) written off	-	-	-	-	189,667	189,667
Miscellaneous	400,792	639,045	1,039,837	617,198	1,129,682	1,746,880
Rupees	<u>56,488,574</u>	<u>48,691,384</u>	<u>105,179,958</u>	<u>49,623,256</u>	<u>42,586,116</u>	<u>92,209,372</u>



	Note	2006	2005
20.1 Auditors' remuneration			
Annual audit		210,000	125,000
Interim review		125,000	50,000
Certification fees & review of statement of compliance with code of corporate governance		65,000	25,000
	Rupees	<u>400,000</u>	<u>200,000</u>

21. OTHER INCOME

Gain on sale of fixed assets	19.2	1,020,352	129,011
Reversal of liabilities (no longer payable)		4,395,773	-
Reversal of provision (no longer required)	15.1	3,644,884	-
	Rupees	<u>9,061,009</u>	<u>129,011</u>

22. TAXATION

Relationship between tax expense and accounting profit is as follows:

Profit before taxation	Rupees	<u>59,350,599</u>	<u>57,851,691</u>
Tax charge at enacted rate of 35% (2005: 35%)		20,772,711	20,248,092
Tax effect of exempt income		(5,297,284)	(13,419,456)
Tax effect of brought forward losses		-	(1,043,449)
Tax effect of prior years taxation		(6,118,004)	(1,606,304)
Tax effect of dividend income taxable at lower tax rate		(1,442,113)	(1,484,112)
Others		455,603	(231,075)
	Rupees	<u>8,370,913</u>	<u>2,463,696</u>

22.1 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 to 2005 which under the Income Tax Ordinance, 2001 is considered to be deemed assessments.

22.2 At 31 December 2006, deductible temporary differences amounted to Rs.0.226 million (2005: Rs. 0.001 million) against which deferred tax asset has not been recognised.

22.3 As per the Income Tax Ordinance, 2001, gain / loss on sale of listed shares, etc. is exempt from taxation / not deductible for taxation purposes up to the tax year ending on 30 June 2007 (accounting year ended 31 December 2006). However, as the Government of Pakistan has announced extension of one more year for this exemption, accordingly, deferred tax asset amounting to Rs. 4.998 million on the revaluation deficit on listed shares, etc. has not been recognised in these financial statements.

23. EARNINGS PER SHARE - basic and diluted

Profit for the year	Rupees	<u>50,979,686</u>	<u>55,387,995</u>
Weighted average of number of shares of Rs. 10 each	Number	<u>10,000,000</u>	<u>10,000,000</u>
Earning per share of Rs. 10 each	Rupees	<u>5.10</u>	<u>5.54</u>



24. REMUNERATION TO THE EXECUTIVES

	Chief Executive Officer		Executives		Total	
	2006	2005	2006	2005	2006	2005
Managerial remuneration	1,553,848	1,403,681	3,692,240	-	5,246,088	1,403,681
Bonus	2,500,000	2,850,000	-	-	2,500,000	2,850,000
Provident fund	67,537	59,940	181,332	-	248,869	59,940
	4,121,385	4,313,621	3,873,572	-	7,994,957	4,313,621
Number of persons	1	1	3	-	4	1

In addition to the above, these executives are also entitled to company maintained vehicles.

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.

25. 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	2,298,301	1,499,787
Marine, aviation and transport	921,493	791,401
Motor	18,819,101	18,994,325
Others	499,900	450,931
Rupees	22,538,795	21,736,444

26. SEGMENT REPORTING

The following table presents revenue and profit information regarding segments for the year ended 31 December 2006 and 31 December 2005 and the estimated information regarding certain assets and liabilities of the segments as at 31 December 2006 and 31 December 2005.

	(Rupees)											
	FIRE & PROPERTY DAMAGE		MARINE, AVIATION & TRANSPORT		MOTOR		OTHERS		TREATY		TOTAL	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
REVENUE:												
Net premium earned	39,532,404	37,056,505	18,878,403	15,039,813	458,208,683	453,819,020	48,707,582	21,187,781	-	-	565,327,072	527,103,119
RESULTS:												
Segment result	16,829,611	19,803,827	11,510,130	14,516,964	35,114,367	24,651,278	4,922,483	(4,668,250)	-	-	68,376,591	54,303,819
Investment income											28,819,578	44,102,737
Rental income											1,784,805	1,902,240
Other income											9,061,009	129,011
General and administration expenses											(48,691,384)	(42,586,116)
Profit before tax											(9,025,992)	3,547,872
Provision for taxation											59,350,599	57,851,691
Net profit											(8,370,913)	(2,463,696)
OTHER INFORMATION:												
Segment assets	58,507,640	53,454,797	37,144,317	34,222,115	310,895,006	334,949,246	46,372,343	23,059,307	-	-	452,919,307	445,685,465
Unallocated corporate assets											222,058,209	190,050,398
Total assets											674,977,516	635,735,863
Segment liabilities	59,018,741	46,205,475	34,649,589	33,472,633	292,333,241	338,395,492	39,764,029	26,825,352	-	-	425,765,601	444,898,932
Unallocated corporate liabilities											29,878,602	22,483,284
Total liabilities											455,644,203	467,382,236
Capital expenditure	1,071,948	189,008	511,901	76,894	12,424,635	2,314,874	1,320,739	107,812	-	-	15,329,222	2,688,588
Depreciation	716,023	562,297	341,932	228,758	8,299,218	6,886,733	882,208	320,741	-	-	10,239,380	7,998,529



27. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

27.1 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.

27.2 Profit / mark-up rate risk

The company invests in securities and maintains profit bearing bank accounts (including term deposit accounts). However, it has no liability that is subject to mark-up rate risk. Profit / mark-up rate risk to the company is the risk of changes in market profit / mark-up rates reducing the overall return on its profit bearing assets. The company limits profit / mark-up rate risk by monitoring the changes in profit / mark-up rates. The company's profit / mark-up sensitivity and liquidity positions based on the contractual and maturity dates, whichever is earlier is as follows:

	Profit rate %	2006						Total
		Profit / mark-up bearing financial instruments				Non-profit / mark-up bearing financial instruments		
		Maturity upto one year	Maturity over one to five years	Maturity more than five years	Sub total	Maturity upto one year	Sub total	
Financial assets								
Cash and bank deposits	3 - 9.5	86,044,237	-	-	86,044,237	111,317,842	111,317,842	197,362,079
Investments	9.5 - 18.036	17,158,651	20,068,507	-	37,227,158	173,886,680	173,886,680	211,113,838
Premiums due but unpaid		-	-	-	-	84,586,173	84,586,173	84,586,173
Loans to the employees		-	-	-	-	922,408	922,408	922,408
Amounts due from other insurers / reinsurers		-	-	-	-	27,794,768	27,794,768	27,794,768
Reinsurance recoveries against outstanding claims		-	-	-	-	13,913,950	13,913,950	13,913,950
Accrued investment income		-	-	-	-	1,783,888	1,783,888	1,783,888
Advances and deposits		-	-	-	-	1,290,184	1,290,184	1,290,184
Other receivable		-	-	-	-	4,242,796	4,242,796	4,242,796
		103,202,888	20,068,507	-	123,271,395	419,738,689	419,738,689	543,010,084
Financial liabilities								
Amounts due to other insurers / reinsurers		-	-	-	-	6,702,919	6,702,919	6,702,919
Accrued expenses		-	-	-	-	10,869,713	10,869,713	10,869,713
Provision for outstanding claims (including IBNR)		-	-	-	-	112,559,585	112,559,585	112,559,585
Agents balances		-	-	-	-	10,451,230	10,451,230	10,451,230
Other payables		-	-	-	-	9,316,560	9,316,560	9,316,560
Dividend payable		-	-	-	-	398,934	398,934	398,934
Inter risk sensitivity gap	Rupees	-	-	-	-	150,298,941	150,298,941	150,298,941
Interest rate risk sensitivity gap	Rupees	103,202,888	20,068,507	-				



2005								
Profit rate % per annum	Profit / mark-up bearing financial instruments				Non-profit / mark-up bearing financial instruments		Total	
	Maturity upto one year	Maturity over one to five years	Maturity more than five years	Sub total	Maturity upto one year	Sub total		
Financial assets								
Cash and bank deposits	1-10	71,485,400	-	-	71,485,400	84,234,332	84,234,332	155,719,732
Investments	6-16.73	16,326,055	84,042,976	4,997,000	105,366,031	66,666,456	66,666,456	172,032,487
Premiums due but unpaid		-	-	-	-	131,929,193	131,929,193	131,929,193
Loans to the employees		-	-	-	-	739,289	739,289	739,289
Amounts due from other insurers / reinsurers		-	-	-	-	25,962,291	25,962,291	25,962,291
Reinsurance recoveries against outstanding claims		-	-	-	-	13,434,255	13,434,255	13,434,255
Accrued investment income		-	-	-	-	1,352,406	1,352,406	1,352,406
Advances and deposits		-	-	-	-	1,272,507	1,272,507	1,272,507
Other receivable		-	-	-	-	1,223,919	1,223,919	1,223,919
		<u>87,811,455</u>	<u>84,042,976</u>	<u>4,997,000</u>	<u>176,851,431</u>	<u>326,814,648</u>	<u>326,814,648</u>	<u>503,666,079</u>
Financial liabilities								
Amounts due to other insurers / reinsurers		-	-	-	-	40,366,977	40,366,977	40,366,977
Accrued expenses		-	-	-	-	10,243,798	10,243,798	10,243,798
Provision for outstanding claims (including IBNR)		-	-	-	-	98,818,385	98,818,385	98,818,385
Agents balances		-	-	-	-	15,759,260	15,759,260	15,759,260
Other payables		-	-	-	-	11,210,447	11,210,447	11,210,447
Dividend payable		-	-	-	-	398,934	398,934	398,934
Inter risk sensitivity gap	Rupees	-	-	-	-	176,797,801	176,797,801	176,797,801
Interest rate risk sensitivity gap	Rupees	<u>87,811,455</u>	<u>84,042,976</u>	<u>4,997,000</u>				

28. FOREIGN CURRENCY RISK

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

29. 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 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 markets [including the mutual funds and term finance certificates (TFCs) markets.] In addition, the company actively monitors the key factors that affect stock and TFCs market movements.



30. 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 the 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.

At 31 December 2006, the management monitors exposure to credit risk through regular review of credit exposure and prudent estimates of provisions against impaired receivables.

31. 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.

32. 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 the following investments:

	Carrying Value		Market Value		Remarks
	2006	2005	2006	2005	
	Rupees		Rupees		
Available-for-sale investments					
- equity shares	5,991,415	52,518,268	5,620,164	55,324,625	Based on the rates quoted at the stock exchange
- mutual funds	21,743,323	17,666,542	21,062,653	19,487,375	Based on the quoted redemption rates
Held to maturity investments					
- term finance certificates	22,935,349	31,810,491	22,898,108	34,499,664	Based on the average of rates quoted by certain brokers



33. TRANSACTIONS WITH RELATED PARTIES

The company has related party relationship with its employee provident fund, key management personnel, entities indicated in note 7 to the financial statements and companies with common directors.

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

<i>Transactions and balances with associated companies</i>	2006	2005
Insurance premium		
Balance at beginning of the year	29,839,256	19,149,524
Gross insurance premium written (including government levies, administrative surcharge and policies stamps)	62,102,359	44,596,976
Received / adjusted during the year	(67,815,743)	(33,907,244)
Balance at end of the year	<u>24,125,872</u>	<u>29,839,256</u>
	Rupees	
Insurance claim expense		
Outstanding claims at beginning of the year	5,335,095	423,121
Gross claim expense for the year	60,545,903	20,050,274
Claim paid during the year	(53,422,740)	(15,138,300)
Outstanding claims at end of the year	<u>12,458,258</u>	<u>5,335,095</u>
	Rupees	
<i>Other transactions for the year with associated companies</i>		
Rental income	Rupees <u>1,234,560</u>	<u>1,500,000</u>
Rental expense	Rupees <u>2,002,239</u>	<u>1,648,080</u>
Brokerage, commission and advisory expenses	Rupees <u>9,654,269</u>	<u>4,163,565</u>
<i>Other balances with associated companies</i>		
Other receivables	18.2 Rupees <u>242,796</u>	<u>337,464</u>
Advisory fee payable	Rupees <u>410,845</u>	<u>253,854</u>
Prepaid rent	Rupees <u>1,728,000</u>	-
Accrued rent	Rupees <u>-</u>	<u>442,080</u>



Transactions for the year with other related parties

			2006	2005
Contribution to the provident fund	33.2	Rupees	<u>1,790,702</u>	<u>1,334,649</u>
Advertisement expenses		Rupees	<u>3,454,880</u>	<u>1,574,290</u>
Proceeds from sale of vehicle		Rupees	<u>-</u>	<u>751,200</u>
Remuneration of key management personnel	33.1	Rupees	<u>7,788,642</u>	<u>7,026,612</u>
Commission to key management personnel (agents)	33.3	Rupees	<u>17,348,411</u>	<u>18,693,547</u>

Balances with other related parties

Payable to Chief Executive Officer in respect of motor incentive scheme	9.2	Rupees	<u>712,509</u>	<u>407,217</u>
Due to the provident fund		Rupees	<u>600,876</u>	<u>-</u>
Commission payable to key management personnel (as agents)	33.3	Rupees	<u>1,950,327</u>	<u>1,115,381</u>
Loan to key management personnel	11	Rupees	<u>355,554</u>	<u>426,390</u>
Receivable from the provident fund		Rupees	<u>-</u>	<u>651,815</u>

33.1 Remuneration to the key management personnel are in accordance with the terms of their employment.

33.2 Contribution to the provident fund is in accordance with the Company's staff services rules.

33.3 The commission is payable in accordance with the respective agency agreements (between 10% to 35% of gross premium).

34. SUBSEQUENT EVENT - NON ADJUSTING

The Board of Directors in its meeting held on 06 April 2007 has announced bonus issue in respect of the year ended 31 December 2006 of 75% (2005: 25%). These financial statements for the year ended 31 December 2006 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

35. DATE OF ISSUE

These financial statements were authorised for issue in the Board of Directors meeting held on 6 April, 2007.

36. GENERAL

36.1 Total number of employees as at 31 December 2006 was 217 (2005: 221).

36.2 The following corresponding figures have been reclassified for comparison purposes:

- Agent balance liability of Rs. 0.052 million has been netted off against advances.
- Credit balance in premium due but unpaid of amounting to Rs. 9.446 million has been reclassified to other payables.
- Depreciation charged on investment properties of Rs. 0.537 million has been reclassified from management expenses to investment related expenses.

Chairman

Chief Executive Officer

Director

Chief Financial Officer



PATTERN OF SHARE HOLDING
HELD BY THE SHARE HOLDERS AS AT 31ST DECEMBER, 2006

No. of Share HoldersShare Holding.....		Total Shares Held
	From	To	
26	1	100	1,095
37	101	500	10,799
67	501	1000	42,940
19	1001	5000	41,950
2	5001	10000	12,500
2	10001	15000	23,125
1	105001	110000	108,500
1	300001	305000	305,000
1	500001	505000	500,500
1	1215001	1220000	1,217,500
1	1245001	250000	1,250,000
1	1260001	1265000	1,264,625
1	2045001	2050000	2,048,818
1	3170001	3175000	3,172,648
161			10,000,000

CATEGORIES OF SHARE HOLDERS AS REQUIRED UNDER C.C.G
As on 31st December, 2006

Name	Holding	% AGE
Associated Companies	9,258,682	92.5869%
Directors, CEO their Spouse & Minor Children	4,000	0.0400%
Insurance Companies	3,172,648	31.7265%
Share Held by the General Public	724,493	7.2449%
Share Holders Holding 10% or more of Total Capital	9,258,591	92.5859%
Joint Stock Companies	2,799,950	27.9995%

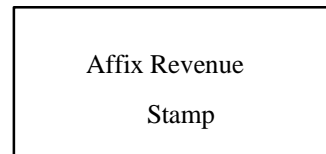


PROXY FORM

I / We _____ of _____
being a
Member(s) of Shaheen Insurance Company Limited, and holders 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 12th Annual General Meeting of the Company to be held
at 10th Floor, Shaheen Complex M.R. Kayani Road, Karachi on April 30, 2007 at 11:00 A.M. and at any adjournment
thereof.

Signed by : _____

Witness : _____



Date : _____

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.