CONTENTS

COMPANY VISION

- To serve with excellence.
- Excellence achieved through our corporate mission.
- The brand name of CSI with a vision to expand with prudent approach and provide the Insurance Service to Pakistan Industry on sound footing.

COMPANY 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 recognize human resources as the key element in progress and to provide our officers and field force due recompense for their efforts in building up the company.
- To generate operational profits and dividend return for our shareholders of the Company.

COMPANY INFORMATION

Board of Directors	Mr. Naim Anwar (Managing Director & CEO) Mr. Sakib Berjees Mr. Mudassar Zubair Mirza Syed Adnan Ali Zaidi Mr. Bashir Ahmed Mr. Tariq Hussain Mr. Monavar Karamat Dr. Yasin Malik
Managing Director & Chief Executive	Mr. Naim Anwar
Management	Mr. Naim Anwar (Managing Director & CEO) Mr. Moiz Ali (General Manager) Mr. Murtaza Shah (General Manager) Mr. Malik Mehdi Muhammad (Chief Financial Officer)
Board Audit Committee	Mr. Mudassar Zubair Mirza (Chairman) Mr. Monavar Karamat Syed Adnan Ali Zaidi
Board H.R & Remuneration Committee	Mr. Naim Anwar (Chairman) Mr. Monavar Karamat Mr. Mudassar Zubair Mirza
Company Secretary	Mr. Khuzaima Hakimi
CFO	Mr. Malik Mehdi Muhammad
Auditors	Muniff Ziauddin & Company
Legal Advisor	Mr. Jameel Khan
Bankers	Habib Bank Limited United Bank Limited Faysal Bank Limited
Share Registrar	MG Associates Private Limited 2, Mustafa Avenue, F/4, Block-9 Behind "The Forum", Clifton, Karachi Tel #: 35877806-09 Fax # : 35877810
Registered & Head Office	2nd Floor, Nadir House I.I.Chundrigar Road P.O.BOX No. 4616, Karachi

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 56th Annual General Meeting of the shareholders of the Company will be held on June 22, 2013 at 3.00 p.m. at 2nd Floor, Nadir House I.I.Chundrigar Road, Karachi to transact the following business.

1. To confirm the minutes of the 55th Annual General Meeting held on April 28, 2012.

2. To receive, consider and adopt the audited financial statements of the Company for the year ended December 31, 2012 together with the Directors' and Auditors' reports thereon.

3. To appoint Auditors for the year ending December 31, 2013 and fix their remuneration.

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

By order of the Board
KHUZAIMA HAKIMI
Secretary

Karachi: May 31, 2013

Notes:

1. The Share Transfer Books of the Company shall remain closed from 16 June, 2013 to 22 June, 2013 (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 15 June, 2013 will be treated in time.

2. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and vote instead of him/her. A proxy must be deposited at the Company's registered office not less than 48 hours before the time of holding the meeting. A proxy need, not be a member of the Company. The proxy shall produce his/her original CNIC or Passport to prove his/her identity.

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 Registrar of our Company are requested to send the same at the earliest.

6. The CDC account/sub account holders are requested to bring with them their Computerized National ID Cards along with the Participant(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.

7. Members are requested to promptly communicate to the Registrar of the Company any change in their address.

DIRECTORS' REPORT

Your Security - Our Policy

I am pleased to present, the annual report and the audited accounts for the year ended December 31, 2012.The Company in spite of the difficulties and challenges has done reasonably well. The major contributing factor towards the declared loss for the year is a charge of provision for doubtful debts of Rs 14.502 million. The board has directed the management to aggressively pursue these outstanding amounts so that the provisions can be reversed in near future. However, the prudence demands of recognition of these provision and therefore these were accounted for accordingly.The brief operational details of last three years are tabulated below.

Performance Highlights

	2012	2011	2010
Gross Premium	66,085,674	78,848,272	105,080,533
Net Premium	40,990,683	60,230,480	74,157,379
(Loss) / Profit Before Tax	(17,841,746)	2,219,774	(1,737,089)
(Loss) / Profit After Tax	(18,162,153)	1,427,522	(2,193,161)
Total Assets	176,024,246	202,377,804	208,250,435
EarningsPer Share (EPS)	(1.50)	0.12	0.31

The Company has amongst its strengths of being incorporated in 1957 and having a valuable standing and reputation over years and is respected in the Insurance Sector for its business dealing including claim settlement and underwriting qualities. Like most entities the Company also has draw back and weakness, and the major bottleneck to the growth is the Capital Inadequacy that the regulator has enforced through Minimum Paid up Capital Requirements which the Company feels is not in line with fair competition, as the requirements favors the larger companies and does not take into account the risk factor considering the fact that the smaller companies like our Company has proportional treaties as compared to XOL by larger insurance companies. The Company like many other smaller companies also strongly feels that all the banks individually have a criteria of enlistment of companies and they allow specific limits again purely on the criteria based by each individual bank. This seriously impacts the business and hurts the fair competition. The Company's view is that the reinsurance arrangement on each risk plays the more important part, however the Banks are in the practice of assessing the Insurance Company purely on the rating agencies rating. The Company plans to take up the issue of Banks very seriously with the IAP/ State Bank/ Bankers Association, and to any other forum deemed fit in order to get equal opportunities.

However, post the year end a new management has been inducted in the Company, primarily to resolve the issue of the Minimum Capital Requirement and the Company has already started talks with two entities namely M/s Weaver (Private) Limited and M/s Elahi Noor (Private) Limited for the merger with the Company.These companies have a considerable asset base and the Board of Directors are confident that the minimum capital requirements shall be fulfilled post merger. Your Company feels that with the strong new team and the new vision SKY IS THE LIMIT. The management team feels there is a gap in the market and business is available. The Company shall be geared up to fill that gap and has all the capability to do so.

The positive outlook of the Company and its strategy can be seen through the share value of your Company on the stock exchange and I am pleased to see an increase of around 200% in the trading price as compared to the trading price as at March / April 2012. I am pleased to report the confidence shown in the Company's future plans and the plans to move forward with new BUSINESS PLAN.

The Board of Directors has also recommended the sale of the real estate owned by the Company. The prime reason for this disposal is to improve the Company's liquidity position and to aggressively pursue its proposed business plans for the future. Its disposal shall also enable the Company to book the Capital Gains. The Company expects to invest the sale proceeds in cash generating short to medium term investments.

Your Security - Our Policy

Paid Up Capital

The Company has a paid up capital of Rs121 million as at 31st December 2012. In accordance with the Circular 3 of 2007 dated 10th April 2007 of the Securities and Exchange Commission of Pakistan (SECP) the minimum capital of a general insurance company should be Rs 300 million by 31st December 2011. There is been a long history starting from 2009 when the Company has been faced with minimum capital requirement. The Company after a round of litigation with SECP on its principled stand is now confronted with Show Cause Notice dated 1st February 2012 according to which SECP has enquired the reason for the non-compliance and about its future strategy to comply with the minimum capital requirement regulations.

The Company has shared an abridged business plan with the SECP for the enhancement of the capital to the minimum required limit of Rs 300.00 million as explained above through the merger of the Company with M/s Weaver (Private) Limited and M/s Elahi Noor (Private) Limited.The Company will seek approval from the shareholders in this regard and shall present to the shareholders a complete scheme of merger after getting all the relevant corporate/regulatory approvals.

Earnings per Share

Your Company has incurred a loss after tax of Rs. 18.162 million which translates into (loss)/earnings per share of Rs. (1.50) as compared to Rs. 0.12 for the last year.

Dividend

The Board of Directors does not recommend any Dividend for the year ended December 31, 2012.

Auditors' Report

The auditors' has qualified their report based on the Circular 3 of 2007 dated 10th April 2007 of the Securities and Exchange Commission of Pakistan (SECP) the minimum capital of a general insurance company should be Rs 300 million by 31st December 2011. We have explained above how the Company intends to resolve this issue. Based on the proposed merger and the business plan the Company has submitted to the SECP, the board of directors is confident that the issue causing the qualification shall be resolved by the end of the current financial year.

Future Outlook

Post year end a number of directors of the Company resigned from the Board of Directors of the Company. The surviving board members were forced to fill in the casual vacancies by inducting persons of repute from the Pakistani Corporate Sector. The Board took this opportunity to clarify that the temporary fulfillment of the casual vacancies does not represent the change of control and is only a temporary measure the control shall be decided after the enhancement of Capital as explained earlier.

The Company is now in the process of preparing a scheme of merger for presenting it to the relevant authorities and shareholders for approval. The Company is targeting to complete this process subject to all relevant approvals by the end of calendar year 2013.

The Company has presented its case to the rating agency and is seeking better rating based on its plan and procedure for enhancement of Capital.

The Company's management under the new Board has signed new treaty arrangements giving a reasonably enhanced Re Insurance capacity taking from Rs. 60 million per risk to Rs. 300 million per risk in Fire / Marine and Engineering. The Company has started its sales and operations in the new classes or business namely: Health & Hospitalization and Travel and it has already arranged necessary arrangements for Travel Services through International Service Providers while treaty arrangements are in process for Crop and Livestock.

The Company has signed arrangement with a distribution channel to sell its Motor Policy online as an additional revenue generating channel. The Company has also signed a Call Centre arrangement for Motor Claims to be intimated through the system. Such new initiations are in line with new marketing and operating strategy to take through your Company into new levels. The Company is going through rebranding and is making co branding arrangements to promote its sales through advertisements.

Human Resource Initiatives

Human resource managers are well placed to play an instrumental role in helping their organization achieve its goals of becoming a socially and environmentally responsible firm - one which reduces its negative and enhances its positive impacts on society, environment and in the day to day operational activities of the business.

Your Company's management is of the firm belief that complete alignment of the human resource mission and vision with corporate goals is vital for the success of any organization. In today's competitive environment, we realize that it is important to place emphasis on retaining and developing existing staff and implementing effective performance reviews, your Company has been successful in hiring quality professionals in the area of marketing, finance and business development. Our continued focus on creating a meritocratic work environment with equal opportunity for all goes a long way in maintaining a pool of employees with knowledge, experience and skills in their respective fields and employees remain our most valuable asset.

General Outlook

With the general elections behind us and the developing momentum and investor confidence showing through the stock exchange and property markets, it gives confidence to the Company to look at a good year ahead with the expectation of an early solution to the energy crisis by the incoming government. As being widely expected the energy crisis tackled, the industrial activity will be helpful to generate new business and also by enhanced values from existing business.

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 31st December, 2012, 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 were made, have been adequately disclosed and accounting estimates area on the basis of prudent and reasonable judgment.

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 are no significant doubts 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 six 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	3
Mr. Abdul Razzak E. Jaffer	4
Mr. Qutubddin A. Millwala	5
Mr. Munir I. Millwala	6
Mr. Fahim F. Millwala	3
Mr. Hussainai I. Millwala	6
Mr. Mohammadi H. Millwala	4
Mr. Moiz Ali	3

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

Auditors

The present auditors, M/s Muniff Ziauddin & Co, Chartered Accountants retire at the conclusion of the Annual General Meeting, being eligible and have offered themselves for re-appointment as external auditors for the year ending 31st December 2013.

Audit Committee

The Company has an Audit Committee, and had four meetings during the year 2012. The committee consists of the following members:

Mr. Hussaini I. Millwala	Chairman
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.

The value of investment in respect of provident fund maintained by the Company based on latest financial statements as at 31st December 2012 is Rs. 12,380,539.

Pattern of Shareholding

A pattern of shareholding is attached herewith.

Naim Anwar
Managing Director & CEO

Karachi: May 24, 2013

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

Your Security - Our Policy

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

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

1. The Company encourages representation of non-executive Directors on its Board. At present the Board includes:

Category	Names
Non Executive Directors	Mr. Mudassar Zubair Mirza Mr. Bashir Ahmed Mr. Monavar Karamat * Mr. Sakib Berjees * Mr. Tariq Hussain * Dr. Yaseen Malik*
Independent Director	Syed Adnan Ali Zaidi
Executive Director	Mr. Naim Anwar

2. The Directors have confirmed that none of them is serving as a Director in more than seven listed companies including this Company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. A casual vacancy occurred on the Board due to Death of Ardeshir Cowasjee on November 27, 2012 and Resignation of Abdul Razak Jaffer on December 24, 2012 which was filled on December 29, 2012.
5. The Company has prepared a "Statement of Ethics and Business Practices" as Code of Conduct and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures and has been signed by all the directors and employees of the Company.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies 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 decisions on material transactions have been taken by the Board including appointment and determination of remuneration and terms and conditions of employment of CEO other executive and non executive director have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman 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.

* Subject to SECP Approval

Your Security - Our Policy

9. An orientation course was conducted for the Directors to apprise them of their duties and responsibilities.
10. There was no new appointment of CFO & Corporate Secretary or Head of Internal Audit during the year. The Board had however, approved the increase in remuneration of CFO & Corporate Secretary and the Head of Internal Audit Deptt.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance 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 that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance.
15. The Board has formed an Audit Committee. It comprises of three non-executive Directors including the Chairman of the Committee.
16. The meeting of underwriting claims settlement, reinsurance and coinsurance and investment committees were held at least once every quarter.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code of Corporate Governance. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
18. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is a non-executive director.
19. The Company has an effective team for internal audit. The team is fully conversant with the policies and procedures of the Company and is involved in the internal audit function on full time basis.
20. All related party transactions entered during the year were on arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by the Audit committee and Board of Directors along with pricing method.
21. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
22. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
23. The 'closed period', prior to the announcement of interim / final results and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
24. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).
25. We confirm that all other material principles contained in the Code have been complied with.

Naim Anwar
Managing Director & 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 (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended December 31, 2012 prepared by the Board of Directors of **The Crescent Star Insurance Company Limited** (the Company) to comply with the Listing Regulation of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code 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 and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

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

Further, the Listing Regulations require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review

i) At present Board consists of eight directors out of which approval of four directors under Insurance Companies (Sound and Prudent Management) Regulations 2012 is awaited and is in process of approval from the Securities and Exchange Commission of Pakistan according to which proposed director of insurer shall not assume the charge of office until their appointment has been approved by the Commission.

Except for the paragraph i above and matters highlighted in paragraph 02, 03, 05, 09, 13 and 14 of the Statement, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended December 31, 2012.

Karachi:

CHARTERED ACCOUNTANTS
(Mohammad Moin Khan)

KEY FINANCIAL HIGHLIGHTS

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Gross premium	**66.09**	78.85	105.08	132.58	175.57	197.21	207.38	165.91	115.92	69.19
Net premium	**40.99**	60.23	74.16	105.36	140.80	170.28	146.58	102.40	63.53	32.02
Paid-up capital	**121.00**	121.00	121.00	121.00	121.00	96.80	88.00	80.00	80.00	50.00
General reserve	**24.50**	24.50	24.50	24.50	24.50	24.50	22.10	17.10	17.10	12.60
Reserve for exceptional losses and unexpired risks	**27.28**	32.05	44.07	52.12	70.80	85.99	110.56	93.78	64.90	25.48
Total assets	**176.02**	202.38	214.61	237.78	286.69	310.80	278.83	275.34	227.04	115.24
Profit before tax	**(17.84)**	2.22	4.61	(43.38)	(37.40)	26.09	9.84	28.76	26.45	10.07
Profit after tax	**(18.16)**	1.43	3.74	(30.48)	(37.73)	24.04	8.58	21.58	20.50	7.04
Distribution as percentage of										
paid-up capital- cash dividend									10.00	10.00
paid-up capital- cash dividend Interm						25.00		10.00	10.00	
- bonus shares							10.00	10.00	-	-
- right shares						25.00				60.00
Return on total assets-%	**(10.32)**	0.71	1.74	(12.82)	(13.16)	7.73	3.08	7.84	9.03	6.11
Return on shareholders' equity-%	**(27.45)**	1.69	4.52	(38.51)	(34.41)	18.06	6.96	18.80	5.33	10.86
Break-up value per share	**5.47**	6.97	6.85	6.54	9.06	13.75	14.02	14.34	13.65	12.98
Earnings per share in rupees	**(1.50)**	0.12	0.31	(2.52)	(3.14)	2.16	0.98	2.70	3.43	1.41

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

a) balance sheet
b) profit and loss account
c) statement of comprehensive income
d) statement of changes in equity
e) statement of cash flows
f) statement of premiums
g) statement of claims
h) statement of expenses, and
i) statement of investment income

of **THE CRESCENT STAR INSURANCE COMPANY LIMITED** (the Company) as at December 31, 2012 together with the notes forming part thereof, for the year then ended.

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

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

We report that:

i. according to circular no.3 of 2007 dated April 10, 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. 300 million as at December 31, 2011. 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. Therefore the financial statements of the Company should have been prepared on realizable value and not on going concern basis. However, mitigating factors have been explained in note 1.2 to these financial statements.

In our opinion:

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

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

c) due to the significance of the matters referred to in paragraphs i above, in our opinion and to the best of our information and according to the explanations given to us, the financial statements together with the notes thereon do not give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and do not give the information required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984.

d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980). The financial statements of the Company for the year ended December 31, 2011 were audited by another firm of Chartered Accountants whose report dated April 03, 2012 expressed an adverse opinion thereon.

KARACHI: **CHARTERED ACCOUNTANTS**

(Muhammad Moin Khan)

BALANCE SHEET
AS AT DECEMBER 31, 2012

Your Security - Our Policy

	Note	2012	2011
		(Rupees)	
Share Capital and Reserves			
Authorised Capital			
35,000,000 (2011: 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		**(81,090,630)**	(62,928,478)
Reserves	8	**26,264,833**	26,264,833
		66,174,203	84,336,355
Surplus on revaluation of land	9	**21,107,500**	21,107,500
		87,281,703	105,443,855
Underwriting Provisions			
Provision for outstanding claims (inculding IBNR)		**31,096,523**	36,830,460
Provision for unearned premium		**25,517,421**	30,284,163
Commision income unearned		**3,123,458**	4,013,053
		59,737,402	71,127,676
Creditors and Accurals			
Premium received in advance		**579,568**	1,992,985
Amount due to others insurers /reinsurers	10	**24,539,055**	20,174,219
Accured expenses		**2,095,220**	1,680,700
Other creditors and accruals	11	**1,373,089**	1,540,160
		28,586,932	25,388,064
Other Liabilities			
Unclaimed dividend		**418,208**	418,209
TOTAL LIABILITIES		**88,742,542**	**96,933,949**
TOTAL EQUITY AND LIABILITIES		**176,024,246**	**202,377,804**
Contingencies and commitments	12		

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

Naim Anwar
Managing Director & CEO

Mudassar Zubair Mirza
Director

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	Note	2012	2011
		(Rupees)	
Cash and Bank Deposits			
Cash and other equivalents	13	**22,190**	16,670
Current and other accounts with banks	14	**3,393,365**	5,454,819
Deposits maturing with in 12 months	15	**5,250,000**	4,985,274
		8,665,555	10,456,763
Investments	16	**21,970,755**	24,105,918
Deferred taxation	17	**13,543,178**	13,543,178
Long term deposit		**5,000,000**	-
Current Assets - Others			
Premiums due but unpaid	18	**24,753,023**	42,426,515
Amounts due from other insurers / reinsurers	19	**25,742,710**	25,672,399
Accrued investment income		**22,843**	79,086
Reinsurance recoveries against outstanding claims		**17,130,080**	16,538,342
Deferred commission expense		**4,361,380**	5,323,531
Taxation - net	20	**3,106,695**	3,155,280
Prepayments	21	**10,672,251**	13,660,170
Sundry receivables	22	**1,978,038**	5,618,890
		87,767,021	112,474,213
Fixed Assets			
Tangible	23		
Free hold land		**27,500,000**	27,500,000
Furniture and fixture		**2,876,868**	3,145,151
Office equipment		**1,461,113**	1,583,201
Computer and related equipment		**290,797**	414,548
Motor vehicle		**6,948,959**	9,045,694
Intangible			
Computer software	24	**-**	109,138
		39,077,737	41,797,732
TOTAL ASSETS		**176,024,246**	202,377,804

Monavar Karamat
Director

Syed Adnan Ali
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2012

	Note	Fire & Property	Marine & Transport	Motor	Miscellaneous	2012 Aggregate	2011 Aggregate
		(Rupees)					
Revenue Account							
Net premium revenue		7,599,088	10,540,391	21,051,368	1,799,836	**40,990,683**	60,230,480
Net claims		2,277,407	(4,622,809)	(8,616,385)	(798,492)	**(11,760,279)**	(18,371,902)
Management expenses	25	(5,104,966)	(6,679,138)	(6,695,804)	(1,507,890)	**(19,987,797)**	(20,398,001)
Net commission		308,007	701,645	(3,423,668)	(270,155)	**(2,684,171)**	(5,898,111)
		(2,519,552)	**(10,600,301)**	**(18,735,857)**	**(2,576,537)**	**(34,432,247)**	(44,668,014)
Underwriting result		**5,079,537**	**(59,910)**	**2,315,511**	**(776,701)**	**6,558,436**	15,562,466
Investment income						**6,091,273**	396,432
Gain on sale of fixed assets						**704,360**	1,291,400
Other income-net	26					**109,584**	4,089,872
General and administrative expense	27					**(31,305,400)**	(19,120,396)
(Loss) / profit before tax						**(17,841,746)**	2,219,774
Taxation	28					**(320,407)**	(792,252)
(Loss) / profit after tax						**(18,162,153)**	1,427,522
Profit and loss appropriation account							
Balance at commencement of the year						**(62,928,477)**	(64,355,999)
(Loss) / profit after tax for the year						**(18,162,153)**	1,427,522
Balance of accumulated loss at end of the year						**(81,090,630)**	(62,928,477)
(Loss)/Earnings per share - basic and diluted	29.					**(1.50)**	0.12

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

Naim Anwar	Mudassar Zubair Mirza	Monavar Karamat	Syed Adnan Ali
Managing Director & CEO	Director	Director	Director

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012	2011
	(Rupees)	
(Loss) / profit after tax for the year	**(18,162,153)**	1,427,522
Other comprehensive income for the year	-	-
Total comprehensive (loss) / income for the year	**(18,162,153)**	1,427,522

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

Naim Anwar **Managing Director & CEO**	**Mudassar Zubair Mirza** **Director**	**Monavar Karamat** **Director**	**Syed Adnan Ali** **Director**

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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Share capital	Capital Reserve	Revenue Reserve		
	Issued, subscribed and paid-up Capital	Reserve for exceptional losses	General reserve	Accumulated loss	Total
			(Rupees)		
Balance as at January 01, 2011	121,000,000	1,767,568	24,497,265	(64,356,000)	82,908,833
Total comprehensive income for the year				1,427,522	1,427,522
Balance as at December 31, 2011	121,000,000	1,767,568	24,497,265	(62,928,478)	84,336,355
Total comprehensive (loss) for the year				(18,162,153)	(18,162,153)
Balance as at December 31, 2012	121,000,000	1,767,568	24,497,265	(81,090,631)	66,174,202

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

Naim Anwar
Managing Director & CEO

Mudassar Zubair Mirza
Director

Monavar Karamat
Director

Syed Adnan Ali
Director

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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

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	2012	2011
	(Rupees)	
Operating Cash Flows		
a) **Underwriting activities**		
Premiums received	**68,378,737**	90,531,435
Reinsurance premiums paid	**(22,706,985)**	(43,801,948)
Claims paid	**(31,159,485)**	(35,299,172)
Reinsurance and other recoveries received	**13,073,531**	17,549,831
Commissions paid	**(10,944,767)**	(13,457,803)
Commissions received	**8,333,152**	9,804,235
Net cash inflow from underwriting activities	**24,974,183**	25,326,578
b) **Other operating activities**		
Income tax paid	**(271,819)**	(362,037)
General management expenses paid	**(34,389,136)**	(36,690,982)
Other operating receipts	**3,697,095**	2,022,734
Net cash (outflow) from other operating activities	**(30,963,859)**	(35,030,285)
Total cash (outflow) from all operating activities	**(5,989,676)**	(9,703,707)
Investment activities		
Profit / return received	**483,700**	953,409
Dividends received	**1,154,531**	1,729,037
Purchase of investments	**(35,250)**	(1,080,823)
Proceeds from disposal of investments	**1,670,296**	4,087,699
Fixed capital expenditure	**(444,809)**	(2,947,341)
Proceeds from disposal of fixed assets	**1,370,000**	2,350,201
Total cash inflow from investing activities	**4,198,468**	5,092,182
Financing activities		
Dividends paid	**-**	-
Total cash inflow from financing activities	**-**	-
Net cash outflow from all activities	**(1,791,208)**	(4,611,525)
Cash at the beginning of the year	**10,456,763**	15,068,288
Cash at the end of the year	**8,665,555**	10,456,763

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

Naim Anwar Managing Director & CEO	Mudassar Zubair Mirza Director	Monavar Karamat Director	Syed Adnan Ali Director

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Reconciliation to Profit and Loss Account	2012 (Rupees)	2011 (Rupees)
Operating cash flows	**(5,989,676)**	(9,703,707)
Depreciation expense	**(2,390,024)**	(2,840,897)
Amortization expense	**(109,138)**	(77,039)
Profit on disposal of fixed assets	**704,360**	1,291,400
Other Income	**109,584**	4,089,872
Decrease in assets other than cash	**(24,721,350)**	(953,871)
Decrease in liabilities	**8,191,406**	13,655,547
	(24,204,838)	5,461,306
Other adjustments		
Profit / return received	**427,457**	936,535
Provision for impairment	**5,145,924**	(2,785,157)
Reversal of provision for doubtful balances	**-**	(4,000,000)
Dividend income	**1,154,531**	1,899,476
Capital gain	**(636,639)**	345,578
Income tax paid	**271,819**	362,037
Provision for taxation	**(320,407)**	(792,252)
	6,042,686	(4,033,783)
(Loss) / profit after taxation	**(18,162,153)**	1,427,522

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:	2012 (Rupees)	2011 (Rupees)
Cash and other equivalents		
Cash in hand	**4,640**	15,301
Policy stamps	**17,550**	1,369
	22,190	16,670
Current and other accounts with banks		
Current accounts	**3,376,130**	5,437,584
PLS savings accounts	**17,235**	17,235
	3,393,365	5,454,819
Deposits with banks maturing within 12 months		
Deposit accounts	**5,250,000**	4,985,274
	8,665,555	10,456,763

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

Naim Anwar Managing Director & CEO	Mudassar Zubair Mirza Director	Monavar Karamat Director	Syed Adnan Ali Director

STATEMENT OF PREMIUMS

FOR THE YEAR ENDED DECEMBER 31, 2012

Business underwritten inside Pakistan

Class Direct and facultative	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2012 Net premium revenue	2011 Net premium revenue
		Opening	Closing			Opening	Closing			
	(Rupees)									
1 Fire and property	17,538,219	12,510,327	8,337,880	21,710,666	11,981,554	9,808,598	7,678,575	14,111,578	**7,599,088**	16,157,610
2 Marine and transport	23,046,116	3,313,134	3,921,465	22,437,784	12,575,820	1,304,703	1,983,130	11,897,393	**10,540,391**	15,310,529
3 Motor	22,972,965	11,352,875	10,920,617	23,405,223	2,211,924	793,076	651,146	2,353,854	**21,051,368**	23,773,130
4 Miscellaneous	5,063,381	3,107,827	2,337,458	5,833,749	2,639,522	1,753,793	359,401	4,033,914	**1,799,836**	4,989,211
Total	68,620,681	30,284,162	25,517,421	73,387,422	29,408,820	13,660,171	10,672,251	32,396,739	**40,990,683**	60,230,480

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

Naim Anwar	**Mudassar Zubair Mirza**	**Monavar Karamat**	**Syed Adnan Ali**
Managing Director & CEO	**Director**	**Director**	**Director**

Your Security - Our Policy

STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2012

Business underwritten inside Pakistan

Class Direct and facultative	Claims paid	Outstanding claims		Claim expenses	Re-insurance and other recoveries received	Re-insurance and other recoveries in respect of outstanding claims		Re-inusrance and other recoveries revenue	2012 Net Claims expenses	2011 Net Claims expenses
		Opening	Closing			Opening	Closing			
	(Rupees)									
Fire and property damage	10,795,888	20,191,019	11,837,993	2,442,862	7,784,827	12,011,611	8,947,053	4,720,269	**(2,277,407)**	1,888,824
Marine and transport	4,451,308	3,695,281	12,127,494	12,883,521	3,399,188	1,862,082	6,723,606	8,260,712	**4,622,809**	2,241,120
Motor	15,113,963	11,174,941	4,892,363	8,831,385	1,593,500	2,143,500	765,000	215,000	**8,616,385**	14,232,553
Miscellaneous	798,326	1,769,219	2,238,673	1,267,780	296,016	521,149	694,421	469,288	**798,492**	9,405
Total	**31,159,485**	**36,830,460**	**31,096,523**	**25,425,548**	**13,073,531**	**16,538,342**	**17,130,080**	**13,665,269**	**11,760,279**	18,371,902

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

Naim Anwar **Managing Director & CEO**	**Mudassar Zubair Mirza** **Director**	**Monavar Karamat** **Director**	**Syed Adnan Ali** **Director**

STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

Business underwritten inside Pakistan

Class Direct and facultative	Commission paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expenses	Commissions from re-insurers *	2012 Net Underwriting expense	2011 Net Underwriting expense
	(Rupees)								
Fire and property damage	3,365,250	2,502,065	1,667,576	4,199,739	5,104,966	9,304,704	4,507,746	**4,796,959**	6,238,163
Marine and transport	3,211,812	496,970	588,220	3,120,562	6,679,138	9,799,700	3,822,208	**5,977,492**	5,448,288
Motor	3,358,830	1,702,931	1,638,093	3,423,668	6,695,804	10,119,472	-	**10,119,472**	11,870,185
Miscellaneous	1,008,875	621,565	467,492	1,162,948	1,507,890	2,670,838	892,794	**1,778,045**	2,739,476
Total	**10,944,767**	**5,323,531**	**4,361,380**	**11,906,918**	**19,987,797**	**31,894,715**	**9,222,747**	**22,671,968**	26,296,112

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

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

Naim Anwar **Managing Director & CEO**	**Mudassar Zubair Mirza** **Director**	**Monavar Karamat** **Director**	**Syed Adnan Ali** **Director**

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STATEMENT OF INVESTMENT INCOME

FOR THE YEAR ENDED DECEMBER 31, 2012

Your Security - Our Policy

	2012	2011
	(Rupees)	
Income from Non-Trading Investments		
Held-to-maturity		
Return on fixed income securities and deposits	**427,457**	936,535
Available-for-sale		
Dividend income	**1,154,531**	1,899,476
(Loss) / gain on sale on available for sale investments	**(636,639)**	345,578
	517,892	2,245,054
Reversal / (provision) for impairment available for sale investments-net	**5,145,924**	(2,785,157)
Net investment income	**6,091,273**	396,432

Naim Anwar
Managing Director & CEO

Mudassar Zubair Mirza
Director

Monavar Karamat
Director

Syed Adnan Ali
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

1. THE COMPANY AND ITS OPERATIONS

1.1 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.

1.2 The Company has paid up capital of Rs. 121 million as at December 31, 2012. In accordance with the circular No. 3 of 2007 dated 10th April 2007 of the Securities and Exchange Commission of Pakistan (SECP), the minimum paid up capital of a general insurance company should be Rs. 300 Million by December 31, 2011. The SECP has served a show cause notice to the company and its directors dated 1st February 2012 in which it has enquired the reason for the non-compliance and about its future strategy to comply with the minimum capital requirement regulation. After the recent change of Board of Directors the Company has now presented a business plan to the SECP detailing that the minimum capital requirement shall be fulfilled by the merger of two entities namely M/s. Weaver (Private) Limited and M/s. Elahi Noor (Private) Limited both having a combined net worth of approximately Rs. 200 million.

The Company is now in the process of preparing a scheme of merger for presenting it to the relevant authorities and shareholders for approval. The company is targeting to complete this process subject to all relevant approvals by the end of calendar year 2013.

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.

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

3.2 Accounting convention

These financial statements have been prepared under the historical cost convention except for investments which are carried at lower of cost or market value.

3.3 Use of judgements and estimates

The preparation of financial statements in conformity with approved accounting standards requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses.

The judgements, estimates and assumptions are based on historical experience, current trend and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the estimates about carrying values of assets and liabilities that are not readily apparent from other sources.

Acutal results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the revision and future periods if the revision affects both current and future periods.
In particular, the matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

	Note
- Provision for outstanding claims (including IBNR)	6.3
- Premium deficiency reserve	6.4

	Note
- Employees' retirement benefits	6.7
- Useful lives of fixed assets	6.9
- Provision of unearned premiums	6.10.2
- Premium due but unpaid	6.10.3
- Taxation	6.15

4 STANDARDS, AMENDMENTS AND INTERPRETATIONS TO THE PUBLISHED STANDARDS 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:

Standards		**IASB Effective date (annual periods beginning on or after)**
IFRS 7	- Financial Instruments : Disclosures - (Amendments) - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities .	1-Jan-13
IAS 1	- Presentation of Financial Statements - Presentation of items of other comprehensive income.	1-Jul-12
IAS 19	- Employee Benefits - (Revised)	1-Jan-13
IAS 32	- Offsetting Financial Assets and Financial Liabilities - (Amendment)	1-Jan-14
IFRIC 20	- Stripping Costs in the Production Phase of a Surface Mine	1-Jan-13

The Company expects that the adoption of the above revision, amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application.

5 IMPROVEMENTS TO IFRS

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

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Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard beginning on or after)	IASB Effective Date (annual Periods beginning on or after)
IFRS 9 - Financial Instruments: Classification and Measurement	1-Jan-15
IFRS 10 - Consolidated Financial Statements	1-Jan-13
IFRS 11 - Joint Arrangements	1-Jan-13
IFRS 12 - Disclosure of Interests in Other Entities	1-Jan-13
IFRS 13 - Fair Value Measurement	1-Jan-13

6. SIGNIFICANT ACCOUNTING POLICIES

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

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 Claims

Claims are charged to income as incurred based on estimated liability for compensation owed under the insurance contracts. It includes related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years.

6.3 Provision for outstanding claims (including 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.

Reinsurance recoveries against outstanding claims and salvage recoveries are recognised as an asset and measured at the amount expected to be received.

6.3.1 Claims reported but not settled

Provision for liability in respect of claims reported but not settled at the balance sheet date is made on the basis of individual case estimates. The case estimates are based on the assessed amounts of individual losses and where loss assessments have not been carried out, the estimates are established in light of currently available information, past experience of similar claims and in some cases in relation to the sums insured. Case estimates are reviewed periodically to ensure that the recognised outstanding claim amounts are adequate to cover expected future payments including expected claims settelement costs and are updated as and when new information becomes available.

6.3.2 Claims incurred but not reported

The provision for claims incurred but not reported (IBNR) at balance sheet date is based on an analysis of the past claims reporting pattern experienced by the Company. The provision for IBNR has been accounted for on the basis whereby all claims incurred before December 31, 2011 but reproted up to December 31, 2012 were aggregated and the ratio of such claims to outstanding claims at December 31, 2011 has been applied to outstanding claims except exceptional losses at December 31, 2012 to arrive at laibility for IBNR. The analysis was carried out separately for each class of business.

6.4 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 an expense 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.

6.5 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.

6.6 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.

6.7 Staff retirement benefits

6.7.1 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.

6.7.2 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.

6.8 Investments

6.8.1 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

6.8.2 Measurement

6.8.3 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.

6.8.4 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.

6.8.5 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.

6.9 Fixed assets

6.9.1 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 23 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.

6.9.2 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 24 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.

6.10 Premiums

6.10.1 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.

6.10.2 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.

6.10.3 Premiums due but unpaid

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

6.11 Commissions

6.11.1 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.

6.11.2 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.

6.11.3 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.

6.12 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.

6.13 Dividend declaration and reserve appropriation

Dividend declaration and reserve appropriation are recognized when approved.

6.14 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.

6.15 Taxation

6.15.1 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 includes adjustments, relating to prior years which arise from assessments framed / finalized during the year or required by any other reason.

6.15.2 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.

6.16 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.

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6.17 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.

6.18 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.

6.19 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.

6.20 Provisions

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

6.21 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.

6.22 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.

6.23 Cash and cash equivalents

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

6.24 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.

6.25 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.

6.26 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.

6.27 Earning per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

7. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2012	2011		2012	2011
(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

	2012	2011
Reserve for exceptional 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 ASSETS

	2012	2011
SURPLUS ON REVALUATION OF FIXED ASSETS	**21,107,500**	21,107,500

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

10. AMOUNTS DUE TO OTHER INSURERS / REINSURERS

Foreign reinsurers	**4,486,025**	6,733,072
Local reinsurers	**11,412,888**	9,596,762
Co-insurers	**8,640,142**	3,844,385
	24,539,055	20,174,219

11. OTHER CREDITORS AND ACCRUALS

Federal insurance fee	**133,160**	73,447
Federal excise duty	**1,105,067**	975,238
Withholding tax	**131,345**	491,475
Sundry creditors	**3,517**	-
	1,373,089	1,540,160

12. CONTINGENCIES AND COMMITMENTS

12.1 CONTINGENCIES

The Company is defendant in following:

- Suit no. 06 of 2007 before the Insurance Tribunal for Sindh Karachi, filed by Allied & Co. for recovery of Rs. 8,290,000 against the Company.

- Suit filed by Al-Rehman Traders through its proprietor Mohammad Waseem and Orix Leasing Pakistan Ltd against the Company.

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, 2012 (2011: Rs. nil).

	Note	2012	2011
		(Rupees)	
13. CASH AND OTHER EQUIVALENTS			
Cash in hand		**4,640**	15,301
Policy stamps		**17,550**	1,369
		22,190	16,670
14. CURRENT AND OTHER ACCOUNTS WITH BANKS			
Current accounts	*14.1*	**3,376,130**	5,437,584
PLS savings accounts	*14.2*	**17,235**	17,235
		3,393,365	5,454,819

14.1 This includes Rs. 0.4 million (2011: 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 5% (2011: 5%) per annum.

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15. DEPOSITS MATURING WITHIN 12 MONTHS

Term deposits	*15.1*	**5,250,000**	4,985,274

15.1 This represents term deposits placed with various commercial banks carrying mark-up at the rates ranging between 9% to 10% (2011: 9% to 10%) per annum.

16. INVESTMENTS

Held to maturity	*16.1*	**-**	5,000,000
Available for sale	*16.2*	**21,970,755**	19,105,918
		21,970,755	24,105,918

16.1 Held to maturity

Government securities

Pakistan Investment Bonds	*16.1.1*	**-**	5,000,000

16.1.1 These included Pakistan Investment Bonds amounted to Rs. nil (2011: 5 million) were 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 and upon maturity are currently classified as Long term deposit.

16.2 Available for sale

Quoted	*16.2.1*	**21,970,755**	19,105,918
Un-quoted	*16.2.2*	**-**	-
		21,970,755	19,105,918

16.2.1 Quoted

No. of shares 2012	No. of shares 2011	Face value	Market value 2012	Market value 2011	Name of entity	2012 (Rupees)	2011 (Rupees)
					INVESTMENT COMPANIES / BANKS		
5,000	5,000	10	12.42	7.99	Standard Chartered Bank Limited	**190,000**	190,000
8,750	8,750	10	10.70	5.41	Bank of Punjab	**593,750**	593,750
67	67	10	3.00	3.00	Innovative Investment Bank Limited	**243,755**	243,755
1,408	1,408	10	2.36	0.90	IGI Investment Bank Limited	**18,818**	18,818
2,653	2,653	10	2.43	1.10	KASB Bank Limited	**26,878**	26,878
1,855	1,687	10	49.39	41.05	National Bank of Pakistan	**131,141**	131,141
345,966	345,966	10	2.63	1.73	NIB Bank Limited	**3,804,298**	3,804,298
30,469	27,450	10	7.09	3.90	Soneri Bank Limited	**786,000**	786,000
887	807	10	73.49	53.87	Allied Bank Limited	**72,854**	72,854
10,560	10,560	10	83.67	52.39	United Bank Limited	**1,120,321**	1,120,321
-	20,000	10	16.82	11.25	Bank Al Falah Limited	**-**	267,900

No. of shares 2012	No. of shares 2011	Face value	Market value 2012	Market value 2011	Name of entity		
					INSURANCE		
660	600	10	12.64	9.85	Habib Insurance	**1,565**	1,565
2,999	22,999	10	24.45	15.50	Pakistan Reinsurance	**59,542**	456,623
646	646	10	8.56	7.67	Premier Insurance	**2,793**	2,793
					TEXTILE COMPOSITE		
80	80	10	63.85	40.45	Nishat Mills	**6,388**	6,388
5,635	5,635	10	29.36	8.35	Babri Cotton	**207,172**	207,172
12,100	12,100	10	5.74	4.10	Gulistan Spinning	**88,000**	88,000
8,352	8,352	10	6.58	6.65	Gulshan Spinning	**107,392**	107,392
12,000	12,000	10	9.95	4.29	Idrees Textiles	**180,395**	180,395
2,304	2,304	10	9.15	9.35	Paramount Spinning	**22,977**	22,977
158	158	10	0.77	0.24	Service Fabrics	**1,859**	1,859
10,000	10,000	10	8.09	2.85	Azgard Nine	**121,478**	121,478
					SYNTHETIC AND RAYON		
86	86	10	2.25	0.99	Tristar Polyester	**1,307**	1,307
34,867	34,867	10	26.10	32.50	Rupali Polyester	**1,270,902**	1,270,902
20,625	20,625	10	3.34	1.12	Dewan Salman Fibre	**287,293**	287,293
					CEMENT		
278	2,278	10	48.75	7.21	Cherat Cement	**10,683**	87,537
25,990	35,990	10	14.57	1.85	Maple Leaf Cement	**552,170**	764,625
548	548	10	18.04	3.30	Pioneer Cement	**15,796**	15,796
30,000	60,000	10	5.06	1.25	Dewan Cement	**488,422**	1,087,613
9,001	9,001	10	6.54	3.30	Fauji Cement	**118,800**	118,800
500	500	10	5.07	1.88	Lafarge Pakistan Cement	**4,688**	4,688
12	-	-	86.51	-	Akzo Nobel	**1,956**	-
					FUEL AND ENERGY		
5,257	55,257	10	5.76	1.60	Karachi Electric Supply Company	**31,942**	335,750
74	62	10	232.21	227.21	Pakistan State Oil Company	**20,789**	20,789
235	235	10	23.25	15.71	Sui Northern Gas	**12,146**	12,146
1,009	1,009	10	20.51	19.29	Sui Sourthern Gas	**20,181**	20,181
670,000	670,000	10	1.36	0.70	Southern Electric Power Company	**9,026,088**	9,026,088
					AUTO & ALLIED ENGINEERING		
225	225	10	2.69	1.61	Dewan Farooq Motors	**5,806**	5,806
5,579	15,579	10	26.54	20.91	General Tyre and Rubber Company	**189,202**	528,311
700	700	10	87.64	59.03	Pak Suzuki Motors Company	**151,590**	151,590
					CABLE & ELECTRICAL GOODS		
10	10	10	774.68	1,056.75	Siemens (Pakistan) Engineering	**205**	205
					TRANSPORT & COMMUNICATIONS		
268	268	10	2.53	1.00	World Call Telecom	**2,281**	2,281
					Balance carry forward	**19,999,621**	22,194,063

No. of shares 2012	No. of shares 2011	Face value	Market value 2012	Market value 2011	Name of entity	Note	2012 (Rupees)	2011 (Rupees)
					Balance brought forward		**19,999,621**	22,194,063
					CHEMICAL & PHARMACEUTICAL			
25	38	10	173.89	120.27	I.C.I. Pakistan		**4,074**	6,030
22,287	22,287	10	7.35	9.27	Lotte Pakistan PTA		**259,709**	259,709
					LEATHER AND TANNERIES			
33	33	10	1,351.00	818.40	Bata (Pakistan)		**1,540**	1,540
					FOOD AND ALLIED			
8,000	8,000	10	-	0.50	Indus Fruits Product		**101,800**	101,800
					MISCELLANEOUS			
6,492	6,492	10	24.63	7.50	Macpac Films		**209,193**	209,193
					MUTUAL FUND			
205,136	184,226	50	51.11	53.96	Pakistan Income Fund (PIF)	16.2.1.2	**7,353,886**	7,353,886
18	9,018	10	6.10	2.71	Golden Arrow Selected Stocks Fund		**106**	53,030
31,066	31,066	10	7.07	5.45	PICIC Investment Fund		**554,715**	554,715
253,124	253,124	10	16.40	12.46	PICIC Growth Fund		**7,036,187**	7,036,187
2,500	2,500	10	9.00	7.12	PICIC Energy Fund		**18,044**	18,044
25,000	25,000	10	8.56	12.10	Pakistan Capital Market Fund		**265,000**	265,000
66,000	66,000	10	9.76	9.01	Pakistan Premier Fund		**791,313**	791,313
69,750	69,750	10	6.40	1.70	First Dawood Mutual Fund		**567,814**	567,814
35,153	35,153	10	8.73	4.70	JS Growth Fund		**484,169**	484,169
					MODARABA			
7,500	7,500	10	3.06	2.53	B.R.R Guardian Modaraba		**96,775**	96,775
29,572	29,572	10	3.20	0.75	First Equity Modaraba		**393,113**	393,113
57,978	57,978	10	11.55	10.35	Standard Chartered Modaraba		**1,017,741**	1,017,741
97,005	100,005	10	9.50	7.09	First Habib Bank Modaraba		**1,027,177**	1,058,944
48,400	48,400	5	8.80	7.26	First Habib Modaraba		**335,381**	335,381
16,300	16,300	10	1.62	0.78	Modaraba Al-Mali		**283,900**	283,900
65,500	65,500	10	5.60	7.15	First National Bank Modaraba		**561,350**	561,350
154	154	10	1.99	1.00	First Prudential Modaraba		**715**	715
							41,363,326	43,644,413
					Provision for impairment in value of investments	16.2.1.1	**(19,392,571)**	(24,538,495)
							21,970,755	19,105,918

16.2.1.1 Particulars of provision for impairment in value of investments

	2012	2011
Opening balance	**24,538,495**	26,900,684
Transferred to capital gain on account of sales of securities	**(1,758,500)**	(5,147,346)
(Reversal) / Charge during the year	**(3,387,424)**	2,785,157
Closing balance	**19,392,571**	24,538,495

16.2.1.2 Securities amounting to Rs 6.95 million (2011: 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.

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16.2.2 **Unquoted**

No. of shares 2012	No. of shares 2011	Face value	Name of entity		
1200	1200	25	Agricultural Development Co-operative Society	**30,000**	30,000
			Provision for impairment	**(30,000)**	(30,000)
				-	-

	Note	2012	2011
		(Rupees)	

17. DEFERRED TAXATION

Deferred tax asset arising in respect of:

	Note	2012	2011
Acccelerated tax 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

Deferred tax is recognized in respect of all temporary differences arising from carrying values of assets and liabilities in financial statements and their tax base. However, the company doesn't recognised further deferred tax asset on the basis that it will not be probable to realize it against future profit.

18. PREMIUMS DUE BUT UNPAID

	Note	2012	2011
Considered good		**24,753,023**	42,426,515
Considered doubtful		**34,130,019**	19,628,004
		58,883,042	62,054,519
Less: Provision for doubtful balances	*18.1*	**(34,130,019)**	(19,628,004)
		24,753,023	42,426,515

18.1 Reconciliation of provision for doubtful balances

	2012	2011
Opening	**19,628,004**	23,628,004
Charge for the year	**14,502,015**	-
Reversal	**-**	(4,000,000)
Closing	**34,130,019**	19,628,004

19. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS

	2012	2011
Considered good	**25,742,710**	25,672,399
Considered doubtful	**-**	3,212,221
	25,742,710	28,884,620
Less: Provision for doubtful balances	**-**	(3,212,221)
	25,742,710	25,672,399

20. TAXATION - NET

	2012	2011
Advance tax	**3,427,102**	3,947,532
Provision for taxation	**(320,407)**	(792,252)
	3,106,695	3,155,280

21. PREPAYMENTS

	2012	2011
Prepaid reinsurance premium ceded	**10,672,251**	13,660,170

22. SUNDRY RECEIVABLES – unsecured

	2012	2011
Advances		
Considered good		
To employees	**206,000**	126,200
Against expenses	**1,388,892**	4,407,744
Against purchase of shares	**-**	-
	1,594,892	4,533,944
Considered doubtful		
Against expenses	**330,000**	330,000
	1,924,892	4,863,944
Less: Provision for doubtful balances	**(330,000)**	(330,000)
	1,594,892	4,533,944
Deposits	**380,146**	380,146
Others	**3,000**	704,800
	1,978,038	5,618,890

23. Fixed Assets - Tangible

Description	Freehold land	Furniture and fixtures	Office equipment	Computers and related equipment	Vehicles	Total
	(Rupees)					
COST						
Balance as at January 01, 2011	27,500,000	5,149,687	2,958,918	2,330,921	34,801,602	72,741,128
Additions	-	116,215	76,425	3,730	2,750,971	2,947,341
Disposals	-	-	-	-	(5,781,615)	(5,781,615)
Balance as at December 31, 2011	**27,500,000**	**5,265,902**	**3,035,343**	**2,334,651**	**31,770,958**	**69,906,854**
Balance as at January 01, 2012	27,500,000	5,265,902	3,035,343	2,334,651	31,770,958	69,906,854
Additions	-	51,370	36,640	-	356,799	444,809
Disposals	-	-	-	-	(2,343,538)	(2,343,538)
Balance as at December 31, 2012	**27,500,000**	**5,317,272**	**3,071,983**	**2,334,651**	**29,784,219**	**68,008,125**
DEPRECIATION						
Balance as at January 01, 2011	-	1,775,431	1,280,004	1,743,315	25,301,428	30,100,178
Charge for the year	-	345,320	172,138	176,788	2,146,651	2,840,897
On disposals	-				(4,722,815)	(4,722,815)
Balance as at December 31, 2011	**-**	**2,120,751**	**1,452,142**	**1,920,103**	**22,725,264**	**28,218,260**
Balance as at January 01, 2012	-	2,120,751	1,452,142	1,920,103	22,725,264	28,218,260
Charge for the year	-	319,652	158,727	123,751	1,787,894	2,390,024
Disposals	-				(1,677,898)	(1,677,898)
Balance as at December 31, 2012	**-**	**2,440,403**	**1,610,869**	**2,043,854**	**22,835,260**	**28,930,386**
Carrying amount - 2012	**27,500,000**	**2,876,868**	**1,461,113**	**290,797**	**6,948,959**	**39,077,737**
Carrying amount - 2011	27,500,000	3,145,151	1,583,201	414,548	9,045,694	41,688,594
RATE OF DEPRECIATION (%)	-	10%	10%	30%	20%	

23.1 The freehold land was professionally reappraised during the year 2009 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:

	2012	2011
	(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
	(Rupees)						
Vehicles							
Suzuki Khyber	230,700	227,588	3,112	150,000	146,888	Negotiation	Syed Mian Ali Sher
Toyota Corolla 1300cc	330,000	323,046	6,954	200,000	193,046	Negotiation	Syed Mian Ali Sher
Suzuki Margalla	482,338	463,245	19,093	-	(19,093)	Gift	
Suzuki Cultus vxr Cng	652,000	419,245	232,755	615,000	382,245	Negotiation	Aziz-ur-Rehman
Suzuki Alto VXR	648,500	244,774	403,726	405,000	1,274	Negotiation	Batool Asgher Ali
2012	**2,343,538**	**1,677,898**	**665,640**	**1,370,000**	**704,360**		
2011	5,781,615	4,722,815	1,058,800	2,350,201	1,291,400		

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		Note	2012	2011
			(Rupees)	
24.	**Fixed Assets -Intangible**			
	Computer Software	24.1	-	109,138
24.1	**Computer Software**			
	Cost			
	Opening balance		2,531,116	2,531,116
	Additions		-	-
	Closing balance		2,531,116	2,531,116
	Amortization			
	Opening balance		2,421,978	2,344,939
	Charge for the year		109,138	77,039
	Closing balance		2,531,116	2,421,978
	Carrying Amount		-	109,138
	Rate of Amortization (%)		33.33%	33.33%
25.	**MANAGEMENT EXPENSES**			
	Salaries, allowances and other benefits	27.1	9,714,402	10,932,564
	Traveling and conveyance expenses		199,720	141,442
	Repairs and maintenance		2,041,374	1,522,559
	Rent, rates and taxes		1,678,765	2,044,364
	Printing and stationery		939,173	1,011,745
	Telephone and postage		1,867,865	1,344,823
	Utilities		1,492,623	1,496,728
	Entertainment		1,503,123	1,260,442
	Bank charges		96,684	253,341
	Others		454,068	389,993
			19,987,797	20,398,001
26.	**OTHER INCOME**			
	- Non financial assets			
	Inspection charges		109,584	89,872
	Reversal of provision for doubtful balances	18.1	-	4,000,000
			109,584	4,089,872
27.	**GENERAL AND ADMINISTRATIVE EXPENSES**			
	Salaries, allowances and other benefits	27.1	4,709,152	5,493,838
	Traveling and conveyance expenses		4,411,771	4,666,680
	Depreciation		2,390,024	2,840,897
	Amortization		109,138	77,039
	Provision for doubtful balances		14,502,015	-
	Repairs and maintenance		1,182,342	1,520,928
	Fees, subscription and periodicals		1,719,363	1,181,946
	Telephone and postage		124,220	582,419
	Legal and professional charges		277,032	921,975
	Advertisement and promotion expenses		740,258	640,066
	Donation	27.2	7,150	16,190
	Entertainment		216,469	299,442
	Auditors' remuneration	27.3	385,000	418,000
	Others		531,466	460,976
			31,305,400	19,120,396

	Note	2012	2011
		(Rupees)	

27.1 This includes staff retirement benefits amounting to Rs.0.11 million (2011: Rs. 0.39 million).

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

27.3 Auditors' remuneration

		2012	2011
Annual audit fee		**330,000**	330,000
Half yearly review		**55,000**	55,000
Out of pocket		**-**	33,000
		385,000	418,000

28. TAXATION

		2012	2011
Current	*28.1*	**(320,407)**	(792,252)
Deferred		**-**	-
		(320,407)	(792,252)

28.1 The income tax returns of the Company have been filed up to tax year 2012 (corresponding to the income year ended December 31, 2011) 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

	2012	2011
Accounting profit before tax	**(17,841,746)**	2,219,774
Tax at the applicable rate of 35%	**(6,244,611)**	776,921
Tax effect of expenses that are not allowed in determining taxable income	**7,547,900**	977,420
Tax effect of exempt income and expenses that are deductible from but not included in determining accounting profit	**(694,249)**	(772,141)
Tax effect of dividend income taxed at a lower rate	**(288,633)**	(189,948)
	320,407	792,252

29. EARNINGS PER SHARE - BASIC AND DILUTED

	2012	2011
	(Rupees)	
(Loss) / profit for the year attributable to Ordinary shareholders	**(18,162,153)**	1,427,522
Number of shares	**12,100,000**	12,100,000
(Loss) / Earning per share	**(1.50)**	0.12

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

	2012			2011		
	Chief Executive	Directors	Total	Chief Executive	Directors	Total
	(Rupees)					
Managerial remuneration	**148,000**	**-**	**148,000**	355,200	74,000	429,200
Retirement benefits	**9,800**	**-**	**9,800**	23,520	-	23,520
House rent	**41,500**	**-**	**41,500**	99,600	31,500	131,100
Utilities	**7,500**	**-**	**7,500**	18,000	5,500	23,500
Total	**206,800**	**-**	**206,800**	496,320	111,000	607,320
Number of persons				1	1	2

30.1 Non-Executive Directors were paid Rs.0.065 (2011: Rs.0.065) 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.

	2012	2011
	(Rupees)	
Millwala Sons (Private) Limited		
Premium underwritten	**141,284**	3,520
Claims paid	**14,575**	-
Pak Arab Trading and Shipping Agency		
Premium underwritten	**66,225**	62,390
Claims paid	**-**	-
Ardeshir R. Cowasjee		
Premium underwritten	**224,540**	165,900
Claims paid	**-**	-
Cowasjee and Sons		
Premium underwritten	**1,270,116**	241,305
Claims paid	**573,601**	-
Staff retirement benefits		
Provident fund contribution	**89,531**	389,964

32. SEGMENT REPORTING

	Fire & Property		Marine & Transport		Motor		Miscellaneous		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	(Rupees)									
Revenue										
Premiums earned	**7,599,088**	16,157,610	**10,540,391**	15,310,529	**21,051,368**	23,773,130	**1,799,836**	4,989,211	**40,990,683**	60,230,480
Segment Result	**5,079,537**	8,030,623	**(59,910)**	7,621,121	**2,315,511**	(2,329,608)	**(776,701)**	2,240,330	**6,558,436**	15,562,466
Investment income									**6,091,273**	396,432
Profit on sale of fixed assets									**704,360**	1,291,400
Other income - net									**109,584**	4,089,872
General and administration expenses									**(31,305,400)**	(19,120,396)
									(24,400,182)	(13,342,692)
(Loss) / profit before tax									**(17,841,746)**	2,219,774
Provision for taxation									**(320,407)**	(792,252)
Net (loss) / profit									**(18,162,153)**	1,427,522
Other Information										
Segment Assets	**18,293,204**	24,322,274	**9,294,955**	3,663,755	**3,054,239**	4,639,507	**1,521,314**	2,896,507	**32,163,711**	35,522,043
Unallocated corporate assets									**125,317,357**	153,312,583
Consolidated total assets									**162,481,071**	188,834,626
Segment Liabilities	**22,479,446**	35,643,925	**16,743,055**	7,465,061	**15,812,980**	22,527,816	**4,701,922**	5,490,874	**59,737,402**	71,127,676
Unallocated corporate liabilities									**28,168,724**	25,806,273
Consolidated total liabilities									**87,906,126**	96,933,949
Unallocated capital expenditures									**444,809**	2,947,341
Unallocated depreciation / amortisation									**785,602**	2,917,936

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).

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(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.

	Underwriting results		**Shareholders' equity**	
	2012	**2011**	**2012**	**2011**
	(Rupees)			
10% increase in loss / decrease				
Fire & property	**227,741**	(188,882)	**148,031**	(122,774)
Marine & transport	**(462,281)**	(224,112)	**(300,483)**	(145,673)
Motor	**(861,639)**	(1,423,255)	**(560,065)**	(925,116)
Miscellaneous	**(79,849)**	(941)	**(51,902)**	(611)
	(1,176,028)	(1,837,190)	**(764,418)**	(1,194,174)
10% decrease in loss / increase				
Fire & property	**(227,741)**	188,882	**(148,031)**	122,774
Marine & transport	**462,281**	224,112	**300,483**	145,673
Motor	**861,639**	1,423,255	**560,065**	925,116
Miscellaneous	**79,849**	941	**51,902**	611
	1,176,028	1,837,190	**764,418**	1,194,174

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	Reinsurance		Net	
	2011	2012	2011	2012	2011
			(Rupees)		
Fire & Property	15,475,279	**6,888,211**	10,836,329	**3,241,511**	4,638,951
Marine & Transport	13,491,521	**-**	6,058,444	**-**	7,433,077
Motor	708,231	**-**	-	**747,203**	708,231
Miscellaneous	48,615	**38,169**	29,232	**35,233**	19,383
	29,723,647	**6,926,380**	16,924,005	**4,023,947**	12,799,642

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.

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 to 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 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:

	Note	2012	2011
		(Rupees)	
Cash and bank deposits	13 , 14 & 15	**8,665,555**	10,456,763
Investments	16	**21,970,755**	19,105,918
Premium due but unpaid	18	**24,753,023**	42,426,515
Amounts due from other insurers / reinsurers	19	**25,742,710**	25,672,399
Accrued investment income		**22,843**	79,086
Reinsurance recoveries against outstanding claims		**17,130,080**	16,538,342
Sundry receivable	22	**1,978,038**	5,618,890
		100,263,004	119,897,913

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
Summit Bank Limited	A-2	JCR-VIS
Silk Bank Limited	A-	JCR-VIS
Atlas Bank Limited	A-	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:

	2012		2011	
	Gross	Impairment	Gross	Impairment
	(Rupees)			
Upto 1 year	**19,275,788**	-	16,607,260	6,159,465
1-2 years	**13,453,839**	**7,976,604**	11,942,060	13,468,539
2-3 years	**13,046,311**	**13,046,311**	7,874,534	-
Over 3 years	**13,107,104**	**13,107,104**	25,630,666	-
Total	**58,883,042**	**34,130,019**	62,054,519	19,628,004

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 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	2012	2011
			(Rupees)		
A or above (including PRCL)	**(15,898,913)**	**17,130,080**	**10,672,251**	**11,903,418**	13,868,678
BBB	**-**	**-**	**-**	**-**	-
Total	**(15,898,913)**	**17,130,080**	**10,672,251**	**11,903,418**	13,868,678

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

	2012		2011	
	Gross	Impairment	Gross	Impairment
		(Rupees)		
Upto 1 year	**5,157,927**	**-**	4,766,708	-
1-2 years	**123,129**	**-**	1,530,732	-
2-3 years	**1,404,950**	**-**	2,632,181	-
Over 3 years	**10,444,074**	**-**	7,608,721	-
Total	**17,130,080**	**-**	16,538,342	-

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:

Non-Derivative Financial liabilities	2012 Carrying Amount	2012 Contractual cash flows upto one year
	(Rupees)	
Provision for outstanding claims	**31,096,523**	**31,096,523**
Amount due to other insurers / reinsurers	**24,539,055**	**24,539,055**
Accrued expenses	**2,095,220**	**2,095,220**
Other creditor and accruals	**3,517**	**3,517**
Unclaimed dividend	**-**	**-**
	57,734,316	**57,734,316**

Non-Derivative Financial liabilities	2011 Carrying Amount	2011 Contractual cash flows upto one year
	(Rupees)	
Provision for outstanding claims	36,830,460	36,830,460
Amount due to other insurers / reinsurers	20,174,219	20,174,219
Accrued expenses	1,680,700	1,680,700
Other creditor and accruals	1,540,160	1,540,160
Unclaimed dividend	418,209	418,209
	60,643,748	60,643,748

33.2.3 Market risk

Market 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 cash 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:

	2012	2011	**2012**	2011
	Effective interest rate (in %)		**------------- (Rupees)------------**	
Fixed rate instruments				
- Government securities	**-**	11.25%	-	5,000,000
Variable rate instruments				
- PLS savings accounts	**5%**	5%	**17,235**	17,235

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 arise 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 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. 1.05 million (2011: Rs. 1.91 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. 1.05 million (2011: 1.91 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 24th May 2013.

36. GENERAL

Figures have been rounded off to the nearest rupee.

Naim Anwar **Managing Director & CEO**	**Mudassar Zubair Mirza** **Director**	**Monavar Karamat** **Director**	**Syed Adnan Ali** **Director**

PATTERN OF SHAREHOLDINGS AS AT DECEMBER 31, 2012

No. of shares of shareholders	Shareholding Rs. 10/-each			Total Shares Held
191	1	To	100	4,379
90	101	To	500	24,262
44	501	To	1000	37,629
77	1001	To	5000	119,601
21	5001	To	10000	156,465
10	10000	To	15000	132,235
9	15001	To	20000	152,029
3	20001	To	25000	68,903
3	25001	To	30000	80,585
5	30001	To	35000	164,252
2	35001	To	40000	79,920
6	40001	To	45000	248,795
2	45001	To	50000	94,654
2	50001	To	55000	106954
1	55001	To	60000	55,866
2	60001	To	65000	128,720
4	65001	To	70000	267,583
4	70001	To	75000	289,376
12	75001	To	100000	933,276
-	100001	To	105000	-
9	105001	To	150000	1,043,741
9	150001	To	200000	1,296,019
3	200001	To	300000	708,035
7	300001	To	500000	2,293,542
6	500001	To	1000000	3,613,179
-	1000001	To	10000000	-
522				12,100,000

CATEGORIES OF SHAREHOLDERS

Particulars	No. of Shareholders	No. of Shares	Percentage
1. Individual	512	10,533,507	87.05
2. Charitable Trusts	4	376,229	3.11
3. Insurance Companies	2	605,841	5.01
4. Joint Stock Companies	8	584,423	4.83
	522	12,100,000	100

Physical Shareholdings as at December 31, 2012
Information as required under the Code of Corporate Governance

Directors & Spouses & Executives

Director	HUSSAINI IBRAHIM BHAI MILLWALA	629,038
Director	QUTBUDDIN ABBAS BHAI MILLWALA	66,513
Director	MUHAMMADI H.MILLWALA	217,648
Director	MUNIR IBRAHIMBHAI MILLWALA	553,992
Director	ZUMANA MUNIR MILLWALA	40,515
Director	FAYYAZ FAKHRUDDIN MILLWALA	207,495
Director	ABDUL RAZZAK JAFFER	23,903
Director	ARDESHIR COWASJEE	58,552
CEO	MOIZ ALI	1,176
Director	BATOOL FAYYAZ MILLWALA	7,562
		1,806,394

Insurance Companies	
Two	605,841
Joint Stock Companies	
Eight	584,423
Charitable Trusts	
Four	376,229
Individuals	
Five Hundred & Two	8,727,113

BRANCH NETWORK

Your Security - Our Policy

HEAD OFFICE:
2nd Floor, Nadir House, I.I.Chundrigar Road, P.O.Box No. 4616, Karachi (Pakistan)
U.A.N. : 111-274-000 Phones: 32415471-73 Fax: (92-21) 32415474 - 32415475
Email: info@cstarinsurance.com

BRANCHES IN PAKISTAN

Branch Head / Incharge	Location	Cell No.	Phone No.	Fax No.
KARACHI				
Mr. Tahir Ali	2nd Floor, Nadir House I.I Chundrigar Road Karachi.	0321-7659958	021-32428106	021-32415473
Mr. Azmatullah Shaikh	3rd Floor, Nadir House I.I Chundrigar Road Karachi.	0314-2314013	021-38691253	021-38691253
LAHORE				
Mr. Muhammad Afzal Shehzad	801-C, 8th Floor City Tower Main Boulevard Gulberg Lahore.	0321-9417526	042-35788806	042-35788806
Mr. Rana Muhammad Arman	2nd Floor, Ghous Bakers, 120-Temple Road Lahore.	0321-9008800	042-37320540	042-37320554
SAILKOT				
Mr. Younus Shaheen	Room # 11 & 12, Al-Rehman Center, Saga Chowk, Defence Road, Sialkot.	0333-8624101	052-3240271-73	052-3240270
MULTAN				
Mr.Khalil Ahmed	Syed Khalil Ahmed, Crescent Star Insurance Limited, Kutchery Road Multan.	0300-7323292	061-4571338	061-4514138
QUETTA				
Mr.Nasir Khan	Office # 2 1st Floor Gul Complex, M.A. Jinnah Road Quetta.	0333-7825474	081- 2828097	081-2837363
Mr.Atif	Perfection House, 1st Floor, M.A Jinnah Road Quetta	0300-9127077 / 0333-7878994	081-2820613	081-2820613
PESHAWAR				
Mr. Anwar Husain	9th Floor, Statelife Building The Mall Peshawar	0321-9108461	091-5275021	091-5275021
RAHIM YAR KHAN				
Mr. Ahsan-ul-Haq	6 Railway Road Rahim Yar Khan	0300-6731885	(068) 5876961	068-5876961
BAHAWALPUR				
Mr. Saleem Faruqui	5-Jameel Market Circular Road Bahawalpur	0300-9681288	(062) 2882038	062-2885997
HASILPUR				
Mr. Abdul Sattar Anjum	194-Mohallah Alamdar Abbas Ward # 28, Old Hasilpur City Hasilpur Dist. Bahawalpur	0300-7850667	(0622) 441108	
SAHIWAL				
Mr. Muzaffar Joya	House # 899, Block D, Farid Town Sahiwal	0302-3141140	(040) 4550899	
HYDERABAD				
Mr. Tanveer Hashim Khan	Office # 41 / 42, Al-Rahim Shopping Center, Mazzenine Floor, Phase - 1, Hyderabad	0300-9376541	(022) 2780624	
TANDO ADAM				
Mr. Rashid Husain	House # B-173, Gulshan-e-Suleman Hyderabad Road Tando Adam	0300-3038235	(023) 5572138	

PROXY FORM

Your Security - Our Policy

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 voice for me / us and on my / our behalf at the 56th Annual General Meeting of the Company

to be held on 22nd June, 2013 and at any adjournment thereof

Signed this ______________________ of ______________________2013.
(day) (date, month)

Signature of Member: ________________________

Please affix Revenue Stamp of Rs.5/-

Folio Number: ____________________________

Number of share held: ______________________

Witnesses:

1. ______________________________

2. ______________________________

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 not later than 48 hours before the time of holding meeting, falling which, Proxy form will not be treated valid.

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.