THE CRESCENT STAR INSURANCE CO. LTD.

FIRE, MARINE, ACCIDENT, MISCELLANEOUS

دی کریسینٹ اسٹار انشورنس کمپنی لمیٹڈ

Contents:

Company Vision

To serve and to serve with excellence.
Excellence to be achieved through our corporate mission.

Corporate Mission

First and foremost to secure the interest of our policy holders by adopting proper risk management techniques, prudent financial planning and maintaining reinsurance arrangements with world-class reinsurers.

To ensure profitability to our reinsurers who afford us underwriting capacity.

To recognise human resources as the key element in progress and to provide our officers and field force due recompence for their efforts in building up the company.

To generate operational profits and dividend return in due measure to the shareholders of the company.

Company Information

Board of Directors

MUNIR I. MILLWALA
Chairman & CEO

ARDESHIR COWASJEE
Non Executive Director

ABDUL RAZZAK E. JAFFER
Non Executive Director

FIDA HUSSAIN SAMOO
Non Executive Director

QUTUBUDDIN A. MILLWALA
Non Executive Director

HUSSAINI I. MILLWALA
Non Executive Director

M. H. MILLWALA
Non Executive Director

FAYYAZ F. MILLWALA
Executive Director

Company Information

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Non Executive Director

M. H. MILLWALA
Non Executive Director

FAYYAZ F. MILLWALA
Executive Director

Management

Munir I. Millwala
Chairman & CEO

Fayyaz F. Millwala
Executive Director

Moiz Ali
General Manager

Fakhruddin A. Bandukwala
Deputy General Manager

Zahid Ali
Assistant General Manager

Khuzaima Hakimi
Company Secretary

Fakhruddin Khetty
Accounts Manager

Zoaib Quettawala, F.C.A.
Internal Auditor

Khwaja Balighuddin
Manager

Qutubuddin Kaleemi
Assistant Manager

Azmat Shaikh
Assistant General Manager

Iqbal Macha
Assistant General Manager

Yunus Shaheen
Assistant General Manager

Muhammad Ashraf Ansari
Assistant General Manager

Advisor
Syed Ahmed Ali

Auditors
MG Moochhala Gangat & Co.
Chartered Accountants

Bankers
United Bank Limited
National Bank of Pakistan
Bank Alfalah Limited
Habib Bank Limited
Muslim Commercial Bank Limited
Silkbank Limited

Registered Office
2nd Floor,
Nadir House,
I. I. Chundrigar Road,
P.O. Box No. 4616, Karachi

Share Registrar Office
MG Associate Private Limited
2, Mustafa Avenue, F/4, Block -9
Behind "The Forum" Clifton, Karachi.
Tel #: 35877806-09 Fax # : 35877810

COMMITTEES :

Audit Committee:

Hussaini. I.Millwala	Chairman
Qutubddin A. Millwala	Member
Mohammadi H. Millwala	Member
Zoaib A. Quettawala	Member/Secretary
Khuzaima Hakimi	Member
Fakhruddin A. Khetty	Member

Underwriting Committee:

Hussaini I. Millwala	Chairman
Fida Hussain Samoo	Member
Munir I. Millwala	Member
Moiz Madrasswala	Member
Khawaja Baliguddin	Member/Secretary

Claim Settlement Committee:

Munir I. Millwala	Chairman
Mohammadi H. Millwala	Member
Fayyaz F. Millwala	Member
Hussaini I. Millwala	Member
Moiz Madrasswala	Member
Firoz Ahmed	Member/Secretary

Re-insurance Committee:

Munir I. Millwala	Chairman
Moiz Madrasswala	Member
Khwaja Baliguddin	Member/Secretary
Hussaini I. Millwala	Member
Fida Hussain Samoo	Member
Fayyaz F. Millwala	Member

Investment Committee:

Munir I. Millwala	Chairman
Hussaini I. Millwala	Member
Fayyaz F. Millwala	Member
Khuzaima Hakimi	Member
Moiz Madrasswala	Member

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 54th Annual General Meeting of the shareholders of the company will be held on 30th April 2011 at 3.30 p.m. at the company's registered office, 2nd floor, Nadir House, I.I. Chundrigar Road, Karachi to transact the following business.

1. To confirm the minutes of the 53rd AGM held on 30th April 2010.

2. To receive, consider and adopt Directors' and Auditors' report and Audited Accounts for the year ended 31st December, 2010.

3. To appoint Auditors for the year ending December 31, 2011 and fix their Remuneration, retiring Auditor M/s Moochhala Gangat & Co. Chartered Accountant being eligible, offered themselves for reappointment.

4. To elect eight directors as fixed by the Board of Directors in accordance with the provision of Section 178 of the Companies Ordinance 1984 for a period of next three years. The present Directors will retire and are eligible for re-election. The retiring Directors are:

Mr. Munir I. Millwala	Mr. Mohammedi H. Millwala
Mr. Abdul Razzak E. Jaffer	Mr. Hussaini I. Millwala
Mr. Ardeshir Cowasjee	Mr. Fida Hussain Samoo
Mr. Qutubuddin A, Millwala	Mr. Fayyaz F. Millwala

5. To consider any other business of the Company with the permission of the Chair.

By order of the Board
KHUZAIMA HAKIMI
Secretary

Karachi : 30th March 2011

Notes:

1. Any person who seeks to contest the election of director shall file with the Company at its Registered Office not letter than fourteen days before the date of the meeting his/her intention to offer himself/herself for the election of directors in terms of Section 78(3) of the Companies Ordinance, 1984 together with
   a) Consent to act as a director on Form 28.
   b) A declaration in terms of clause (ii), (iii), (v) of the Code of Corporate Governance to the effect that:
      i) He/she is is aware of duties and powers of directors under the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the Memorandum and Articles of Association of the Company and the listing regulations of the Stock Exchanges in Pakistan and has read the provisions contained therein.
      ii) He/she is not serving as a director of more than ten other listed companies.
      iii) His/her name is borne in the register of national tax payers (except where he/she is a non-resident).
      iv) He/she has not been convicted by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non-banking financial institution.
      v) He/she and his/her spouse are not engaged in the business of stock brokerage.

NOTICE OF ANNUAL GENERAL MEETING

2. The Share Transfer Books of the Company shall remain closed from 23rd April 2011 to 30th April 2011 (both days inclusive). Transfers received at our registrar office M/s MG Associate Private Limited, 2, Mustafa Avenue, F/4, Block-9, Behind "The Forum" Clifton, Karachi by the close of business on 23rd April 2011 will be treated in time.
   A member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. Form of proxy, in order to be valid must be received at the Registered Office of the Company not later than 48 hours before the Meeting.

3 Any individual Beneficial Owner of Central Depository Company, entitled to vote at this Meeting must bring his/her Computerized National Identity Card ("CNIC") with him/her to provide his/her identity and in case of proxy must enclose an attested copy of his/her CNIC. The representatives of corporate bodies should bring attested copy of Board of Directors Resolution/power of Attorney and/or all such documents as are required under Circular No. 1 dated January 26, 2000 issued by the Securities and Exchange Commission of Pakistan for this purpose.

4. Change of address, if any, should be notified immediately to the Company's Share Registrar aforestated.

5. Members who have not yet submitted photocopy of their Computerized National Identity Cards to the Company are requested to send the same at the earliest.

1. The CDC account/sub account holders are requested to bring with them their Computerised National ID Cards along with the Participants(s) ID number and their account numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors Resolution/Power of Attorney with specimen signatures be produced at the time of meeting.

2. Members are requested to promptly communicate to the Company any change in their address.

Director's Report

Director's Report

I am pleased to present the annual report and audited accounts for the year ended 31st December 2010. It is my pleasure to inform that in spite of the many challenges the company has returned to profits in 2010. Our premium income though declined during the year straining the results, the improved claims experience has given us reasons to be confident of our business plan and future. The reinsurance arrangements with the existing AA rated re insurers were successfully renewed and company rating is maintained BBB- by JCR. The company conforms with solvency requirement rules.

The comparative operational details of the last three years are tabulated below.

	2010	2009	2008	%
Gross Premium	105,080,533	132,579,281	175,567,208	(20.74)
Net Premium	74,157,379	105,363,790	140,800,091	(29.62)
Investment Income	1,910,564	(25,008,889)	(9,010,802)	107.63
Profit/ (Loss) Before Tax	4,605,212	(43,378,915)	(37,399,074)	110.61
Profit/ (Loss) After Tax	3,744,026	(30,482,845)	(37,728,837)	112.28
Total Assets	214,605,828	237,776,231	286,698,340	(9.74)
Earning Per Share (EPS)	0.31	(2.52)	(3.14)	112.30

Operating Conditions:

The business and investment environment in the country is very challenging. Political and economic uncertainties make the task of capital requirements ever more daunting. The law and order situation is a big concern. Worst floods in country's recorded history were witnessed during 2010. Deaths, destruction to property, loss to agriculture, livestock and infrastructure in the rural areas resulted in unprecedented economic and financial burden for the economy. Growing unemployment in the country and dissatisfaction promises no easy sailings in the future. We hope and expect the government with the will and experience will seek to overcome the difficulties.

The results of 2010 as resulting from operations could have been better. The management expenses stood increased in percentage terms due to declining premium volumes. We will be doing our best to seek improvements in our business volumes. We of course in this period have made strategic changes and concentrated on areas needing improvements. We have restricted credits and sought increases in premium rates where was necessary. In a relatively uncertain environment we intend to continue with a cautious outlook.

Minimum Capital Requirement (MCR)/ Minimum Solvency Requirement (MSR):

The SECP directives of May 2008 were issued without providing us an opportunity to be heard. This was challenged by the company in the Sindh High Court. I am pleased to inform that the High Court upheld our appeal. The SECP action is declared unlawful. The High court ordered that we be heard. The SECP instead has preferred to file an appeal and we will do our best to make a successful defense.

Non availability of a congenial investment climate makes it difficult under existing circumstances for the company to make a successful Rights offer. An event subsequent to 2008 global economic meltdown has exposed the inadequacy and fallacy of MCR/MSR necessitating an immediate review. Growing financial indiscipline in our market prompts us to ask hard questions before moving forward.

The 2008 financial crisis has dawned new realities. The insurance industry in Pakistan is fairly established and tested over the years with relevant experience and expertise. Risk assessment needs for an industry with 60 successful years history was not proper. SECP bid to implement quick fix solution in shape of increased capital/solvency requirements for ensuring financial stability is ill conceived. An idea that failed the stress test and was demonstrated through global economic meltdown of 2008. Instead it has encouraged financial indiscipline in our market which needs to be now checked. Introduction of amendments without careful study and research is harmful for the industry's future. There is a need to review the minimum requirements so that its short comings are removed and stake holder's confidence is restored.

Flaws highlighted:

America largest insurer namely AIG failed the stress of 2008 global economic meltdown and needed a financial bailout and is still reeling under. The company was purported to be the largest capitalised insurance company of North America. Studies have shown it was the financial indiscipline that brought it down. We see a similar fate being repeated here because of the inadequacies of the MCR/MSR. Our regulators have some how remained unmoved by the AIG episode of 2008. In our 2009 annual report we had suggested that a better basis would be the linking of the minimum requirement with premium underwritten.

The minimum capital and solvency margins for Insurance companies must be to a scale linked to premium underwritten, otherwise the minimum requirements are meaningless and do not serve the objective purpose. The idea is illogically conceived and the AIG event has exposed its fallacy. To continue with a fallacy is complacency, unacceptable. The minimum requirements for capital and solvency can not be the same for a company underwriting Rs 100 Million in risk premium income and a company doing Rs 1 Billion and a company doing Rs.10 Billion in premium income. The business of insurance is related to risk and financial stability and soundness must have an equation with risk volume underwritten. Risk needs differ from company to company with proportional and non proportional reinsurance treaties. Companies underwriting large complicated risks with high net retentions and risk accumulations under non proportional arrangements can not be compared or equated with companies underwriting small, medium sized risks under proportional treaties with AA rated re insurers.

We have explained our view point on the issue and stand firm. We will play the role expected of us. We are willing to debate the issue for working out desired changes that we consider necessary. We have a responsibility to our stakeholders and believe without financial discipline there is no future. Our views are long communicated to IAP for forwarding same to SECP.

We have requested SECP for two years extension for meeting minimum capital requirement which will give time to re draw the rules after discussions with all the stake holders. By giving the extension, SECP will do good to the industry. We hope, our request will be seen as genuine. We have strong reservations on the methodology adopted.

During the year we have been engaged in negotiations with a privately held dormant insurance company for its merger acquisition in to our company fold, essentially for making our company compliant of SECP minimum requirements. The negotiations though progressed and in advanced stage, have yet to be successfully concluded. We are optimistic of a favourable outcome but remain cautious.

The appropriation details are as follows.

Profit before tax	Rs. 4,605,212
Add: Provision for tax	(861,186)
Profit after tax	3,744,026
Un-appropriated (Loss)/Profit from last year	(68,100,026)
Balance Un-appropriated Loss at the end of the year	(64,356,000)

The value of investment provident fund maintained by the company based on latest audited financial statement as at 31st December 2009 is Rs...13,486,720.

Compliance with the Code of Corporate Governance:

The requirements of the code set out by the stock exchanges in the listing regulations, relevant for the year ended December 31, 2010, have been duly complied with. A statement to this effect is annexed with the report.

Statement of Directors responsibilities under the code of corporate governance:

The directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Governance for the followings:-

a) The financial statements, prepared by the Company, present fairly, its state of affair, the results of its operations, cash flows and changes in equity.
b) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes where made, have been adequately disclosed and accounting estimates area on the basis of prudent and reasonable judgement.
d) Financial statements have been prepared by the company in accordance with the International Accounting Standards, as applicable in Pakistan, requirement of Companies Ordinance.1984, Insurance Ordinance, 2000, and the Securities and Exchange Commission (Insurance) Rules, 2002.
e) The system of internal control is sound, effectively implemented and monitored. The process of review will continue to strengthen the system for its effective implementation.
f) There is no significant doubt upon the Company's ability to continue as a going concern..

The Company has followed the best practices of corporate governance, as laid down in the listing regulations of the stock exchanges and there has been no material departure.

Board Meetings and Attendance:

During the year four meetings of the Board of directors were held and the number of meetings attended by each director is given hereunder:-

Name of Director	Number of Board Meetings Attended
Mr. Ardeshir Cowasjee	1
Mr. Abdul Razzak E. Jaffer	-
Mr. Qutubddin A. Millwala	4
Mr. Munir I. Millwala	4
Mr. Fida Hussain Samoo	4
Mr. Fayyaz F. Millwala	4
Mr. Hussainai I. Millwala	4
Mr. Mohammadi H. Millwala	3

Leave of absence was granted to directors unable to attend a meeting.

Auditors:

The present auditor M/s Moochhala Gangat & Company, Chartered Accountant retires and present themselves for re-appointment as external auditors for the year ended 31st December 2011.

Audit Committee:

The Company has an audit Committee, and had four meetings during the year 2010. The committee consists of the following members:

Mr. Hussaini I. Millwala	Chairman
Mr. Fida Hussain Samoo	Member
Mr. Qutubuddin A. Millwala	Member
Mr. Mohammadi H. Millwala	Member
Mr. Zoaib A. Quettawala	Member
Mr. Khuzaima Hakimi	Member
Mr. Fakhruddin A. Khetty	Member

STATEMENT OF ETHICS AND BEST BUSINESS PRACTICES

The Board has adopted "the Statement of Ethics and Business Practices" and circulated to all the directors and employees for their acknowledgement and acceptance.

Company Reporting:

The company reports to the shareholders 4 times a year with its 1st quarter, half-yearly, 3rd quarter and full year results, along with the director's reports on the operations and future outlook for the company. All reports are sent to the Stock Exchanges and to the registered shareholders at the address registered with the company.

Pattern of shareholding

A pattern of shareholding is shown separately.

On a lighter note since this is World Cup Cricket season, I am pleased to inform that the company Cricket team had a wonderful time last year with many successes under its belt. With cricket fever all around our team also participated in IAP conducted cricket Tournament amongst insurance companies in March of 2011. After scoring some initial success our boys failed to make it to the semis. Well we all wished they could bring home the IAP trophy. We all appreciate the team efforts and wish them good luck for future success.

Acknowledgement:

On conclusion, I thank the Board of Directors for their advice and support. In difficult times their cooperation is appreciated. We are playing a role expected of us in a difficult environment. My thanks are also for the general manager, officers, staff and the field force whose continued loyalty and devotion makes us ever more determined to succeed. My thanks are for our re insurers namely Mitsui Sumitomo Re, Pak-Re and Korea Re for their continuing support. My thanks to the Securities and Exchange Commission of Pakistan for their cooperation and guidance. We appreciate their support that we have always received. We hope to resolve the current difficulties given the opportunity. Finally my thanks go out to our valuable clients and shareholders for having reposed their continuing trust in the company.

Muinir I. Millwala
Chairman & CEO

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2010

This statement is being presented to comply with the Code of Corporate Governance contained Regulation No.37 of listing regulations of the stock exchange the purpose of establishing a framework of good governance, whereby a listed company/insurance company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors. At present the Board included six independent non-executive directors, including one non-executive director representing minority shareholders.

2. The directors have confirmed that none of them is serving as director in more than ten listed companies.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange has been defaulter by that stock exchange.

4. No casual vacancy has occurred in the year 2010.

5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees upon joining the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant accounting policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. An orientation course was conducted for the directors to apprise them of their duties and responsibilities in the previous year.

10. There was no new appointment of CFO, Company Secretary and head of Internal Audit during the year.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.

14. The Company has functioning the committees namely, Underwriting Committee, Claim Settlement Committee and Re-insurance Committee.

15. The Board has formed an audit committee. It comprises of three members, of whom all are non-executive directors including Chairman of the Board.

16. The meetings of the audit committee were held once in every quarter prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The internal audit department of the company is currently being organized.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality Control review program 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 the shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountant (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountant (IFAC) guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

MUNIR I. MILLWALA
Chairman & CEO

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 The Crescent Star Insurance Company Limited ("The Company") to comply with the Listing Regulations of Karachi and Lahore Stock Exchanges.

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

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

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

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

Name of the audit engagement partner:
Mr. Hussaini Fakhruddin

Moochhala Gangat & Co.
Chartered Accountants

KARACHI:

10 Years at a Glance

(amounts in million rupees)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Gross premium	**105.08**	132.58	175.57	197.21	207.38	165.91	115.92	69.19	41.69	36.16
Net premium	**74.16**	105.36	140.80	170.28	146.58	102.40	63.53	32.02	24.80	20.81
Paid-up capital	**121.00**	121.00	121.00	96.80	88.00	80.00	80.00	50.00	50.00	50.00
General reserve	**24.50**	24.50	24.50	24.50	22.10	17.10	17.10	12.60	10.10	10.10
Reserve for exceptional losses and unexpired risks	**44.07**	52.12	70.80	85.99	110.56	93.78	64.90	25.48	11.68	10.09
Total assets	**214.61**	237.78	286.69	310.80	278.83	275.34	227.04	115.24	83.64	79.90
Profit before tax	**4.61**	(43.38)	(37.40)	26.09	9.84	28.76	26.45	10.07	3.24	3.38
Profit after tax	**3.75**	(30.48)	(37.73)	24.04	8.58	21.58	20.50	7.04	0.33	2.20
Distribution as percentage of										
paid-up capital- cash dividend							10.00	10.00	-	-
paid-up capital- cash dividend Interim				25.00		10.00	10.00			
- bonus shares					10.00	10.00	-	-	-	-
- right shares				25.00				60.00	-	-
Return on total assets-%	**1.74**	(12.82)	(13.16)	7.73	3.08	7.84	9.03	6.11	0.39	2.75
Return on shareholders' equity-%	**4.52**	(38.51)	(34.41)	18.06	6.96	18.80	5.33	10.86	0.53	3.53
Break-up value per share	**6.85**	6.54	9.06	13.75	14.02	14.34	13.65	12.98	12.57	12.51
Earnings per share in rupees	**0.31**	(2.52)	(3.14)	2.19	0.98	2.70	3.43	1.41	0.07	0.44

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 comprehensive income
iv. statement of changes in equity;
v. cash flow statement;
vi. statement of premiums;
vii. statement of claims;
viii. statement of expenses; and
ix. statement of investment income;

of **The Crescent Star Insurance Company Limited (the Company)** as at 31 December 2010 together with notes forming part thereof, for the year then ended.

It is the responsibility of the Company's management to establish and maintain a system of internal control and prepare and present the financial statements in conformity with the approved accounting standards as applicable in Pakistan and the requirement 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.

Except as discussed in paragraphs below, we planned 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 statement presentation

We report that:

According to circular No. 3 of 2007 dated 10 April 2007, issued by the Securities and Exchange Commission of Pakistan (SECP), all non-life insurance companies are required to have a minimum paid up capital of Rs. 250 million as at 31 December 2010. However, the paid up share capital of the company was Rs.121 million at the end of the current year.

Based on the above mentioned fact there exists a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements and notes thereto do not disclose this fact.

Because of the significance of the matters discussed in the above paragraphs, we are unable to form an opinion as to whether:

a) proper books of account have been kept by the Company as required by the insurance Ordinance, 2000, and the Companies Ordinance, 1984;

b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied; and

c) the financial statement together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31st December 2010 and of the profit, its changes in equity and cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan and give the information required to be disclosed by the Insurance Ordinance, 2000, and the Companies Ordinance, 1984.

In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Name of the audit engagement partner:
Mr. Hussaini Fakhruddin

Moochhala Gangat & Co.
Chartered Accountants

Karachi

BALANCE SHEET

Share Capital and Reserves	Note	2010	2009
		------------- (Rupees) -------------	
Authorised share capital			
35,000,000 (2009: 35,000,000) ordinary shares of Rs. 10/- each		350,000,000	350,000,000
Issued, subscribed and paid up			
Share capital	7	121,000,000	121,000,000
Accumulated loss		(64,356,000)	(68,100,026)
Reserves	8	26,264,833	26,264,833
TOTAL EQUITY		82,908,833	79,164,807
Surplus on revaluation of Land	9	21,107,500	21,107,500
		104,016,333	100,272,307
Underwriting Provisions			
Provision for outstanding claims (including IBNR)		32,780,640	49,899,615
Provision for unearned premium		42,305,005	50,352,635
Premium deficiency reserve		-	730,044
Commission income unearned		4,117,613	6,237,030
		79,203,258	107,219,324
Creditors and Accruals			
Premiums received in advance		1,362,185	943,069
Amounts due to other insurers / reinsurers	10	25,895,752	25,710,319
Accrued expenses		1,476,699	1,410,843
Other creditors and accruals	11	2,233,393	1,802,160
		30,968,029	29,866,391
Other Liabilities			
Unclaimed dividend		418,209	418,209
TOTAL LIABILITIES		110,589,496	137,503,924
TOTAL EQUITY AND LIABILITIES		214,605,829	237,776,231
CONTINGENCIES AND COMMITMENT	12	-	-

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

AS AT DECEMBER 31, 2010

	Note	2010	2009
Cash and Bank Deposits		------------ (Rupees) ------------	
Cash and other equivalents	13	49,493	23,112
Current and other accounts	14	8,273,599	10,862,451
Deposits maturing within 12 months	15	6,745,197	7,176,124
		15,068,289	18,061,687
Investments	16	29,739,152	35,219,607
Deferred tax	17	13,543,178	13,543,178
Current Assets – Others			
Premiums due but unpaid	18	46,455,305	51,160,336
Amounts due from other insurers / reinsurers	19	20,359,005	14,619,522
Salvage recoveries accrued		243,000	261,000
Accrued investment income		95,960	98,763
Reinsurance recoveries against outstanding claims		12,868,083	19,273,850
Deferred commission expense		7,672,633	9,253,067
Taxation - net	20	3,517,317	3,992,819
Prepayments	21	14,555,357	19,881,848
Sundry receivables	22	7,661,424	7,162,633
		113,428,084	125,703,839
Fixed Assets			
Tangible	23		
Freehold land		27,500,000	27,500,000
Furniture and fixtures		3,374,256	3,529,564
Office equipment		1,678,914	1,764,910
Computers and related equipment		587,606	781,369
Motor vehicles		9,500,174	10,905,410
Intangible	24		
Computer software		186,177	766,667
		42,827,127	45,247,920
TOTAL ASSETS		214,605,829	237,776,231

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

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	Fire & Property	Marine & Transport	Motor	Miscellaneous	2010 Aggregate	2009 Aggregate
		Rupees					
Revenue Account							
Net premium revenue		24,650,273	16,272,819	24,649,805	8,584,482	**74,157,379**	105,363,790
Net claims		(2,431,162)	(1,066,062)	(14,955,645)	(2,642,156)	**(21,095,026)**	(34,475,597)
Premium deficiency reserve		-	-	730,044	-	**730,044**	3,016,839
Expenses	25	(8,684,685)	(5,121,737)	(6,012,474)	(2,449,527)	**(22,268,423)**	(38,947,940)
Net commission		(1,064,457)	6,551	(4,014,019)	(617,518)	**(5,689,443)**	(8,817,986)
Underwriting result		**12,469,969**	**10,091,571**	**397,710**	**2,875,281**	**25,834,531**	26,139,106
Investment gain / (loss) - net						**1,910,564**	(25,008,889)
Loss on sale of fixed assets						**(159)**	(538,951)
Profit on sale of fixed assets						**500,783**	161,024
Other income	26					**4,432,369**	210,118
General and administrative expenses	27					**(28,072,876)**	(44,341,323)
						(21,229,319)	(69,518,022)
Profit / (loss) before tax						**4,605,212**	(43,378,916)
Provision for taxation	28					**(861,186)**	12,896,071
Profit / (loss) after tax						**3,744,026**	(30,482,845)
Profit and loss appropriation account							
Balance at commencement of the year						**(68,100,026)**	(37,617,181)
Profit / (loss) after tax for the year						**3,744,026**	(30,482,845)
Balance of accumulated loss at end of the year						**(64,356,000)**	(68,100,026)
Earning / (loss) per share (basic and diluted) – rupees	29					**0.31**	(2.52)

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		(Rupees)	
Net Profit / (loss) for the year		3,744,026	(30,482,845)
Other comprehensive income / (loss) for the year		-	-
Total comprehensive income / (loss) for the year		3,744,026	(30,482,845)

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

MUNIR I. MILLWALA	**M.H. Millwala**	**Fayyaz F.Millwala**	**Hussaini I. Millwala**
Chairman & CEO	Director	Director	Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2010

	Share Capital	Capital Reserves	Revenue Reserves		
	Issued, subscribed and paid up	Reserve for Exceptional Losses	General reserve	Accumulated loss	Total
	Rupees				
Balance as on December 31, 2008	121,000,000	1,767,568	24,497,265	(37,617,181)	109,647,652
Loss for the year				(30,482,845)	(30,482,845)
Balance as on December 31, 2009	121,000,000	1,767,568	24,497,265	(68,100,026)	79,164,807
Profit for the year				3,744,026	3,744,026
Balance as on December 31, 2010	121,000,000	1,767,568	24,497,265	(64,356,000)	82,908,833

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Note	2010	2009
		---------------- (Rupees)	----------------
Operating Cash Flows			
a) **Underwriting activities**			
Premiums received		118,926,746	160,914,644
Reinsurance premiums paid		(43,607,473)	(39,307,745)
Claims paid		(52,144,293)	(86,142,996)
Reinsurance and other recoveries received		20,354,060	44,180,704
Commissions paid		(17,737,620)	(22,375,454)
Commissions received		11,509,194	15,828,837
Net cash flow from underwriting activities		37,300,614	73,097,990
b) **Other operating activities**			
Income tax paid		(385,683)	270,826
General management expenses paid		(46,153,765)	(89,234,197)
Other operating receipts / (payments)		193,564	(2,084,830)
Net cash flow from other operating activities		(46,345,884)	(91,048,201)
Total cash flow from all operating activities		(9,045,270)	(17,950,211)
Investment activities			
Profit / return received		1,042,138	1,895,777
Dividends received		985,225	1,301,680
Payments for investments		(2,522,375)	(4,407,336)
Proceeds from disposal of investments		7,495,809	11,296,019
Fixed capital expenditure		(1,906,925)	(2,623,849)
Proceeds from disposal of fixed assets		958,000	634,999
Total cash flow from investing activities		6,051,872	8,097,290
Net cash (outflow) from all activities		(2,993,398)	(9,852,921)
Cash at the beginning of the year		18,061,687	27,914,607
Cash at the end of the year		15,068,289	18,061,686

	Note	2010	2009
		---------------- (Rupees) ----------------	
Reconciliation to Profit and Loss Account			
Operating cash flows		(9,045,271)	(17,950,210)
Depreciation expense		(3,058,736)	(3,572,578)
Amortization expense		(811,606)	(766,667)
Profit on disposal of fixed assets		500,624	(377,927)
Provision for doubtful balances		-	14,568,651
Other income		4,432,369	210,118
(Decrease) in assets other than cash		(12,275,756)	(49,537,351)
Increase in liabilities		26,976,527	39,536,884
		6,718,151	(17,889,081)
Other adjustments			
Profit / return received		1,520,794	1,907,777
Other income		(4,409,186)	(210,118)
Dividend income		1,196,121	1,301,680
Capital gain		(806,351)	(28,218,347)
Income tax paid		385,683	(270,826)
Provision for taxation		(861,186)	12,896,071
		(2,974,125)	(12,593,762)
Profit / (loss) after taxation		3,744,026	(30,482,843)

Definition of cash

Cash comprises of cash in hand, policy stamps, bank balances and other deposits which are readily convertible to cash in hand which are used in the cash management function on a day-to-day basis.

Cash for the purposes of the Statement of Cash Flows consists of:

	2010	2009
Cash and other equivalents		
Cash in hand	23,487	22,623
Policy stamps	25,957	440
Revenue stamps	49	49
	49,493	23,112
Current and other accounts with banks		
Current accounts	8,256,364	10,845,118
PLS savings accounts	17,235	17,333
	8,273,599	10,862,451
Deposits with banks maturing within 12 months		
Deposit accounts	6,745,197	7,176,124
Total	15,068,289	18,061,687

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

MUNIR I. MILLWALA	**M.H. Millwala**	**Fayyaz F.Millwala**	**Hussaini I. Millwala**
Chairman & CEO	Director	Director	Director

STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve Opening	Unearned premium reserve Closing	Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded Opening	Prepaid reinsurance premium ceded Closing	Reinsurance expense	2010 Net premium revenue	2009 Net premium revenue
	(Rupees)									
Direct and facultative										
1 Fire and property	42,797,540	25,997,987	20,864,293	47,931,235	20,115,175	13,070,556	9,904,770	23,280,962	**24,650,273**	31,726,294
2 Marine and transport	25,598,338	4,525,228	2,542,124	27,581,442	10,518,254	1,813,151	1,022,783	11,308,622	**16,272,819**	20,207,751
3 Motor	29,340,807	11,823,974	13,225,245	27,939,536	2,700,000	1,965,513	1,375,782	3,289,731	**24,649,805**	42,281,569
4 Miscellaneous	11,656,728	8,005,447	5,673,344	13,988,831	4,719,994	2,936,377	2,252,022	5,404,349	**8,584,482**	11,148,175
Total	**109,393,413**	**50,352,635**	**42,305,005**	**117,441,043**	**38,053,423**	**19,785,598**	**14,555,357**	**43,283,664**	**74,157,379**	**105,363,790**

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	Claims paid	Outstanding claims Opening	Outstanding claims Closing	Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims Opening	Reinsurance and other recoveries in respect of outstanding claims Closing	Reinsurance and other recoveries revenue	2010 Net claims expense	2009 Net claims expense
	(Rupees)									
Direct and facultative										
Fire and property	15,622,701	21,767,106	17,072,732	10,928,327	13,531,011	14,950,418	9,916,572	8,497,165	**2,431,162**	6,566,570
Marine and transport	7,221,211	7,184,915	3,723,632	3,759,928	3,470,728	2,112,802	1,335,940	2,693,866	**1,066,062**	1,847,266
Motor	25,812,841	17,693,895	8,849,199	16,968,145	1,862,500	1,000,000	1,150,000	2,012,500	**14,955,645**	25,885,037
Miscellaneous	3,487,540	3,253,699	3,135,077	3,368,918	1,471,821	1,210,630	465,571	726,762	**2,642,156**	176,724
Total	**52,144,293**	**49,899,615**	**32,780,640**	**35,025,318**	**20,336,060**	**19,273,850**	**12,868,083**	**13,930,293**	**21,095,025**	**34,475,597**

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

MUNIR I. MILLWALA	**M.H. Millwala**	**Fayyaz F.Millwala**	**Hussaini I. Millwala**
Chairman & CEO	Director	Director	Director

STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

Business underwritten inside Pakistan

Class	Commissions paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers *	2010 Net underwriting expense	2009 Net underwriting expense
	(Rupees)								
Direct and facultative									
1 Fire and property	7,554,936	5,199,597	4,172,859	8,581,675	8,684,685	17,266,360	7,517,218	**9,749,142**	16,480,056
2 Marine and transport	3,654,003	678,784	381,319	3,951,469	5,121,737	9,073,206	3,958,020	**5,115,186**	9,868,602
3 Motor	4,224,210	1,773,596	1,983,787	4,014,019	6,012,474	10,026,494	-	**10,026,494**	15,704,495
4 Miscellaneous	2,304,471	1,601,089	1,134,669	2,770,892	2,449,527	5,220,418	2,153,373	**3,067,045**	5,712,773
Total	**17,737,620**	**9,253,067**	**7,672,633**	**19,318,054**	**22,268,423**	**41,586,478**	**13,628,611**	**27,957,867**	**47,765,926**

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

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010	2009
	(Rupees)	
Income from Non-Trading Investments		
Held to Maturity		
Return on government securities	24,000	24,000
Return on other fixed income securities and deposits	1,496,794	1,883,777
	1,520,794	1,907,777
Available-for-Sale		
Dividend income	1,196,121	1,301,680
Net (loss) / gain on sale of 'available-for-sale' investments	(7,226,815)	(13,478,624)
	(6,030,694)	(12,176,944)
Provision for impairment in the value of available-for-sale investments	(6,420,464)	(14,739,723)
Net investment income	(1,910,564)	(25,008,889)

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

MUNIR I. MILLWALA
Chairman & CEO

M.H. Millwala
Director

Fayyaz F.Millwala
Director

Hussaini I. Millwala
Director

THE CRESCENT STAR INSURANCE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. THE COMPANY AND ITS OPERATIONS

The Crescent Star Insurance Company Limited (the Company) was incorporated as a Public Limited Company in the year 1957 under the Companies Act, 1913 (now the Companies Ordinance, 1984). The Company is listed on the Karachi and Lahore Stock Exchanges and is situated at 2nd Floor, Nadir House, I.I. Chundrigar Road, 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 [SEC (Insurance) Rules, 2002], vide SRO 938 dated December 12, 2002.

3. STATEMENT OF COMPLIANCE

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

3.2 INITIAL APPLICATION OF A STANDARD, AMENDMENT OR AN INTERPRETATION TO AN EXISTING STANDARD AND FORTHCOMING REQUIREMENT

3.2.1 Initial application of a standard or an interpretation

The Company has adopted the following new and amended IFRS and related interpretations which became effective during the year:

IFRS 2 - Share-based Payments: Amendments relating to Group Cash-settled Share-based Payment Transactions.

IFRS 3 - Business Combinations (revised)
IAS 27 - Consolidated and Separate Financial Statements (Amendment)
IAS 39 - Financial Instruments: Recognition and Measurement - Eligible Hedged items (Amendment)
IFRIC 17 - Distributions of Non-cash Assets to owners.

In may 2008 and April 2009, International Accounting Standards Board issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. The improvements which became effective during the year are listed below:

IFRS 2 - Share-based Payments.
IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations.
IFRS 8 - Operating Segments.
IAS 1 - Presentation of Financial Statements.
IAS 7 - Statement of Cash Flows.
IAS 17 - Leases.
IAS 36 -Impairment of Assets.
IAS 38 - Intangible Assets.
IAS 39 - Financial Instruments: Recognition and measurement.
IFRIC 9 - Reassessment of Embedded Derivatives.
IFRIC 16 - Hedges of a Net Investment in a Foreign Operation.

The adoption of the above standards, amendments / improvements and interpretations did not have any material effect on the financial statements.

With effect from the current year, the Company has elected to present a separate Statement of Comprehensive Income, as required by IAS-1 (Revised)

3.2.2 New accounting standards and IFRIC interpretations that are not yet effective

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (accounting periods beginning on or after)
IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)	February 01, 2010
IAS 24 - Related Party Disclosures (Revised)	January 01, 2011
IAS 12 - Income Taxes: Deferred Tax Amendment - Recognition of Underlying Assets.	January 01, 2012
IFRIC 14 - IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendments)	January 01, 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments.	July 01, 2010

The Company excepts that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Company's financial financial statements in the period of initial application.

In addition to the above, amendments to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2011. The Company excepts that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

4. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with the requirements of approved accounting standards as applicable in Pakistan requires management to make judgments / estimates and associated assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The judgments / estimates and associated assumptions are based on historical experience, current trends and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the estimates 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 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.

Significant areas where assumptions and estimates were exercised in application of accounting policies relate to:

		Note
-	Insurance contracts	6.1
-	Provision for outstanding claims (including IBNR)	6.2
-	Premium deficiency reserves	6.3
-	Reinsurance Contracts Held	6.4
-	Receivables and payables related to insurance contracts	6.5
-	Staff retirement benefits	6.6
-	Classification of investments	6.7
-	Useful lives of assets and methods of depreciation	6.8
-	Provision for taxation (current and deferred)	6.14
-	Impairment	6.18

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Insurance contracts

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

- Fire and property
- Marine & Transport
- Motors
- Miscellaneous

These contracts are normally one year insurance contracts except Marine and some contracts of Fire and property and miscellaneous class. Normally all marine insurance contracts and some fire and property contracts are of three months period. In miscellaneous class, some engineering insurance contracts are of more than one year period.

These contracts are provided to all types of customers based on assessment of insurance risk by the Company. Normally personal insurance contracts e.g. vehicle are provided to individual customers, whereas, insurance contracts of fire and property, marine and transport, accident and other commercial line products are provided to commercial organizations.

Fire and property insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Marine Insurance covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident.

Other various types of insurance are classified in miscellaneous category which includes mainly engineering, terrorism, personal accident, worker compensation, travel, products of financial institutions and crop insurance etc.

The Company also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward. The insurance risk involved in these contracts is similar to the contracts undertaken by the company as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts except retrocession business with Pakistan Reinsurance Company Limited (PRCL).

6.2 Provision for outstanding claims including incurred but not reported (IBNR)

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 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.

Provision for IBNR is made for the cost of settling claims incurred but not reported at the balance sheet date.

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 reserves

"The Company is required as per SEC (Insurance) Rules, 2002, to maintain a provision in respect of premium deficiency for the class of business where the unearned premium reserve is not adequate to meet the expected future liability, after reinsurance from claims, and other 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 recorded as anexpense in the profit and loss account."

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

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

6.4 Reinsurance Contracts Held

These are contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognizes the entitled benefits under the contracts as various reinsurance assets.

6.5 Receivables and payables related to insurance contracts

Receivables and payables relating to insurance contracts are recognized when due. These include premiums due but unpaid, premium received in advance, premiums due and claims payable to insurance contract holders. These are recognized at cost, which is the fair value of the consideration given less provision for impairment, if any.

If there is an objective evidence that any premium due but unpaid is impaired, the Company reduces the carrying amount of that insurance receivable and recognizes the loss in profit and loss account.

6.6 Staff retirement benefits

6.6.1 Defined contribution plan

The Company contributes to a approved provident fund scheme which covers all permanent employees. Equal contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary.

6.6.2 Employees' compensated absences

The Company accounts for accumulated compensated absences on the basis of the un-availed leave balances at the end of the year.

6.7 Investments

6.7.1 Recognition

All investments are initially recognized at cost, being the fair value of the consideration given and include transaction costs, except for held for trading in which case transaction costs are charged to the profit and loss account. These are recognized and classified as follows:

- Investment at fair value through profit and loss
- Held to maturity
- Available for sale

6.7.2 Measurement

6.7.2.1 Investment at fair value through profit or loss

– Investments which are acquired principally for the purposes of generating profit from short term fluctuation in price or are part of the portfolio in which there is recent actual pattern of short term profit taking are classified as held for trading.

– Investments which are designated at fair value through profit or loss upon initial recognition.

Subsequent to initial recognition, these investments are remeasured at fair value. Gains or losses on investments on remeasurement of these investments are recognised in profit and loss account.

6.7.2.2 Held to maturity

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

Subsequently, these are measured at amortised cost less provision for impairment, if any. Any premium paid or discount availed on acquisition of held to maturity investment is deferred and amortised over the term of investment using the effective yield.

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

6.7.2.3 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, equity prices or exchange rates are classified as available for sale.

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002 vide S.R.O. 938 dated December 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value.

Unquoted

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

6.7.2.4 Date of recognition

Regular way purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investment.

6.8 Fixed assets

6.8.1 Tangibles

These are stated at cost less accumulated depreciation and impairment loss, if any, except for the freehold land which is stated at cost. Depreciation is charged over the estimated useful life of the asset on a systematic basis to income applying the reducing balance method at the rates specified in note 22 to the financial statements.

Depreciation on additions is charged from the date the assets are available for use. While on disposal, depreciation is charged up to the date on which the assets are disposed off.

Subsequent cost are included in the assets carrying amount or recognized as a separate asset, as appropriate, only when it is possible that the future economic benefits associated with the items will flow to the company and the cost of the item can be measured reliably. Maintenance and normal repairs are charged to profit and loss account currently.

Surplus on revaluation of Tangible fixed assets is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of the incremental depreciation charged on the revalued assets the related surplus on revaluation of tangible fixed assets (net of deferred tax) is transferred directly to unappropriated profit.

An item of tangible asset is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss in the year the asset is derecognized, currently, except that the related surplus on revaluation of fixed assets (net of deferred tax) is transferred directly to unappropriated profit..

6.8.2 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 23 to the financial statements.

Amortisation is calculated from the month the assets are available for use. While on disposal, amortisation is charged up to the month in which the assets are disposed off.

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.

6.9 Premiums

6.9.1 Premium income earned

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

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

Where the pattern of incidence of risk carries over the period of the policies, premium is recognised as revenue in accordance with the pattern of the incidence of risk.

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

6.9.2 Provision for unearned premium

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage and is recognised as a liability by the Company. This liability is calculated as follows:

- for marine cargo business, as a ratio of the unexpired period to the total period of the policy applied on the gross premium of the individual policies; and

- for other classes, by applying the twenty-fourths' method as specified in the SEC (Insurance) Rules, 2002, as majority of the remaining policies are issued for a period of one year.

6.9.3 Premiums due but unpaid

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

6.10 Commissions

6.10.1 Deferred commission expense

Commission expense incurred in obtaining and recording policies is deferred and is recognised as an asset on attachment of the related risks. These costs are charged to profit and loss account based on the pattern of recognition of premium revenue.

6.10.2 Commission income unearned

Commission and other forms of revenue (apart from recoveries) from reinsurers are deferred and recognised as liability and recognised in the profit and loss account as revenue in accordance with the pattern of recognition of the reinsurance premiums.

6.10.3 Commission income

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

6.11 Investment income

Income from held to maturity investments is recognised on a time proportion basis taking into account the effective yield on the investments. The difference between the redemption value and the purchase price of the held to maturity investments is amortised and taken to the profit and loss account over the term of the investment.

Dividend income is recognised when the company's right to receive the payment is established.

Gain / loss on sale of available for sale investments is included in income currently.

Return on fixed income securities classified as available for sale is recognised on a time proportionate basis taking into account the effective yield on the investments.

Return on bank deposit is recognized on a time proportionate basis taking into account the effective yield.

6.12 Dividend declaration and reserve appropriation

Dividend declaration and reserve appropriation are recognized when approved.

6.13 Expenses of management

Management expenses allocated to the underwriting business represent directly attributable expenses and indirect expenses allocated to the various classes of business on the basis of gross premium written.

Expenses not allocable to the underwriting business are charged as administrative expenses.

6.14 Taxation

6.14.1 Current

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

6.14.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

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

Deferred tax is provided on temporary differences arising on investments in associates stated under equity method of accounting.

6.15 Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 as the primary reporting format. The Company has four primary business segments for reporting purposes namely fire, marine, motor, and miscellaneous.

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

- Marine insurance provides coverage against cargo risk, war risk and Strike Riot Civil Commotion (S.R.C.C.), for loss occurring whether cargo is transported by sea, air or by inland conveyance.

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

- Miscellaneous insurance provides cover against burglary, loss of cash in safe and cash in transit or on counter, fidelity guarantee, personal accident, plate glass, householder's policy, engineering losses etc.

Assets and liabilities are allocated to particular segments on the basis of premium earned. 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. Depreciation and amortisation are allocated to a particular segment on the basis of premium earned.

6.16 Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Exchange differences, if any, are taken to profit and loss account.

6.17 Offsetting of financial assets and liabilities

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

6.18 Impairment

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

6.19 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 obligations and a reliable estimate can be made of the amount of the obligation.

6.20 Amounts due to / from other insurers / reinsurers

Amount due to / from other insurers / reinsurers are carried at cost less provision for impairment. Cost represents the fair value of the consideration to be received / paid in the future for the services rendered / received.

6.21 Creditors and accruals

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

6.22 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, case and cash equivalents consists of cash in hand, stamps in hand, deposits with banks and short term placements with a maturity of less than three months.

6.23 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 recognized as a liability and are measured at the amount expected to be received.

6.24 Prepaid reinsurance expense

Premium for reinsurance contracts operative on a proportional and non-proportional basis is recorded as a liability on attachment of the underlying risks reinsured or on inception of the reinsurance contract respectively. For proportional reinsurance contracts, the reinsurance expense is recognized in accordance with the pattern of recognition of premium income to which they relate. For non-proportional contracts, the reinsurance expense is recognized evenly in the period of indemnity. The portion of reinsurance premium not recognized as an expense is shown as a prepayment.

6.25 Financial instruments

Financial instruments carried on the balance sheet include cash and bank, loans to employees, premiums due but unpaid, amount due from other insurers / reinsurers, 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 and derecognized when the Company losses control of contractual rights that comprises the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. 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 derecognition of financial assets and financial liabilities is taken to income directly.

7. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2010	2009		Note	2010	2009
---- (Number of shares) -----				------------ (Rupees) ------------	
9,133,453	9,133,453	Ordinary shares of Rs.10 each fully paid in cash		**91,334,530**	91,334,530
2,966,547	2,966,547	Ordinary shares of Rs.10 each issued as fully paid bonus shares		**29,665,470**	29,665,470
12,100,000	12,100,000			**121,000,000**	121,000,000

8. RESERVES

	2010	2009
Reserve for expectional losses	**1,767,568**	1,767,568
General reserve	**24,497,265**	24,497,265
	26,264,833	26,264,833

8.1 The reserve for exceptional losses represents the amount set aside in prior years upto December 31, 1978, in order to avail the deduction while computing the taxable income under the old Income Tax Act of 1922. Subsequent to the introduction of repealed Income Tax Ordinance, 1979, which did not permit the said deduction, the Company discontinued the setting aside of amounts as reserve for exceptional losses.

9. Surplus on Revaluation of Fixed Assest

	2010	2009
Balance as at January 01	**21,107,500**	-
Surplus for the year	-	21,107,500
Balance as at December 31	**21,107,500**	21,107,500

The closing balance of surplus on revaluation of operating assets is not available for distribution to shareholders.

	Note	2010	2009
		------------ (Rupees) ------------	

10. AMOUNTS DUE TO OTHER INSURERS / REINSURERS

		2010	2009
Foreign reinsurers		**18,997,572**	17,802,824
Local reinsurers		**3,685,844**	1,515,212
Co-insurers		**3,212,336**	6,392,283
		25,895,752	25,710,319

11. OTHER CREDITORS AND ACCRUALS

		2010	2009
Federal insurance fee		**173,890**	97,296
Federal excise duty		**1,744,339**	1,304,648
Withholding tax		**304,764**	357,592
Sundry creditors		**10,400**	42,624
		2,233,393	1,802,160

12. CONTINGENCIES AND COMMITMENTS

12.1 CONTINGENCIES

The Company is a defendant in certain law suits pending in various court of law aggregation to Rs.5.795 (2009: Rs.5.795) million. The Management believes that the outcome of above lawsuits will be in favour of the Company and, accordingly, no provision for the same has been made in these financial statements.

12.2 COMMITMENTS

There were no commitments as at December 31, 2010 (2009: Rs. Nil).

13. CASH AND OTHER EQUIVALENTS

		2010	2009
Cash in hand		**23,487**	22,623
Policy stamps		**25,957**	440
Revenue stamps		**49**	49
		49,493	23,112

14. CURRENT AND OTHER ACCOUNTS WITH BANKS

	Note	2010	2009
Current accounts	14.1	**8,256,364**	10,845,118
PLS savings accounts	14.2	**17,235**	17,333
		8,273,599	10,862,451

14.1 This includes Rs. 0.4 million (2009: Rs. 0.4 million) placed with State Bank of Pakistan as statutory deposit in accordance with the requirement of clause (a) of sub section 2 of section 29 of the Insurance Ordinance, 2000.

14.2 These carry mark-up at the rate of 6% (2009: 4%) per annum.

15. DEPOSITS MATURING WITHIN 12 MONTHS

	Note	2010	2009
Term deposits	15.1	**6,745,197**	7,176,124

15.1 This represents term deposits placed with various commercial banks carrying mark-up at the rates ranging between 5.0% to 10% (2009: 5.0% to 10.15%) per annum.

	Note	2010	2009
16. INVESTMENTS		------------ (Rupees)	------------
Held to maturity	16.1	**5,200,000**	6,080,000
Available for sale	16.2	**24,539,152**	29,139,607
		29,739,152	35,219,607

16.1 Held to maturity

	Note	2010	2009
Government securities			
Pakistan Investment Bonds	16.1.1	**5,200,000**	5,200,000
Fixed income securities			
Defence Savings Certificates		**-**	880,000
		5,200,000	6,080,000

16.1.1 Securities amounting to Rs 5.00 million (Rs. 5.00 million) are placed with State Bank of Pakistan as statutory deposit in accordance with the requirement of clause (a) of sub section 2 of section 29 of the Insurance Ordinance, 2000.

These carry mark-up at the rate of 12 (2009: 12) percent per annum receivable semi-annually and have terms of three to ten years maturing upto December 2011.

16.2 Available for sale

	Note	2010	2009
Quoted	16.2.1	**24,539,152**	29,139,607
Un-quoted	16.2.2	**-**	-
		24,539,152	29,139,607

17.2.1 Quoted

No. of shares		Face value	Market value		Name of entity	Note	2010	2009
2010	2009		2010	2009			------------ (Rupees) ------------	
					INVESTMENT COMPANIES / BANKS			
5,000	5,000	10	8.60	8.95	Standard Chartered Bank		**190,000**	190,000
8,750	8,750	10	9.81	19.50	The Bank of Punjab Limited		**593,750**	593,750
67	67	10	3.00	3.00	Innovative Investment Bank Limited		**243,755**	243,755
1,408	1,408	10	2.93	3.53	IGI Investment Bank Limited		**18,818**	18,818
2,653	2,653	10	2.51	7.39	KASB Bank Limited		**26,878**	26,878
1,080	1,080	10	76.82	74.37	National Bank of Pakistan		**131,139**	131,139
254,966	254,966	10	2.95	4.80	NIB Bank Limited		**3,804,298**	3,604,891
24,400	24,400	10	8.31	11.07	Soneri Bank Limited		**786,000**	786,000
668	668	10	70.15	58.73	Allied Bank Limited		**72,854**	72,854
9,600	9,600	10	68.23	58.45	United Bank Limited		**1,120,321**	1,120,321
10,000	10,000	10	11.21	13.77	Bank Al Falah Ltd		**267,900**	142,900
					INSURANCE			
534	534	10	14.05	16.00	Habib Insurance Company Limited		**1,565**	1,565
8,499	8,499	10	16.25	26.10	Pakistan Reinsurance Corporation		**771,921**	202,110
562	562	10	11.41	12.57	Premier Insurance Limited		**2,793**	2,793
					TEXTILE COMPOSITE			
80	80	10	64.17	69.90	Nishat Mills Limited		**6,388**	6,388
4,900	4,900	10	11.53	17.76	Babri Cotton Mills Limited		**207,172**	207,172
12,100	12,100	10	6.89	7.49	Gulistan Spinning Mills Limited		**88,000**	88,000
16,960	16,960	10	7.00	8.00	Gulshan Spinning Mills Limited		**261,691**	261,691
12,000	12,000	10	3.55	4.42	Idrees Textiles Mills Limited		**180,395**	180,395
7,095	7,095	10	10.40	11.74	Paramount Spinning Mills Limited		**77,825**	77,825
158	158	10	0.30	0.48	Service Fabrics Limited		**1,859**	1,859
					SYNTHETIC AND RAYON			
86	86	10	0.63	1.55	Tristar Polyester Limited		**1,307**	1,307
38,367	38,367	10	36.00	37.80	Rupali Polyester Limited		**1,398,477**	1,398,477
50,625	50,625	10	1.83	1.48	Dewan Salman Fibre Limited		**705,173**	705,173
					CEMENT			
2,278	2,278	10	10.75	12.55	Cherat Cement Limited		**87,537**	87,537
240,990	240,990	10	2.87	3.76	Maple Leaf Cement Limited		**1,295,762**	5,119,947
548	548	10	6.77	10.68	Pioneer Cement Limited		**15,796**	15,796
185,000	185,000	10	2.24	2.51	Dewan Cement Limited		**1,087,613**	3,353,474
211,000	211,000	10	5.02	6.16	Fauji Cement Company Limited		**2,454,920**	2,784,882
215,500	215,500	10	3.21	2.19	Pakistan Cement Company Limited(Lafarge)		**332,870**	2,020,659
					FUEL AND ENERGY			
100,882	100,882	10	2.81	2.66	Karachi Electric Supply Corporation Limited		**487,654**	612,975
700	700	10	0.00	136.83	Mari Gas Company Limited			48,625
500	500	10	0.00	110.61	Oil and Gas Development Company Limited			46,838
62	62	10	295.18	297.44	Pakistan State Oil Company Limited		**20,789**	20,789
224	224	10	26.74	24.80	Sui Northern Gas Pipelines Limited		**12,146**	12,146
769	769	10	21.42	13.43	Sui Sourthern Gas Company Limited		**20,180**	20,180
795,000	795,000	10	2.23	3.99	Southern Electric Power Company Limited		**10,710,060**	10,710,060
					AUTO & ALLIED ENGINEERING			
225	225	10	2.28	1.49	Dewan Farooq Motors Limited		**5,806**	5,806
40,500	40,500	10	22.60	23.96	The General Tyre and Rubber Company of Pakistan Limited		**1,373,426**	1,373,426
700	700	10	69.82	88.96	Pak Suzuki Motors Company Limited		**151,589**	151,589
					CABLE & ELECTRICAL GOODS			
10	10	10	1253.51	1260.86	Siemens (Pakistan) Engineering Company Limited		**205**	205
					TRANSPORT & COMMUNICATIONS			
268	268	10	2.90	3.70	World Call Communication Limited		**2,281**	2,281
					Balance carry forward		**29,018,913**	**36,453,276**

No. of shares 2010	No. of shares 2009	Face value	Market value 2010	Market value 2009	Name of entity	Note	2010 (Rupees)	2009 (Rupees)
					Balance brought forward		**29,018,913**	36,453,276
					CHEMICAL & PHARMACEUTICAL			
38	38	10	144.24	168.49	I.C.I. Pakistan Limited		**6,031**	6,031
132,287	132,287	10	13.70	7.83	Pakistan PTA Limited		**197,224**	683,390
					LEATHER AND TANNERIES			
33	33	10	689.15	979.00	Bata (Pakistan) Limited		**1,540**	1,540
					FOOD AND ALLIED			
8,000	8,000	10	1.00	0.75	Indus Fruits Product Limited		**101,800**	101,800
43	43	10	2375.86	1245.96	Nestle Milkpak Limited		**290**	290
					FERTILIZER			
62,000	62,000	10		26.13	Fauji Fertilizer Bin Qasim Limited			2,744,061
					MISCELLANEOUS			
43,000	43,000	10	3.02	3.20	Macpac Films Limited		**953,255**	1,392,084
					MUTUAL FUND			
150,996	150,996	50	50.86	50.86	Pakistan Income Fund (PIF)	16.2.1.1	**7,353,886**	7,353,886
9,018	9,018	10	3.16	3.00	Golden Arrow Selected Stocks Fund Limited		**53,030**	53,030
31,066	31,066	10	6.41	5.82	PICIC Investment Fund		**554,715**	554,715
243,124	243,124	10	13.25	14.26	PICIC Growth Fund		**7,036,187**	6,953,687
42,500	42,500	10	6.56	4.74	PICIC Energy Fund		**306,750**	306,750
25,000	25,000	10	12.10	12.10	Pakistan Capital Market Fund		**265,000**	265,000
66,000	66,000	10	9.01	5.95	Pakistan Premier Fund		**791,313**	791,313
69,750	69,750	10	2.00	1.69	First Dawood Fund		**567,814**	567,814
35,153	35,153	10	5.50	4.94	JS Growth Fund		**484,169**	484,169
					MODARABA			
7,500	7,500	10	1.81	2.56	B.R.R International Modaraba		**96,775**	96,775
29,572	29,572	10	1.50	2.45	First Equity Modaraba		**393,113**	393,113
57,978	57,978	10	9.31	9.05	Standard Chartered Modaraba		**1,017,741**	1,017,741
100,005	100,005	10	8.24	4.15	Habib Bank Modaraba		**1,058,944**	1,058,944
48,400	48,400	5	6.70	5.83	First Habib Modaraba		**335,381**	335,381
16,300	16,300	10	1.51	1.61	Modaraba Al-Mali		**283,900**	283,900
65,500	65,500	10	6.58	3.47	First National Bank Modaraba		**561,350**	561,350
154	154	10	1.10	0.97	First Prudential Modaraba		**715**	715
							51,439,836	62,460,755
					Provision for impairment		**(26,900,684)**	(33,321,148)
							24,539,152	29,139,607

16.2.1.1 Securities amounting to Rs 6.95 million (Rs. 6.95 million) are placed with State Bank of Pakistan as statutory deposit in accordance with the requirement of clause (a) of sub section 2 of section 29 of the Insurance Ordinance, 2000.

16.2.2 Unquoted

No. of shares 2010	No. of shares 2009	Face value	Name of entity	2010	2009
1200	1200	25	Agricultural Development Co-operative Society	**30,000**	30,000
			Provision for impairment	**(30,000)**	(30,000)
				-	-

	Note	2010	2009
17. DEFERRED TAXATION		------------ (Rupees) ------------	
The asset / (liability) for deferred taxation comprises timing differences relating to:			
Depreciation		**77,719**	77,719
Provisions		**11,052,794**	11,052,794
Unused Tax losses		**2,412,665**	2,412,665
		13,543,178	13,543,178
18. PREMIUMS DUE BUT UNPAID			
Considered good		**46,455,305**	51,160,336
Considered doubtful		**23,628,004**	28,037,190
		70,083,309	79,197,526
Less: Provision for doubtful balances	18.1	**(23,628,004)**	(28,037,190)
		46,455,305	51,160,336
18.1 Reconciliation of provision for doubtful balances			
Opening provision		**28,037,190**	13,468,539
Charge for the year		**(4,409,186)**	14,568,651
Closing balance		**23,628,004**	28,037,190
19. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS			
Considered good		**20,359,005**	14,619,522
Considered doubtful		**3,212,221**	3,212,221
		23,571,226	17,831,743
Less: Provision for doubtful balances		**(3,212,221)**	(3,212,221)
		20,359,005	14,619,522
20. TAXATION - NET			
Advance tax		**4,378,503**	4,649,806
Provision for taxation		**(861,186)**	(656,987)
		3,517,317	3,992,819
21. PREPAYMENTS			
Prepaid reinsurance premium ceded		**14,555,357**	19,785,598
Others		**-**	96,250
		14,555,357	19,881,848
22. SUNDRY RECEIVABLES – unsecured			
Advances			
Considered good			
To employees		**424,100**	759,800
Against expenses		**5,607,198**	4,135,144
Against purchase of shares		**547,625**	394,540
		6,578,923	5,289,484
Considered doubtful			
Against expenses		**330,000**	330,000
		6,908,923	5,619,484
Less: Provision for doubtful balances		**(330,000)**	(330,000)
		6,578,923	5,289,484
Deposits		**390,146**	390,146
Others		**692,355**	1,483,003
		7,661,424	7,162,633

23. Fixed Assets - Tangible

Decsription	Freehold land	Furniture and fixtures	Office equipment	Computers and related equipment	Vehicles	Total
COST						
Balance as at January 01, 2009	6,392,500	4,310,129	3,037,388	3,323,548	35,450,891	52,514,456
Additions	-	1,746,858	154,655	19,800	702,536	2,623,849
Disposals	-	(1,104,949)	(328,825)	(1,060,827)	(1,103,925)	(3,598,526)
Revaluations	21,107,500					21,107,500
Balance as at December 31, 2009	**27,500,000**	**4,952,038**	**2,863,218**	**2,282,521**	**35,049,502**	**72,647,279**
Balance as at January 01, 2010	27,500,000	4,952,038	2,863,218	2,282,521	35,049,502	72,647,279
Additions	-	197,649	95,700	48,400	1,334,060	1,675,809
Disposals	-				(1,581,960)	(1,581,960)
Balance as at December 31, 2010	**27,500,000**	**5,149,687**	**2,958,918**	**2,330,921**	**34,801,602**	**72,741,128**
DEPRECIATION						
Balance as at January 01, 2009	-	1,803,216	1,176,049	2,135,211	22,064,569	27,179,045
Charge for the year	-	339,252	191,589	332,269	2,709,471	3,572,581
On disposals	-	(719,994)	(269,330)	(966,328)	(629,948)	(2,585,600)
Balance as at December 31, 2009	-	**1,422,474**	**1,098,308**	**1,501,152**	**24,144,092**	**28,166,026**
Balance as at January 01, 2010	-	1,422,474	1,098,308	1,501,152	24,144,092	28,166,026
Charge for the year	-	352,957	181,696	242,163	2,281,920	3,058,736
On disposals	-				(1,124,584)	(1,124,584)
Balance as at December 31, 2010	-	**1,775,431**	**1,280,004**	**1,743,315**	**25,301,428**	**30,100,178**
CARRYING AMOUNT - 2009	**27,500,000**	**3,529,564**	**1,764,910**	**781,369**	**10,905,410**	**44,481,253**
CARRYING AMOUNT - 2010	**27,500,000**	**3,374,256**	**1,678,914**	**587,606**	**9,500,174**	**42,640,950**
RATE OF DEPRECIATION (%)	-	10%	10%	30%	20%	

23.1 The freehold land was professionally reappraised during the year by Consultancy Support & Services, producing a revaluation surplus of Rs. 21,107,500 and same was added to the book value of the freehold land with corresponding amount appearing as "surplus on revaluation of fixed assets".

23.2 Had the revaluation not been carried out, the net book value of the freehold land would have been as follows:

	2010	2009
	(Rupees)	
Freehold land	6,392,500	6,392,500

23.3 Disposal of tangible fixed assets

Item	Cost	Accumulated depreciation	Book value	Sale Proceeds	Gain / (loss)	Mode of disposal	Sold to
Vehicles							
Suzuki Swift H-0391	312,160	293,269	18,891	240,000	221,109	Negotiation	Mr. Ade Ali
Suzuki Mehran ABM-306	300,000	259,841	40,159	40,000	(159)	Negotiation	Mr. Zaheer Udin
Suzuki Alto LWK-2044	548,800	338,618	210,182	365,000	154,818	Negotiation	Mr. Sirtaj Khan
Cultus AEH-681	380,000	202,604	177,396	295,000	117,604	Negotiation	Mr. Sirtaj Khan
Hero RX-70 KBH-8433	41,000	30,252	10,748	18,000	7,252	Negotiation	Mr. Anis Patel
2010	**1,581,960**	**1,124,584**	**457,376**	**958,000**	**500,624**		
2009	**1,103,925**	**629,949**	**473,976**	**635,000**	**161,024**		

	Note	2010	2009
		------------ (Rupees) ------------	
24. Fixed Assets - Intangible			
Computer software	24.1	**186,177**	766,667
24.1 Computer Software			
Cost			
Opening balance		**2,300,000**	2,300,000
Additions		**231,116**	-
Closing balance		**2,531,116**	2,300,000
Amortization			
Opening balance		**1,533,333**	**766,667**
Charge for the year		**811,606**	**766,666**
Closing balance		**2,344,939**	1,533,333
CARRYING AMOUNT		**186,177**	766,667
Rate of Amortization (%)		**33.33%**	33.33%

25. MANAGEMENT EXPENSES

	Note	2010	2009
Salaries, allowances and other benefits	27.1	**10,975,489**	21,254,002
Traveling and conveyance expenses		**56,675**	3,299,091
Repairs and maintenance		**2,486,025**	2,186,115
Rent, rates and taxes		**1,860,571**	2,110,583
Printing and stationery		**900,866**	1,253,113
Telephone and postage		**1,577,039**	2,574,707
Utilities		**2,138,600**	2,134,950
Entertainment		**1,667,854**	2,380,715
Bank charges		**292,119**	341,398
Others		**313,186**	1,413,266
		22,268,423	38,947,940

			2010	2009
26.	**OTHER INCOME**		------------ (Rupees) ------------	
	- Non financial assets			
	Inspection charges		**23,183**	210118
	Provision for doubtful balances written back		**4,409,186**	-
			4,432,369	210,118
27.	**GENERAL AND ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits	27.1	**10,417,605**	7,134,558
	Traveling and conveyance expenses		**5,771,591**	4,540,521
	Depreciation		**3,058,736**	3,572,578
	Amortization		**811,606**	766,667
	Repairs and maintenance		**956,914**	3,258,038
	Fees, subscription and periodicals		**1,703,476**	2,431,506
	Printing and stationery		**815,404**	1,027,395
	Telephone and postage		**1,334,852**	2,015,840
	Legal and professional charges		**777,876**	1,706,192
	Advertisement and promotion expenses		**857,173**	1,719,910
	Donation	27.2	**27,560**	12,560
	Entertainment		**205,129**	228,898
	Provision for doubtful balances	17, 18 & 21	-	14,568,651
	Auditors' remuneration	27.3	**480,500**	413,056
	Others		**854,454**	944,953
			28,072,876	44,341,323

27.1 This includes staff retirement benefits amounting to Rs.0.75 million (2009: Rs. Rs.0.90 million).

27.2 Donations does not include any donee in which any director or their spouse are interested.

27.3 Auditors' remuneration

Annual audit fee	**300,000**	**300,000**
Half yearly review	**55,000**	**55,000**
Diligence fee/Out of pocket	**125,000**	**58,056**
	480,000	413,056

28. TAXATION

Current	**(861,186)**	**(656,987)**
Deferred	-	13,553,058
	(861,186)	12,896,071

28.1 The income tax returns of the Company have been filed up to tax year 2010 (corresponding to the income year ended December 31, 2009) and the same are deemed to be assessed under the provisions of the Income Tax Ordinance, 2001.

28.2 Relationship between accounting profit and tax expense

	2010	2009
	---------- Rupees ----------	
Accounting profit before tax	**4,605,212**	(43,378,916)
Tax at the applicable rate of 35%	**1,611,824**	-
Tax effect of expenses that are not allowed in determining taxable income	**1,287,379**	-
Tax effect of exempt income and expenses that are deductible from	**-**	-
but not included in determining accounting profit	**(1,738,987)**	-
Tax effect of dividend income taxed at a lower rate	**(299,030)**	-
Prior year tax	-	-
Effect of deferred taxation	**-**	-
Tax expense for the year	**861,186**	-

28.3 In view of accounting loss, tax reconciliation has not been presented for the previous period.

29. EARNINGS / (LOSS) PER SHARE - BASIC AND DILUTED

	2010	2009
Net profit / (loss) for the year attributable to Ordinary shareholders	**3,744,026**	(30,482,845)
Number of shares	**12,100,000**	12,100,000
Earning / (loss) per share	**0.31**	(2.52)

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

30. REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

	2010			2009		
	Chief Executive	Directors	Total	Chief Executive	Directors	Total
	(Rupees)					
Managerial remuneration	**355,200**	**177,600**	**532,800**	235,200	177,600	412,800
Retirement benefits	**23,520**	**17,760**	**41,280**	23,520	17,760	41,280
House rent	**99,600**	**75,600**	**175,200**	99,600	75,600	175,200
Utilities	**18,000**	**13,200**	**31,200**	18,000	13,200	31,200
Total	**496,320**	**284,160**	**780,480**	376,320	284,160	660,480
Number of persons	**1**	**1**	**2**	1	1	2

30.1 Directors were paid Rs.0.040 (2009: Rs.0.040) million for attending board of directors meetings during the year.

30.2 In addition, Chief Executive Officer and Director were also provided with free use of the Company maintained cars in accordance with their entitlements.

31. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise the Directors, major shareholders and the companies owned by such shareholders, entities owned by the Directors of the Company where they also hold directorships, staff retirement funds and key management personnel. Material transactions with related parties, other than remuneration and benefits to Directors and key management personnel under the terms of their employment, which are disclosed in note 27, are given below:

	2010	2009
	(Rupees)	
Companies having common directorship		
Premium underwritten	**811,334**	**1,206,069**
Claims paid	**1,137,570**	**150,784**
Staff retirement benefits		
Provident fund contribution	**746,850**	**900,200**

32. SEGMENT REPORTING

	Fire & Property		Marine & Transport		Motor		Miscellaneous		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees)									
Revenue										
Premiums earned	**24,650,273**	31,726,294	**16,272,819**	20,207,751	**24,649,805**	42,281,569	**8,584,482**	11,148,175	**74,157,379**	105,363,790
Segment Result	**12,469,969**	8,679,669	**10,091,571**	8,491,883	**397,710**	3,708,876	**2,875,281**	5,258,678	**25,834,532**	26,139,106
Investment income									**1,910,564**	(25,008,889)
Profit on sale of fixed assets									**500,783**	161,024
Other income - net									**4,432,369**	210,118
General and administration expenses									**(28,072,876)**	(44,341,323)
									(21,229,160)	(68,979,071)
Profit before tax									**4,605,371**	(42,839,965)
Provision for taxation									**(861,186)**	12,896,071
Net profit									**3,744,185**	(29,943,894)
Other Information										
Segment Assets	**23,994,200**	33,220,572	**2,740,042**	4,604,737	**4,509,569**	4,739,109	**3,852,261**	5,748,096	**35,096,072**	48,312,514
Unallocated corporate assets									**165,966,579**	175,920,538
Consolidated total assets									**201,062,651**	224,233,052
Segment Liabilities	**40,908,455**	52,339,788	**6,623,730**	12,344,746	**22,804,488**	32,534,708	**9,596,628**	12,286,878	**79,933,301**	109,506,120
Unallocated corporate liabilities									31,386,238	**30,284,600**
Consolidated total liabilities									**111,319,539**	139,790,720
Unallocated capital expenditures									**54,814,456**	**23,731,349**
Unallocated depreciation / amortisation									**27,945,712**	**4,339,247**

33. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

33.1 Insurance risk management

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims exceed the carrying amount of insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random, and the actual number and amount of claims will vary from year to year from the level established.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Frequency and severity of claims

Political, Environmental, economical and climatic changes give rise to more frequent and severe extreme events (for example fire, theft, steal, riot and strike, explosion, earthquake, atmospheric damage, hurricanes, typhoons, river flooding, electric fluctuation, terrorism, war risk, damages occurring in inland transit, burglary, loss of cash in safe and cash in transit, engineering losses and other events) and their consequences. For certain contracts, the Company has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

Insurance contracts which is divided into direct and facultative arrangements are further subdivided into four segments: Fire & property, marine and travel, motor and miscellaneous. The insurance risk arising from these contracts is concentrated in the territories in which the Company operates, and there is a balance between commercial and personal properties / assets in the overall portfolio of insured properties / assets. The Company underwrites insurance contract in Pakistan.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

- The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. The Company has the right to reprice the risk on renewal. It also has the ability to impose deductions and reject fraudulent claims. Insurance contracts also entitle the Company to peruse third parties for payment of some or all cost (for example, subrogation). The claims payments are limited to the extent of sum insured on occurrence of the insured event.

- The Company has entered into reinsurance cover / arrangements, with local and foreign reinsurers having good credit rating by reputable ratting agencies, to reduce its exposure to risks and resulting claims. Keeping in view the maximum exposure in respect of key zone aggregates, a number of proportional and nonproportional facultative reinsurance arrangements are place to protect the net account in case of a major catastrophe. The effect of such reinsurance arrangements is that the Company recovers the share of claims from reinsurers thereby reducing its exposure to risk. The adequate event limit which is a multiple of the treaty capacity is very much in line with the risk management philosophy of the Company and market practice.
  In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with Securities and Exchange Commission of Pakistan (SECP) on annual basis.

- The Company has claims departments dealing with the mitigation of risks surrounding claims incurred whether reported or not. This department investigates and settles all claims based on surveyor's report / assessment. The unsettled claims are reviewed individually at lest semi-annually and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other factors. The Company actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

(b) Sources of uncertainty in the estimation of future claims payments

Claims reported and otherwise are analyzed separately. The development of large losses / catastrophes is analyzed separately. The shorter settlement period for claims allows the Company to achieve a higher degree of certainty about the estimated cost of claims including IBNR. However, the longer time needed to assess the emergence of a subsidence claim makes the estimation process more uncertain for these claims.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value, reinsurance and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established. The liability comprises amount in relations to unpaid reported claims, claims incurred but not reported (IBNR), expected claims settlements costs and a provision for unexpired risks at the end of the reporting period.

Liability in respect of outstanding claims is based on the best estimate of the claims intimated or assessed. In calculating the estimated cost of unpaid claims (both reported and not), the Company estimation techniques are a combination of loss-ratio based estimates (where the ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a prior financial years in relation to such claims) and an estimate based upon actual claims experience using predetermined basis where greater weights given to actual claims experience as time passes.

In estimating the liability for the cost of reported claims not yet paid, the Company considers any information available from surveyor's assessment and information on the cost of settling claims with similar characteristics in previous periods. Claims are assessed on a case-by-case basis separately.

(C) Process used to decide on assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. This exposure is geographically concentrated in the Pakistan only

The Company uses assumptions based on a mixture of internal and market data to measure its related claims liabilities. Internal data is derived mostly from the Company's monthly claims reports, surveyor's report for particular claim and screening of the actual insurance contracts carried out to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industry in which the insured companies operate and the actual exposure years of claims. This information is used to develop related provision for outstanding claims (both reported and non-reported).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. Through this analysis, the Company determines the need for an IBNR or an unexpired risk liability to be held at each reporting date.

(d) Changes in assumptions

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

(e) Sensitivity analysis

The analysis of exposure described in paragraph (c) above is also used to test the sensitivity of the selected assumptions to changes in the key underlying factors. Assumptions of different levels have been used to assess the relative severity of subsidence claims give past experience. the key material factor in the Company's exposure to subsidence claims is the risk of more permanent changes in geographical location in which Company is exposed.

The risk associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company makes various assumptions and techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The Company considers that the liability for insurance claims recognized in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

As the Company enters into short term insurance contracts, it does not assume any significant impact of changes in market conditions on unexpired risks. However, results of sensitivity testing assuming 10% change in the claim incidence net of recoveries showing effect on underwriting results and equity is set out below.

10% increase in loss / decrease	Underwriting results 2010	Underwriting results 2009	Shareholders' equity 2010	Shareholders' equity 2009
	Rupees			
Fire & Property	(243,116)	(656,657)	(158,026)	(426,827)
Marine & Transport	(106,606)	(184,727)	(69,294)	(120,073)
Motor	(1,495,564)	(2,588,504)	(972,117)	(1,682,528)
Miscellaneous	(264,216)	(17,672)	(171,740)	(11,487)
	(2,109,503)	(3,447,560)	(1,371,177)	(2,240,914)
10% decrease in loss / increase				
Fire & Property	243,116	656,657	158,026	426,827
Marine & Transport	106,606	184,727	69,294	120,073
Motor	1,495,564	2,588,504	972,117	1,682,528
Miscellaneous	264,216	17,672	171,740	11,487
	2,109,503	3,447,560	1,371,177	2,240,914

Concentration of insurance risk

A concentration of risk may also arise from a single insurance contract issued to a particular type of policyholder, within a geographical location or to types of commercial business. The Company minimizes its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

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

The concentration of risk by type of contracts is summarized below by reference to liabilities.

	Gross sum insured 2010	Gross sum insured 2009	Reinsurance 2010	Reinsurance 2009	Net 2010	Net 2009
	Rupees					
Fire & Property	23,955,548,795	31,326,544,431	12,970,587,700	17,534,111,300	10,984,961,095	13,792,433,131
Marine & Transport	13,307,099,968	15,078,314,636	6,654,842,325	7,641,815,712	6,652,257,643	7,436,498,924
Motor	1,000,396,454	1,551,714,058	-	-	1,000,396,454	1,551,714,058
Miscellaneous	108,553,187	320,818,023	77,544,690	198,903,798	31,008,497	121,914,225
	38,371,598,404	48,277,391,148	19,702,974,715	25,374,830,810	18,668,623,689	22,902,560,338

The net sum is reinsured under the non-proportional treaties (excess of loss). The Company's maximum exposure to a particular policy's claim under non-proportional treaties varies according to class of business.

Claims development tables

The following table shows the development of claims over a period of time on gross basis. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments. For each class of business the uncertainty about the amount and timings of claims payments is usually resolved within a year. Further, claims with significant uncertainties are not outstanding as at 31 December 2009.

Analysis on gross basis

Accident year	2008	2009	2010	Total
	------	------ Rupees ------	------	
Estimate of ultimate claims cost:				
At end of accident year	54,971,946	33,853,643	18,092,617	106,918,206
One year later	15,667,972	5,277,566	-	-
Two years later	9,410,457	-	-	-
Estimate of cumulative claims:	54,971,946	33,853,643	18,092,617	106,918,206
Cumulative payments to date	45,561,489	28,576,077	-	74,137,566
Liability recognized in the balance sheet	9,410,457	5,277,566	18,092,617	32,780,640

33.2 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board meets frequently throughout the year for developing and monitoring the Company's risk management policies. The Company's risk management policies are established it identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit Committee overseas how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relations to the risk faced by the Company. The Company Audit Committee is assisted in its in its oversight role by in-house Internal Audit function. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the Audit Committee.

33.2.1 Credit risk

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

33.2.1.1 Exposure to credit risk

Credit risk of the Company arises principally from the investments (except for the investment in government securities), Premium due but unpaid, amount due from other insurers / reinsurers, reinsurance recoveries. To reduce the credit risk the Company has developed a formal approved process whereby credit limits are applied to its policyholders and other insurers / reinsurers. The management continuously monitors the credit exposure towards the policyholders and other insurers / reinsurers and make provision against those balances considered doubtful of recovery.

The carrying amount of financial assets represent the maximum credit exposure, as specified below:

Cash and bank deposits	13 , 14 & 15	15,068,289	18,061,687
investments	16	24,539,151	30,019,607
Premium due but unpaid	18	46,455,305	51,160,336
Amounts due from other insurers / reinsurers	19	20,359,005	14,619,522
Accrued investment income		95,960	98,763
Reinsurance recoveries against outstanding claims		12,868,083	19,273,850
Sundry receivable	22	7,661,424	7,162,633
		127,047,217	140,396,398

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

	Rating	Rating Agency
Habib Bank Limited	AA+	JCR-VIS
United Bank Limited	AA+	JCR-VIS
Muslim Commercial Bank Limited	AA+	PACRA
National Bank Limited	AAA	JCR-VIS
Standard Chartered Bank (Pak) Limited	AAA	PACRA
Bank Al-Falah Limited	AA	PACRA
Bank of Punjab Limited	AA-	PACRA
NIB Bank Limited	AA-	PACRA
Faysal Bank Limited	AA	PACRA
Soneri Bank Limited	AA-	PACRA
My Bank Limited	A-	PACRA
Silk Bank Limited	A-	JCR-VIS
Atlas Bank Limited	A-	PACRA
Royal Bank of Scotland	AA	PACRA
Habib Metropolitan Bank Limited	AA+	PACRA
Askari Commercial Bank Limited	AA	PACRA

The Company is exposed to credit risk in respect of investments made in term deposit receipt and quoted securities. The Company invests in term deposit receipt of banks having sound credit rating by recognized credit rating agencies whereas investment in liquid quoted securities are made.

Concentration of credit risk

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner.

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

	2010		2009	
	Gross	Impairment	Gross	Impairment
	------------ Rupees ------------			
Upto 1 year	24,813,968	10,159,465	20,288,748	14,568,650
1-2 years	18,457,495	13,468,539	22,716,503	13,468,539
2-3 years	16,652,378	-	24,738,680	-
Over 3 years	10,159,468	-	11,453,894	-
Total	70,083,309	23,628,004	79,197,825	28,037,189

Amount due from other insurers / reinsurers reinsurance recoveries against outstanding claims

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

	Amount due from reinsurance	Reinsurance recoveries against outstanding claims	Prepaid Reinsurance Premium ceded	2010	2009
	----------	----------	Rupees	----------	----------
A or above (including PRCL)	(22,225,684)	12,868,083	14,555,357	5,197,756	16,398,431
BBB	-	-	-	-	-
Total	(22,225,684)	12,868,083	14,555,357	5,197,756	16,398,431

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

	2010		2009	
	Gross	Impairment	Gross	Impairment
	----------	Rupees	----------	
Upto 1 year	3,496,351	-	9,521,447	-
1-2 years	2,798,103	-	4,022,003	-
2-3 years	1,024,992	-	3,039,240	-
Over 3 years	5,548,637	-	2,691,160	-
Total	12,868,083	-	19,273,850	-

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

33.2.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due, under both normal and stresses conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company ensures that it has sufficient cash on demand to meet expected operational requirements. The Company also manages this risk by investing in deposit accounts that can be readily encashed. The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

The following are the contractual maturities of financial liabilities:

	2010	
	Carrying Amount	Contractual cash flows upto one year
Non-Derivative Financial liabilities	------------ Rupees	------------
Provision for outstanding claims	32,780,640	(32,780,640)
Amount due to other insurers / reinsurers	25,895,752	(25,895,752)
Accrued expenses	1,476,699	(1,476,699)
Other creditor and accruals	2,233,393	(2,233,393)
Unclaimed dividend	418,209	(418,209)
	62,804,693	(62,804,693)

Non-Derivative Financial liabilities	2009 Carrying Amount	2009 Contractual cash flows upto one year
	------------- Rupees	------------
Provision for outstanding claims	49,899,615	(49,899,615)
Amount due to other insurers / reinsurers	25,710,319	(25,710,319)
Accrued expenses	1,410,843	(1,410,843)
Other creditor and accruals	1,802,160	(1,802,160)
Unclaimed dividend	418,209	(418,209)
	79,241,146	(79,241,146)

33.2.3 Market risk

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

33.2.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cast flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of interest rate exposure arises from balances held in profit and loss sharing accounts with reputable banks. At the balance sheet date the interest rate profit of the Company's interest bearing financial instrument is:

	2010	2009	2010	2009
	Effective interest rate (in %)		------------- Rupees	------------
Fixed rate instruments				
- Government securities	12%	12%	5,200,000	5,200,000
Variable rate instruments				
- PLS savings accounts	6%	4%	17,235	17,333

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

The Company is not exposed to cash flow interest rate risk in respect of its deposits with banks because the amount is not material.

33.2.3.2 Equity price risk

Equity price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of KSE-100 Index and the value of individuals shares. The equity price risk exposures arises from the Company's investments in equity securities and units of mutual funds. This arises from investments held by the Company for which prices in the future are uncertain. The Company policy is to manage price risk through diversification and selection of securities within specified limits set by internal risk management guidelines. A summary analysis of investments by industry sector is disclosed in note 17 to these financial statements.

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

Market prices are subject to fluctuations and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Furthermore, amount realized in the sale of a particular security may be affected by the relative quantity of the security being sold. The Company has no significant concentration of price risk.

Sensitivity analysis

The table below summarizes Company's equity price risk as of 31 December 2009 and 2008 and shows the effects of a hypothetical 10% decrease in market prices as at year end. The selected hypothetical change does not reflect what could be considered to be the best or worst case scenarios. Indeed, results could be worse because of the nature of equity markets in Company's equity investment portfolio.

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

- For available for sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income and equity would have been lower by Rs. 2.54 million (2009: Rs. 2.914 million). However, an increase of 10% in equity prices at the reporting such increase is restricted to amount of cost of investment of such securities, i.e., Rs. 2.54 million (2009: 2.914 million) as per the policy of the Company.

33.3 Fair value of financial instruments

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

34. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.
The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

35. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Company in its meeting held on **30th March 2011**.

36. GENERAL

Figures have been rounded off to the nearest rupee.

MUNIR I. MILLWALA	**FAYYAZ F. MILLWALA**	**M. H. MILLWALA**	**HUSSAINI I. MILLWALA**
Chairman & CEO	Director	Director	Director

Pattern of Shareholdings as at December 31, 2010

No of Shares of shareholders	Sharesholding Rs. 10/- each			Total Shares held
151	1	To	100	3616
96	101	To	500	26588
42	501	To	1000	34804
88	1001	To	5000	210364
24	5001	To	10000	171264
12	10000	To	15000	160735
9	15001	To	20000	152029
1	20001	To	25000	23903
3	25001	To	30000	83134
5	30001	To	35000	161252
2	35001	To	40000	79920
5	40001	To	45000	206801
2	45001	To	50000	94654
1	50001	To	55000	55000
1	55001	To	60000	55866
2	60001	To	65000	128720
4	65001	To	70000	267583
4	70001	To	75000	289376
10	75001	To	100000	823164
0	100001	To	105000	0
7	105001	To	150000	912692
10	150001	To	200000	1681268
3	200001	To	300000	708035
6	300001	To	500000	2156053
6	500001	To	1000000	3613179
0	1000001	To	10000000	0
494				12100000

Categories of Shareholders

Particulars	No.of Sharesholders	No of Shares	Percentage
1. Individuals	475	10,404,726	85.9895
2. Charatible Trusts	2	363,646	3.0053
3. Insurance Companies	2	605,841	5.0070
4. Join stock Companies	12	210,873	1.7428
5. Investment companies	1	608	0.0050
6. Others	2	514,306	4.2505
	494	12,100,000	100.0000

Pattern of Shareholdings as at December 31, 2010
Information as required under the code of Corporate Governance

Directors & Director's Spouses & Executives

Director	Ardeshir Cowasjee	13,842
Director	Abdul Razzak Jaffer	23,903
Chairman &CEO	Munir Ibrahimbhai Millwala	553,992
Spouse	Zumana Munir Millwala	40,515
Director	Fayyaz Fakhruddin Millwala	207,495
Director	Batool Fayyaz Millwala	7,562
Spouse	Hussaini Ibrahim Bhai Millwala	629,038
Director	Qutbuddin Abbas Bhai Millwala	66,513
Director	Moiz Ali	1,176
Executive	Muhammadi H.Millwala	217,648
		1,761,684

Insurance Companies	
Two	605,841
Investment Companies	
One	105
Joint Stock Companies	
Fifteen	717,334
Charitable Trusts	
Three	335,004
Individuals	
One hundred and eighty one	8,635,322

HEAD OFFICE:

2nd Floor, Nadir House, I. I. Chundrigar Road, P. O. Box No. 4616, Karachi, (Pakistan).
Phones : 32415521 - 32415471 to 73 Fax : (92-21) 32415474 - 32415475
E-mail : info@cstar.com.pk

BRANCHES IN PAKISTAN

LAHORE			
Mr. Naveed Yousuf	2nd, Floor,Bashir Building, 15-Mcleod Road, Lahore-A	Phone- Cell:	(042) 7221490 & 7351088 (042) 7238604 (Fax) (0300) 4108462
Mr. Azhar Ali Shah	Room No. 18, 1st Floor, Empress Tower Near Shimla Pahari, Empress Road, Lahore-B	Phone- Cell:	(042) 6297253-&-54 (042) 6297255 (Fax) (0333) 4383053
Mr. Imran Ameer Khan	1 st Floor, Tufail Chambers, Safanwala Chowk, Mozang Road, Lahore- C	Phone- Cell:	(042) 7355533,7352379 & 731142 (042) 7352502 (Fax) (0300) 9402778
Mr. Shehryar H. Rizvi	3rd Floor, Mall Manson, Opp: State Bank Building, Shrah-e-Quaid-e-Azam, Lahore- D	Phone- Cell:	(042) 7233696 (042) 7234092 (Fax) (0303) 7576073
Mr. Mehrajuddin Kardar	House No. 10, Kabeer Street No. 35-A, Nafeerabad, Shalimar Town, Lahore- E	Phone-	(042) 6546423 & 7087347
Mr. Rana Abdul Qayyum	11-Shahrae Quaid-e-Azam, Lahore-F	Phone- Cell:	(042) 7320540 (Off) (042) 7320554 (Fax) (0333) 4303730
SIALKOT			
Mr. M. Younus Shaheen	Room Nos. 11 & 12 Al-Rehman Center, Saga Chowk, Defence Road, Sialkot-B	Phone- Cell:	(052) 3240271-73 (052) 3240270 (Fax) (0333) 8624101
Mr. Mujeeb Mirza	4-Green Wood Street, Off: Railway Road, Sialkot- C	Phone- Cell:	(052) 4589000 (052) 4581847(Fax) (0300) 9616604
Mr. Bashir A. Khan & Mr. Munawar H. Gondal	1st Floor, Salim Market, Mujahid Road, Sialkot-A+ D	Phone- Cell: Phone- Cell:	(052) 4586013 (Bashir) (0300) 6195758 (052) 4582972 (Gondal) (0300) 6167100
GUJRANWALA			
Mr. Syed Javed H. Talat	3rd Floor, Deen Plaza, G.T. Road, Gujranwala - A -	Phone- Cell:	(055) 3735521-&-523 (055) 3735523 (Fax) (0300)6421613
Mr. Fayyaz Malik	2nd Floor, Jalil Plaza, Court Road, Munir Chowk, Gujranwala - B -	Phone- Cell:	(055) 3733255 (0300) 6316103
MULTAN			
Mr. Rao Saleem Akhtar &	2nd Floor, 1 - Commercial Plaza, Opp: Civil Hospital, Abdali Road. Multan-A & B	Phone- Cell:	(061) 4573595 (Saleem) (0301) 7404371
Mr. Khalil Ahmed	Kutchery Road, Multan-B	Phone- Cell:	(061) 4571338145141837 (0300) 7323292
RAHIMYAR KHAN			
Mr. Ahsanul Haq	06-Railway Road, Rahimyar Khan.	Phone- Cell:	(068) 5876961 (0300) 6733885
BAHAWALPUR			
Mr. M Saleem Faruqi	5-Jameel Market, Circular Road, Bahawalpur-A	Phone- Cell:	(062) 2882038 (062) 2885997 (Fax) (0300) 9681288

SAHIWAL			
Mr. Muzaffar Joya	House-899-Block D, Farid Town, Sahiwal.	Phone- Cell	(040) 4550899 0302-3141140
HASILPUR			
Mr. Abdul Sattar Aujum	194-Mohallah Alamdar Abbas, Ward No. 28. Old Hasilpur City, Hasilpur. (Dist, Bahawalpur)	Phone- Cell:	(0622) 441108 0300-7850667
QUETTA			
Mr. Sardar Khan	Gul Complex, M.A.Jinnah Road. Quetta. A.	Cell:	(0334) 2418571 (Jawad) (0300) 3896886 (Sardar)
Mr.Atif Idress Khan	1st Floor, Room NoA Perfection House, M. A. Jinnah Road, Quetta. B.	Phone- Cell:	(081) 2820613 (0300) 9127077
PESHAWAR			
Mr. Anwar Hussain	9th Floor, State Life Building, The Mall, Peshawar.	Phone- Cell:	(091) 5274752 (0300) 9318738
SUKKUR			
Mr. Abdul Sattar Memon	House # 62, Near Madina Medical Store, National Highway, Therhi, Distt: Khairpur.	Phone- Cell:	(071) 5626044 (0300) 3124636
HYDERABAD			
Mr. Tanveer Hashim Khan	Office No. 41 + 42, Al Rahim Shopping Centre, Mezzanine Floor, Phase 1, Hyderabad	Phone- Cell:	(022) 2780624 (Off) (0300) 9376541
KARACHI			
Mr. M. Ashraf Ansari	Mian Chamber, Opp:Sind Madressha, Karachi.	Phone- Cell:	(021) 32428365 - 32434906 (021) 32466960 - 32466958 (Dir) (0333) 3048319
Mr. Izzuddin Adamali	3rd Floor, Nadir House I.I. Chundrigar Road, Karachi.	Phone- Cell	(021) 32428398 (0300) 2672318
TANDO ADAM			
Mr. Rashid Hussain	House No. B-173, Gulshan-e-Suleman, Hyderabad Road, Tando Adam.	Phone- Cell:	(023) 5572138 (0300) 3038235

Proxy Form

I/We ____

of ____ (full address)

being a member of Crescent Star Insurance hereby appoint ______________________

of ____

____ (full address)

or failing him/her ____

of ____ (full address)

as my / our Proxy to attend and vote for me / us and on my / our behalf at the 54th Annual General Meeting of the Company to be held on 30th April, 2011 and at any adjournment thereof.

Signed this ____________________ (day) of ____________________ (date, month) 2011.

Signature of Member: ____________________

Folio Number: ____________________

Number of shares held: ____________________

Witnesses:

1. ____________________
2. ____________________

Please affix Revenue Stamp of Rs. 5/-

Signature and Company Seal

1. A member entitled to attend and vote at a General Meeting is entitled to appoint a Proxy to attend and vote instead of him / her.

2. The instrument appointing a Proxy shall be in writing under the hand of the appointer or of his / her attorney duly authorized in writing, if the appointer is a corporation, under its common seal or the hand of an officer or attorney duly authorized. A Proxy need not be a Member of the Company.

3. The instrument appointing a Proxy, together with the Power of Attorney, if any, under which it is signed or a notarially certified copy thereof, should be deposited at the Main Office of the Company at 2nd Floor, Nadir House I.I. Chundrigar Road Karachi.

4. Any individual Beneficial Owner of the Central Depository Company, entitled to vote at this meeting must bring his / her National Identity Card with him / her as proof of his / her identity, and in case of Proxy, must enclose an attested copy of his / her National Identity Card. Representative of corporate entity, shall submit Board of Directors resolutions / power of attorney with specimen signature (unless it has been provided earlier) along with proxy form of the Company.