Contents

Company Information

Board of Directors	Mr. Mohammed Basheer Janmohammed (Chairman) Mr. Muhammad Rafiq Tumbi Mr. Yameen Kerai Mr. Shahid Sattar Mr. Rizwan Abbas Mr. Muhammad Riaz Mr. Ahmed Salahuddin (MD & Chief Executive Officer)
Board Audit Committee	Mr. Yameen Kerai Mr. Rizwan Abbas Mr. Muhammad Rafiq Tumbi
CFO & Company Secretary	Mr. Muhammad Haneed
Auditors	Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants
Legal Advisor	Syed Ali Hyder
Bankers	NIB Bank Limited Habib Metropolitan Bank Limited
Shares Registrar	FAMCO Associates (Pvt.) Ltd. State Life Building # 1-A, 1st floor I.I. Chundrigar Road Karachi Pakistan.
Credit Rating	Single A Minus “A-” by JCR-VIS
Registered & Head Office	8th Floor, Shaheen Complex, M.R. Kayani Road, Karachi Tel # (92-213) 2219555-60 Fax # (92-213) 2219561

Mission Statement

PICIC Insurance shall fully satisfy the needs and expectations of all its stakeholders:

- We shall put the interest of our clients first and ensure that they make informed decisions with respect to the products and services that we offer them.
- We shall give our employees a congenial work environment and shall give them opportunities for personal growth and development strictly on the basis of merit.
- We shall strive to continually provide above average returns to our shareholders.
- We shall support the development of the communities in which we live and work.

Vision Statement

PICIC Insurance shall emerge as the leading insurance and risk management services organization in Pakistan. We are in the business of providing solutions to mitigate insurable risk exposure of our clients. We shall do this on the basis of thorough risk evaluation and product knowledge.

Statement of Ethics and Business Practices

1. It is the responsibility of all directors, officers and employees of the company to carry out their assigned duties in compliance with all applicable legal requirements and company policies. Beyond compliance with strictly legal aspects involved, all directors, officers and employees are expected to conduct themselves with honesty, integrity and professionalism in the discharge of their assigned responsibilities. Except as otherwise permitted by company policies, all assets of the company shall be used for legitimate business purposes. All directors, officers and employees shall protect the company assets and ensure their efficient use.

   Each director, officer and employee of the company must avoid any activities that could involve, or lead to involvement in any unlawful practice, as well as any actions that may jeopardize or impair the confidence or respect in which the company are held by their customers, regulators and the general public. All directors, officers and employees must comply completely with all applicable law, rules, and regulations.

2. The company policy statement regarding conflicts of interest requires all directors, officers and employees to avoid situations in which their personal interests conflict with the interests of the company. Prior to engaging in any conduct or activity that may result in a conflict of interest, the facts and circumstances of the proposed conduct or activity must be disclosed to the company.

3. Directors, officers, and employees shall not take for themselves personal opportunities that are discovered through the use of the corporate property, information, or position; shall not use corporate property, information or position for personal gain; and shall not compete with the company. All directors, officer, and employees owe a duty to the company to advance the legitimate business interests of the company.

4. Directors, officers, and employees shall endeavor to deal fairly with the company customers, suppliers, competitors, and employees. No one should take unfair advantage through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing practice.

5. Directors, officers, and employees frequently have access to confidential information concerning the company, business and the businesses of customers, agents, policyholders and other employees. Safeguarding confidential information is absolutely essential. Confidential information includes, but is not limited to all non-public information that might be of use to competitors, or harmful to the company or its customers, if disclosed. Directors, officers, and employees shall not disclose confidential information except when disclosure is authorized or legally mandated. Directors, officers, and employees shall not access, or use, confidential information unless it is relevant to the performance of their job and they have proper authorization. Except for information routinely provided to industry bureaus and agencies, vendors or other representatives of the Company, in accordance with the Company policies and procedures, no director, officer, or employee may disclose confidential information of any type to anyone, except person within the company who has a clear business need to know.

6. Accuracy and reliability in the preparation and maintenance of all books and records is not only mandated by law, it is of critical importance to the company decision making process and to the proper discharge of the company legal, financial and reporting obligations. All business records expenses accounts, vouchers, bills, payroll and services records and other reports must be prepared with care and honestly, and maintained in accordance with the company policy.

7. The company is an equal opportunity employer, and does not discriminate against employees or applicants for employment on the basis of race, color, religion, sex, sexual orientation, national origin, age, physical or mental disability. The company complies with all applicable laws and regulations in the hiring, treatment and termination of all employees, and endeavors to maintain a working environment that is conducive to professional growth accomplishment and satisfaction, and free from any type of hostility or harassment.

Directors' Report

The Directors of your Company would like to present the annual report together with the audited financial statements of the Company for the year ended 31 December 2010.

Message from the Chairman

I am pleased to report that 2010 was a profitable year for the Company despite the continuing depressed economic conditions in the country. This outcome is due to the wise guidance of the Board of Directors and to the dynamic performance of the management and staff of the Company, to whom I would like to extend my thanks and appreciation. This progress was achieved in the face poor overall economic conditions, the failure of insurance rates to harden progressively through 2010, as had been anticipated. During the year we are pleased to state that JCR-VIS has maintained the insurer financial strength rating of the Company to 'A-' with stable outlook, which signifies good credit quality. We remain positive in terms of the outlook for our performance over the coming 12 months. The Company's business plan clearly states the mission and vision of the Company and will help in achieving the short, medium and long term objectives and goals set out in that plan. We will continue revisiting our strategy and objectives in line with the changing market conditions and industry practices. I am heartened by the continuing improvements in our working practices and organizational structure. We realize that further improvements are required in the near future and we continue to make the necessary changes whenever considered appropriate.

Economy and Regulatory changes

The unprecedented floods that ravaged the country during the year 2010 resulted in loss of over 1,800 precious lives besides catastrophic material and economic losses. Fortunately, your Company has not been impacted by large claims related to the floods. The ongoing financial crisis in Pakistan is continuing to affect underwriting in all classes of business. Consequently, in 2010 there was further softening in premium rates, tightening of terms and shrinkage of premium volume. At the same time terms and conditions in the reinsurance market have begun to stabilize on proportional treaties and there has been a hardening of rates for non proportional business. This has had very little impact up to the present time on original rates for direct business due to the competitive environment.

Financial Highlights

The comparative financial highlights of your Company for the year ended 31 December 2010 are as follows:

	2010	2009	Variance
	(Rupees in thousand)		%
Gross Premium Written	549,629	493,968	11.3
Net Premium Revenue	166,770	199,656	(16.5)
Net Claims including IBNR	91,135	106,295	(14.3)
Premium Deficiency expense	1,301	-	-
Management Expenses charged to Revenue Accounts	79,417	85,118	(6.7)
Net Commission earned	9,973	2,699	269.5
Profit from underwriting business	4,890	10,942	(55.3)
Investment Income	26,675	27,336	(2.4)
Gain on disposal of fixed assets	115	8,447	(98.6)
Other income	2,716	-	-
Other expenses	29,306	29,871	(1.9)
Profit before Taxation	5,090	16,854	(69.8)
Profit after Taxation	5,027	16,854	(70.2)
Earnings per share (Rupees)	0.14	0.48	

Performance Review

During the year 2010, the Company remained focused on maintaining the profitability through risk evaluation and risk mitigation. It aimed at quality business. Despite the fact that the overall economic conditions were not conducive during the year under consideration, the Company's gross premium in 2010 reached Rs.550 million compared to Rs.493 million in 2009, increasing by 11.3% over last year. Retained premium stood at Rs.166.8 million as against Rs.199.7 million in 2009. This was due to higher cession in Health and Credit and Surety Ship classes of business. Consequently, net claims for the year fell from Rs.106 million in 2009 to Rs.91 million in 2010. The total expenses of the Company during the year under review were Rs.109 million down from 115 million. It is pertinent to note that in view of stressed business environment, the Company rationalized its expenses across the board by using resources more productively. The Company adopts a conservative investment strategy with the primary objective of preserving capital, maintaining liquidity and generating a stable income over the longer term, yielding a total investment income of Rs.26.7 million in 2010 as against Rs.27.3 million in 2009. As a consequence, the Company has posted a profit after tax of Rs.5 million for 2010 with earnings per share of Rs.0.14 per share.

Comparative Insurance portfolio mix, in terms of gross premium written in the year 2010 was as follows

	2010		2009	
Line of Business	**Amount (Rupees in million)**	**Portfolio Mix Percentage**	**Amount (Rupees in million)**	**Portfolio Mix Percentage**
Fire	133.7	24.3	123.8	25.1
Marine	112.4	20.5	107.6	21.8
Motor	136.5	24.8	116.0	23.5
Accident & health	36.4	6.6	78.8	15.9
Credit and Surety ship	69.3	12.6	1.0	
Miscellaneous	61.3	11.2	66.7	13.7
Total	**549.6**	**100**	**493.9**	**100**

The Company's diversified portfolio helps to manage the risks associated with the varying cycles across different lines of business. Motor and Fire were the dominant line contributing 24.8% and 24.3% respectively followed by Marine (20.5%). However, the fire class was dominant line in the underwriting result generating underwriting profit of Rs.9 million followed by Marine (Rs.2.2 million).

Ratings

JCR VIS has maintained the Insurer Financial Strength of the Company during the year under review to (Single A minus) 'A-' with stable outlook, which signifies good credit quality.

Auditors

M/s Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, having performed the Company's audit for five years, will retire at the conclusion of the Annual General Meeting. The Board has proposed the appointment of M/s. A.F. Ferguson & Co., Chartered Accountants as auditors for the year ending 31 December 2011.

Statement of Compliance with the Corporate Governance

The corporate laws rules and regulation framed hereunder spell out the overall function of the Board of Directors of the company. The Board is fully aware of its corporate responsibilities envisaged under the Code of Corporate Governance, prescribed by the Securities and Exchange Commission of Pakistan and is pleased to certify that:

1. The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

2. The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.

3. The Company has followed consistently appropriate accounting policies in the preparation of the financial statements. Changes wherever made, have been adequately disclosed and accounting estimates are on the basis of prudent and reasonable judgment.

4. International Accounting Standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom, if any, has been adequately disclosed.

5. The system of internal control is sound in design and has been effectively implemented and monitored. Such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss. The process used by the Board to review the effectiveness of the system of internal control include, inter-alia, the following:

   - An audit committee has been formed. It reviews the approach adopted by the Company's internal audit department and the scope of and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material weaknesses that have been identified. Further, the committee discusses the actions to be taken in areas of concern with the relevant executives. The audit committee consists of three members. All the members including the Chairman of the audit committee are non-executive directors. During the year 2010 four meetings of audit committee were held and attendance was as follows:

Name of member	**No. of meetings attended**
Yameen Kerai	4
Rizwan Abbas	3
Muhammad Rafiq Tumbi	4

     Leave of absence was granted to the members who could not attend the meeting.

   - An organization structure has been established, which supports clear lines of communication and tiered levels of authority with delegation of responsibility and accountability.

   - There is an annual budgeting and strategic planning process. Financial forecasts are prepared and these strategies are reviewed during the year to reflect significant changes in the business environment.

6. There is no doubt upon the Company's ability to continue as a going concern.

7. The Directors of your Company feel that preservation of capital for future growth is very important, therefore no dividend is declared for the current year.

8. The Company has followed the best practices of Corporate Governance as laid down in the listing regulations of the stock exchanges and there is no material departure there from.

9. Key operating and financial data for last six years is shown at page # 08.

10. The value of investments including accrued income of provident fund and gratuity fund on the basis of unaudited financial statements as at 31 December 2010 is Rs.23.2 million and Rs.7.2 million respectively.

11. The related parties transactions are approve or ratified by the audit committee and the Board of Directors.

12. All the major decisions relating to the investments / disinvestments of funds, change in the policy of underwriting if any taken by the CEO and/or the Board of directors.

13. Appointment of CEO, CFO and Company Secretary if any, and fixing or changing of remuneration is taken and approved by the Board.

14. Outstanding taxes and duties are given in the financial statements

Board of Directors

During the year under review four meetings were held and attended as follows:

Name	No. of meetings eligible to attend during the tenure	No. of meetings attended
Mr. Mohammed Basheer Janmohammed (The Chairman)	4	4
Mr. Yameen Kerai	4	4
Mr. Muhammad Rafiq Tumbi	4	4
Mr. Rizwan Abbas	4	3
Mr. Muhammad Riaz	4	3
Syed Naseer ul Hassan*	1	-
Mr. Faisal Chisti**	2	1
Mr. Ahmed Salahuddin (MD & CEO)	4	4

* Resigned on 31 March 2010
** Appointed on 23 April 2010 and Resigned on 31 December 2010

Leave of absence was granted in case the directors were not able to attend the Board Meeting.

Pattern of Shareholding

A statement showing the pattern of shareholding is attached with this report.

Trading of Company's Share

No trading in the shares of the Company was carried out by the Directors, CEO, CFO and Executives or their spouses or minor children, if any.

Certificate of the Directors and Principal Officer under Section 46(6) of the Insurance Ordinance, 2000

We certify that:

(a) in our opinion the annual statutory accounts of the Company set out in the forms attached to the statements have been drawn up in accordance with the Ordinance and rules made there under;

(b) the Company has at all times in the year complied with the provisions of the Ordinance and the rules made there under relating to paid-up capital, solvency and reinsurance arrangements; and

(c) as at the date of the statement, the Company continues to be in compliance with the provisions of the Ordinance and the rules made there under relating to paid-up-capital, solvency and reinsurance arrangements.

Future growth

Our success in winning new business and therefore creating growth gives us great confidence that the areas of activity in which we have chosen to operate are the right ones for the Company. The prevailing economic conditions around the Country and the soft insurance markets will of course present challenges. We have, however, taken clear and decisive action to develop and grow each of our activities.

Acknowledgement

The Board of Directors would like to express its sincere appreciation to the Company's valued clients, reinsurers, brokers, business partners and other stakeholders. The Board would also like to thank the Securities and Exchange Commission of Pakistan, the Stock Exchanges and the Central Depository Company for their continued guidance and support. It would not have been possible to achieve any of this without the dedication and commitment of the Company's employees; therefore they deserve special recognition on behalf of the Board.

Mohammed Basheer Janmohammed
Chairman

Ahmed Salahuddin
MD & Chief Executive Officer

Karachi: 19 February 2011

Key Financial Higlights

	2010	2009	2008	2007	2006	2005	2004
	(Rupees in thousand)						
Paid up share capital	350,000	350,000	350,000	200,000	200,000	200,000	200,000
Accumulated (loss) / profit	(119,163)	(124,190)	(141,044)	(87,792)	26,101	(2,042)	(3,610)
Investment income	6,221	7,901	(3,296)	19,235	10,076	460	-
Return on bank balances	20,454	19,435	11,243	14,191	13,930	10,808	3,644
Total Assets	919,922	731,089	704,236	643,841	606,359	446,719	261,744
Premiums Written	549,629	493,968	443,110	473,858	448,955	259,698	25,914
Net Premium Revenue	166,770	199,656	227,853	303,401	236,993	92,828	2,760
Profit / (loss) from underwriting business	4,890	10,942	(18,738)	(97,520)	29,103	4,377	(1,279)
Net claims	91,135	106,295	154,262	268,258	134,592	49,831	1,654
Profit / (loss) before taxation	5,090	16,854	(50,417)	(94,195)	36,917	3,311	(3,610)
Provision for taxation	(63)	-	(2,835)	302	8,774	1,743	-
Profit / (loss) after taxation	5,027	16,854	(53,252)	(93,893)	28,143	1,568	(3,610)
Earning / (loss) per share (in Rupees)	0.14	0.48	(1.79)	(4.69)	1.41	0.08	(0.31)
Dividend (in Percentage)	-	-	-	-	10.00	-	-

Pattern of Holding of Shares

Pattern of holding of the shares held by the Shareholders of PICIC Insurance Limited as at 31 December 2010

Number of shareholders	Shareholding From	Shareholding To	Number of shares held
2,341	1	100	65,558
787	101	500	197,526
277	501	1000	219,816
346	1001	5000	766,924
63	5001	10000	474,328
24	10001	15000	305,764
15	15001	20000	272,647
8	20001	25000	177,986
7	25001	30000	196,390
7	30001	35000	232,232
3	35001	40000	116,032
2	45001	50000	100,000
2	50001	55000	107,061
1	60001	65000	61,375
1	65001	70000	70,000
2	85001	90000	175,523
1	95001	100000	100,000
2	100001	105000	200,605
1	105001	110000	106,379
1	110001	115000	111,500
1	145001	150000	150,000
1	155001	160000	160,000
1	165001	170000	165,565
1	205001	210000	209,711
2	235001	240000	472,443
1	275001	280000	275,763
1	315001	320000	316,977
1	350001	355000	351,550
1	425001	430000	428,305
1	525001	530000	527,741
1	650001	655000	653,810
1	710001	715000	711,646
1	855001	860000	855,790
1	1305001	1310000	1,309,420
1	2505001	2510000	2,506,012
1	2520001	2525000	2,520,246
1	3895001	3900000	3,895,970
1	4930001	4935000	4,931,412
1	10495001	10500000	10,499,993
3,911			**35,000,000**

Information as required under the Code of Corporate Governance

As at 31 December 2010

Shareholders' category	Number of shareholders	Number of shares held
Associated Companies, Undertakings and Related Parties		
PICIC Benovelent Fund - 2	1	44
NIB Bank Limited	1	10,499,993
Directors, CEO, Executives & their spouses & minor children		
Mohammed Riaz Moosani	1	1,018
Rizwan Abbas	1	875
Chief Executive Officer	1	70,000
Executives	5	53,000
Public Sector Companies and Corporations	2	4,751,760
Banks, Development Finance Institutions, Non-Banking Finance Institutions	16	22,489
Modarabas and Mutual Funds	11	530
Insurance Companies	11	360,030
Shareholders holding 10% or more voting interest		
NIB Bank Limited	1	10,499,993
DJM Securities (Private) Limited	1	4,931,412
State Life Insurance Corporation of Pakistan	1	3,895,970

Category of Shareholding

As at 31 December 2010

S.No	Shareholders category	No.of shareholders	No.of shares	%
1	Associated Companies, Undertakings and Related Parties	2	10,500,037	30.00
2	Directors, CEO, Executives and their spouses and minor children	8	124,893	0.36
3	Public Sector Companies and Corporations	2	4,751,760	13.58
4	Banks, Development Finance Institutions, Non-Banking Finance Institutions	16	22,489	0.06
5	Others	136	11,714,496	33.47
6	Modarabas and Mutual Funds	11	530	0.00
7	Insurance Companies	11	360,030	1.03
8	Individuals	3,725	7,525,765	21.50
	TOTALS	**3,911**	**35,000,000**	**100.00**

Review Report to the Members on Statement of Compliance with the best Practices of the Code of Corporate Governance

We have reviewed the Statement of Compliance (the statement) with the best practices contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2010, prepared by the Board of Directors of PICIC Insurance Limited (the Company) to comply with the Listing Regulations of the Karachi, Lahore and Islamabad 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 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 inquiry of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

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

Further, Sub-Regulation (xiii a) of Listing Regulation 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular number KSE / N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for it's 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 procedure to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement 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 **31 December 2010.**

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Karachi : 19 February 2011

Statement of Compliance with the best Practices of the Code of Corporate Governance

For the year ended 31 December 2010

This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the listing regulations of Karachi, Lahore and Islamabad 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 the Code.

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 of Directors (the Board). At present, all the directors on the Board are non-executive other than the Chief Executive Officer of the Company.

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

3. All the resident directors have given declaration that they are registered as taxpayers and none of them has defaulted in payment of any loan to Banking Company, a Development Financial Institution or a Non-Banking Financial Institution or being a member of stock exchange, has been declared as defaulter by that stock exchange.

4. Casual vacancy occurred on the Board on 31 March 2010 and 31 December 2010 which was duly filled in within the prescribed period.

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

6. The Board has developed and adopted a vision / mission statement, overall corporate strategy, whereas, complete documentation for the significant policies of the Company will be finalized and approved in due course of time.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and the Board met four times during the year. Written notices of the Board meetings, along with the agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board comprises of senior corporate executives and professionals who are fully aware of their duties and responsibilities and hence need was not felt by the directors for any orientation course in this regard.

10. No new appointments of the Chief Executive Officer, Chief Financial Officer and Company Secretary were made during the year. However, any changes to the remuneration, terms and conditions of employment of Chief Financial Officer and Company Secretary have been determined by the Chief Executive Officer which was approved by the Board.

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

12. The financial statements of the Company were duly endorsed by the Chief Executive Officer and the Chief Financial Officer before approval of the Board.

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

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

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

16. The meetings of the Audit Committee were held four times during the year prior to the approval of interim and final results of the Company as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.

17. The Board has outsourced the internal audit function to M/s Munif Ziauddin Junaidy & Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 the ICAP.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines as applicable in Pakistan in this regard.

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

(AHMED SALAHUDDIN)
MD & Chief Executive Officer

Auditors' Report to the Members

We have audited the annexed financial statements comprising of:

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

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

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

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

In our opinion:

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

(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note 5.1 to the financial statements, with which we concur;

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

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

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Audit Engagement Partner: Arslan Khalid

Karachi : 19 February 2011

Balance Sheet
As at 31 December 2010

	Note	2010	2009
		(Rupees in thousand)	
Share capital and reserves			
Authorised share capital			
[50,000,000 (2009: 50,000,000)		**500,000**	500,000
Ordinary shares of Rs. 10/- each]			
Paid-up share capital	8	**350,000**	350,000
[35,000,000 (2009: 35,000,000)			
Ordinary shares of Rs. 10/- each]			
Accumulated loss		**(119,163)**	(124,190)
		230,837	225,810
Underwriting provisions			
Provision for outstanding claims (including IBNR)		**128,089**	121,053
Provision for premium deficiency		**1,301**	-
Provision for unearned premium		**220,972**	176,216
Commission income unearned		**23,138**	15,773
		373,500	313,042
Creditors and accruals			
Amounts due to other insurers / reinsurers		**228,581**	122,024
Sundry creditors and accruals	9	**80,993**	70,018
Unclaimed dividend		**195**	195
		309,769	192,237
Borrowings			
Obligation under musharakah agreement	10	**5,816**	-
TOTAL EQUITY AND LIABILITIES		**919,922**	731,089
Contingency	11		

	Note	2010	2009
		(Rupees in thousand)	
Cash and bank deposits	12		
Cash and other equivalent		**129**	190
Current and other accounts		**67,760**	45,820
Deposits maturing within 12 months		**150,000**	115,000
		217,889	161,010
Investments	13	**50,654**	45,118
Other assets			
Premiums due but unpaid	14	**248,161**	198,407
Amounts due from other insurers / reinsurers		**119,853**	91,844
Accrued interest		**9,858**	4,695
Reinsurance recoveries against outstanding claims		**53,713**	47,456
Taxation - payments less provision		**14,649**	12,135
Deferred commission expense		**20,621**	14,410
Deferred acquisition costs	16	**34,547**	28,033
Prepayments - prepaid reinsurance premium ceded		**136,772**	117,015
- others		**4,962**	7,883
		643,136	521,878
Fixed assets	15		
Tangible			
Furniture and fixture		**621**	1,148
Office equipment		**482**	896
Computer equipment		**1,221**	290
Motor vehicles		**5,559**	416
Intangible			
Computer software		**360**	333
		8,243	3,083
TOTAL ASSETS		**919,922**	731,089

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Rizwan Abbas**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Profit and Loss Account

For the year ended 31 December 2010

	Note	Fire and property	Marine, aviation and transport	Motor	Accident and health	Credit and surety ship	Miscellaneous	Aggregate 2010	Aggregate 2009
		(Rupees in thousand)							
Revenue account									
Net premium revenue		30,048	21,548	98,268	3,636	4,090	9,180	**166,770**	199,656
Net claims		(6,014)	(7,039)	(71,218)	(531)	-	(6,333)	**(91,135)**	(106,295)
Premium deficiency expense		-	(579)	-	(100)	(435)	(187)	**(1,301)**	-
		24,034	13,930	27,050	3,005	3,655	2,660	**74,334**	93,361
Management expenses	16	(17,677)	(17,107)	(17,087)	(10,210)	(8,240)	(9,096)	**(79,417)**	(85,118)
Net commission		2,664	5,449	(8,269)	5,346	2,261	2,522	**9,973**	2,699
		(15,013)	(11,658)	(25,356)	(4,864)	(5,979)	(6,574)	**(69,444)**	(82,419)
Underwriting results		9,021	2,272	1,694	(1,859)	(2,324)	(3,914)	**4,890**	10,942
Net investment income								**6,221**	7,901
Return on bank balances								**20,454**	19,435
Gain on disposal of fixed assets								**115**	8,447
Other income	20							**2,716**	-
								34,396	46,725
General and administrative expenses	17							**(28,788)**	(28,120)
Financial charges								**(178)**	(64)
Other charges	18							**(340)**	(1,687)
Profit before taxation								**5,090**	16,854
Taxation	19								
- Current								**(63)**	-
- Deferred								**-**	-
								(63)	-
Profit after taxation								**5,027**	16,854
Earnings per share - basic and diluted (Rupees)	21							**0.14**	0.48

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Rizwan Abbas**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Changes in Equity
For the year ended 31 December 2010

	Paid-up share capital	Accumulated loss	Total
		(Rupees in thousand)	
Balance as at 01 January 2009	350,000	(141,044)	208,956
Net profit for the year	-	16,854	16,854
Balance as at 31 December 2009	350,000	(124,190)	225,810
Net profit for the year	-	5,027	5,027
Balance as at 31 December 2010	**350,000**	**(119,163)**	**230,837**

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Rizwan Abbas**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

PICIC Insurance Limited

Statement of Cash Flows

For the year ended 31 December 2010

	2010	2009
	(Rupees in thousand)	
OPERATING ACTIVITIES		
(a) Underwriting activities		
Premiums received	**572,049**	467,062
Reinsurance premiums paid	**(349,173)**	(303,058)
Claims paid	**(188,207)**	(230,883)
Reinsurance and other recoveries received	**97,851**	104,616
Commission paid	**(51,986)**	(45,482)
Commission received	**54,110**	39,303
Net cash inflow from underwriting activities	**134,644**	31,558
(b) Other operating activities		
Income tax paid	**(2,577)**	(2,161)
General management expenses paid	**(96,790)**	(89,454)
Operating receipts - net	**9,073**	3,168
Bank charges	**(237)**	-
Net cash used in other operating activities	**(90,531)**	(88,447)
Total cash inflow / (used in) all operating activities	**44,113**	(56,889)
INVESTMENT ACTIVITIES		
Profit / return received	**15,291**	17,521
Dividend received	**629**	665
Payments for investments	**(69,998)**	(63,287)
Proceeds from redemption/disposal of investments	**70,053**	62,512
Proceeds from disposal of fixed assets	**161**	16,799
Fixed capital expenditure	**(2,322)**	(870)
Total cash inflow from investing activities	**13,814**	33,340
FINANCING ACTIVITIES		
Payments under musharakah agreement	**(1,048)**	(2,851)
Total cash used in financing activities	**(1,048)**	(2,851)
Net cash Inflow / (used in) from all activities	**56,879**	(26,400)
Cash at the beginning of the year	**161,010**	187,410
Cash at the end of the year	**217,889**	161,010
Reconciliation to profit and loss account		
Operating cash flows	**44,113**	(56,889)
Provision for Workers' Welfare Fund	**(103)**	(344)
Depreciation / amortization	**(3,800)**	(3,151)
Gain on sale of fixed assets	**115**	8,447
Financial charges	**(178)**	(64)
Investment income	**6,221**	7,901
Return on bank balances	**20,454**	19,435
Increase / (decrease) in assets other than cash	**93,823**	(12,322)
(Increase) / Decrease in liabilities	**(129,317)**	40,003
(Increase) / Decrease in unearned premium	**(26,301)**	13,838
Profit after taxation	**5,027**	16,854

Definition of cash

Cash comprises of cash in hand and at banks, stamps in hand and short term placements with banks

Cash for the purpose of statement of cash flows consists of:

	2010	2009
Cash and other equivalent		
- cash in hand	**-**	20
- stamps in hand	**129**	170
	129	190
Current and other accounts		
- current accounts	**12,950**	8,969
- saving accounts	**54,810**	36,851
	67,760	45,820
Deposits maturing within 12 months	**150,000**	115,000
	217,889	161,010

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Rizwan Abbas	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Premiums
For the year ended 31 December 2010

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve Opening	Unearned premium reserve Closing	Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded Opening	Prepaid reinsurance premium ceded Closing	Reinsurance expense	Net premium revenue 2010	Net premium revenue 2009
	(Rupees in thousand)									
Direct and facultative										
1. Fire and property	133,665	37,184	56,932	113,917	96,422	30,728	43,281	83,869	**30,048**	27,312
2. Marine, aviation and transport	112,361	31,329	33,047	110,643	88,712	28,527	28,144	89,095	**21,548**	27,316
3. Motor	136,498	48,375	76,997	107,876	24,250	2,499	17,141	9,608	**98,268**	105,756
4. Accident and health	36,382	40,930	14,591	62,721	33,581	39,532	14,028	59,085	**3,636**	23,037
5. Credit and surety ship	69,386	32	16,682	52,736	63,970	21	15,345	48,646	**4,090**	232
6. Miscellaneous	61,337	18,366	22,723	56,980	50,925	15,708	18,833	47,800	**9,180**	16,003
Total	**549,629**	**176,216**	**220,972**	**504,873**	**357,860**	**117,015**	**136,772**	**338,103**	**166,770**	199,656

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Rizwan Abbas	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Claims
For the year ended 31 December 2010

Business underwritten inside Pakistan

Class	Claims paid	Outstanding claims Opening	Outstanding claims Closing	Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims Opening	Reinsurance and other recoveries in respect of outstanding claims Closing	Reinsurance and other recoveries revenue	Net claims 2010	Net claims 2009
	(Rupees in thousand)									
Direct and facultative										
1. Fire and property	38,524	30,262	20,493	28,755	30,042	24,474	17,173	22,741	**6,014**	3,182
2. Marine, aviation and transport	22,008	11,654	10,047	20,401	13,872	6,895	6,385	13,362	**7,039**	8,676
3. Motor	66,443	57,677	65,255	74,021	1,094	707	2,416	2,803	**71,218**	64,043
4. Accident and health	39,154	1,829	9,144	46,469	36,794	-	9,144	45,938	**531**	21,686
5. Credit and surety ship	-	-	-	-	-	-	-	-	**-**	-
6. Miscellaneous	22,078	19,631	23,150	25,597	16,049	15,380	18,595	19,264	**6,333**	8,708
Total	**188,207**	**121,053**	**128,089**	**195,243**	**97,851**	**47,456**	**53,713**	**104,108**	**91,135**	106,295

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Rizwan Abbas**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Expenses
For the year ended 31 December 2010

Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expense	Commission from reinsurers	Net underwriting expense 2010	Net underwriting expense 2009
	(Rupees in thousand)								
Direct and facultative									
1. Fire and property	20,458	5,766	8,711	17,513	17,677	35,190	20,177	**15,013**	18,875
2. Marine, aviation and transport	11,474	2,166	2,473	11,167	17,107	28,274	16,616	**11,658**	14,851
3. Motor	10,839	4,543	6,280	9,102	17,087	26,189	833	**25,356**	29,948
4. Accident and health	809	489	267	1,031	10,210	11,241	6,377	**4,864**	8,111
5. Credit and surety ship	2,377	-	694	1,683	8,240	9,923	3,944	**5,979**	152
6. Miscellaneous	5,715	1,446	2,196	4,965	9,096	14,061	7,487	**6,574**	10,482
Total	**51,672**	**14,410**	**20,621**	**45,461**	**79,417**	**124,878**	**55,434**	**69,444**	82,419

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Rizwan Abbas	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Investment Income

For the year ended 31 December 2010

	2010	2009
	(Rupees in thousand)	
Income from investments classified as investments at fair value through profit and loss account		
Net (loss) / gain on sale / redemption of investments	**(78)**	1,008
Net unrealised gain on revaluation of investments	**1,218**	1,419
Dividend income	**629**	665
Return on government securities	**4,468**	4,906
	6,237	7,998
Investment related expenses	**(16)**	(97)
Net investment income	**6,221**	7,901

The annexed notes from 1 to 28 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Rizwan Abbas**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Notes to the Financial Statements
For the year ended 31 December 2010

1. STATUS AND NATURE OF BUSINESS

PICIC Insurance Limited (the Company) was incorporated on 23 April 2004 under the Companies Ordinance, 1984 as a public limited company and registered as non-life insurance company by the Securities and Exchange Commission of Pakistan (SECP) under the Insurance Ordinance, 2000. It is engaged in providing all classes of non-life insurance business. The Company is listed on Karachi, Lahore and Islamabad Stock Exchanges. The registered office of the Company is situated at Shaheen Complex, M.R. Kiyani Road, Karachi. The Company operates with 7 (2009: 8) branches in Pakistan.

2. BASIS OF PRESENTATION

These financial statements have been prepared on the format issued by the SECP through SEC (Insurance) Rules, 2002 vide SRO 938 dated 12 December 2002.

3. STATEMENT OF COMPLIANCE

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

The SECP has allowed the insurance companies to defer the application of International Accounting Standard (IAS) -39 "Financial Instruments: Recognition and Measurement" in respect of valuation of investments classified as available-for-sale. However, the Company has no investments in available-for-sale category as of the balance sheet date.

4. BASIS OF MEASUREMENT

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

5. SIGNIFICANT ACCOUNTING POLICIES

5.1 The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as follows:

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

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

IFRS 3 - Business Combinations (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IAS 39 - Financial Instruments: Recognition and Measurement - Eligible hedged items (Amendment)

IFRIC 17 - Distributions of Non-cash Assets to owners

In May 2008 and April 2009, the IASB issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

Issued in May 2008
IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations

Issued in April 2009

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

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

5.2 Underwriting provisions

Underwriting provisions in respect of the insurance contracts entered into by the Company are accounted for as under:

Provision for outstanding claims

The liability in respect of outstanding claims is based on the estimates of the claims intimated or assessed before the end of the accounting year. In addition, confirming to the requirements of the SEC (Insurance) Rules, 2002, a provision is made on an estimated basis for the claims which may have incurred in the current reporting period but have not been reported to the Company as of the balance sheet date (IBNR), after taking into consideration the expected recoveries and settlement costs. Any difference between the provision at the balance sheet date and settlements in the following years is included in the financial statements of that year.

Provision for unearned premium

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

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

- For other classes / line of business, by applying 1/24th method as allowed by the SEC (Insurance) Rules, 2002.

Premium deficiency reserve

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 for claims and other expenses expected to be incurred after balance sheet date in respect of unexpired policies in that class of business at the balance sheet date. The premium deficiency, if any, is recognized as an expense in the profit and loss account.

5.3 Creditors, accruals and provisions

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

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

5.4 Investments

All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the settlement date.

The investments (other than loans and receivables) of the Company, upon initial recognition, are classified as investment at fair value through profit and loss account, held-to-maturity or available-for-sale investments.

All investments, are initially measured at fair value plus investments other than those categorised as held for trading includes transaction costs associated with the investments. In case of investments classified as held for trading, transaction costs are expensed in the profit and loss account.

Investments at fair value through profit and loss account

These include held-for-trading investments and those designated under this category upon initial recognition. Subsequent to initial recognition, these are carried at fair value.

Held-to-maturity

These are securities with fixed or determinable payments and fixed maturity that the Company has a positive intent and ability to hold to maturity. Subsequent to initial recognition, these investments are measured at amortised cost less any accumulated impairment losses.

Available-for-sale

These are investments that do not fall under the other categories. Subsequent to initial recognition, these are stated at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of SEC (Insurance) Rules, 2002.

5.5 Reinsurance recoveries against outstanding claims

These are recognised as assets at the same time as the claims which gives rise to the right of recovery are recognised as liabilities and are measured at the amount expected to be recovered after considering an impairment in relation thereto.

5.6 Deferred commission expense and deferred acquisition costs

Commission and other acquisition costs incurred in obtaining and recording policies of insurance and re-insurance are deferred and recognized as an asset on acquisition of the related policies. Accordingly, these costs are charged to the profit and loss account as an expense based on pattern of recognition of related premium revenue.

5.7 Prepaid reinsurance

Reinsurance expense is recognised evenly in the period of indemnity. The portion of reinsurance contribution not recognised as an expense is shown as a prepayment.

5.8 Fixed assets

Owned assets

These are stated at cost less accumulated depreciation and any impairment in value. Maintenance and normal repairs are charged to income as and when incurred, whereas major renewals and replacements are capitalized.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Depreciation on additions is charged for the full year in which an asset is available for use and no depreciation is charged on the assets disposed off or retired during the year.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposal, if any, of assets are included in income currently.

Assets subject to finance lease

The assets under finance lease are recorded at an amount equal to fair value of the leased assets at inception of the lease or, if lower, at the present value of minimum lease payments. In calculating the present value of the minimum lease payments, the discount factor is the interest rate implicit in the lease.

Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on outstanding liability.

Depreciation is charged to income on leased assets applying the straight-line method on a basis similar to owned assets.

Intangible assets

Costs incurred on the acquisition of intangible assets are capitalized and are amortized over the useful life of the related assets on straight line basis.

Impairment

The carrying values of the Company's fixed assets are reviewed at each financial year end for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable.

5.9 Financial instruments

Financial assets and financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the contractual right to future cash flows from the asset expire or is transferred along with the risk and reward of ownership of the asset. Financial liabilities are de-recognised when obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on de-recognition of the financial asset and liabilities is recognised in the profit and loss account of the current period.

5.10 Off-setting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet, if the Company has a legally enforceable right to set-off and the Company intends either to settle the assets and liabilities on a net basis or to realize the asset and settle the liability simultaneously.

5.11 Revenue recognition

Premium income under a policy is recognized over the period of insurance from the date of inception of the policy to which it relates till its expiry.

Commission income is being taken to the profit and loss account, on a time proportionate basis, in accordance with the pattern of recognition of reinsurance premium to which they relate.

Administrative surcharge recovered by the Company from policy holders is included in income currently.

Return on bank balances and government securities is recognized on accrual basis.

Dividend income is recognized when the right to receive the dividend is established.

Gain/loss on sale/redemption of investments is included in profit and loss account in the period of sale/redemption.

5.12 Taxation

Current

Provision for current taxation is based on taxable income at the current rate of taxation after taking into account rebates and tax credits available, if any.

Deferred

Deferred tax is recognized using the liability method on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that the taxable profits will be available against which these can be utilized.

5.13 Staff benefits

Defined contribution plan

The Company operates an approved provident fund scheme for its permanent employees who have completed the minimum qualifying period of service. Equal monthly contributions to the fund are made both by the Company and employees at the rate of 10% of basic salary.

Defined benefit plan

The Company operates an approved funded gratuity scheme for all permanent employees who have completed minimum prescribed period of service under the scheme. Contributions are made to the scheme on the basis of independent actuarial valuation using Projected Unit Credit method.

Actuarial gain or loss is recognized as income or expense when the cumulative unrecognized actuarial gain or loss at the end of previous reporting period exceeds 10% of the higher of defined benefit obligation or the fair value of plan assets at that date. The gain or loss is recognized over the expected average remaining working lives of the employees participating in the plan.

Compensated absences

The Company accounts for the liability in respect of employees' compensated absences in the period in which they are earned.

5.14 Premiums due but unpaid

These are stated net of provision for impairment, if any.

5.15 Management expenses

These are allocated to various classes of business in proportion to the respective gross premium written for the year.

5.16 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recorded in the year in which these are approved.

5.17 Foreign currencies transactions

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

5.18 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its shareholders. 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, if any. There were no convertible dilutive potential ordinary shares in issue at 31 December 2010.

6. ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods.

The estimates and judgements that have a significant effect on the financial statements are in respect of the following:

	Note
Underwriting provisions	5.2
Classification of investments	5.4 & 13
Reinsurance recoveries against outstanding claims	5.5
Deferred acquisition costs	5.6 & 16
Useful lives of assets and methods of depreciation	5.8 & 15
Deferred taxation	5.12 & 19
Defined benefit plan	5.13 & 9.1

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

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

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

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

8. PAID-UP SHARE CAPITAL

As of the balance sheet date, 10,499,993 (2009: 10,499,993) ordinary shares were held by an associate of the Company.

9. SUNDRY CREDITORS AND ACCRUALS

	Note	2010	2009
		(Rupees in thousand)	
Commission payable		**37,954**	38,493
Federal excise duty payable		**14,317**	8,005
Federal insurance fee payable		**920**	506
Security deposits		**2,258**	3,408
Payable to gratuity fund	9.1	**15,053**	11,690
Provision for compensated absences		**3,348**	1,885
Accrued expenses		**2,822**	2,388
Others		**4,321**	3,643
		80,993	70,018

	2010	2009
	(Rupees in thousand)	
9.1 Payable to gratuity fund		
Opening balance	**11,690**	8,165
Charge for the year	**3,363**	3,525
Closing balance	**15,053**	11,690

The benefits under the gratuity scheme are payable on retirement at the age of sixty years or earlier cessation of service. The benefit is equal to one month's last basic salary drawn from each year of eligible service. The minimum qualifying period for eligibility under the plan is five years of continuous service.

Latest actuarial valuation of the gratuity fund was carried out at 31 December 2010. Following significant financial assumptions have been used:

	2010	2009
	(%)	
Valuation discount rate	**14**	14
Salary increase rate	**12**	12
Expected return on plan assets	**12.5**	13

	2010	2009
	(Rupees in thousand)	
Reconciliation of payable to gratuity fund		
Present value of defined benefit obligations	**12,719**	11,598
Fair value of plan assets	**(7,192)**	(6,365)
Unrecognised actuarial loss	**9,526**	6,457
	15,053	11,690
Movement in present value of defined benefit obligations		
Opening balance	**11,598**	9,315
Current service cost	**3,038**	3,323
Interest cost	**1,702**	1,397
Actuarial gain	**(3,619)**	(2,437)
Closing balance	**12,719**	11,598
Movement in fair value of plan assets		
Opening balance	**6,365**	5,748
Expected return on plan assets	**847**	862
Actuarial loss	**(20)**	(245)
Closing balance	**7,192**	6,365
Annual gain/(loss)		
Experience gain on obligations	**3,619**	2,437
Experience loss on plan assets	**20**	(245)
	3,639	2,192
Charge for the year		
Current service cost	**3,038**	3,323
Interest cost	**1,702**	1,397
Expected return on plan assets	**(847)**	(862)
Actuarial gain recognised	**(530)**	(333)
	3,363	3,525
Actual return on plan assets	**867**	1,107

Plan assets comprise the following:	2010		2009	
	(Rupees in thousand)	%	(Rupees in thousand)	%
Term deposit receipts	**7,192**	**100**	**6,365**	**100**

	2010	2009	2008
	(Rupees in thousand)		
Historical information			
Present value of defined benefit obligations	**(12,719)**	(11,598)	(9,315)
Fair value of plan assets	**7,192**	6,365	5,748
Deficit	**(5,527)**	(5,233)	(3,567)

10. OBLIGATION UNDER MUSHARAKAH AGREEMENT

	2010	2009
	(Rupees in thousand)	
Obligation under Musharakah agreement	5,816	-

10.1 The Company has entered into a Musharakah agreement with a Modaraba for purchase of vehicles. The share of Modaraba in the Musharakah asset is payable in monthly installments and mark up rates on this arrangement ranges from 17.83% to 18% per annum.

11. CONTINGENCY

The tax assessment of the Company has been finalised upto and including the tax year 2010. The tax returns filed are to be taken as deemed assessment in terms of Section 120 of the Income Tax Ordinance, 2001. However, while finalising the tax audit for the tax year 2007, the Taxation Officer has disallowed certain expenses claimed by the Company and raised a demand of Rs. 3.17 million. The Company has filed an appeal before the Commissioner of Income Tax (Appeals) against the impugned order which is pending adjudication. The management, based on the advice of its tax advisor, is confident of a favourable outcome and accordingly, no provision in this respect has been made in these financial statements.

12. CASH AND BANK DEPOSITS

	Note	2010	2009
		(Rupees in thousand)	
Cash and other equivalent			
- cash in hand		-	20
- stamps in hand		129	170
		129	190
Current and other accounts			
- current accounts	12.1	12,950	8,969
- saving accounts	12.2	54,810	36,851
		67,760	45,820
Deposits maturing within 12 months	12.3	150,000	115,000
		217,889	161,010

12.1 Includes balance of Rs. 12.93 (2009: Rs. 8.3) million with a commerical bank (related party).

12.2 These carry interest rates ranging from 9% to 11 % (2009: 9% to 11 %) per annum and include balance of Rs. 54.79 (2009: Rs. 36.83) million with a commerical bank (related party).

12.3 Represent term deposits with a commercial bank carrying interest rates ranging from 11% to 13% (2009: 11.25% to 15%) per annum and will mature by April 2011.

13. INVESTMENTS - designated at fair value through profit and loss account

	Note	2010	2009
		(Rupees in thousand)	
Mutual funds	13.1	**207**	197
Listed shares	13.2	**13,677**	10,251
Government Securities	13.3	**36,770**	34,670
		50,654	45,118

13.1 Mutual funds

2010	2009			
No. of Units		Name of Entity		
65,587	65,587	Golden Arrow Fund - closed end	**207**	197

13.2 Listed shares

No. of shares				
-	896	Arif Habib Bank Limited	**-**	6
9,375	9,377	Arif Habib Securities Limited	**233**	462
35,000	-	Azgard Nine Limited	**339**	-
2,812	-	Fatima Fertilizer Company Limited	**32**	-
15,000	15,000	GlaxoSmithKline Limited	**1,323**	1,639
11,000	9,997	Habib Bank Limited	**1,342**	1,234
5,000	-	MCB Bank Limited	**1,142**	-
10,000	5,002	National Bank of Pakistan	**769**	372
10,000	10,000	Nishat Mills Limited	**641**	699
10,000	10,000	Oil and Gas Development Company Limited	**1,708**	1,106
26,400	22,000	Pakistan Petroleum Limited	**5,732**	4,171
2,000	2,000	Shell Pakistan Limited	**416**	501
-	12,424	The Bank of Khyber Limited	**-**	61
			13,677	10,251

13.3 Government Securities - Market treasury bills

These securities are deposited with the State Bank of Pakistan in compliance with the requirements of section 29 of the Insurance Ordinance, 2000. These carry rate of return of 12.78% (2009: 14% per annum) per annum and will mature in August 2011.

14. PREMIUMS DUE BUT UNPAID - unsecured

	Note	2010	2009
Considered good	14.1	**248,161**	198,407
Considered doubtful		**25,910**	25,910
		274,071	224,317
Provision for doubtful recovery		**(25,910)**	(25,910)
		248,161	198,407

14.1 Includes a sum of Rs.11.4 (2009: Rs.6.61) million due from related parties.

15. FIXED ASSETS

Description	Cost				Accumulated depreciation / amortization				Written down value	
	At the beginning of the year	Additions	Disposals	At the end of the year	At the beginning of the year	Charge for the year	Disposals	At the end of the year	At the end of the year	Rate (%)
	(Rupees in thousand)									
Tangible-Owned										
Furniture and fixture	**7,709**	**-**	**(331)**	**7,378**	**6,561**	**498**	**(302)**	**6,757**	**621**	**20**
Office equipment	**4,244**	**178**	**(14)**	**4,408**	**3,348**	**590**	**(12)**	**3,926**	**482**	**20**
Computer equipment	**6,739**	**1,815**	**(446)**	**8,108**	**6,450**	**883**	**(446)**	**6,887**	**1,221**	**33.33**
Motor vehicles	**4,782**	**39**	**(187)**	**4,634**	**4,366**	**229**	**(172)**	**4,423**	**211**	**20**
	23,474	**2,032**	**(978)**	**24,528**	**20,725**	**2,200**	**(932)**	**21,993**	**2,535**	
Tangible-Under Musharakah agreement										
Motor vehicles	**-**	**6,685**	**-**	**6,685**	**-**	**1,337**	**-**	**1,337**	**5,348**	**20**
	23,474	**8,717**	**(978)**	**31,213**	**20,725**	**3,537**	**(932)**	**23,330**	**7,883**	
Intangible										
Computer software	**4,000**	**290**	**-**	**4,290**	**3,667**	**263**	**-**	**3,930**	**360**	**33.33**
2010	**27,474**	**9,007**	**(978)**	**35,503**	**24,392**	**3,800**	**(932)**	**27,260**	**8,243**	

Description	Cost				Accumulated depreciation / amortization				Written down value	
	At the beginning of the year	Additions/ transfers*	Disposals	At the end of the year	At the beginning of the year	Charge for the year/ transfers*	Disposals	At the end of the year	At the end of the year	Rate (%)
	(Rupees in thousand)									
Tangible-Owned										
Furniture and fixture	8,858	316	(1,465)	7,709	6,491	938	(868)	6,561	1,148	20
Office equipment	4,782	8	(546)	4,244	2,896	732	(280)	3,348	896	20
Computer equipment	7,689	46	(996)	6,739	6,544	811	(906)	6,449	290	33.33
Motor vehicles	11,524	16,882 *	(23,624)	4,782	6,168	14,423 *	(16,225)	4,366	416	20
	32,853	17,252	(26,631)	23,474	22,099	16,904	(18,279)	20,724	2,750	
Tangible-Leased										
Motor vehicles	16,882	(16,882) *	-	-	13,920	(13,920) *	-	-	-	20
Intangible										
Computer software	3,500	500	-	4,000	3,500	167	-	3,667	333	33.33
2009	53,235	870	(26,631)	27,474	39,519	3,151	(18,279)	24,391	3,083	

15.1 The depreciation / amortization charge for the year has been allocated as follows:

	Note	2010	2009
		(Rupees in thousand)	
Management expenses	16	**3,091**	2,163
General and administrative expenses	17	**709**	988
		3,800	3,151

15.2 These include assets costing Rs. 21.1 (2009: 19.6) million that are fully depreciated and are still in use.

15.3 There are no disposals of fixed assets during the year having written down value of more than Rs. 50,000.

		Note	2010	2009
			(Rupees in thousand)	
16.	**MANAGEMENT EXPENSES**			
	Salaries, wages and other benefits	16.1	**64,889**	55,139
	Rent, rates and taxes		**5,542**	4,805
	Depreciation/amortization	15.1	**3,091**	2,163
	Utilities		**2,161**	2,191
	Repairs and maintenance		**1,299**	933
	Travelling and conveyance		**1,721**	2,500
	Printing and stationery		**746**	752
	Entertainment		**597**	563
	Vehicle running expenses		**1,145**	2,021
	Advertisement		**421**	2,063
	Computer charges		**806**	1,095
	Communication		**2,087**	2,924
	Survey Fee		**757**	252
	Others		**669**	90
			85,931	77,491
	Add: Opening deferred acquisition costs		**28,033**	35,660
			113,964	113,151
	Less: Closing deferred acquisition costs		**34,547**	28,033
			79,417	85,118

16.1 Include staff retirements benefits amounting to Rs.5.9 (2009: Rs. 5.6) million.

		Note	2010	2009
17.	**GENERAL AND ADMINISTRATIVE EXPENSES**			
	Salaries, wages and other benefits	17.1	**15,546**	14,645
	Rent, rates and taxes		**3,377**	3,427
	Utilities		**1,326**	1,666
	Repairs and maintenance		**303**	324
	General office expenses		**1,064**	838
	Vehicle running expenses		**182**	446
	Advertisement		**90**	77
	Computer charges		**454**	725
	Communication		**54**	68
	Books and periodicals		**840**	678
	Depreciation / amortization	15.1	**709**	988
	Auditors' remuneration	17.2	**775**	691
	Legal and professional charges		**3,335**	3,389
	Others		**733**	158
			28,788	28,120

17.1 Include staff retirements benefits amounting to Rs. 0.6 (2009: Rs. 0.6) million.

		2010	2009
17.2	**Auditors' remuneration**		
	Audit fee	**350**	300
	Review and certifications	**325**	297
	Out of pocket expenses	**100**	94
		775	691
18.	**OTHER CHARGES**		
	Contribution to Workers' Welfare Fund	**103**	344
	Exchange loss	**-**	1,054
	Bank charges	**237**	289
		340	1,687

19. TAXATION

19.1 In view of the tax loss for the year, no provision for current taxation has been made in the financial statements, except for the tax charge in respect of final tax liability against dividend incom

19.2 The Company has an aggregate tax losses of Rs. 116.1 (2009: Rs. 156.86) million as at 31 December 2010. The deferred tax asset on tax losses and other temporary differences between accounting and tax profit / loss works out to be Rs. 47.007 (2009: Rs. 54.9) million which has not been recognized in the financial statements in accordance with the accounting policy as mentioned in note 5.12.

		2010	2009
20.	**OTHER INCOME**		
	Exchange gain	**239**	-
	Service income from co-insurer arrangements	**2,477**	-
		2,716	-
21.	**EARNINGS PER SHARE - basic and diluted**		
	Profit after taxation (Rupees in thousand)	**5,027**	16,854
	Weighted average number of ordinary shares outstanding during the year	**35,000**	35,000
	Earnings per share - basic and diluted (Rupees)	**0.14**	0.48

22. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

22.1 Aggregate amounts charged in the financial statements for remuneration, including all benefits to the Chief Executive officer, Directors, and Executives of the Company are as follows:

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees in thousand)			(Rupees in thousand)		
Fees	-	-	-	-	-	-
Managerial remuneration	**9,056**	-	**27,046**	8,233	-	21,754
Housing and utilities	**152**	-	**77**	110	-	-
Medical expenses	**183**	-	**366**	57	-	369
Others	**183**	-	**163**	296	-	134
	9,574	-	**27,652**	8,696	-	22,257
Number of persons	**1**	**7**	**11**	1	7	13

22.2 The Chief Executive Officer and some Executives are also provided with Company maintained cars.

23. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of associates entities having directors in common, major shareholders, directors and key management personnel. The transactions with related parties, other than remuneration of key management personnel (which is disclosed in note 22.1) are as follows:

Transactions	2010	2009
	(Rupees in thousand)	
Premium written	**18,717**	15,526
Claims paid	**2,686**	-
Return on bank balances	**4,665**	8,053
Rent expenses	**-**	80
Bank charges	**163**	285
Lease payments	**-**	2,851
Contributaion for staff provident fund	**2,935**	2,715

Balances with related parties have been disclosed in respective notes to the financial statements.

24. SEGMENT REPORTING

24.1 The Company's business is organized and managed separately according to the nature of services provided with the following segments:

- Fire and property insurance provides coverage against damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation
- Marine, aviation and transport insurance provides coverage against cargo risk, war risk, damages occurring in inland transit and other related perils.
- Motor insurance provides comprehensive car coverage, indemnity against third party loss and other related coverages.
- Accident and health insurance provides coverage against personal accident, hospitalization and other medical benefits.
- Credit and surety ship insurance provides coverage against failure of fulfillment of guarantees by policy holders or default on receipt of debts due.
- Miscellaneous insurance provides coverage against burglary, loss of cash in safe and cash in transit, engineering losses, travel and other coverage.

24.2 Segment results

	Fire and property		Marine, aviation and transport		Motor		Accident and health		Credit and surety ship		Miscellaneous		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees in thousand)													
Net premium revenue	**30,048**	27,312	**21,548**	27,316	**98,268**	105,756	**3,636**	23,037	**4,090**	232	**9,180**	16,003	**166,770**	199,656
Net claims	**(6,014)**	(3,182)	**(7,039)**	(8,676)	**(71,218)**	(64,043)	**(531)**	(21,686)	**-**	-	**(6,333)**	(8,708)	**(91,135)**	(106,295)
Premium deficiency expense	**-**	-	**(579)**	-	**-**	-	**(100)**	-	**(435)**	-	**(187)**	-	**(1,301)**	-
	24,034	24,130	**13,930**	18,640	**27,050**	41,713	**3,005**	1,351	**3,655**	232	**2,660**	7,295	**74,334**	93,361
Management expenses	**(17,677)**	(24,027)	**(17,107)**	(16,707)	**(17,087)**	(20,094)	**(10,210)**	(10,098)	**(8,240)**	(203)	**(9,096)**	(13,989)	**(79,417)**	(85,118)
Net commission	**2,664**	5,152	**5,449**	1,856	**(8,269)**	(9,854)	**5,346**	1,987	**2,261**	51	**2,522**	3,507	**9,973**	2,699
	(15,013)	(18,875)	(11,658)	(14,851)	**(25,356)**	(29,948)	**(4,864)**	(8,111)	**(5,979)**	(152)	**(6,574)**	(10,482)	**(69,444)**	(82,419)
Segment results	**9,021**	5,255	**2,272**	3,789	**1,694**	11,765	**(1,859)**	(6,760)	**(2,324)**	80	**(3,914)**	(3,187)	**4,890**	10,942
Net investment income													**6,221**	7,901
Return on bank balances													**20,454**	19,435
Gain on disposal of fixed assets													**115**	8,447
Other income													**2,716**	-
													34,396	46,725
General and administrative expenses													**(28,788)**	(28,120)
Financial charges													**(178)**	(64)
Other charges													**(340)**	(1,687)
Profit before taxation													**5,090**	16,854

24.3 Other information

	Fire and property		Marine, aviation and transport		Motor		Accident and health		Credit and Surety ship		Miscellaneous		Unallocated		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees in thousand)															
Segment assets	**184,244**	**195,930**	**87,015**	70,557	**156,652**	81,290	**35,331**	62,741	**19,312**	523	**131,113**	86,123	**-**	-	**613,667**	497,164
Unallocated corporate assets	-	-		-	-	-	-	-	-	-	-	-	**306,255**	233,925	**306,255**	233,925
Consolidated total assets															**919,922**	731,089
Segment liabilities	**203,071**	**123,821**	**106,828**	87,896	**174,257**	140,581	**26,252**	44,899	**18,711**	106	**110,916**	76,256	-	-	**640,035**	473,559
Unallocated corporate liabilitie	-	-	-	-	-	-	-	-	-	-	-	-	**49,050**	31,720	**49,050**	31,720
Consolidated total liabilities															**689,085**	505,279

25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying values and the fair value estimates. The fair values of all the financial assets and liabilities are estimated to be not significantly different from their carrying values.

26. RISK MANAGEMENT

26.1 Risk management framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives. Key management recognises the critical importance of having efficient and effective risk management systems in place. The Board of Directors of the Company supervises the overall risk management approach within the Company. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board to Executive Management Committees and senior managers.

26.2 Insurance and financial risks

26.2.1 Insurance risks

The Company mainly issues the following types of insurance contracts:

- Fire and property
- Marine, aviation and transport
- Motor
- Accident and health
- Credit and surety ship

These contracts are normally one year insurance contracts except marine contracts which are generally for a period of 3 to 6 months.

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or timing thereof, differ from expectations. This is influenced by frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

Such risk exposure is mitigated by diversification across a large portfolio of insurance contracts and careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Strict claim review policies to assess all new and ongoing claims and regular detailed review of claims handling procedures are also put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future development.

The Company's class wise risk exposure (based on maximum loss coverage in a single policy) is as follows:

	2010		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	**1,932,000**	**1,908,000**	**24,000**
Marine, aviation and transport	**3,074,000**	**3,036,000**	**38,000**
Motor	**12,312**	**10,612**	**1,700**
Miscellaneous	**2,049,000**	**2,046,500**	**2,500**
	7,067,312	**7,001,112**	**66,200**

	2009		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	3,454,000	3,424,000	30,000
Marine, aviation and transport	2,952,000	2,915,000	37,000
Motor	13,850	12,150	1,700
Miscellaneous	1,968,000	1,966,000	2,000
	8,387,850	8,317,150	70,700

The table below sets out the concentration of insurance contract liabilities by type of contract:

	2010		
	Gross liabilities	Gross assets	Net liabilities / (assets)
	(Rupees in thousand)		
Fire and property	**203,078**	**175,342**	**27,736**
Marine, aviation and transport	**106,828**	**81,848**	**24,980**
Motor	**174,257**	**144,614**	**29,643**
Accident and health	**26,252**	**33,051**	**(6,799)**
Credit and surety ship	**18,711**	**16,704**	**2,007**
Miscellaneous	**110,909**	**127,561**	**(16,652)**
	640,035	**579,120**	**60,915**

	2009		
	Gross liabilities	Gross assets	Net liabilities / (assets)
	(Rupees in thousand)		
Fire and property	123,821	190,014	(66,193)
Marine, aviation and transport	87,896	65,573	22,323
Motor	140,581	73,595	66,986
Accident and health	44,899	56,230	(11,331)
Miscellaneous	76,362	83,719	(7,357)
	473,559	469,131	4,428

Uncertainty in the estimation of future claims payment

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events that occur during the term of the insurance contract.

An estimated amount of the claim is recorded immediately on the intimation to the Company. The estimation of the amount is based on the amount notified by the policy holder, management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. For the estimation of provision of claims incurred but not reported (IBNR), the Company uses historical experience factor based on analysis of the past years claim reporting pattern.

There are several variable factors which affect the amount and timing of recognized claim liabilities. However, the management considers that uncertainty about the amount and timing of claim payments is generally resolved within a year. The Company takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from recognized amounts.

Key assumptions

The principal assumption underlying the liability estimation of IBNR and premium deficiency reserve is that the Company's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

Sensitivities

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, some results of sensitivity testing are set out below:

	Effect of 10% increase in claims		Effect of 10% decrease in claims	
	Revenue account	Equity	Revenue account	Equity
	(Rupees in thousand)			
Fire and property	**(599)**	**(599)**	**599**	**599**
Marine, aviation and transport	**(696)**	**(696)**	**696**	**696**
Motor	**(7,229)**	**(7,229)**	**7,229**	**7,229**
Accident and health	**(53)**	**(53)**	**53**	**53**
Miscellaneous	**(670)**	**(670)**	**670**	**670**
	(9,247)	**(9,247)**	**9,247**	**9,247**

26.2.2 Financial risk

(i) Market risk

Market risk is the risk that the fair value or future cashflows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and market prices.

(a) Interest rate risk

Interest rate risk is the risk of changes in interest rates reducing the overall return on interest bearing assets. The Company is exposed to interest risk in respect of bank deposits and Government Securities. Management of the Company estimates that 1% increase in market interest rate, with all other factors remaining constant, would increase the Company's profit by Rs. 2.15 million and a 1% decrease would result in a decrease in the Company's profit by the same amount. However, in practice, the actual results may differ from the sensitivity analysis.

(b) Foreign currency risk

Currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates. Foreign exchange risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As of the balance sheet date, the Company do not have material assets or liabilities which are exposed to foreign currency risk.

(c) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company manages its exposure to such risks by maintaining a diversified portfolio of investments.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. To guard against the risk, the Company maintains balance of cash and cash equivalent and readily marketable securities. The maturity profile of assets and liabilities are also monitored to ensure adequate liquidity is maintained. All financial liabilities of the Company are short term in nature.

(iii) Credit risk

Credit risk is the risk which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Credit risk also arises in respect of reinsurance contracts as reinsurance ceded do not relieve the Company from its obligation to policy holders and as a result the Company remains liable for the portion of outstanding claims ceded to the extent that reinsurance operator fails to meet the obligation under the reinsurance arrangements. The Company attempts to control credit risk by monitoring credit exposures and continually assessing the credit worthiness of counterparties. The table below analyses the Company's maximum exposure to credit risk:

	2010	2009
	(Rupees in thousand)	
Bank deposits	**217,760**	160,820
Premiums due but unpaid	**248,161**	198,407
Amounts due from other insurers / reinsurers*	**119,853**	91,844
Accrued interest	**9,858**	4,695
Reinsurance recoveries against outstanding claims*	**53,713**	47,456
	649,345	503,222

* An analysis of all reinsurance assets recognised by the rating of the entity from which it is due is as follows:

	2010		2009	
Rating	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Amount due from reinsurers	Reinsurance recoveries against outstanding claims
	(Rupees in thousand)			
A or above	9,180	39,837	9,728	39,180
BBB	3,074	4,732	8,622	-
Other	-	9,144	-	-
	12,254	53,713	18,350	39,180

Amount due from Co-insurers	2010	2009
	(Rupees in thousand)	
A or above	**106,680**	72,886
BBB	**919**	608
	107,599	73,494

The age analysis of premiums due but unpaid is as follows:

Upto 1 year	**212,069**	152,172
1 - 2 years	**23,956**	41,393
Over 2 years [includes Rs. 25.901 (2009: Rs. 25.901) million considered impaired]	**38,046**	30,752
	274,071	224,317

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets is subject to credit risk is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

The table below analyses the concentration of credit risk by industrial distribution:

	2010	2009
	(%)	
Textile	**24.30**	31.78
Transport	**9.25**	13.41
Financial institutions	**8.77**	9.90
Hotel	**7.72**	8.50
Power	**1.47**	1.10
Oil and gas	**1.62**	1.06
Others	**46.87**	34.25
	100	100

26.3 Capital management

Capital requirements applicable to the Company are set and regulated by the SECP. These requirements are put in place to ensure sufficient paid up capital and solvency margins. The Company manages its capital requirement by assessing its capital structure against the required capital level on a regular basis. Currently, the Company has paid-up capital of Rs. 350 million against the minimum required paid-up capital of Rs.250 million set by the SECP for the insurance companies for the year ended 31 December 2010.

27. GENERAL

27.1 Figures have been rounded off to the nearest thousand rupees.

27.2 Prior year's figures have been reclassified, wherever necessary, for the purposes of comparison. However such reclassifications were not material.

28. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors on 19 February 2011.

Mohammed Basheer Janmohammed	Yameen Kerai	Rizwan Abbas	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Notice of Annual General Meeting

Notice is hereby given that the Seventh Annual General Meeting of the Company will be held at the Institute of Chartered Accountants of Pakistan (ICAP) Auditorium, Chartered Accountants Avenue, Near Teen Talwar, Clifton, Karachi on Tuesday 05 April 2011 at 11 AM to transact the following business:

Ordinary Business

1. To confirm the Minutes of the sixth Annual General Meeting held on 15 April 2010.

2. To receive and adopt the audited Financial Statements for the year ended 31 December 2010, together with Directors' Report and Auditors' Report thereon.

3. To appoint auditors for the year 2011 and to fix their remuneration. All listed companies are required to change their external auditors every five years as per clause xli of the Code of Corporate Governance under Listing Regulations of Stock Exchanges. M/s. Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants have been auditors of the Company for a period of five years. The Board, on the recommendation of the Audit Committee of the Company has proposed the appointment of M/s. A.F.Ferguson & Co., Chartered Accountants, as auditors for the year 2011. A notice has been received from a member under section 253 of the Companies Ordinance, 1984 proposing to appoint audit firm namely M/s A.F.Ferguson & Co., Chartered Accountants.

4. To elect Directors of the Company for a period of three years under Section 178 of the Companies Ordinance, 1984. The number of elected Directors of the Company fixed by the Board of Directors is eight (8). Following are the names of the retiring directors:

    1. Mr. Mohammed Basheer Janmohammed
    2. Mr. Muhammad Rafiq Tumbi
    3. Mr. Yameen Kerai
    4. Mr. Shahid Sattar
    5. Mr. Rizwan Abbas
    6. Mr. Muhammad Riaz
    7. Mr. Ahmed Salahuddin

5. Any other matter with the permission of Chairman.

By Order of the Board

Muhammad Haneed
Company Secretary

Karachi: 11 March 2011

Notes:

1. Any person who seeks to contest the election of director shall file with the Company at its Registered Office not later than fourteen days before the date of the meeting his / her intention to offer himself / herself for the election of directors in terms of Section 178(3) of the Companies Ordinance, 1984 together with:

   a) Consent to act as a director on Form 28

   A declaration with consent to act as director in the prescribed form under clause (ii) of the Code of Corporate Governance to the effect that he / she is aware of duties and powers of directors under the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the Memorandum and Articles of Association of the Company and the listing regulations of the Stock Exchanges in Pakistan and has read the provisions contained therein.

   b) A declaration in terms of clause (iii), (iv) and (v) of the Code of Corporate Governance to the effect that:

      i) He / she is not serving as a director of more than ten other listed companies.

      ii) His / her name is borne in the register of national tax payers (except where he / she is a non - resident).

      iii) He / she has not been convinced by a court of competent jurisdiction as defaulter in payment of any loan to a banking company, a development financial institution or a non - banking financial institution.

      iv) He / she and his / her spouse are not engaged in the business of stock brokerage.

2. a) The share transfer books of the Company will remain closed from 30 March 2011 to 05 April 2011 (both days inclusive).

   b) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another member as a proxy to attend and vote instead of him / her. A corporation or a company being a member of the Company, may appoint any of its officers, though not a member of the Company.

   c) The instrument appointing a proxy must be received at the Registered Office of the Company situated at 8th Floor, Shaheen Complex, M.R.Kayani Road, Karachi not later than 48 hours before the time appointed for the Meeting. A member shall not be entitled to appoint more than one proxy. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with Company, all such instruments of proxy shall be rendered invalid.

   d) CDC shareholders are requested to bring with them their original National Identity Card or original Passport along with the Participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate identification of the respective account holders.

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

4. Form of Proxy is enclosed herewith.

Branch Network	Branch Head / Incharge	Details
Karachi Corporate Branch	Mr. Aseem Ahmed	Suit No.E-1,Executive Floor, Glass Tower, Main Clifton Road, Karachi. TEL : 021-3565 3394-5,3565 5612-3 & 3563 9712 FAX : 021-3565 4764
Lahore Branch	Mr. Nadeem Quraishi	House # 13/C, Block - K Main Boulevard, Gulberg - II,Lahore. TEL : 042-3575 4154 - 4155 & 4166 FAX : 042-3575 4167
Islamabad Branch	Mr. Muhammed Iftikhar Awan	Office # 16, 4th Floor Malik Complex, 80-West Jinnah Avenue, Blue Area, Islamabad. Tel : 051-287 0613-14, 227 1974, 287 6452 & 287 7020 Fax : 051-287 0621
Multan Branch	Mr. Muhammed Waheed Zafar	Ground floor, Commercial Plaza No. 1 Opp.Civil Hospital, Multan TEL : 061-458 9398 - 99 & 458 6665 FAX : 061-458 5896
Faisalabad Branch	Mr. Sajjad Ali	Ahmed Plaza, 4th Floor Civil Line, Bilal Road Faisalabad. Tel : 041-254 0420-22 Fax : 041-554 0423
Sukkur Branch	Mr. Muhammed Jamshed	Bunder Road, Upper Utility Store, Chacher House Sukkur. Tel : 071-562 7263 Fax : 071-562 7283

Proxy Form

Annual General Meeting

I/We ____

of ____

a member/members of PICIC Insurance Limited and holder of ______________________________

share(s) as per Registered Folio No. ______________________________ do hereby appoint

______________________ of ______________________ who is a member/non member of

the Company vide Registered Folio No. ______________________________ (or failing him/her

______________________ of ______________________ who is a member/non member of

the Company vide Registered Folio No. ______________________________)

as my/our Proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Tuesday the 05 April 2011 at 11 A.M. and that at any adjournment thereof.

As withees my/our hand this ______________ day of ______________________

2011 in the presence of (Name. Address and NIC Number).

Signature of witness.

Signed by the said member

Please affix here rupee five revenue stamp

Note: A member entitled to attend and vote at this meeting may appoint another member/non member as his/her proxy to attend, speak and vote on his/her behalf at the meeting. Proxies, in order to be valid, must be complete in all respect and be received by Shares Registrar of the Company, FAMCO Associates (Pvt.) Ltd., State Life Building 1-A, 1st Floor I.I. Chundrigar Road, Karachi, not later than 48 hours before the meeting.