Contents

Company Information

Board of Directors	Mr. Mohammed Basheer Janmohammed (Chairman) Mr. Yameen Kerai Mr. Tufail Jawed Ahmad Mr. Rizwan Abbas Mr. Muhammad Riaz Mr. Tariq Iqbal Khan Mr. Ghulam Muhammad
Managing Director & Chief Executive Officer	Mr. Ahmed Salahuddin
Board Audit Committee	Mr. Yameen Kerai Mr. Ghulam Muhammad Mr. Rizwan Abbas Mr. Muhammad Riaz
CFO & Company Secretary	Mr. Muhammad Haneed
Auditors	A.F. Ferguson & Co. 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	Triple B Plus "BBB+" by JCR-VIS
Registered & Head Office	8th Floor, Shaheen Complex, M.R. Kayani Road, Karachi Tel # (92-213) 2219555-60 Fax # (92-213) 2219561

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.

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.

Code of Conduct

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 would like to present the annual report together with the audited financial statements of PICIC Insurance Limited (PIL) for the year ended December 31, 2012.

Message from the Chairman

The financial year 2012 was another challenging year for the Company. The major challenge that we have been facing year after year is the increasing competition in the market. Over the past five years or so the growth in premium volume has been the ultimate target for many of our competitors that eventually have led to deterioration in the risk commensurate underwriting. In this competitive environment we had to give up business that is no longer profitable and have therefore consciously accepted reduction in some areas of the operation necessitated by the current state of the market. Simultaneously, we have been adaptive to the rapidly changing environment by exercising some flexibility to the market's emerging demands. We remained committed to providing our services to our long term clients, who we truly see as business partners, which have demonstrated discipline coupled with fairness and to areas of operation where rates are still commensurate to risks. We see this approach to be absolutely right as it has proved to be the path which is helping the Company to achieve the main object of long term profitability.

Economy and Regulatory changes

Pakistan's economy recovered modestly from severe floods a year earlier. The rate of GDP growth had an effect on the growth of service sector yet the total size of the sector grew slightly. Energy shortages intensified during the year, seriously crimping large scale manufacturing. The country's sustained double digit inflation reflects the government's heavy borrowing from the State Bank of Pakistan to finance large budgetary spending and excessive deficits. The ongoing financial crisis in Pakistan is continuing to affect underwriting in all classes of business. Consequently in 2012 there was further softening in premium rates and tightening of terms and conditions. At the same time, due to continue deterioration in law and order situation in the country the terms and conditions in the reinsurance market have begun to tighten as well.

Corporate Social Responsibility

PIL is fully committed to the concept of Corporate Social Responsibility and fulfills this responsibility by engaging in a wide range of activities which include:

- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and "No Smoking Zone", and providing a safe and healthy work environment;
- business ethics, requiring all staff members to comply with the Company's "Code of Conduct";
- amicable staff relations, recognition of merit and performance, and ongoing opportunities for learning and growth of staff, both on the job training and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc;
- pays to employees a remuneration that enables them to meet their needs and provides employees the opportunity to improve their skills and capabilities;
- respects employees' freedom of association.

Financial Highlights

The comparative financial highlights of PIL for the year ended December 31, 2012 are as follows:

	2012	2011	Variance
	(Rupees in thousand)		%
Gross Premium Written	594,296	694,665	(14.4)
Net Premium Revenue	322,840	224,914	43.5
Net Claims including IBNR	(211,887)	(143,668)	47.5
Premium Deficiency (expense) / reversal	(1,322)	489	(370.0)
Management Expenses charged to Revenue Accounts	(123,571)	(84,735)	45.8
Net Commission earned	2,185	22,981	(90.5)
(Loss) / profit from underwriting business	(11,755)	19,981	(158.8)
Investment Income	39,428	28,277	39.4
Gain on disposal of fixed assets	488	709	(31.2)
Other income	1,435	7,408	(80.6)
Other expenses	(54,257)	(47,951)	13.2
(Loss) / profit before Taxation	(24,661)	8,424	(392.7)
Taxation	(660)	3,346	(119.7)
(Loss) / profit after Taxation	(25,321)	11,770	(315.1)
(Loss) / earnings per share (Rupees)	(0.72)	0.34	

Performance Review

The gross premium written for the year was Rs.594 million as compared to Rs.695 million for the corresponding year as some non profitable business has been discontinued. The net premium revenue for the year was Rs.323 million against Rs.225 million in the corresponding year, which is 43% higher than in the corresponding year. This was due to higher gross premium written during Q4 2011 as well as higher growth in classes of business where the Company has a higher retention. During the year ended December 31, 2012, the Company experienced increases in both the quantum and frequency of losses. The Company also saw an increase in the incidence of Motor theft claims during the year ended December 31, 2012 as a consequence of the deteriorating law and order situation. Underwriting guidelines have been tightened and rates on selected high risk vehicles increased. The net commission for the period has decreased to Rs.2 million as compared to Rs.23 million for the corresponding year. The Company discontinued allocating certain expenses to deferred acquisition cost and has also changed the allocation percentage of certain other management expenses resulting in an increase in the current charge. This change is explained in detail in Note 15 to the financial statements for the year ended December 31, 2012. Total expenses in the current period are Rs.178 million as against Rs.133 million in last year. However, ignoring effect of deferment, the expenses are Rs.164 million as against Rs.149 million in the last year. The Company adopts a conservative investment strategy with the objectives of preserving capital, maintaining liquidity and generating a stable income over the longer term. Total investments yielded income of Rs.39 million for the year ended December 31, 2012 as against Rs.28 million last year. Primarily due to higher claims, the Company is reporting a loss after tax of Rs.25 million for the year ended December 31, 2012. However, the management of your Company will endeavor to recover this loss in future by growing business with customers and segments which are more profitable.

The Company's management team is highly motivated, the marketing staff is given challenging and aggressive targets and underwriting processes continue to be strengthened.

Comparative Insurance portfolio mix, in terms of gross premium written in the year 2012 was as follows:

	2012		2011	
Line of Business	**Amount (Rupees in million)**	**Portfolio Mix Percentage**	**Amount (Rupees in million)**	**Portfolio Mix Percentage**
Fire and property	100.2	16.9	186.6	26.9
Marine, aviation & transport	134.9	22.7	117.5	16.9
Motor	79.9	13.4	218.5	31.5
Accident & health	90.8	15.3	47.1	6.8
Credit and surety ship	92.1	15.5	54.1	7.8
Miscellaneous	96.4	16.2	70.9	10.1
Total	**594.3**	**100**	**694.7**	**100**

Claim Settlement

Prompt settlement of claims and customer satisfaction is management's top priority. PIL endeavors to indemnify the losses of the insured promptly. This is the most important element which builds the image of an insurance company in the eyes of its valued clients and consolidates goodwill which is critical for an insurance business.

Reinsurance Treaties

The Company has strong reinsurance arrangements with some of the world's best "A" rated companies. As risk underwriting capacities for traditional lines of business have increased further in 2012, the Company will now be able to underwrite larger risks. We are thankful to all our reinsurers for their unwavering support and continued cooperation.

Insurer Financial Strength Rating

JCR VIS has revised the Insurer Financial Strength Rating of the Company during the year under review to 'BBB+' (Triple B Plus) from 'A-' (Single A minus) with negative outlook as the rating agency observed that capital of the Company was not comparable to other peers.

Human Resource (HR) Initiatives

The Management is of firm belief that HR is vital for the success of any organization. In today's competitive environment, we foresee an acute shortage of professionals particularly in the insurance industry and realize that it is important to place emphasis on retaining and developing existing staff and implementing effective performance reviews. The Company's continued focus on equal opportunity employment goes a long way in maintaining a pool of employees with knowledge, experience and skills in their respective fields and employees remain the Company's most valuable assets.

External Audit

The auditors M/s A.F.Ferguson & Co., Chartered Accountants retire at the conclusion of the Annual General Meeting. Being eligible, they have offered themselves for re-appointment. The Board on the recommendation of the Audit Committee has proposed their re-appointment.

Internal Audit

The Company's Board follows closely the activities of the Internal Audit Department as a service to all levels of Management. The main objective of the independent Internal Audit Department is to provide reasonable assurance to the Board and Management that the existing systems of internal control are adequate and operating satisfactorily. Internal Audit Department adds value to the Company's operations by acting as internal consultant in making suggestions and recommendations for improved operational performance.

Statement of Corporate and Financial Reporting Framework

The corporate laws, rules and regulations framed there under 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 adopted by the Stock Exchanges for all listed companies, 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 there from, 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:

   - A Board Audit Committee (BAC) is in place. 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 BAC discusses the actions to be taken in areas of concern with the relevant executives. The BAC consists of four members. All the members including the Chairman of the BAC are non-executive directors. During the year 2012, 5 meetings of BAC were held and attendance was as follows:

Name of member	No. of meetings attended
Yameen Kerai (Chairman)	4
Ghulam Muhammad	4
Rizwan Abbas	1
Muhammad Riaz	5

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

   - An organizational 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 the Code 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 # 9.

10. The value of investments including accrued income of provident fund on the basis of audited financial statements as at December 31, 2012 is Rs.35 million and the value of investments including accrued income of gratuity fund on the basis of unaudited financial statements as at December 31, 2012 is Rs.28 million.

11. The related parties transactions are approved or ratified by the Board 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, are taken by the Board of directors.

13. Decisions regarding appointment of CEO, CFO and Company Secretary, if any, and fixing or changing of remuneration are taken and approved by the Board.

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

Board of Directors

The Board of Directors have always been a source of guidance and inspiration. They have contributed immensely in terms of their experience and practical advice. I would like to place on record my appreciation and gratitude for their valued participation and wisdom.

The elected eight directors in the Annual General Meeting of the Company held on April 05, 2011 for a period of 3 years. The Board of Directors comprises of Executive Director and Non-Executive Directors. During the year under review 8 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)	8	8
Mr. Yameen Kerai	8	7
Mr. Shahid Sattar	8	4
Mr. Rizwan Abbas	8	3
Mr. Muhammad Riaz	8	8
Mr. Ghulam Muhammad	8	7
Mr. Tariq Iqbal Khan*	3	3
Mr. Abdul Qadir**	3	1
Mr. Tufail Jawed Ahmad***	8	8
Mr. Habib Yousuf Habib****	-	-

* Appointed on July 16, 2012
** Resigned on July 07, 2012
*** Appointed on March 07, 2012
**** Resigned on February 10, 2012

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: March 28, 2013

Key Financial Highlights

PICIC Insurance Limited

	2012	2011	2010	2009	2008	2007	2006
	(Rupees in thousand)						
Paid up share Capital	350,000	350,000	350,000	350,000	350,000	200,000	200,000
Accumulated (loss) / profit	(132,714)	(107,393)	(119,163)	(124,190)	(141,044)	(87,792)	26,101
Investment Income	13,529	3,441	6,221	7,901	(3,296)	19,235	10,076
Return on bank balances	25,899	24,836	20,454	19,435	11,243	14,191	13,930
Total Assets	966,773	1,066,732	919,922	731,089	704,236	643,841	606,359
Gross Premiums Written	594,296	694,665	549,629	493,968	443,110	473,858	448,955
Net Premium Revenue	322,840	224,914	166,770	199,656	227,853	303,401	236,993
(Loss) / profit from underwriting business	(11,755)	19,981	4,890	10,942	(18,738)	(97,520)	29,103
Net Claims	211,887	143,668	91,135	106,295	154,262	268,258	134,592
(Loss) / profit before Taxation	(24,661)	8,424	5,090	16,854	(50,417)	(94,195)	36,917
Provision for Taxation	(660)	3,346	(63)	-	(2,835)	302	8,774
(Loss) / profit after Taxation	(25,321)	11,770	5,027	16,854	(53,252)	(93,893)	28,143
(Loss) / earning per share (in Rupees)	(0.72)	0.34	0.14	0.48	(1.79)	(4.69)	1.41
Dividend (in Percentage)	-	-	-	-	-	-	10.00

PICIC Insurance Limited

Pattern of holding of the shares by the Shareholders of the Company as at December 31, 2012

Number of shareholders	Shareholding From	Shareholding To	Number of shares held
2,132	1	100	56,789
697	101	500	174,572
215	501	1,000	168,727
271	1,001	5,000	566,083
49	5,001	10,000	377,593
20	10,001	15,000	252,380
7	15,001	20,000	123,074
7	20,001	25,000	156,492
3	25,001	30,000	80,031
7	30,001	35,000	230,779
2	35,001	40,000	76,732
2	45,001	50,000	95,022
1	50,001	55,000	52,600
1	60,001	65,000	61,375
1	85,001	90,000	87,701
1	105,001	110,000	106,379
1	165,001	170,000	165,565
1	205,001	210,000	209,711
2	275,001	280,000	555,253
1	425,001	430,000	428,305
1	650,001	655,000	653,810
1	710,001	715,000	711,646
1	855,001	860,000	855,790
1	1,150,001	1,155,000	1,151,153
1	1,305,001	1,310,000	1,309,420
1	2,520,001	2,525,000	2,520,246
1	2,655,001	2,660,000	2,656,012
1	3,895,001	3,900,000	3,895,970
1	6,720,001	6,725,000	6,720,797
1	10,495,001	10,500,000	10,499,993
3,431			**35,000,000**

Information as required under the Code of Corporate Governance

As at December 31, 2012

Shareholders' category	Number of shareholders	Number of shares held
Associated Companies, Undertakings and Related Parties		
NIB Bank Limited	1	10,499,993
Excel Insurance Company Limited	1	6,720,797
PICIC Benovelent Fund - 2	1	44
Directors, CEO, Executives & their spouses & minor children		
Tariq Iqbal Khan	1	1,000
Mohammed Riaz Moosani	1	1,018
Rizwan Abbas	1	875
Ghulam Muhammad	1	279,490
Chief Executive Officer	1	385
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	500
Insurance Companies	8	4,968
Shareholders holding 10% or more voting interest		
NIB Bank Limited	1	10,499,993
Excel Insurance Company Limited	1	6,720,797
State Life Insurance Corporation of Pakistan	1	3,895,970

Category of Shareholding

As at December 31, 2012

S.No	Shareholders category	No.of shareholders	No.of shares	%
1	Associated Companies, Undertakings and Related Parties	3	17,220,834	49.20
2	Directors, CEO, Executives and their spouses and minor children	5	282,768	0.81
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	116	6,404,931	18.30
6	Modarabas and Mutual Funds	11	500	0.00
7	Insurance Companies	8	4,968	0.01
8	Individuals	3,270	6,311,750	18.03
	TOTAL	**3,431**	**35,000,000**	**100.00**

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

PICIC Insurance Limited

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of PICIC Insurance Limited (the Company) for the year ended December 31, 2012 to comply with Regulation No. 35 of Chapter XI contained in the Listing Regulations of the Karachi, Lahore and Islamabad Stock Exchanges, where the Company is listed.

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

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

Regulation 35(x) of the Listing Regulations requires the Company to place before the Board of Directors for their consideration and approval, related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arms' length prices 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 the above requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length prices or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2012.

We draw attention to paragraphs 10 and 18 of the annexed statement which highlights the fact that the position of the Head of Internal Audit is currently vacant and the Company is in search of a suitable candidate for this position.

A.F. Ferguson & Co.
Chartered Accountants

Karachi : April 01, 2013

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

PICIC Insurance Limited

For the year ended December 31, 2012

The statement is being presented to comply with the Code of Corporate Governance contained in regulation No 35 (chapter XI) of 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 corporate governance.

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

1. At present the board includes:

Category	Name of Directors
Executive Directors	Mr. Ahmed Salahuddin Mr. Tariq Iqbal Khan
Non-Executive Directors	Mr. Mohammad Basheer Mr. Ghulam Muhammad Mr. Tufail Jawed Ahmed Mr. Rizwan Abbas Mr. Mohammad Riaz Mr. Yameen Kerai Mr. Shahid Sattar

2. The Directors have confirmed that none of them is serving as a director on more than ten listed companies in Pakistan.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Two casual vacancies occurred on the board during the period under review which were duly filled within 90 days.
5. The Company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the board met at least once in every quarter. Written notices of the board meetings along with the agenda and working papers were circulated at least seven days before the meeting wherever possible. The minutes of the meetings were appropriately recorded and circulated as per legal requirements.
9. The board will arrange trainings for the director(s) in the next year as required under the revised code of corporate governance.
10. During the year, no new appointments of the Chief Financial Officer (CFO) and Company Secretary were made.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance.
15. The Board has formed an Audit Committee. It comprises four members, all of whom are non-executive directors.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final result of the Company and as required by the Code of Corporate Governance. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has formed a Human Resource committee. It comprises four members, of whom two are non-executive directors, and the chairman of the committee is an executive director.
18. The Board has outsourced the internal audit function to M/s Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company. The Head of Internal Audit as required under the revised code of corporate governance has not been appointed by the company. However, the company is searching for a suitable candidate for the position of Head of Internal Audit.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold 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 Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of the company's securities, was determined and intimated to directors, employees and stock exchanges.
22. Material / Price sensitive information has been disseminated among all market participants at once through stock exchanges.
23. We confirm that all other material principles enshrined in the Code of Corporate Governance have been complied with except for the appointment of the Head of Internal Audit for whom the company is in search for a suitable candidate.

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

of **PICIC Insurance Limited as at December 31, 2012** together with the notes forming part thereof, for the year then ended. It is the responsibility of the Company's 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 statements presentation. We believe that our audit provides a reasonable basis

for our opinion.

In our opinion:

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

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

(c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at December 31, 2012, and of the loss, its comprehensive income, 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;

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

A.F. Ferguson & Co.
Chartered Accountants

Engagement Partner: Rashid A. Jafer

Karachi : April 01, 2013

Balance Sheet
As at December 31, 2012

PICIC Insurance Limited

	Note	2012	2011
		(Rupees in thousand)	
Share capital and reserves			
Authorised share capital			
[50,000,000 (December 31, 2011: 50,000,000)			
Ordinary shares of Rs.10 each]		500,000	500,000
Paid-up share capital			
[35,000,000 (December 31, 2011: 35,000,000)			
Ordinary shares of Rs.10 each]	7	350,000	350,000
Accumulated losses		(132,714)	(107,393)
		217,286	242,607
Underwriting provisions			
Provision for outstanding claims (including IBNR)		158,994	115,046
Provision for unearned premium		338,163	348,802
Provision for premium deficiency		2,134	812
Commission income unearned		23,108	28,723
		522,399	493,383
Creditors and accruals			
Amounts due to other insurers / reinsurers		164,438	223,073
Other creditors and accruals	8	54,550	95,201
Accrued expenses		5,500	6,165
Unclaimed dividend		195	195
		224,683	324,634
Borrowings			
Obligation under musharakah agreement	9	2,405	6,108
TOTAL LIABILITIES		749,487	824,125
TOTAL EQUITY AND LIABILITIES		966,773	1,066,732
Contingencies	10		

	Note	2012	2011
		(Rupees in thousand)	
Cash and bank deposits	11		
Cash and other equivalents		184	410
Current and other accounts		65,351	65,863
Deposits maturing within 12 months		180,000	170,000
		245,535	236,273
Investments	12	66,034	54,182
Deferred Taxation	13	2,979	3,430
Current Assets - Others			
Premiums due but unpaid	14	187,165	347,096
Amounts due from other insurers / reinsurers		112,313	111,521
Accrued interest		2,150	2,051
Reinsurance recoveries against outstanding claims		55,439	44,464
Taxation - payments less provision		21,596	18,557
Deferred commission expense		30,170	31,199
Deferred acquisition costs	15	36,689	50,613
Prepayments	16	197,426	154,715
Sundry and other receivables		4,630	4,099
		647,578	764,315
Fixed assets	17		
Tangible			
Furniture and fixture		78	142
Office equipment		1,014	756
Computer equipment		1,060	1,529
Motor vehicles		2,281	5,893
Intangible			
Computer software		214	212
		4,647	8,532
TOTAL ASSETS		966,773	1,066,732

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Profit and Loss Account
For the year ended December 31, 2012

PICIC Insurance Limited

	Note	Fire and property	Marine, aviation and transport	Motor	Accident and health	Credit and surety ship	Miscellaneous	Aggregate 2012	Aggregate 2011
		(Rupees in thousand)							
Revenue account									
Net premium revenue		22,584	32,195	160,071	65,177	32,069	10,744	322,840	224,914
Net claims		(11,765)	(17,549)	(99,230)	(73,801)	(30)	(9,512)	(211,887)	(143,668)
(Premium deficiency expense) / Reversal of premium deficiency expense		-	(1,668)	-	-	346	-	(1,322)	489
Management expenses	18	(23,913)	(26,022)	(30,416)	(15,017)	(15,377)	(12,826)	(123,571)	(84,735)
Net commission		11,374	5,263	(13,649)	(1,515)	(2,701)	3,413	2,185	22,981
Underwriting results		(1,720)	(7,781)	16,776	(25,156)	14,307	(8,181)	(11,755)	19,981
Net investment income								13,529	3,441
Return on bank balances								25,899	24,836
Gain on disposal of fixed assets								488	709
Other income	22							1,435	7,408
								29,596	56,375
General and administrative expenses	19							(53,148)	(46,245)
Financial charges								(905)	(1,007)
Other charges	20							(204)	(699)
(Loss) / profit before tax								(24,661)	8,424
Taxation	21								
- Current								(103)	(81)
- Prior years								(106)	(3)
- Deferred								(451)	3,430
								(660)	3,346
(Loss) / profit after taxation								(25,321)	11,770
Balance at commencement of year								(107,393)	(119,163)
(Loss) / profit after taxation for the year								(25,321)	11,770
Balance of accumulated losses at the end of the year								(132,714)	(107,393)
Earnings per share - basic and diluted (Rupee)	23							(0.72)	0.34

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement Of Comprehensive Income

For the year ended December 31, 2012

	2012	2011
	(Rupees in thousand)	
Net (loss) / profit for the year	(25,321)	11,770
Other comprehensive income for the year	-	-
Total comprehensive (loss) / income for the year	(25,321)	11,770

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Ghulam Muhammad**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Changes in Equity

For the year ended December 31, 2012

	Paid - up share capital	Accumulated loss	Total
		(Rupees in thousand)	
Balance as at January 01, 2011	350,000	(119,163)	230,837
Net profit for the year	-	11,770	11,770
Balance as at December 31, 2011	350,000	(107,393)	242,607
Net loss for the year	-	(25,321)	(25,321)
Balance as at December 31, 2012	350,000	(132,714)	217,286

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Premiums
For the year ended December 31, 2012

PICIC Insurance Limited

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 2012	Net premium revenue 2011
	(Rupees in thousand)									
Direct and facultative										
1. Fire and property	100,155	74,914	50,105	124,964	83,902	60,612	42,134	102,380	**22,584**	37,921
2. Marine, aviation and transport	134,979	38,084	40,627	132,436	103,982	33,049	36,790	100,241	**32,195**	24,175
3. Motor	79,910	166,435	78,142	168,203	(2,241)	18,356	7,983	8,132	**160,071**	122,376
4. Accident and health	90,839	24,701	49,094	66,446	284	1,139	154	1,269	**65,177**	21,524
5. Credit and surety ship	92,057	14,971	34,836	72,192	45,973	14,470	20,320	40,123	**32,069**	2,500
6. Miscellaneous	96,356	29,697	85,359	40,694	79,757	21,759	71,566	29,950	**10,744**	16,418
Total	**594,296**	**348,802**	**338,163**	**604,935**	**311,657**	**149,385**	**178,947**	**282,095**	**322,840**	**224,914**

The annexed notes from 1 to **32** form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Ghulam Muhammad**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Claims
For the year ended December 31, 2012

PICIC Insurance Limited

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 expense 2012	Net claims expense 2011
	(Rupees in thousand)									
Direct and facultative										
1. Fire and property	61,271	26,143	17,942	53,070	48,976	22,554	14,883	41,305	**11,765**	15,393
2. Marine, aviation and transport	28,848	17,477	35,425	46,796	15,840	10,294	23,701	29,247	**17,549**	15,948
3. Motor	103,610	54,106	65,121	114,625	14,736	285	944	15,395	**99,230**	84,835
4. Accident and health	56,712	1,555	18,057	73,214	700	1,350	63	(587)	**73,801**	16,528
5. Credit and surety ship	36,172	-	300	36,472	36,172	-	270	36,442	**30**	-
6. Miscellaneous	26,132	15,765	22,149	32,516	17,407	9,981	15,578	23,004	**9,512**	10,964
Total	**312,745**	**115,046**	**158,994**	**356,693**	**133,831**	**44,464**	**55,439**	**144,806**	**211,887**	**143,668**

The annexed notes from 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Expenses

For the year ended December 31, 2012

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 2012	Net underwriting expense 2011
	(Rupees in thousand)								
Direct and facultative									
1. Fire and property	15,730	10,292	7,863	18,159	23,913	42,072	29,533	**12,539**	9,166
2. Marine, aviation and transport	15,648	3,580	3,820	15,408	26,022	41,430	20,671	**20,759**	10,053
3. Motor	6,263	13,872	6,418	13,717	30,416	44,133	68	**44,065**	29,310
4. Accident and health	3,854	134	2,089	1,899	15,017	16,916	384	**16,532**	3,635
5. Credit and surety ship	9,878	583	3,445	7,016	15,377	22,393	4,315	**18,078**	4,359
6. Miscellaneous	7,087	2,738	6,535	3,290	12,826	16,116	6,703	**9,413**	5,231
Total	58,460	31,199	30,170	59,489	123,571	183,060	61,674	**121,386**	61,754

The annexed notes from 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Investment Income

For the year ended December 31, 2012

	2012	2011
	(Rupees in thousand)	
Income from investments classified as investments at fair value through profit or loss		
Net gain on redemption / sale of investments	-	488
Net unrealised gain / (loss) on revaluation of investments	7,769	(2,221)
Dividend income	1,026	811
Return on government securities	4,746	4,374
	13,541	3,452
Investment related expenses	(12)	(11)
Net investment income	13,529	3,441

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	**Yameen Kerai**	**Ghulam Muhammad**	**Ahmed Salahuddin**
Chairman	Director	Director	MD & Chief Executive Officer

Statement of Cash Flows
For the year ended December 31, 2012

PICIC Insurance Limited

	Note	2012	2011
		(Rupees in thousand)	
OPERATING ACTIVITIES			
a) Underwriting activities			
Premiums received		696,242	599,070
Reinsurance premiums paid		(347,586)	(345,798)
Claims paid		(312,745)	(310,122)
Reinsurance and other recoveries received		133,831	162,660
Commissions paid		(58,634)	(50,003)
Commission received		91,988	72,892
Net cash inflow from underwriting activities		203,096	128,699
b) Other operating activities			
Income tax paid		(3,248)	(3,992)
General management expenses paid		(180,823)	(142,774)
Other operating payments		(33,787)	(4,467)
Other operating receipts		-	13,518
Other charges		(204)	(527)
Net cash used in other operating activities		(218,062)	(138,242)
Total cash used in operating activities		(14,966)	(9,543)
INVESTMENT ACTIVITIES			
Profit / return received		25,803	32,658
Dividend received		1,023	796
Payments for investments		(40,349)	(40,446)
Proceeds from redemption of investments		41,000	39,548
Proceeds from disposal of fixed assets		3,075	743
Fixed capital expenditure	17	(1,716)	(3,110)
Total cash generated from investing activities		28,836	30,189
FINANCING ACTIVITIES			
Payments under musharakah agreement		(4,608)	(2,262)
Total cash used in financing activities		(4,608)	(2,262)
Net cash inflow from all activities		9,262	18,384
Cash at the beginning of the year		236,273	217,889
Cash at the end of the year		245,535	236,273
Reconciliation to profit and loss account			
Operating cash flows		(14,966)	(9,543)
Provision for Workers' Welfare Fund		-	(172)
Depreciation / amortisation		(3,014)	(4,334)
Gain on disposal of fixed assets		488	709
Financial charges		(905)	(1,007)
Investment income		13,529	3,441
Return on bank balances		25,899	24,836
(Decrease) / Increase in assets other than cash		(149,437)	112,465
Decrease / (Increase) in liabilities		64,657	(3,327)
Decrease / (Increase) in unearned premium		38,879	(114,728)
(Decrease) / Increase in deferred tax assets		(451)	3,430
(Loss) / profit after taxation		(25,321)	11,770

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:

	2012	2011
Cash and other equivalents		
- cash in hand	-	-
- stamps in hand	184	410
	184	410
Current and other accounts		
- current accounts	12,826	43,944
- saving accounts	52,525	21,919
	65,351	65,863
Deposits maturing within 12 months	180,000	170,000
	245,535	236,273

The annexed notes 1 to 32 form an integral part of these financial statements.

Mohammed Basheer Janmohammed	Yameen Kerai	Ghulam Muhammad	Ahmed Salahuddin
Chairman	Director	Director	MD & Chief Executive Officer

1. STATUS AND NATURE OF BUSINESS

PICIC Insurance Limited (the Company) was incorporated on April 23, 2004 under the Companies Ordinance, 1984 as a public limited company and registered as a 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 the 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 6 (2011: 6) 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 December 12, 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. Wherever 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 the said directives 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. ACCOUNTING CONVENTION

These financial statements have been prepared under the historical cost convention except for investments and certain staff retirement benefits which are carried at fair value and at present value respectively.

5. SIGNIFICANT ACCOUNTING POLICIES

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

5.1.1 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year:

There are certain new and amended standards and interpretations that are mandatory for the Company's accounting period beginning on or after January 1, 2012 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

5.1.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

The following new standards, amendments and interpretations have been issued but are not effective for the financial year beginning January 1, 2012 and not early adopted:

Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after July 1, 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments will have no impact on the financial statements of the Company.

IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The management is yet to assess the full impact of the amendments.

5.2 Premium

Premium received / receivable under a policy is recognised as written from the date of attachment of the policy to which it relates. Premium income under a policy is recognised over the period of insurance as a difference between the total premium written and provision for unearned premium as mentioned in note 5.4.2 to the financial statements.

Premium income also includes administrative surcharge that represents documentation and other charges recovered by the Company from policy holders in respect of policies issued, at the rate of 5% of the premium written restricted to a maximum of Rs. 2,000 per policy.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any. If there is objective evidence that the receivable is impaired, the Company reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the profit and loss account.

5.3 Reinsurance ceded

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted insurance business being reinsured.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the provision for outstanding claims or settled claims associated with the reinsurance policies and are in accordance with the related reinsurance contract.

Reinsurance assets are not offset against related insurance liabilities. Income or expenses from reinsurance contracts are not offset against expenses or income from related insurance contracts.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire.

The Company assesses its reinsurance assets for impairment on the balance sheet date. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit and loss account.

5.4 Underwriting provisions

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

5.4.1 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, conforming to the requirements of the SEC (Insurance) Rules, 2002, a provision is made on an estimated basis for the claims which may have been 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.

5.4.2 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.

5.4.3 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 the 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.

5.4.4 Unearned commission income

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

5.5 Other creditors and accruals

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

5.6 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are regularly reviewed and adjusted to reflect the current estimate.

5.7 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short term highly liquid investments.

5.8 Financial assets

5.8.1 Classification

The Company classifies its financial assets into the following categories: 'at fair value through profit or loss' , 'available for sale' , 'held to maturity' and 'loans and receivables'. The classification is determined at initial recognition and depends on the purpose for which the financial assets were acquired.

At fair value through profit or loss

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by the management.

Available for sale

These are non-derivative financial assets, which are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or changes in price.

Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity, in respect of which the Company has the positive intention and ability to hold to maturity.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

5.8.2 Initial recognition and measurement

Investments other than those categorised into 'financial assets at fair value through profit or loss' category are initially recognised at fair value which includes transaction costs which are directly attributable to the acquisition of the securities. Investments classified as 'financial assets at fair value through profit or loss' are initially recognised at fair value and transaction costs are expensed in the profit and loss account. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the settlement date.

5.8.3 Subsequent measurement

Investments classified as 'financial assets at fair value through profit or loss' are subsequently measured at their fair values and gains and losses arising from changes in fair value are included in the profit and loss account. Available for sale investments are subsequently measured 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 the SEC (Insurance) Rules, 2002. In case of quoted equity securities, the market value is determined by using Stock Exchange quotations at the balance sheet date. However, in case of Government securities the market value is determined using rates announced by the Financial Market Association. Investments classified as held to maturity are subsequently measured at amortised cost less any impairment losses, taking into account any discount or premium on acquisition by using the effective interest rate method.

5.8.4 Impairment against financial assets

The Company assesses at each balance sheet date whether there is an objective evidence that the financial asset or a group of financial assets is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, as the case may be, is taken to the profit and loss account. For financial assets classified as 'loans and receivables', a provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash outflows, discounted at the original effective interest rate.

5.8.5 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

5.9 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.

5.10 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 the pattern of recognition of related premium revenue.

5.10.1 Change in accounting estimate:

As more fully explained in note 15 to the financial statements, during the current year the company has discontinued allocating certain expenses to deferred acquisition costs and has also changed the allocation percentage of certain management expenses. In the opinion of the management, the revised methodology results in a more accurate reflection of acquisition costs in the financial statements. This has been accounted for as a change in accounting estimate as required under International Accounting Standard 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had the company followed the previous methodology of allocating expenses, the deferred acquisition costs would have been higher by Rs 25.701 million and loss before taxation would have been lower by Rs 24.278 million (net of premium deficiency reserve).

5.11 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.

5.12 Sundry receivables

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

5.13 Fixed assets

Owned assets

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditure are charged to the profit and loss account during the financial period in which they are incurred.

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

Intangible assets having a finite useful life are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Such intangible assets are amortised using the straight-line method over the estimated useful lives. The useful lives and amortisation method are reviewed and adjusted, if appropriate, at each reporting date. Intangible assets having an indefinite useful life are stated at acquisition cost, less impairment losses, if any.

Amortisation 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.

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 amount. The resulting impairment loss is taken to the profit and loss account.

5.14 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistani Rupees, which is the Company's functional and presentation currency.

5.15 Financial instruments

Financial assets and financial liabilities are recognised 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 expires 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.

5.16 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 realise the asset and settle the liability simultaneously.

5.17 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 in case of marine cargo business whereas for all other cases of premium income is recognized as a difference between total premium written and provision for unearned premium using $1/24^{th}$ method as mentioned in note 5.4.2 to the financial statements.

- 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 recognised on an accrual basis.

- Dividend income is recognised when the right to receive the dividend is established.

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

5.18 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 balance sheet 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.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

5.19 Staff benefits

5.19.1 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 the basic salary.

5.19.2 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 the 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 the previous reporting period exceeds 10% of the higher of the present value of the 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.

5.19.3 Compensated absences

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

5.20 Premiums due but unpaid

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

5.21 Amount due from / to other insurers / to reinsurers

Amounts due from / to other insurers / to reinsurers are carried at cost which is the fair value of the consideration to be received / paid in the future for services rendered / received, less provision for impairment, if any.

5.22 Management expenses

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

5.23 Dividends and appropriations to reserves

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

5.24 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.

5.25 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 the 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 the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

6. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with approved accounting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

	Note
Underwriting provisions	5.4
Classification of investments	5.8 & 12
Reinsurance recoveries against outstanding claims	5.9
Deferred acquisition costs	5.10 & 18
Useful lives of assets and methods of depreciation	5.13 & 17
Deferred taxation	5.18 & 21
Defined benefit plan	5.19 & 8.1

7. SHARE CAPITAL

Authorised share capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
50,000,000	50,000,000	Ordinary shares of Rs. 10 each	500,000	500,000

Paid-up share capital

Issued, subscribed and fully paid-up:

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
35,000,000	35,000,000	Ordinary shares of Rs. 10 each fully paid in cash	350,000	350,000

8 OTHER CREDITORS AND ACCRUALS

	Note	2012	2011
		(Rupees in thousand)	
Commission payable		39,378	58,217
Federal excise duty payable		1,954	22,345
Federal insurance fee payable		195	1,460
Security deposits		4,561	4,087
Payable to gratuity fund	8.1	764	3,244
Provision for compensated absences		1,687	1,577
Others		6,011	4,271
		54,550	95,201

8.1 Payable to gratuity fund

Opening balance	3,244	15,053
Charge for the year	2,520	3,191
Contributions	(5,000)	(15,000)
Closing balance	764	3,244

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

The information provided below has been obtained from the actuarial valuation carried out as at December 31, 2012. The following significant assumptions have been used for valuation of this scheme:

	2012	2011
	(%)	
Valuation discount rate	11.5	12.5
Salary increase rate	11.5	11.5
Expected return on plan assets	11.5	12.5

Reconciliation of payable to gratuity fund

	2012	2011
	(Rupees in thousand)	
Present value of defined benefit obligation	22,064	18,176
Fair value of plan assets	(27,641)	(23,023)
Unrecognised actuarial loss	6,341	8,091
	764	3,244

Movement in present value of defined benefit obligations

	2012	2011
	(Rupees in thousand)	
Opening balance	18,176	12,719
Current service cost	4,419	3,543
Interest cost	2,095	1,739
Benefits paid	(2,836)	(595)
Actuarial loss / (gain)	210	770
Closing balance	22,064	18,176

Movement in fair value of plan assets	2012	2011
	(Rupees in thousand)	
Opening balance	23,023	7,192
Expected return on plan assets	2,836	1,174
Contributions	5,000	15,000
Benefits paid	(2,836)	(595)
Actuarial gain / (loss)	(382)	252
Closing balance	27,641	23,023

Charge for the year

	2012	2011
Current service cost	4,419	3,543
Interest cost	2,095	1,739
Expected return on plan assets	(2,836)	(1,174)
Actuarial gain recognised	(1,158)	(917)
	2,520	3,191
Actual return on plan assets	2,454	1,426

Plan assets comprise the following:	2012		2011	
	(Rupees in thousand)	%	(Rupees in thousand)	%
Term deposit receipts	20,087	72.67	20,188	87.69
Bank deposits	7,554	27.33	2,835	12.31
Total	27,641	100	23,023	100

5 year data on deficit of the plan (before actuarial gains and losses) is as follows:

	2012	2011	2010	2009	2008
	(Rupees in thousand)				
Historical information					
Present value of defined benefit obligations	(22,064)	(18,176)	(12,719)	(11,598)	(9,315)
Fair value of plan assets	27,641	23,023	7,192	6,365	5,748
Surplus / (Deficit)	5,577	4,847	(5,527)	(5,233)	(3,567)

5 year data on experience adjustments is as follows:

	2012	2011	2010	2009	2008
	(Rupees in thousand)				
Experience (loss) / gain on obligations	(210)	(770)	3,619	2,437	1,367
Experience gain / (loss) on plan assets	(382)	252	(20)	(245)	(39)
	(592)	(518)	3,599	2,192	1,328

Expected contribution to the plan for the year ending December 31, 2013 is Rs 3.386 million (2012: Rs 2.867 million).

9. OBLIGATION UNDER MUSHARAKAH AGREEMENT	2012	2011
	(Rupees in thousand)	
Opening balance	6,108	5,816
Obtained during the year	-	1,547
	6,108	7,363
Repaid during the year	(3,703)	(1,255)
Closing balance	2,405	6,108

	2012		2011	
	Minimum lease payments	Present value	Minimum lease payments	Present value
	(Rupees in thousand)			
Not later than one year	1,201	849	2,433	1,513
Later than one year and not later than five years	1,817	1,556	5,836	4,595
	3,018	2,405	8,269	6,108
Less: Amount representing future finance charges	613	-	2,161	-
	2,405	2,405	6,108	6,108
Less: Current portion	1,201	1,201	2,433	2,433
	1,204	1,204	3,675	3,675

9.1 This represents obligation under Musharakah Agreement with a Modaraba for purchase of vehicles. The share of the Modaraba in the musharakah asset is payable in monthly installments and mark up rate on this arrangement ranges between 17.00% to 17.50% per annum (December 31, 2011: Ranges between 18.24% to 18.40% per annum).

10. CONTINGENCIES

The tax assessment of the Company has been finalised upto and including the tax year 2012. 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 had disallowed certain expenses claimed by the Company and increased the tax charge by Rs. 3.175 million. The Company has contested the amended order by filing an appeal before the Commissioner Inland Revenue (Appeals) which has been decided whereby substantial relief has been allowed. However, a second appeal has been filed before the Appelate Tribunal Inland Revenue for the remaining disallowed amount which is pending adjudication. Further, while finalising the tax audit for the tax year 2008, the Taxation Officer has charged minimum taxation on gross receipts of the Company and increased the tax charge by Rs. 1.61 million. The Company has contested the amended order by filing an appeal before the Commissioner Inland Revenue (Appeals) which is pending adjudication. The management, based on the advice of its tax advisor, is confident of a favourable outcome in both cases and, accordingly, no provision in this respect has been made in these financial statements.

During the year ended 2009, the Taxation Officer had passed an order along with notice of demand under section 161/205 of the Income Tax Ordinance, 2001, on alleged default of non-deduction of withholding tax on payments of insurance premium to non-resident reinsurer for the tax year 2009. The tax authorities had filed a writ petition against the Company along with other insurance companies in the High Court of Sindh. The petition has been dismissed by the Court and favorable outcome has been given in favor of the Company along with other insurance companies. The Company had also filed an appeal with the Commissioner Income Tax Appeals which is pending adjudication, to date. The tax impact of the above amounts to Rs 5.48 million against which no provision has been made in these financial statements, as the Company is confident of a favorable outcome.

11. CASH AND BANK DEPOSITS

	Note	2012	2011
		(Rupees in thousand)	
Cash and other equivalents			
- cash in hand		-	-
- stamps in hand		184	410
		184	410
Current and other accounts			
- current accounts	11.1	12,826	43,944
- saving accounts	11.2	52,525	21,919
		65,351	65,863
Deposits maturing within 12 months - Term deposit receipts	11.3	180,000	170,000
		245,535	236,273

11.1 This includes balance of Rs 12.695 million (2011: Rs 43.929 million) with NIB Bank Limited (related party).

11.2 These carry interest rate of 9% to 11% (2011: 10%) per annum and include balance of Rs. 52.509 million (2011: Rs 21.902 million) with NIB Bank Limited (related party).

11.3 This represents term deposits with a commercial bank carrying interest rate of 9.1% to 9.2% (2011: 11.5%) per annum and will mature by February 2013.

12. INVESTMENTS

	Note	2012	2011
		(Rupees in thousand)	
Designated at fair value through profit and loss account			
Mutual funds	12.1	3,351	2,853
Listed shares	12.2	17,709	13,298
Government Securities	12.3	44,974	38,031
		66,034	54,182

12.1 Mutual funds

2012	2011	Name of Entity	2012	2011
No. of Units			(Rupees in thousand)	
65,587	65,587	Golden Arrow Selected Stocks Fund Limited-closed end fund	400	178
29,384	26,659	PICIC Cash Fund - open end fund	2,951	2,675
			3,351	2,853

12.2 Listed shares

No. of Shares				
11,343	10,312	Arif Habib Corporation Limited	350	146
35,000	35,000	Azgard Nine Limited	283	100
2,812	2,812	Fatima Fertilizer Company Limited	74	64
18,975	17,250	GlaxoSmithKline Limited	1,391	1,157
13,310	12,100	Habib Bank Limited	1,568	1,284
6,050	5,500	MCB Bank Limited	1,269	740
13,750	12,500	National Bank of Pakistan	679	513
10,000	10,000	Nishat Mills Limited	639	405
10,000	10,000	Oil and Gas Development Company Limited	1,926	1,516
51,925	41,540	Pakistan Petroleum Limited	9,180	6,992
2,500	2,000	Shell Pakistan Limited	340	381
1,031	-	Aisha Steel Mills Limited	10	-
			17,709	13,298

12.3 Government Securities - Market treasury bills

These securities have been 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 11.59% (December 31, 2011: 12.49%) per annum and will mature in August 2013.

13. DEFERRED TAXATION

The Company has an aggregate amount of Rs 143.713 million (2011: Rs 108.523 million) in respect of tax losses as at December 31, 2012 on which deferred tax assets amounting to Rs 50.30 million is available to the Company. The management carries out periodic assessment to assess the benefit of these losses whether the Company would be able to set off the profit earned in future years against these carry forward losses. Based on this assessment the management has recognised deferred tax asset amounting to only Rs 2.979 million (2011: Rs 3.430 million). The amount of this benefit has been determined based on the financial projections for the future periods. The determination of future taxable profit is most sensitive to certain key assumptions such as gross premium written, reinsurance ceded, net claim expenses, investment returns, net commission expense and related expenses. Any significant change in the key assumptions may have an effect on the realisibility of the deferred tax asset.

PICIC Insurance Limited

14. PREMIUMS DUE BUT UNPAID - UNSECURED

	Note	2012	2011
		(Rupees in thousand)	
Considered good	14.1	187,165	347,096
Considered doubtful		18,502	18,502
		205,667	365,598
Provision for doubtful recovery	14.2	(18,502)	(18,502)
		187,165	347,096

14.1 This includes an amount of Rs 3.731 million (2011: Rs 13.045 million) due from related parties.

14.2 The movement for provision of doubtful recovery is as follow:

	2012	2011
	(Rupees in thousand)	
Opening balance	18,502	25,910
Charge for year	-	-
Reversal	-	(7,408)
Closing balance	18,502	18,502

15. DEFERRED ACQUISITION COSTS

The Company followed a policy of apportioning management expenses between the earned and unearned portion of premium written by charging as expense the portion relating to the earned portion and carrying forward as deferred acquisition costs the portion relating to the unearned portion of premium written.

Based on an onsite inspection of the Company under section 59A of the Insurance Ordinance, 2000 the SECP issued a show cause notice to the Company on January 20, 2011 in respect of recognition of management expenses as deferred acquisition costs.

After hearing the management arguments, the SECP in its order dated March 20, 2012 has advised that the management expenses currently being deferred by the Company should not be deferred in future in entirety and should be charged in the profit and loss account in the period in which they are incurred based on their nature.

In accordance with the directives of the SECP, the management of the Company carried out an exercise to identify expenses which need to be charged to the profit and loss account and those which can be deferred. Based on the results of this exercise the company discontinued allocating certain expenses to deferred acquisition cost and has also changed the allocation percentage of certain management expenses. The Company has also obtained the consent of the Securities and Exchange Commission of Pakistan (SECP) for this revised methodology.

16. PREPAYMENTS

	2012	2011
	(Rupees in thousand)	
Prepaid reinsurance premium ceded	178,947	149,385
Others	18,479	5,330
	197,426	154,715

17. FIXED ASSETS

2012

	Cost					Accumulated depreciation / amortization					Written down value	
Description	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	7,378	15	(1,232)	-	6,161	7,236	79	(1,232)	-	6,083	78	20
Office equipment	4,969	590	(1,395)	-	4,164	4,213	327	(1,390)	-	3,150	1,014	20
Computer equipment	9,118	833	(2,279)	-	7,672	7,589	1,301	(2,278)	-	6,612	1,060	33.33
Motor vehicles	4,053	43	(3,756)	3,689	4,029	3,546	131	(1,175)	1,132	3,634	395	20
	25,518	1,481	(8,662)	3,689	22,026	22,584	1,838	(6,075)	1,132	19,479	2,547	
Tangible - Under Musharakah agreement												
Motor vehicles	8,404	-	-	(3,689)	4,715	3,018	943	-	(1,132)	2,829	1,886	20
	33,922	1,481	(8,662)	-	26,741	25,602	2,781	(6,075)	-	22,308	4,433	
Intangible												
Computer software	4,463	235	-		4,698	4,251	233	-		4,484	214	33.33
Total	38,385	1,716	(8,662)	-	31,439	29,853	3,014	(6,075)	-	26,792	4,647	

	2011											
	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	7,378	-	-	-	7,378	6,757	479	-	-	7,236	142	20
Office equipment	4,408	777	(216)	-	4,969	3,926	469	(182)	-	4,213	756	20
Computer equipment	8,108	1,383	(373)	-	9,118	6,887	1,075	(373)	-	7,589	1,529	33.33
Motor vehicles	4,634	605	(1,186)	-	4,053	4,423	309	(1,186)	-	3,546	507	20
	24,528	2,765	(1,775)	-	25,518	21,993	2,332	(1,741)	-	22,584	2,934	
Tangible - Under Musharakah agreement												
Motor vehicles	6,685	1,719	-	-	8,404	1,337	1,681	-	-	3,018	5,386	20
	31,213	4,484	(1,775)	-	33,922	23,330	4,013	(1,741)	-	25,602	8,320	
Intangible												
Computer software	4,290	173	-	-	4,463	3,930	321	-	-	4,251	212	33.33
Total	35,503	4,657	(1,775)	-	38,385	27,260	4,334	(1,741)	-	29,853	8,532	

17.1 The depreciation / amortisation charge for the year has been allocated as follows:

	Note	2012	2011
		(Rupees in thousand)	
Management expenses	18	2,115	3,005
General and administrative expenses	19	899	1,329
		3,014	4,334

17.2 Cost of fully depreciated fixed assets that are still in the Company's use, as at December 31, 2012, amounted to Rs 19.309 million (2011: Rs 19.506 million).

17.3 Details of disposals of fixed assets during the year having written down value of more than Rs. 50,000 are as follows:

Asset description	Cost	Accumulated depreciation	Net book value	Sale Proceeds	Gain / (loss) on sale of property and equipment	Mode of disposal	Particular of purchaser
	Rupees in thousand						
Honda Civic VTI Oriel	1,970	788	1,182	1,465	283	Auction	Mr Syed Obaid Ahmed
Toyota Corolla GLI	1,749	350	1,399	1,575	176	Auction	Mr Mohammad Kamran
Total	3,719	1,138	2,581	3,040	459		

18. MANAGEMENT EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Salaries, wages and other benefits	18.1	73,217	81,614
Rent, rates and taxes		7,655	7,039
Depreciation / amortisation	17.1	2,115	3,005
Utilities		3,032	2,645
Travelling and conveyance		1,805	1,726
Printing and stationery		1,024	842
Vehicle running expenses		16,083	1,606
Communication		2,040	2,013
Survey Fee		655	199
Others		2,021	112
		109,647	100,801
Add: Opening deferred acquisition costs		50,613	34,547
		160,260	135,348
Less: Closing deferred acquisition costs		36,689	50,613
		123,571	84,735

18.1 This includes an amount of Rs. 4.562 million (2011: Rs. 5.129 million) in respect of staff retirement benefits.

19. GENERAL AND ADMINISTRATIVE EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Salaries, wages and other benefits	19.1	33,884	25,974
Rent, rates and taxes		1,851	1,830
Depreciation / amortisation	17.1	899	1,329
Utilities		856	816
Repairs and maintenance		1,719	1,509
Travelling and conveyance		291	205
Printing and stationery		669	763
Entertainment		804	774
General office expenses		1,599	1,215
Vehicle running expenses		934	1,193
Advertisement		626	579
Computer charges		1,690	1,428
Communication		369	339
Books and periodicals		1,190	893
Auditors' remuneration	19.2	760	760
Legal and professional charges		4,990	4,780
Others		17	1,858
		53,148	46,245

19.1 This includes an amount of Rs. 1.555 million (2011: Rs. 1.714 million) in respect of staff retirement benefits.

19.2 Auditors' remuneration

	2012	2011
	(Rupees in thousand)	
Audit fee	400	400
Half yearly review	150	150
Regulatory return and CCG	100	100
Taxation	-	-
Out of pocket expenses	110	110
	760	760

20. OTHER CHARGES

	2012	2011
Contribution to Workers' Welfare Fund	-	172
Exchange loss	7	296
Bank charges	197	231
	204	699

21. TAXATION

21.1 Current tax charge has only been recorded in respect of dividend income which has been treated as a separate block of income. The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented as the Company has incurred loss during the year and has accumulated losses in respect of prior periods.

21.2 Under section 114 of the Income Tax Ordinance, 2001 (Ordinance), the Company has filed the returns of income for the tax years from 2005 to 2012 on due dates. These returns were deemed completed under the provisions of the prevailing income tax law as applicable in Pakistan during the relevant accounting years.

22. OTHER INCOME

	2012	2011
	(Rupees in thousand)	
Service income from co-insurer arrangements	1,435	-
Reversal of excess provision against premium due but unpaid	-	7,408
	1,435	7,408

23. EARNINGS PER SHARE - basic and diluted

Basic earnings per share are calculated by dividing the net (loss) / profit for the year by the weighted average number of shares as at the year end as follows:

	2012	2011
	(Rupees in thousand)	
(Loss) / Profit after tax for the year	(25,321)	11,770
	Number in thousand	
Weighted average number of shares of Rs 10 each	35,000	35,000
	Rupee	
Basic earnings per share of Rs 10 each	(0.72)	0.34

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

24. REMUNERATION OF THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

24.1 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:

	2012			2011		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees in thousand)					
Managerial remuneration	9,056	3,999	28,392	9,056	-	38,748
Leave Fare Assistance	1,962	-	-	1,472	-	-
Housing and utilities	112	86	-	109	-	227
Medical expenses	107	99	454	224	-	832
Others	252	30	146	284	-	214
	11,489	4,214	28,992	11,145	-	40,021
Number of persons	1	1	15	1	-	15

24.2 The Chief Executive Officer and one other executive director is also provided with Company maintained cars.

25. TRANSACTIONS WITH RELATED PARTIES

Related parties of the Company comprise of associated 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 24.1) are as follows:

	2012	2011
Transactions	(Rupees in thousand)	
Premium written	10,926	18,786
Claims paid	574	38,593
Return on bank balances	5,081	6,338
Bank charges	197	231
Contribution for staff provident fund	3,597	3,652
Contribution to gratuity fund	5,000	15,000
Charge in respect of gratuity fund	2,520	3,191

Balances outstanding at year end	2012	2011
	(Rupees in thousand)	
Bank deposits	65,204	65,831
Investments	2,951	2,675
Payable to gratuity fund	764	3,244
Premiums due but unpaid	3,731	13,045

26. SEGMENT REPORTING

26.1 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 and other related perils.
- 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 coverage.
- Accident and health insurance provides coverage against personal accident, hospitalization and other medical benefits.
- Credit and suretyship 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.

26.2 Segment results

	2012						
	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and suretyship	Miscellaneous	Total
	(Rupees in thousand)						
Net premium revenue	22,584	32,195	160,071	65,177	32,069	10,744	322,840
Net claims	(11,765)	(17,549)	(99,230)	(73,801)	(30)	(9,512)	(211,887)
(Premium deficiency expense) / Reversal of remium deficiency expense	-	(1,668)	-	-	346	-	(1,322)
Management expenses	(23,913)	(26,022)	(30,416)	(15,017)	(15,377)	(12,826)	(123,571)
Net commission	11,374	5,263	(13,649)	(1,515)	(2,701)	3,413	2,185
Segment results	(1,720)	(7,781)	16,776	(25,156)	14,307	(8,181)	(11,755)
Net investment income							13,529
Return on bank balances							25,899
Gain on disposal of fixed assets							488
Other income							1,435
							29,596
General and administrative expenses							(53,148)
Financial charges							(905)
Other charges							(204)
Loss before taxation							(24,661)

	2011						
	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and suretyship	Miscellaneous	Total
	(Rupees in thousand)						
Net premium revenue	37,921	24,175	122,376	21,524	2,500	16,418	224,914
Net claims	(15,393)	(15,948)	(84,835)	(16,528)	-	(10,964)	(143,668)
Premium deficiency expense	-	113	-	100	89	187	489
Management expenses	(25,113)	(16,690)	(19,591)	(5,533)	(8,277)	(9,531)	(84,735)
Net commission	15,947	6,637	(9,719)	1,898	3,918	4,300	22,981
Segment results	13,362	(1,713)	8,231	1,461	(1,770)	410	19,981
Net investment income							3,441
Return on bank balances							24,836
Gain on disposal of fixed assets							709
Other income							7,408
							56,375
General and administrative expenses							(46,245)
Financial charges							(1,007)
Other charges							(699)
Profit before taxation							8,424

26.3 Other information - Statement of Assets and Liabilities

	2012						
	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and suretyship	Miscellaneous	Total
	(Rupees in thousand)						
Segment assets	172,250	92,574	101,916	31,402	34,214	168,367	600,723
Unallocated assets	-	-	-	-	-	-	366,050
Consolidated total assets	-	-	-	-	-	-	**966,773**
Segment liabilities	179,337	103,337	143,771	67,195	37,079	195,496	726,215
Unallocated liabilities	-	-	-	-	-	-	23,272
Consolidated total liabilities	-	-	-	-	-	-	**749,487**

	2011						
	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Credit and suretyship	Miscellaneous	Total
	(Rupees in thousand)						
Segment assets	256,310	74,482	259,163	16,102	19,455	108,767	734,279
Unallocated	-	-		-		-	332,453
Consolidated total assets	-	-		-		-	**1,066,732**
Segment liabilities	253,967	119,624	257,220	26,881	17,570	99,411	774,673
Unallocated	-	-	-	-	-	-	49,452
Consolidated total liabilities	-	-		-		-	**824,125**

27. FINANCIAL INSTRUMENTS BY CATEGORY

	2012	2011
	(Rupees in thousand)	
Financial assets and financial liabilities		
Financial assets		
Loans and receivables - amortised cost		
Cash and bank deposits		
Cash and other equivalents	184	410
Current and other accounts	65,351	65,863
Deposits maturing within 12 months	180,000	170,000
	245,535	236,273
Current assets - others		
Premiums due but unpaid	187,165	347,096
Amounts due from other insurers / reinsurers	112,313	111,521
Accrued interest	2,150	2,051
Reinsurance recoveries against outstanding claims	55,439	44,464
Sundry and other receivables	4,463	3,838
	361,530	508,970
Investments - at fair value through profit or loss	66,034	54,182
	673,099	799,425
Financial Liabilities		
Amortised cost		
Provision for outstanding claims (including IBNR)	158,994	115,046
Amounts due to other insurers / reinsurers	164,438	223,073
Accrued expenses	5,500	6,165
Unclaimed dividend	195	195
Obligation under musharakah agreement	2,405	6,108
Other creditors and accruals	51,018	67,616
	382,550	418,203

28. 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.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

The fair value of financial assets and liabilities traded in active markets (e.g. listed shares, treasury bills etc) are based on the quoted market prices at the close of trading on the year end date. The quoted market prices used for financial assets held by the Company is current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The estimated fair value of other financial assets and liabilities is considered not significantly different from carrying values as the items are either short term in nature or periodically repriced.

IFRS 7, 'Financial instruments: Disclosures' requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level3).

	2012			
	(Rupees in thousand)			
	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss				
- Equity securities	21,060	-	-	21,060
- Government treasury bills	-	44,974	-	44,974

	2011			
	(Rupees in thousand)			
	Level 1	Level 2	Level 3	Total
Financial assets designated at fair value through profit or loss				
- Equity securities	16,151	-	-	16,151
- Government treasury bills	-	38,031	-	38,031

29. RISK MANAGEMENT

29.1 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.

29.2 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 suretyship
- Miscellaneous

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

29.2.1 Frequency and severity of claims

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.

29.2.2 Reinsurance Arrangements

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.

In compliance of the regulatory requirement, the reinsurance agreements are duly submitted to the Securities and Exchange Commission of Pakistan on an annual basis.

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

	2012		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	3,315,350	3,291,350	24,000
Marine, aviation and transport	3,420,000	3,377,250	42,750
Motor	18,000	7,230	10,770
Accident and health	1,000	-	1,000
Credit and suretyship	104,106	104,106	-
Miscellaneous	12,616,780	12,537,925	78,855
	19,475,236	19,317,861	157,375

	2011		
	Maximum sum insured	Reinsurance cover	Highest net liability
	(Rupees in thousand)		
Fire and property	3,311,000	3,254,000	57,000
Marine, aviation and transport	3,132,000	3,093,000	39,000
Motor	22,040	13,224	8,816
Accident and health	750	-	750
Credit and suretyship	69,556	69,556	-
Miscellaneous	2,063,000	2,059,000	4,000
	8,598,346	8,488,780	109,566

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

	2012		
	Gross liabilities	Gross assets	Net liabilities / (assets)
	(Rupees in thousand)		
Fire and property	179,337	172,250	7,087
Marine, aviation and transport	103,337	92,574	10,763
Motor	143,771	101,916	41,855
Accident and health	67,195	31,402	35,793
Credit and suretyship	37,079	34,214	2,865
Miscellaneous	195,496	168,367	27,129
	726,215	600,723	125,492

	2011		
	Gross liabilities	Gross assets	Net liabilities / (assets)
	(Rupees in thousand)		
Fire and property	253,967	256,310	(2,343)
Marine, aviation and transport	119,624	74,482	45,142
Motor	257,220	259,163	(1,943)
Accident and health	26,881	16,102	10,779
Credit and suretyship	17,570	19,455	(1,885)
Miscellaneous	99,411	108,767	(9,356)
	774,673	734,279	40,394

29.2.3 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 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.

29.2.4 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.

29.2.5 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	
	Profit and Loss	Equity	Profit and Loss	Equity
	(Rupees in thousand)			
Fire and property	(1,177)	(1,177)	1,177	1,177
Marine, aviation and transport	(1,755)	(1,755)	1,755	1,755
Motor	(9,923)	(9,923)	9,923	9,923
Accident and health	(7,380)	(7,380)	7,380	7,380
Credit and suretyship	(3)	(3)	3	3
Miscellaneous	(951)	(951)	951	951
	(21,189)	(21,189)	21,189	21,189

The above effects have been worked out on the assumption that increase / decrease in net claims expense pertains to individual segment in isolation.

29.3 Financial risk

(i) Market risk

Market risk is the risk that the fair value or future cash flows 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 that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest / mark-up rate risk in respect of the following:

2012

	Interest Rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
		(Rupees '000)						
Financial assets								
Cash and bank deposits	9% - 11%	232,525	-	232,525	13,010	-	13,010	245,535
Investments	9.20%	44,974	-	44,974	21,060	-	21,060	66,034
Premium due but unpaid		-	-	-	187,165	-	187,165	187,165
Amount due from other insurers / reinsurers		-	-	-	112,313	-	112,313	112,313
Accrued interest		-	-	-	2,150	-	2,150	2,150
Sundry and other receivables		-	-	-	-	4,463	4,463	4,463
Reinsurance recoveries against outstanding claims		-	-	-	55,439	-	55,439	55,439
		277,499	-	277,499	391,137	4,463	395,600	673,099
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	158,994	-	158,994	158,994
Amounts due to other insurers / reinsurers		-	-	-	164,438	-	164,438	164,438
Other creditors and accruals		-	-	-	51,018	-	51,018	51,018
Accrued expenses		-	-	-	5,500	-	5,500	5,500
Unclaimed dividend		-	-	-	195	-	195	195
Obligation under musharakah agreement	18.24%-18.40%	849	1,556	2,405	-	-	-	2,405
		849	1,556	2,405	380,145	-	380,145	382,550
		276,650	(1,556)	275,094	10,992	4,463	15,455	290,549

2011

	Interest Rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
		(Rupees '000)						
Financial assets								
Cash and bank deposits	10% - 11.5%	191,919	-	191,919	44,354	-	44,354	236,273
Investments	12.49%	38,031	-	38,031	16,151	-	16,151	54,182
Premium due but unpaid		-	-	-	347,096	-	347,096	347,096
Amount due from other insurers / reinsurers		-	-	-	111,521	-	111,521	111,521
Accrued interest		-	-	-	2,051	-	2,051	2,051
Sundry and other receivables		-	-	-	-	3,838	3,838	3,838
Reinsurance recoveries against outstanding claims		-	-	-	44,464	-	44,464	44,464
		229,950	-	229,950	565,637	3,838	569,475	799,425
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	115,046	-	115,046	115,046
Amounts due to other insurers / reinsurers		-	-	-	223,073	-	223,073	223,073
Other creditors and accruals		-	-	-	67,533	-	67,533	67,533
Accrued expenses		-	-	-	6,165	-	6,165	6,165
Unclaimed dividend		-	-	-	195	-	195	195
Obligation under musharakah agreement	18.24%-18.40%	1,513	4,595	6,108	-	-	-	6,108
		1,513	4,595	6,108	412,012	-	412,012	418,120
		228,437	(4,595)	223,842	153,625	3,838	157,463	381,305

Sensitivity analysis

The Company is exposed to interest risk in respect of saving bank deposits, borrowings under musharakah agreement, investments in Term Deposit Receipts and Government Securities comprising of Market Treasury Bills. For cash flow sensitivity analysis of variable and fixed rate instruments a hypothetical change of 100 basis points in interest rates at the reporting date would have decreased / (increased) profit for the year by the amounts shown below. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all variables remain constant.

	Profit and Loss	
	Increase	Decrease
	(Rupees in thousand)	
As at December 31, 2012		
Cash flow sensitivity - financial assets	1,864	(1,864)
Cash flow sensitivity - financial liabilities	52	(52)
As at December 31, 2011		
Cash flow sensitivity - financial assets	2,450	(2,450)
Cash flow sensitivity - financial liabilities	55	(55)

(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 does 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.

The Company has investments in quoted equity securities amounting to Rs. 21.060 million (2011: Rs. 16.151 million) as at December 31, 2012 which have been carried at fair value. The carrying value of investments subject to equity price risk are, in almost all instances, based on quoted market prices as of the reporting date . Market prices are subject to fluctuation which may result from perceived changes in the underlying economic characteristics of the investee, the relative price of alternative investments and general market conditions.

Sensitivity analysis

As the entire investment portfolio has been classified in the fair value through profit or loss category, a 10% increase / decrease in redemption value and share prices at year end would have increased / decreased unrealised gain / loss of investment recognized in profit and loss account by Rs 0.177 million.

(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 other equivalents 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.

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date on an undiscounted cash flow basis.

	2012			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees in thousand)			
Provision for outstanding claims	158,994	158,994	158,994	-
Amounts due to other insurers / reinsurers	164,438	164,438	164,438	-
Other creditors and accruals	51,018	51,018	51,018	-
Accrued expenses	5,500	5,500	5,500	-
Unclaimed dividend	195	195	195	-
Obligation under musharakah agreement	2,405	2,405	849	1,556
	382,550	382,550	380,994	1,556

	2011			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees in thousand)			
Provision for outstanding claims	115,046	115,046	115,046	-
Amounts due to other insurers / reinsurers	223,073	223,073	223,073	-
Other creditors and accruals	67,533	95,201	95,201	-
Accrued expenses	6,165	6,165	6,165	-
Unclaimed dividend	195	195	195	-
Obligation under musharakah agreement	6,108	6,108	1,513	4,595
	418,120	445,788	441,193	4,595

(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 does 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 the 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:

	2012	2011
	(Rupees in thousand)	
- Bank deposits*	245,351	235,863
- Premiums due but unpaid**	187,165	347,096
- Amounts due from other insurers / reinsurers***	112,313	111,521
- Accrued interest*	2,150	2,051
- Reinsurance recoveries against outstanding claims***	55,439	44,464
- Sundry and other receivables	4,630	4,099
	607,048	745,094

* The credit quality of Company's bank deposits and accrued interest can be assessed with reference to external credit ratings as follows:

	Rating			2012	2011
	Short Term	Long Term	Agency	(Rupees in thousand)	
Bank deposits					
NIB Bank Limited	A1+	AA-	PACRA	65,204	65,830
Habib Metropolitan Bank Limited (including Term Deposit Receipts)	A1+	AA+	PACRA	180,017	170,017
Silk Bank Limited	A-2	A-	JCR VIS	130	16
Faysal Bank Limited	A-1+	AA	JCR - VIS	-	-
				245,351	**235,863**
Accrued interest					
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	**2,150**	**2,051**

**		2012	2011
	The age analysis of premiums due but unpaid is as follows:	(Rupees in thousand)	
	Upto 1 year	173,863	317,159
	1 - 2 years	17,082	14,146
	Over 2 years	14,722	34,293
		205,667	365,598

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 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:

	2012	2011
	(%)	
Textile	13.91	13.72
Transport	8.47	3.54
Financial institutions	7.27	41.87
Hotels	12.75	5.98
Power	4.42	3.31
Oil and gas	3.42	1.36
Others	49.76	30.22
	100	100

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

	2012		
	Amount due from reinsurers	**Amount due from Co-insurers**	**Reinsurance recoveries against outstanding claims**
Rating	(Rupees in thousand)		
A or above	5,054	96,925	54,557
BBB	1,787	3,527	178
Other	5,020	-	704
	11,861	**100,452**	**55,439**

	2011		
	Amount due from reinsurers	**Amount due from Co-insurers**	**Reinsurance recoveries against outstanding claims**
Rating	(Rupees in thousand)		
A or above	3,377	97,545	40,080
BBB	2,987	2,021	3,995
Other	5,591	-	389
	11,955	**99,566**	**44,464**

29.4 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 a paid-up capital of Rs 350 million against the minimum required paid-up capital of Rs 300 million set by the SECP for the non-life insurance companies through issue of Circular No. 3 dated April 10, 2007 for the year ended December 31, 2012.

30. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on March 28, 2013 by the Board of Directors of the Company.

31. GENERAL

31.1 Figures in these financial statements have been rounded off to the nearest thousand rupee.

32. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. No significant reclassifications were made during the current year.

Mohammed Basheer Janmohammed Chairman	**Yameen Kerai** Director	**Ghulam Muhammad** Director	**Ahmed Salahuddin** MD & Chief Executive Officer

Notice of Annual General Meeting

Notice is hereby given that the Nineth 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 Monday April 29, 2013 at 4.00 PM to transact the following business:

Ordinary Business

1. To confirm the Minutes of the Eighth Annual General Meeting held on April 27, 2012.

2. To receive and adopt the audited Financial Statements for the year ended December 31, 2012 together with Directors' Report and Auditors' Report thereon.

3. To appoint auditors for the year 2013 and to fix remuneration. The present auditors M/s. A.F.Ferguson & Co. Chartered Accountants being eligible, offer themselves for reappointment.

4. Any other matter with the permission of Chairman.

By Order of the Board

Muhammad Haneed
Company Secretary

Karachi: April 06, 2013

Notes:

1. The Share Transfer Register of the Company will remain closed from April 22 to April 29, 2013 (both days inclusive).

2. A member entitled to attend and vote at this meeting may appoint another person as his/her proxy to attend, speak and vote instead of him/her behalf at the meeting. Proxies, in order to be valid, 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 meeting. A member shall not be entitled to attend to appoint more than one proxy.

3. CDC shareholders are requested to bring their Computerized National Identity Cards, Accounts / Sub-Accounts Number and Participant's ID Number in the Central Depository Company (CDC) for identification purpose when attending the meeting. In case of a corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

4. Shareholders are requested to notify the Company of any change of address immediately.

5. The Individual Members who have not yet submitted photocopy of their valid Computerized National Identity Card (CNIC) and the Corporate Members who have not yet submitted photocopy of their valid National Tax Number (NTN) to the Company are once again requested to send the same with the Folio number at the earliest directly to the Company's Share Registrar FAMCO Associates (Private) Limited, State Life Building # 1-A, 1st Floor, I.I.Chundrigar Road, Karachi.

PICIC
Insurance Limited

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 9712-13 FAX : 021-3565 4764
Lahore Branch	Mr. Mannan Pervaiz Malik	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 Monday April 29, 2013 at 4.00 P.M. and that at any adjournment thereof.

As withees my/our hand this______________________day of______________________

2013 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.