SECURITY GENERAL INSURANCE COMPANY LIMITED

Annual Report 2011

Security General Insurance Company Limited

Annual Report 2011

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021-34306798-99

CORPORATE BRANCH

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Naveed Hayat Tarar
A.G.M. Marketing, 0333-4371587
Tariq Butt
A.G.M. Marketing, 0321-4628356
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MULTAN BRANCH

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Manager Marketing, 0300-9638331
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GUJRANWALA BRANCH

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Ph: 055-4294071-3

Mission Statement

SGI to become a leader

in insurance

through innovation,

competitive advantage,

customer satisfaction

and

stakeholder confidence.

Quality Policy & Objectives

We aspire to be the lead insurance company and achieve global recognition through quality products, high quality service and superior risk underwriting capability.

To achieve Market dominance through:

Increasing market share
Large & more diversified business portfolio
Greater market outreach

To achieve customer satisfaction through:

Innovative products
High quality & timely customer service
Prompt payment of claims
Provide adequate protection to clients and pass on to clients greater benefits through more cost effective insurance with less risk exposure

To achieve superior risk underwriting capacity:

Through innovative underwriting techniques & practices
Disciplined risk management & judicious underwriting
Through hiring/retaining highly qualified & expereienced underwriters & adequate in house training / exposure

To achieve stakeholders' confidence & continuously improve performance:

By enhanced efficiency through optimum utilization of resources
Through increased premium growth & earnings to enhance the return to shareholders.
Enhance job satisfaction & employee creativity and provide employees with opportunities for personal & career development

ISO 9001: 2008 Certification

Certificate of Registration

MOODY INTERNATIONAL

This is to certify that the Quality Management System of:

SECURITY GENERAL INSURANCE COMPANY LIMITED.
SGI HOUSE, 18-C/E-1, GULBERG-III,
LAHORE – PAKISTAN

has been assessed and found compliant with the requirements of

ISO 9001:2008

Approval is hereby granted for registration on the proviso that the Certification rules and conditions are observed at all times.

Certification Scope:

UNDER WRITING RISK & SELLING INSURANCE.

Certificate No. **02183**

Original Issue Date: **May 28, 2009**

Issue Date: **June 03, 2010**

Expiry Date: **May 24, 2012**

Authorised Signature

Moody International Certification Ltd.
www.moodyint.com

MOODY INTERNATIONAL (PVT) LTD. MOODY PAKISTAN

UKAS QUALITY MANAGEMENT
014

The use of the Accreditation Mark indicates accreditation in respect of those activities covered by the Accreditation Certificate 014. The certificate remains the property of Moody International Certification Limited to whom it must be returned on request.

Insurer Financial Strength Rating

‘A+’

Company Information

Board of Directors

Mian Hassan Mansha	Chairman
Mohammad Azam	Director
Mahmood Akhtar	Director
Aamir Fayyaz Sheikh	Director
Badar ul Hassan	Director
Inayat Ullah Niazi	Director
Shahzad Ahmad Malik	Director
Jehanzaib Amin	Director
Nabiha Shahnawaz	CEO
Khalid Mahmood Chohan	Company Secretary

External Auditors

A.F. Ferguson & Company — Chartered Accountants

Internal Auditors

S.M. Masood & Co. — Chartered Accountants

Lawyers

Hamid Law Associates

Head Office

SGI House, 18 C / E1,
Gulberg III, Lahore.
Tel: 92-42-35775024-29
Fax: 92-42-35775030
E-mail: sgi@sgicl.com
Web: www.sgicl.com

Management

Nabiha Shahnawaz	CEO
Farrukh Aleem	CFO
Khalid Mahmood Chohan	Company Secretary

Audit Committee

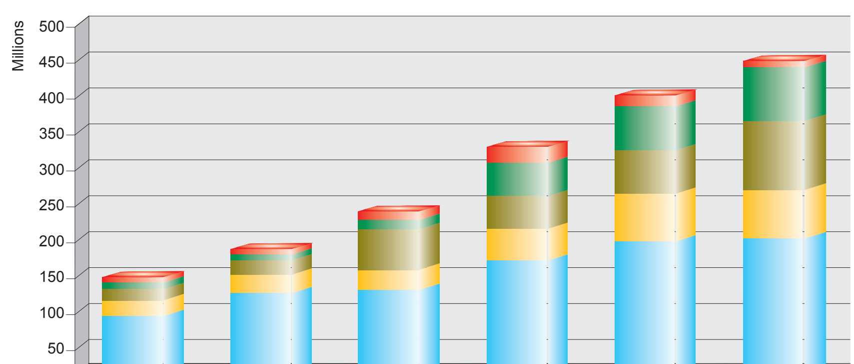
Mian Hassan Mansha	Chairman
Inayat Ullah Niazi	Member
Jehanzaib Amin	Member

Key Financial Data

(Rupees in Million)

Description	**2011**	2010	2009	2008	2007	2006
Gross premium	**451**	402	328	237	181	140
Profit after Tax	**389**	374	314	154	6,262	186
Profit before Tax	**457**	411	329	200	6,285	200
Investment Income	**509**	496	446	298	6,329	252
Underwriting Income	**48**	50	47	41	27	18
Net Revenue	**155**	127	120	69	43	67
Net Claims	**53**	35	31	17	17	53
Paid-up Capital	**681**	681	681	681	227	182
Authorized Share Capital	**1,000**	1,000	1,000	1,000	300	200
Underwriting Reserve	**347**	308	231	125	100	25
Investments	**7,211**	7,295	7,117	7,225	6,969	787
Tangible Fixed Assets	**87**	85	86	80	79	63
Retaind Profit	**6,451**	6,266	6,028	5,850	6,297	171

DEPARTMENT WISE PREMIUM GRAPH



	2006	2007	2008	2009	2010	2011
ENGG	7,044,326	7,629,498	12,635,890	23,094,040	15,881,926	8,963,073
MISC.	10,314,433	8,695,611	13,246,501	47,667,808	62,420,062	76,931,545
MOTOR	15,332,056	19,230,889	57,068,401	47,665,049	62,074,011	99,586,776
MARINE	22,892,595	27,747,506	29,581,459	45,147,149	69,127,640	68,654,090
FIRE	84,774,865	117,525,855	121,876,871	164,734,262	192,558,767	197,297,768
	140,358,275	**180,829,359**	**234,409,122**	**328,308,308**	**402,062,406**	**451,433,253**

Fire & Allied Perils Insurance

Property insurance is required by owners of buildings, machinery, plants, stocks and contents. It is also availed by other persons legally interested in the property of residential houses, commercial and industrial projects, other constructions, products and goods exposed to fire risk.

Coverage Available.

Loss or damage due to:-

Fire & Lightning, Strike Riot and Civil Commotion, Malicious Damage, Explosion, Aircraft Damage, Impact Damage, Earthquake (Fire & Shock), Volcanic eruption, Atmospheric Disturbance, Rain, Hail, Snow, Hurricane, Cyclone, Tornado/ Typhone, Flood, land slide and rockslide damage, Burglary/Theft.

The Fire & Lightning are perils of standard Fire Policy. Other perils are added as suitable to the requirements of the proposers/ parties interested in the cover.

Standard Fire Perils.

1) Fire
2) Lightning

Allied Perils.

1) Riot & Strike
2) Riot Fire
3) Malicious Damage
4) Earthquake (Fire & Shock)
5) Atmospheric Disturbance
6) Aircraft Damage
7) Impact Damage
8) Explosion

Burglary/Theft.

Fire policy is endorsed to cover loss or damage due to burglary / theft,

Electrical Clauses.

1) Electrical Clause (A)
2) Electrical Clause (B)

The clauses are appropriate where loss or damage to electrical machines, apparatus etc is desired to be excluded or covered as provided in the clauses.

Business Interruption Insurance (BI)

It is also known as Consequential Loss or Loss of Profit Insurance. Cover is available for (BI) due to Fire & Allied perils insured by the policy.

Marine Cargo Insurance

Marine Cargo insurance is required by the importers, exporters, traders, banks financing the imports/exports and other persons interested in the cargo against loss or damage during transit.

Security General Insurance Company Limited is providing insurance covers at most economical cost. Cover is available for all types of goods for carriage by Sea, by Air, by Rail, or other land conveyance and is tailored according to the risks involved to the needs of the customers. Risks of WAR & SRCC are also protected as provided in the clauses to ensure maximum cover to the cargo shipments.

Motor Insurance

SGI offers insurance protection at minimum cost to customers in respect of the following:

1) "ACT ONLY'' Liability

2) Third Party Liability

3) Private & Commercial vehicle comprehensive insurance

4) Motor Cycle comprehensive insurance

Engineering & Miscellaneous

SGI presents to customers the most competitive rates, terms & conditions and fully protect their interest in respect of the following:

1) Machinery Breakdown insurance
2) Loss of Profit following Machinery Breakdown insurance
3) Boiler Pressure Vessel insurance
4) Erection All Risks insurance
5) Contractor's All Risks insurance
6) Contractor's Plant and Machinery insurance
7) Third Party Liability for EAR / CAR policies
8) Electronic Equipments insurance.

Review Report To The Members
on Statement of Compliance With Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the Best Practices contained in the Code of Corporate Governance prepared by the Board of Directors of Security General Insurance Company Limited (”the Company”) to comply with the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan applicable to non listed insurance companies.

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

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

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the company’s compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the company for the year ended December 31, 2011.

Lahore.
Dated: March 21, 2012

A.F. Ferguson & Company
Chartered Accountants
Name of the Audit Engagement Partner : Imran Farooq Mian

Statement of Compliance
with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance for Insurance Companies for the purpose of establishing a framework of good governance, whereby an Insurance company is managed in compliance with the best practices of corporate governance.

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

1. The directors have confirmed that none of them is serving as a director in ten or more listed companies.

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

3. Casual vacancies were filled within the time period stipulated by the Companies Ordinance 1984.

4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and has been circulated among the employees of the company.

5. 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.

6. All 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 Chief Executive Officer (CEO), have been taken by the Board.

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

8. The Board has established a system of sound internal control, which is effectively implemented at all levels within the company.

9. An orientation course for directors was arranged during the year 2010.

10. The Board has approved appointment of CFO, Company Secretary and Internal Auditors, including their remuneration and terms and conditions of employment, as determined by the CEO.

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

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

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

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

15. The Board has formed underwriting, claim settlement and reinsurance committees.

16. The Board has formed an audit committee. It comprises of 3 members, all of whom are non-executive directors including the chairman of the committee.

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

18. The Board has set-up an effective internal audit function. The company has outsourced its internal audit function to a firm of professional consultants.

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 Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

On behalf of Board of Directors

Nabiha

Nabiha Shahnawaz
CEO

Dated: March 21, 2012

Notice of Annual General Meeting

Notice is hereby given that Annual General Meeting of the Shareholders of Security General Insurance Company Limited ("the Company") will be held on April 30, 2012 (Monday) at 3:00 p.m. at SGI House, 18-C/E-1, Gulberg III, Lahore, to transact the following business:

1. To confirm minutes of the last general meeting of the shareholders.

2. To receive, consider and adopt the audited financial statements of the Company for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.

3. To approve Cash Dividend @ 15% (i.e. Rs. 1.50 Per Ordinary Share) as recommended by the Board in addition to 15% interim cash dividend already paid.

4. To elect Five (5) Directors of the Company for a period of three years in accordance with the provisions of Section 178 of the Companies Ordinance, 1984 in place of the following retiring Directors:-

1. Mian Hassan Mansha	2. Mr. Jehanzaib Amin	3. Mr. Aamir Fayyaz Sheikh	4. Mr. Mahmood Akhtar
5. Mr. Mohammad Azam	6. Mr. Shahzad Ahmad Malik	7. Mr. Badar ul Hassan	8. Mr. Inayat Ullah Niazi

The Board of Directors has fixed Five (5) numbers of elected Directors. All retiring Directors shall be eligible to offer themselves for re-election.

5. To appoint Auditors for the year 2012 and fix their remuneration in place of retiring Auditors M/s A. F. Ferguson & Co., Charterted Accountants, Lahore.

6. Any other matter with the permission of the Chair.

By order of the Board

Khalid Mahmood Chohan
Company Secretary

LAHORE
Dated: March 21, 2012

NOTES:

1. The Share Transfer Books of Ordinary Shares of the Company will remain closed for entitlement of 15% Final Cash Dividend (i.e. Rs. 1.50 Per Ordinary Share) from 23-04-2012 to 30-04-2012 (both days inclusive). Transfers received in order at SGI House, 18-C /E -1, Gulberg III, Lahore, up to 1.00 p.m. on 21-04-2012 will be considered in time for entitlement of Cash Dividend and attending of meeting.

2. A member eligible to attend and vote at this meeting may appoint another member his / her proxy to attend and vote instead of him/her. Proxies in order to be effective must reach the Company's Registered office not less than 48 hours before the time for holding the meeting.

3. Shareholders are requested to immediately notify the change in address, if any.

INFORMATION U/S 218 OF THE COMPANIES ORDINANCE 1984

In pursuance of Section 218 of the Companies Ordinance, 1984 the members of Security General Insurance Company Limited ("the Company") are hereby informed that the Board of Directors of the Company in their meeting held on March 21, 2012 has revised the remuneration of Ms. Nabiha Shahnawaz Cheema, Chief Executive Officer of the Company from Rs. 219,340/- to Rs. 300,000/- per month with effect from January 2012 by giving an annual increment @ 36.77% p.a. There is no change in other terms and conditions of her appointment.

By order of the Board

Khalid Mahmood Chohan
Company Secretary

LAHORE
Dated: March 21, 2012

Directors' Report To The Members

On behalf of the Board of Directors of Security General Insurance Company Limited, I am pleased to present the 16th annual report of your company for the year ended December 31, 2011.

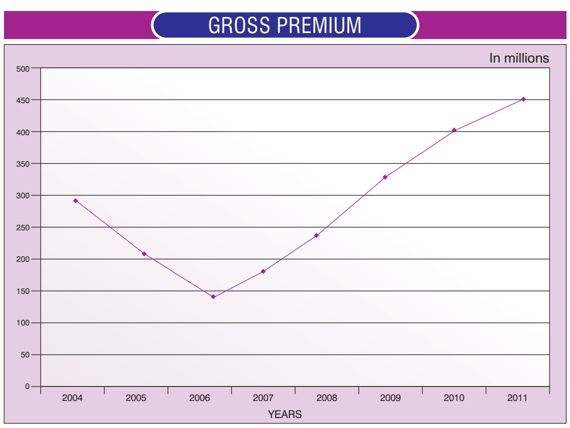
The overall economic activity during the year remained sluggish. Businesses, big & small alike, faced very challenging situation due to shortages of electricity & gas. Law and order situation made it even tougher for businesses to survive.

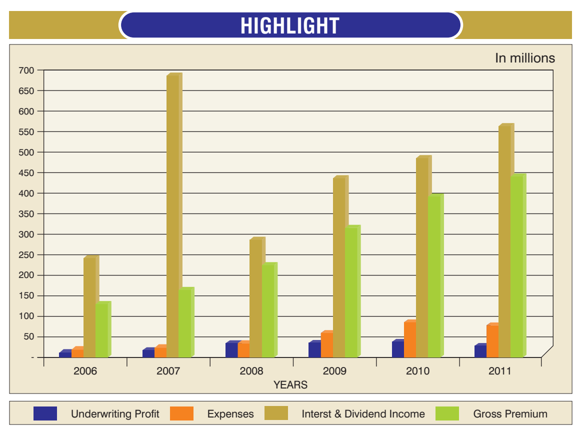
Activities that directly depend upon the economic activities include non life insurance. Therefore, non life insurance sector did not register any promising growth during the current year as well. Situation may improve in future if economic activity gains some momentum and law and order sitution in the country improves.

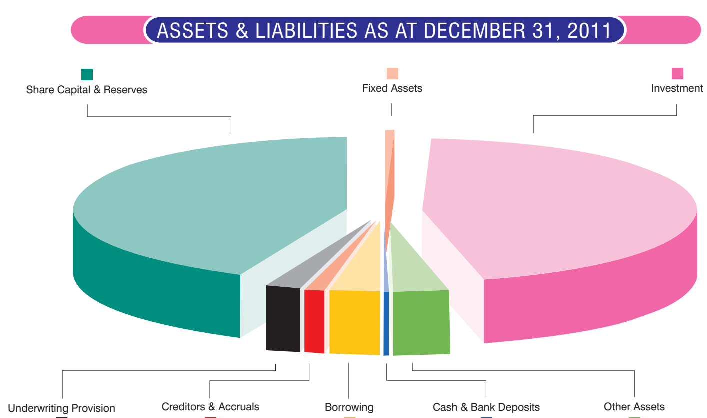
COMPANY'S PERFORMANCE DURING 2011:

SGI underwrote a gross premium of Rs. 451 million during 2011. This shows a growth of 12% over last year. Cash flows from underwriting activities have remained positive. During the year, the company paid a 15% interim cash dividend.

	Dec, 2011	Dec, 2010	Increase/Decrease
	(Rupees in million)		%
Gross Premium	451	402	12
Net Premium earned	155	127	22
Net Commission	9	3	200
Net Claims	53	35	51
Profit from underwriting business	48	50	(4)
Other income (not attributable to investment activities)	17	5	240
Investment income	509	496	3
Financial charges	71	87	(18)
Profit before tax	457	411	11
Profit after tax	389	374	4

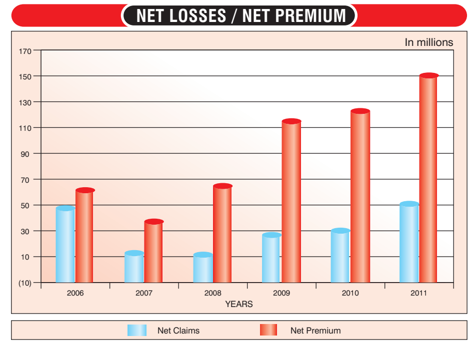






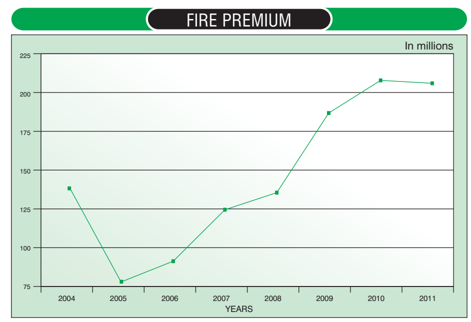
UNDERWRITING ACTIVITY:

SGI underwrote a gross premium of Rs. 451 million during the year 2011. Underwriting profit for the year stands at Rs. 48 million (2010 Rs. 50 million). Underwritting profit bears a percentage of 31% to the net premium revenue.



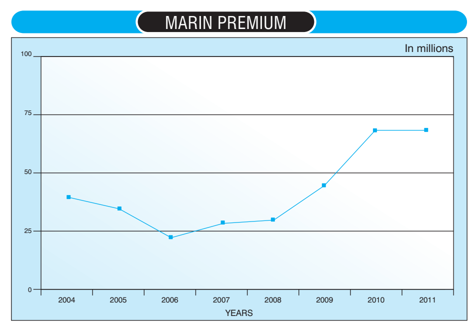
FIRE & PROPERTY DAMAGE:

Premium written in Fire business has decreased as compared to same period during last year by 1%. The underwriting profit from fire business for period ended December 31^{st} 2011 is 36%. Fire and property portfolio represents 46% of the total underwriting portfolio of SGI.



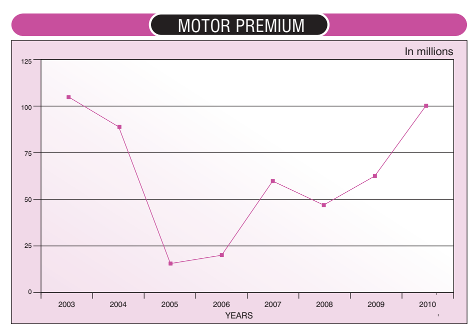
MARINE AVIATION AND TRANSPORT BUSINESS:

Premium from marine business has remained the same during the period ended December 31^{st} 2011 as compared to the period ended December 31^{st} 2010 that is Rs.69 million.. Marine business represents 15% of the total underwriting portfolio of the company. Underwriting profit from marine business is 58% of the net premium.



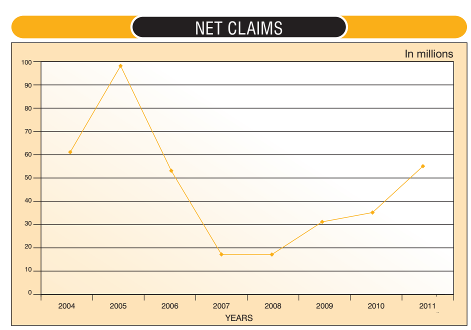
MOTOR:

The gross premium from motor business has increased from Rs. 62 million during the period ended December 31^{st} 2010 to Rs. 100 million during the period ended December 31^{st} 2011. The profitability from the motor business for the period ended December 31^{st} 2011 is 6% of net premium from this business. Motor business represents 22% of the total underwriting portfolio of the company.



CLAIMS:

The overall claims expense has increased from Rs. 35 million during the period ended December 31^{st} 2010 to Rs. 53 million during the period ended December 31^{st} 2011. Net claims are 34% of premium (2010 : 27%).



INVESTMENTS:

The market value of our investment portfolio decreased from Rs. 9 billion on December 31st 2010 to Rs. 6 billion on the December 31st 2011. The company earned a dividend of Rs. 566 million from its investment portfolio (2010 : 464 million). The company sold part of its investments and earned a capital gain of Rs. 4.4 million (2010 : Rs. 25.3 million).

CASH FLOWS:

As of December 31st 2011 company's cash flow from underwriting activities, and investment activities is positive. Cash flow from financing activities is negative because of payment of dividend and financial charges. Overall business cashflow is positive.

IMPAIRMENT OF ASSETS:

The company recorded impairment loss of Rs. 69.8 million on available-for-sale investments. This amount represents a decrease in value of investments which was not considered temporary.

EARNINGS PER SHARE:

Earning per share has increased from Rs. 5.48 during the period ended December 31st 2010 to Rs. 5.72 during the period ended December 31st 2011.

CREDIT RATING:

JCR -VIS Credit rating company Ltd., has maintained the Insurer Financial Strength (IFS) Rating of SGI at 'A+' (single A plus).

ISO CERTIFICATION:

Security General Insurance Company has been certified by Moody International as ISO 9001:2008 compliant.

BOARD AUDIT COMMITTEE:

As required under the code of corporate governance for insurance companies, the board audit committee reviewed the results of all four quarters for the year. Following persons have remained its members during the year:

Mian Hassan Mansha	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Jehanzeb Amin	Member

CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

The Directors are pleased to give the following statement in respect of Code of Corporate Governance.

- The Financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance 2000 and Companies Ordinance 1984. These statements present fairly the company's state of affair, results of its operations, cash flow and changes in equity.
- Proper books of accounts have been maintained by the company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The international accounting standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data is available in the annual report.
- All applicable statutory payments on account of taxes, duties etc were regularly and timely deposited in the Government treasury.
- Value of investments of Provident Fund as at 31st December 2011 stands at Rs. 4,000,000.
- The number of board meetings held during the year were 4 and were attended by the directors as follows:

Mian Hassan Mansha (Chairman)	4
Aamir Fayyaz Sheikh	2
Jehanzaib Amin	2
Mahmood Akhtar	3
Inayat Ullah Niazi	3
Shahzad Ahmad Malik	4
Badar ul Hassan	4
Muhammad Azam	3
Nabiha Shahnawaz (CEO)	4

Mr. Mahmood Akhtar appointed in place of Mr. Manzar Mushtaq on April 23, 2011.
Mr. Muhammad Azam appointed in place of Mr. Waleed Tariq Saigol on June 22, 2011.
Mr. Waleed Tariq Saigol resigned on June 22, 2011.
Mr. Manzar Mushtaq resigned on April 23, 2011.

- The aggregate shares held by the Associated Companies are:

1.	Kohinoor Mills Limited.	643,667
2.	Nishat Mills Limited.	10,226,244

- The pattern of share holding is given on page 60 of this report.

ACKNOWLEDGEMENTS:

The directors and the management of the company are grateful to the sponsors for their valuable guidance and support. We are thankful to our clients and policy holders for their confidence and continued patronage of the company and for allowing us to serve them. We also take this opportunity to thank the SECP for the cooperation extended to the company throughout the year, and our reinsurers for their dynamic collaborative contribution. Finally we would like to express our whole hearted appreciation to the staff for their dedication and efforts enabling SGI to achieve positive results.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE:

The provisions of the Code of Corporate Governance for the insurance companies have been complied with during the year under review. The Board and audit committee have reviewed the results of all the quarters of the year after the closure of the respective quarter. The statement of compliance with Code of Corporate Governance is included in the annual report of the Company.

On behalf of Board of Directors

Nabiha Shahnawaz
CEO

Dated: March 21, 2012

Auditors' Report To The Members

We have audited the annexed financial statements comprising :

(i) balance sheet;
(ii) profit and loss account;
(iii) statement of comprehensive income;
(iv) statement of changes in equity;
(v) cash flow statement;
(vi) statement of premiums;
(vii) statement of claims;
(viii) statement of expenses; and
(ix) statement of investment income

of Security General Insurance Company Limited as at 31, December 2011 together with the notes forming part thereof, for the year ended December 31, 2011.

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

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standard require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 31 December 2011 and of the profit, its cash flows and changes in equity for the year ended December 31, 2011, in accordance with approved Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

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

Lahore,
Dated: March 21, 2012

A.F. Ferguson & Company
Chartered Accountants
Name of the Audit Engagement Partner : Imran Farooq Mian

Balance Sheet

	Note	2011 Rupees	2010 Rupees
Share capital and reserves			
Authorised capital 100,000,000 (2010: 100,000,000) ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid up capital 68,062,500 (2010: 68,062,500) ordinary shares of Rs. 10 each	5	680,625,000	680,625,000
General reserves		2,000,000	2,000,000
Retained earnings		6,451,084,988	6,265,942,651
		7,133,709,988	6,948,567,651
Underwriting provisions			
Provision for outstanding claims [including IBNR]	6	156,670,252	134,112,342
Provision for unearned premium		190,097,932	174,356,460
Commission income unearned		27,326,287	26,887,717
Total underwriting provisions		374,094,471	335,356,519
Deferred taxation	7	-	8,427,638
Creditors and accruals			
Premium received in advance		1,416,398	2,212,210
Deposits received against bonds		32,621,558	38,428,244
Amounts due to other insurers / reinsurers		82,208,033	68,078,168
Creditors and accrued expenses	8	79,071,405	81,824,218
		195,317,394	190,542,840
Borrowings			
Finances under mark-up arrangements - secured	9	218,056,815	470,321,013
Total Liabilites		787,468,680	1,004,648,010
Contingencies and commitments	10		
Total Equity and Liabilities		7,921,178,668	7,953,215,661

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

as at December 31, 2011

	Note	2011 Rupees	2010 Rupees
Cash and bank deposits			
Cash and other equivalents	11	12,839	9,355
Current and other accounts	12	54,877,453	40,681,328
Deposits maturing within 12 months	13	1,350,000	1,350,000
Deposits maturing after 12 months	14	500,000	500,000
		56,740,292	42,540,683
Investments	15	7,211,211,426	7,295,084,783
Other assets			
Premiums due but unpaid - unsecured considered good		107,069,504	51,207,271
Amounts due from other insurers /reinsurers	16	155,369,798	164,482,710
Accrued investment income		2,820,896	2,822,486
Reinsurance recoveries against outstanding claims		110,459,253	108,423,253
Commission expense deferred		42,317,708	38,646,494
Prepayments	17	113,564,614	114,192,988
Taxation-payments less provision		11,591,032	45,999,498
Sundry receivables	18	3,862,227	4,510,080
		547,055,032	530,284,780
Fixed assets	19		
Freehold Land		10,446,900	10,446,900
Leasehold improvements		1,030,673	910,405
Building		37,616,595	41,796,217
Computer equipment		1,927,624	1,711,066
Furniture and fixtures		3,684,835	3,554,029
Motor vehicles		19,992,332	17,516,076
Trackers		6,282,383	3,337,281
Office equipment		6,357,814	6,033,441
		87,339,156	85,305,415
Deferred taxation	20	18,832,762	-
Total Assets		7,921,178,668	7,953,215,661

Director

Principal & Chief Executive Officer

Profit and Loss Account
for the year ended December 31, 2011

	Note	Fire and property Damage Rupees	Marine, aviation and transport Rupees	Motor Rupees	miscellaneous Rupees	Treaty Rupees	2011 Rupees	2010 Rupees
Revenue account								
Net premium revenue		57,683,040	32,398,472	57,586,601	7,711,064	(38)	155,379,139	127,006,806
Net claims		(9,464,032)	(5,811,013)	(37,233,818)	(200,145)	(16)	(52,709,024)	(34,907,805)
Expenses	21	(20,326,922)	(6,470,573)	(12,228,592)	(6,864,577)	-	(45,890,664)	(38,812,698)
Net commission		(7,148,062)	(1,372,882)	(4,890,462)	4,214,713	(53)	(9,196,746)	(2,821,545)
Underwriting result		20,744,024	18,744,004	3,233,729	4,861,055	(107)	47,582,705	50,464,758
Investment income							508,664,751	496,436,000
Income on current and other deposits							8,138,935	4,701,679
Other income	22						8,382,743	-
Financial charges	23						(70,937,450)	(87,491,820)
Gain / (loss) on sale of fixed assets							66,576	169,265
General and administration expenses	24						(44,741,403)	(53,525,488)
							409,574,152	360,289,636
Profit before taxation							457,156,857	410,754,394
Provision for taxation	25						(67,827,020)	(37,097,545)
Profit after taxation							389,329,837	373,656,849
Profit and loss appropriation account								
Balance at commencement of the year							6,265,942,651	6,028,410,802
Final dividend for the year ended December 31, 2010 Rs. 1.5 per share (2009 Rs. 1 per share)							(102,093,750)	(68,062,500)
Profit after taxation for the year							389,329,837	373,656,849
Interim dividend Rs. 1.5 per share (2010 : Rs. 1 per share)							(102,093,750)	(68,062,500)
Balance unappropriated profit at the end of the year							6,451,084,988	6,265,942,651

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha

Chairman | Director | Director | Principal & Chief Executive Officer

Statement of Comprehensive Income
for the year ended December 31, 2011

	Year ended December 31	
	2011 Rupees	2010 Rupees
Profit for the year	**389,329,837**	373,656,849
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**389,329,837**	373,656,849

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha

Chairman | Director | Director | Principal & Chief Executive Officer

Statement of Changes in Equity
for the year ended December 31, 2011

	Share capital Rupees	Reserve for issue of bonus shares Rupees	General reserve Rupees	Retained earnings Rupees	Total Rupees
Balance as at January 1, 2010	680,625,000	-	2,000,000	6,028,410,802	6,711,035,802
Final Dividend for the year ended December 31, 2009 at Rs. 1 per share	-	-	-	(68,062,500)	(68,062,500)
Profit for the year	-	-	-	373,656,849	373,656,849
Other comprehensive income for the year	-	-	-	-	-
Interim dividend at Rs. 1 per share for the year 2010	-	-	-	(68,062,500)	(68,062,500)
Balance as at December 31, 2010	680,625,000	-	2,000,000	6,265,942,651	6,948,567,651
Final Dividend for the year ended December 31, 2010 at Rs. 1.5 per share	-	-	-	(102,093,750)	(102,093,750)
Profit for the year	-	-	-	389,329,837	389,329,837
Other comprehensive income for the year	-	-	-	-	-
Interim dividend at Rs. 1.5 per share fot the year 2011	-	-	-	(102,093,750)	(102,093,750)
Balance as at December 31, 2011	**680,625,000**	**-**	**2,000,000**	**6,451,084,988**	**7,133,709,988**

The annexed notes 1 to 33 form an integral part of these financial statements.

Chairman	Director	Director	Principal & Chief Executive Officer

Cash Flow Statement

for the year ended December 31, 2011

	Note	2011 Rupees	2010 Rupees
Operating cash flows			
Underwriting activities			
Premiums received		393,519,425	390,743,821
Reinsurance premiums paid		(281,407,694)	(228,245,839)
Claims paid		(122,941,108)	(110,080,363)
Reinsurance and other recoveries received		100,272,196	83,577,680
Commissions paid		(76,362,370)	(69,785,284)
Commissions received		77,088,134	79,797,695
Other underwriting payments		(3,590,707)	(5,252,866)
Other underwriting receipts		9,072,741	6,607,303
Net cash inflow from underwriting activities		95,650,617	147,362,147
Other operating activities			
Income tax paid		(60,678,954)	(40,804,578)
General and management expenses paid		(78,050,248)	(66,786,806)
Net cash outflow from other operating activities		(138,729,202)	(107,591,384)
Total cash inflow / (outflow) from all operating activities		(43,078,585)	39,770,763
Investment activities			
Profit/return received		16,708,387	13,498,507
Dividends received		566,016,748	463,550,748
Payments for purchase of investments		(1,892,614)	(206,261,246)
Proceeds from disposal of investments		20,727,645	53,218,659
Fixed capital expenditure		(13,630,811)	(10,216,249)
Proceeds from disposal of fixed assets		305,000	1,706,677
Total cash inflow from investing activities		588,234,355	315,497,096
Financing activities			
Dividend paid		(204,187,500)	(136,125,000)
Financial charges paid		(74,504,463)	(91,635,470)
Total cash outflow from financing activities		(278,691,963)	(227,760,470)
Net cash inflow from all activities		266,463,807	127,507,389
Cash at the beginning of the year		(428,280,330)	(555,787,719)
Cash at the end of the year	26.1	(161,816,523)	(428,280,330)

The annexed notes 1 to 33 form an integral part of these financial statements.

Chairman	Director	Director	Principal & Chief Executive Officer

Statement of Premium
for the year ended December 31, 2011

Business underwritten inside Pakistan

Direct and facultative

Class	Premiums written Rupees	Unearned premium reserve Opening Rupees	Unearned premium reserve Closing Rupees	Premiums earned Rupees	Reinsurance ceded Rupees	Prepaid reinsurance premium Opening Rupees	Prepaid reinsurance premium Closing Rupees	Reinsurance expense Rupees	Other income Rupees	Net premium revenue December 31, 2011 Rupees	Net premium revenue December 31, 2010 Rupees
Fire and property damage	206,260,841	105,933,099	97,511,358	214,682,582	152,741,798	74,507,495	66,475,313	160,773,980	3,774,438	**57,683,040**	48,227,867
Marine, aviation and transport	68,654,090	9,698,701	9,064,675	69,288,116	37,128,324	7,277,512	5,241,068	39,164,768	2,275,124	**32,398,472**	25,615,093
Motor	99,586,776	28,923,249	54,065,934	74,444,091	32,363,930	4,138,598	16,992,579	19,509,949	2,652,459	**57,586,601**	48,404,769
Miscellaneous	76,931,545	29,801,411	29,455,965	77,276,991	66,847,278	27,110,765	24,021,396	69,936,647	370,720	**7,711,064**	4,759,681
Total	451,433,252	174,356,460	190,097,932	435,691,780	289,081,330	113,034,370	112,730,356	289,385,344	9,072,741	**155,379,177**	127,007,410
Treaty	(38)	-	-	(38)	-	-	-	-	-	**(38)**	(604)
Grand total	451,433,214	174,356,460	190,097,932	435,691,742	289,081,330	113,034,370	112,730,356	289,385,344	9,072,741	**155,379,139**	127,006,806

Note: Net Premium revenue includes administration surcharge of Rs. 9,072,741 (2010: Rs. 6,607,303) earned on insurance policies issued by the company.

The annexed notes 1 to 33 form an integral part of these financial statements.

Chairman | Director | Director | Principal & Chief Executive Officer

Statement of Claims
for the year ended December 31, 2011

Business underwritten inside Pakistan

Direct and facultative

Class	Claims paid Rupees	Outstanding claims Opening Rupees	Outstanding claims Closing Rupees	Claims expense Rupees	Reinsurance and other recoveries received Rupees	Reinsurance and other recoveries in respect of outstanding claims Opening Rupees	Reinsurance and other recoveries in respect of outstanding claims Closing Rupees	Reinsurance and other recoveries revenue Rupees	Net claims expenses December 31, 2011 Rupees	Net claims expenses December 31, 2010 Rupees
Fire and property damage	68,835,541	60,592,994	60,254,681	68,497,228	61,335,853	56,089,549	53,786,892	59,033,196	**9,464,032**	8,327,667
Marine, aviation and transport	21,801,904	15,870,868	16,007,119	21,938,155	16,482,511	9,915,045	9,559,676	16,127,142	**5,811,013**	7,702,168
Motor	27,254,298	13,112,694	40,620,249	54,761,853	8,429,211	724,062	9,822,886	17,528,035	**37,233,818**	17,508,934
Miscellaneous	3,645,573	44,535,786	39,788,203	(1,102,010)	3,102,643	41,694,597	37,289,799	(1,302,155)	**200,145**	1,369,792
Total	121,537,316	134,112,342	156,670,252	144,095,226	89,350,218	108,423,253	110,459,253	91,386,218	**52,709,008**	34,908,561
Treaty	16	-	-	16	-	-	-	-	**16**	(756)
Grand total	121,537,332	134,112,342	156,670,252	144,095,242	89,350,218	108,423,253	110,459,253	91,386,218	**52,709,024**	34,907,805

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Nabiha
Principal & Chief Executive Officer

Statement of Expenses
for the year ended December 31, 2011

Business underwritten inside Pakistan

Direct and facultative

Class	Commissions paid or payable Rupees	Deferred commission Opening Rupees	Deferred commission Closing Rupees	Net commission expenses Rupees	Other management expenses Rupees	Under writing expense Rupees	Commissions from reinsurers Rupees	Net underwriting expenses December 31, 2011 Rupees	Net underwriting expenses December 31, 2010 Rupees
Fire and property damage	56,820,265	30,332,665	30,268,973	56,883,957	20,326,922	77,210,879	49,735,895	27,474,984	17,719,739
Marine, aviation and transport	14,694,532	1,906,747	2,061,811	14,539,468	6,470,573	21,010,041	13,166,586	7,843,455	13,080,067
Motor	11,748,947	3,128,614	7,139,224	7,738,337	12,228,592	19,966,929	2,847,875	17,119,054	9,576,847
Miscellaneous	6,253,727	3,278,468	2,847,700	6,684,495	6,864,577	13,549,072	10,899,208	2,649,864	1,257,807
Total	89,517,471	38,646,494	42,317,708	85,846,257	45,890,664	131,736,921	76,649,564	55,087,357	41,634,460
Treaty	53	-	-	53	-	53	-	53	(217)
Grand total	89,517,524	38,646,494	42,317,708	85,846,310	45,890,664	131,736,974	76,649,564	55,087,410	41,634,243

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Nabiha
Principal & Chief Executive Officer

Statement of Investment Income
for the year ended December 31, 2011

	December 31, 2011 Rupees	December 31, 2010 Rupees
Income from non-trading investments		
Held-to-maturity		
Return on Government securities	8,988,499	8,905,190
Available-for-sale		
- Dividend income		
Dividend income from related parties	76,911,205	20,542,924
Dividend income from others	489,105,543	443,007,824
	566,016,748	463,550,748
- Gain on sale of shares	4,388,340	25,271,309
	570,405,088	488,822,057
	579,393,587	497,727,247
Less: Investment related expenses	(974,000)	(1,291,247)
Impairment loss	(69,754,836)	-
Net investment income	508,664,751	496,436,000

The annexed notes 1 to 33 form an integral part of these financial statements.

Hasan Mansha

Chairman | Director | Director | Principal & Chief Executive Officer

Notes to the Financial Statements
for the year ended December 31, 2011

1. Legal status and nature of business

Security General Insurance Company Limited is a general non-life insurance company which was incorporated as an unquoted public limited company in Pakistan on May 13, 1996 under the Companies Ordinance, 1984. The company has 10 branches in Pakistan (2010: 10). The registered office and the principal place of business is situated at SGI House, 18-C/E-1, Gulberg III, Lahore.

2. Basis of preparation

2.1 Basis of presentation and statement of compliance

These financial statements have been prepared in accordance with the requirements of the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise such International Accounting Standards (IASs, IFRSs and IFRICs) as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are appliable to the company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Amendments to published standards effective in 2011 and are relevant to the company

The following amendments to standards are manadatory for the first time for the financial year beginning January 1, 2011.

- IAS 1 (amendment), 'Presentation of financial statements', is effective for annual periods beginning on or after January 1, 2011. The amendment clarifies that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changing in equity or in the notes to the financial statements. The amendments is note expected to have a material impact on the company's financial statements.

- IFRS 7 (amendment), 'Financial instruments: Disclosures', is effective for annual periods beginning on or after January 1, 2011. The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments. The amendment is not expected to have a material impact on the company's financial statements.

- IAS 24 (Revised), 'Related Party Disclosures', is effective for annual periods beginning on or after January 1, 2011. The definition of a related party has been clarified to simplify the identification or related party relationships, particularly in relation to significant influence and joint control. This is not expected to have a material impact on the company's financial statements.

- IAS 34 (amendment), 'Interim financial reporting'. The amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments and their classification, transfers or financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets.

2.2.2. Standards, amendments to published standards and interpretations effective in current year but not applicable/relevant to the company's operations

Standards or interpretations	Effective date (accounting periods beginning on or after)
IAS 27 - (amendments), 'Consolidated and separate financial statements'	July 1, 2010
IAS 24 - Related party disclosures	January 1, 2011
IAS 32 - (amendments), 'Financial instruments'- presentation - classification of right issues	February 1, 2010
IFRS 1 - 'First time adoption', on fixed dates and hyperinflation	July 1, 2011
IFRS 3 - Business combinations (revised)	July 1, 2010
IFRS 7 - Financial Instruments disclosures - on derecognition	July 1, 2011
IFRIC 13 - Customer loyalty programmes	January 1, 2011
IFRIC19 - Extinguishing financial liabilities with equity instruments	July 1, 2010
IFRIC14 - Prepayments to minimum funding requirement	January 1, 2011

SECP has allowed the insurance companies to defer the application of International Accounting Standard - 39 (IAS 39) Financial Instruments: Recognition and Measurement, in respect of investments available for sale until suitable amendments have been made in the laws. Accordingly, the requirements of IAS - 39, to the extent allowed by the SECP, have not been considered in preparation of these financial statements.

2.2.3. Standards and intepretations to existing standards that are not relevant to the company and not yet effective

The following standards, amendments and interpretations to published approved accounting standards, effective for annual accounting periods beginning on or after the dates specified below are either not applicable or relevant to the company's operations or are not expected to have significant impact on the company's financial statements other than enhanced disclosures in certain cases.

Standards or interpretations	Effective date
IAS 1 - Financial statement presentation	July 1, 2012
IAS 12 - Income Taxes	January 1, 2012
IAS 27 - (revised), 'Separate financial statements'	January 1, 2013
IAS 28 - (revised), 'Associate and joint vanture'	January 1, 2013
IFRS 10 - Consolidated financial statements	January 1, 2013
IFRS 11 - Joint Arrangements	January 1, 2013
IFRS 12 - Disclosures of interests in other entities	January 1, 2013
IFRS 13 - Fair value measurement	January 1, 2013

2.2.4. Standards, amendments and intepretations to existing standards not yet effective and are relevant to the company.

The following amendments and interpretations to existing standards have been published and are mandatory for the company's accounting period beginning on or after their respective effective dates:

- IAS 19- Employee benefits- These amendments eliminate the corridor approach and calculate finance cost on a net funding basis. This amendment is effective for periods beginning on or after January 1, 2013.

- IFRS 7- Financial Instruments - These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers or financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. This amendment is effective for periods beginning on or after January 1, 2012.

- IFRS 9, Financial instruments , issued in November 2009, is effective for periods beginning on or after January 1, 2013. This standard is the first step in the process to replace IAS 39, Financial instruments: recognition and measurement. IFRS 9 introduces new requirements for classifying and measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company' accounting for its financial assets. The Company is yet to assess the IFRS 9 full impact.

3. Basis of measurement

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee retirement benefit at present value.

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results may be different from the estimates since anticipated events frequently do not occur as expected and the variation could be material. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision effects only that period, or in the period of revision and future periods, if the revision effects both current and future periods. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

		Notes
a)	Premium deficiency reserve	4.2.2
b)	Provision for outstanding claims including, incurred but not reported claims (IBNR)	4.3
c)	Provision for taxation	4.11 & 25
d)	Provision for doubtful receivables	4.6 & 16
e)	Useful lives and residual values of fixed assets	4.14 & 19
f)	Defined benefit plan	4.15

4. Summary of significant accounting policies

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

4.1 Insurance Contracts

Insurance contracts are those contracts where the company has accepted significant insurance risk from the policyholders by agreeing to compensate the policy holders on the occurrence of a specified uncertain future event i.e. insured event, that adversely affects the policyholders. Significant insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event.

The company issues non-life insurance contracts only under four main classes of business i.e. fire and engineering, marine, motor and miscellaneous and are issued to corporate and individual clients. The tenure of these insurance contracts depend upon terms of the policies written and vary accordingly.

- Fire and engineering insurance contracts generally cover the policy holders against damages by Fire, earthquake, riot and strike, explosion, atmospheric disturbance, flood, burglary, etc.

- Marine insurance contracts generally provide cover against cargo risk, war risk and damages occurring during transit between the points of origin and final destintion.

- Motor insurance contracts provide indemnity against total or partial loss of vehicle, third party loss and other comprehensive car coverage, etc.

- Miscellaneous insurance contracts provide cover against possibility to pay benefits on the occurrence of an insured event other than the above mentioned classes.

The company accepts inward reinsurance by way of facultative acceptances. The nature of risk undertaken in these contracts is consistent with those stated above, in direct and other lead insurance contracts.

Accounting policies for revenue recognition and recognition of claims are dealt with in notes 4.17 and 4.3, respectively. While note 4.5 provides accounting policy for recording of amounts due to/from other insurers/reinsurers/agents.

4.2. Unexpired insurance risk

4.2.1 Provision for unearned premium

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage at the reporting date. The company maintains its provision, except for marine insurance contracts, for unearned premium net of reinsurances by applying the 1 / 24th method as stipulated in SEC (Insurance) Rules, 2002 for non life insurance companies. However, in case of marine insurance contracts, company maintains provision for unearned premium net of reinsurances by applying 1 / 6th method.

4.2.2 Premium deficiency reserve

The company maintains a premium deficiency reserve for each class of business. This reserve is created for an amount by which the unearned premium for any class of business, is not sufficient to cover the expected future claims settlement costs and other handling costs after reinsurance recoveries, for claims expected to be incurred after the balance sheet date in respect of the policies in force at the balance sheet date in that class of business. Any movement in the reserve is to be charged to the profit and loss account and forms part of underwriting results.

Loss ratios for each class of business are analyzed based on historical claim development. Where ratios are adverse, judgement is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. If a premium deficiency is determined, as a result of such assessment, the entire deficiency is recognized in current period. The loss ratio estimates for the current and prior period are as follows:

	Loss ratio estimates	
	2011	2010
Fire and property damage	**17%**	18%
Marine, aviation and transport	**28%**	37%
Motor	**33%**	31%
Miscellaneous	**33%**	53%

The management considers that the unearned premium reserve for all classes of business as at the year end is adequate to meet the expected future liability after reinsurance claims and other expenses, expected to be incurred after the balance sheet date in respect of policies in those classes of business in force at the balance sheet date. Hence, no reserve for the same has been made in these financial statements.

4.3 Provision for outstanding claims (including IBNR)

Estimate for claims incurred include all losses occurring during the year, whether reported or not, related handling costs expected and any adjustment to claims outstanding from previous years.

Outstanding claims provision are based on the estimated cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs at undiscounted values after reduction for the value of salvage and other recoveries. Incurred but not reported (IBNR) claims are recognized after taking into account the five years average of past claims that were incurred but not reported at the respective balance sheet dates.

Claims development shown in note 30.1.4 shows that in any of the previous four years, provision for outstanding claims at respective reporting dates did not prove inadequate at the time of actual settlement of respective claims. For reinsurance recoveries against outstanding claims, refer to note 4.12.

4.4 Reinsurance Contracts

A contract through which a direct insurer is compensated for the insurance risk accepted by it to another entity either partially or in whole is recognized as a reinsurance contract.

The accounting policies in respect of amounts due to/from reinsurers are referred to in note 4.5 to the financial statements. Recognition criteria for reinsurance income and reinsurance expense is stated in note 4.22 and note 4.13, respectively.

Reinsurance assets include amounts due to/from reinsurers and are measured consistently with the terms of each reinsurance contract specifically. Whereas, reinsurance liabilities primarily include premium payable and commission payable (in case of facultative acceptance). Reinsurance assets are not set off against related insurance liabilities.

The movement in reinsurance assets and their credit rating for the year ended December 31, 2011 is referred to in note 17 and note 30.2 to the financial statements, respectively.

4.5 Amounts due to/from other insurer/reinsurers/agents

Amounts due to/from other insurers/reinsurers/agents are carried at cost less provision for impairment. Cost represents the fair value of the consideration to be paid/received in future for the services received/rendered. Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expired.

4.6 Provision for doubtful receivables

The receivable balances are reviewed against any provision required for any doubtful balances on an ongoing basis. The provision is made while taking into consideration expected recoveries, if any.

4.7 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 future for goods and services received, whether or not billed to the company.

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, 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 reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.8 Borrowings

Loans and borrowings from banks are recorded at the proceeds received. Finance charges are accounted for on an accrual basis and are included in creditors and accruals to the extent of the remaining unpaid amount.

4.9 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and short term finances under mark-up arrangements.

4.10 Investments

All "regular way" purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment. Investments made by the company are classified for the purpose of measurement into following categories:

Held-to-maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are initially recognized at cost being the fair value of consideration given and include transaction costs. At subsequent reporting dates, these are measured at amortized cost using the effective yield method. Any premium paid or discount availed on acquisition of such investments is deferred and included in the income for the period on a straight line basis over the term of investment.

Available-for-sale

Investments classified as available-for-sale are initially measured at cost, being the fair value of consideration given and include transaction costs. Subsequent to initial recognition at cost, these are stated at the lower of cost and market value (market value being taken as lower if the fall is other than temporary), in accordance with the requirements of S.R.O. 938 issued by the SECP in December 2002. The company uses latest Stock Exchange quotations in an active market to determine the market value of its listed investments. Impairment of unqouted investments is computed by reference to net assets of the investee on the basis of the latest available audited / unaudited financial statements.

This policy of stating available-for-sale investments at lower of cost and market value is not in compliance with IAS 39, which states that investments available-for-sale, at subsequent reporting dates should be measured at fair value. The market value of available-for-sale investments as at December 31, 2011 is Rs. 5,880,043,233 (2010: 9,029,006,141). Had the company complied with IAS 39, the carrying value of investments as at December 31, 2011 would have been lesser by Rs. 1,157,839,464.

During the year, the company has recognized impairment loss amounting to Rs. 69,754,836 (2010:Nil) on available-for-sale investments. This amount represents a decrease in value of investment which was not considered temporary.

4.11 Taxation

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

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity. Deferred tax asset has not been recognized with respect to unused tax losses amounting to Rs. 314,462,661 as this is not expected to reverse.

4.12 Reinsurance recoveries against outstanding claims

Claims recoveries receivable from reinsurers are recognised at the same time as the claims which give rise to the right to the recovery. Recoveries are recognised and are measured at undiscounted amounts expected to be received.

4.13 Prepaid reinsurance expense

The portion of reinsurance expense not yet recognised as an expense is recognised as a prepayment in accordance with SEC (Insurance) Rules, 2002 for non life insurance Companies.

4.14 Fixed capital expenditure and depreciation

Operating fixed assets except for freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Depreciation on all operating fixed assets is charged to profit on a reducing balance method so as to write off the historical cost of an asset over its estimated useful life.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted, if impact on depreciation is significant. The management has reviewed assets' residual value and their useful life as at December 31, 2011 and is of the view that there exists no condition to indicate any impairment losses as at that date.

Depreciation on additions to operating fixed assets is charged from the month in which the asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed off.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

Gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

4.15 Employee retirement benefits

The main features of the schemes operated by the company for its employees are as follows:

(a) Defined contribution plan

There is an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the company and employees to the fund, at the rate of 10% of basic salary. Contributions made by the company are recognized as expense.

(b) Defined benefit plan

From January 1, 2010, the company introduced a gratuity scheme for all of its permanent employees which is pending approval from Commissioner Inland Revenue. Retirement benefits are payable to staff on resignation, retirement or termination from service, subject to completion of prescribed qualifying period of service under the scheme.

The latest actuarial evaluation was carried out as at December 31, 2011 using the "Projected Unit Credit Method" based on the following assumptions;

- Discount rate	12.5%
- Expected rate of increase in salary	11.5%
- Average expected remaining working life of employees	13 years

Actuarial gain / loss is recognised by following the minimum recommended approach under IAS 19 'Employee benefits'.

(c) Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit.

4.16 Financial instruments

Financial assets and financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument and de-recognized when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include cash and bank deposits, loans, investments, premiums due but unpaid, amounts due from other insurers / reinsurers, accrued investment income, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amounts due to other insurers / reinsurers, creditors and accrued expenses and short term running finance. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.17 Revenue recognition

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

(a) For direct business, evenly over the period of the policy; and
(b) For facultative acceptance business, evenly over the period of underlying insurance policies.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income and entitlement of bonus shares on equity investments are recognized as income when the right of receipt is established.

Gain/loss on sales of investment is taken to the profit and loss account in the year of sale as per trade date.

Profit commission, if any, which the company may be entitled to under the terms of reinsurance arrangements, is recognized on accrual basis.

Administration surcharge is recognized as revenue at the time of issuance of policy.

4.18 Commission expense

Commission expense is deferred and brought to account as expense in accordance with the pattern of recognition of gross premium to which it relates.

4.19 Management expense

Expenses directly attributable to a class of business are allocated to the respective class of business. Common expenses have been allocated to various classes of insurance business on the basis of gross premium underwritten and endorsements issued. Expenses not allocable to the underwriting business are charged as administrative expenses.

4.20 Borrowing costs

Interest, mark-up and other charges on long term finances, if any, are capitalised upto the date of commissioning of respective qualifying assets acquired out of the proceeds of such long term finances. All other interest, mark-up and other charges are recognised in profit and loss account.

4.21 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Pak Rupees at the spot rate. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

All exchange differences are included in profit currently.

The financial statements are prersented in Pak Rupees which is the company's functional and presentation currency.

4.22 Commission on reinsurance premium

Commission income on reinsurance premium is recognized at the time of issuance of the underlying insurance policy by the company. This income is deferred and brought to account as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates.

Unearned commission income from the reinsurers represents the portion of income relating to the unexpired period of coverage and is recognized as a liability.

4.23 Premiums due but unpaid / premiums received in advance

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

4.24 Administrative surcharge

This represents documentation and other charges recovered by the company from policy holders in respect of policies issued, at a rate of 5% of the premium, restricted to a maximum of Rs. 2,000 per policy.

4.25 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.26 Impairment

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized, in the profit and loss account, for the difference between the recoverable amount and the carrying amount. Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income or expense.

In the case of reinsurance assets, if an event occurs before or after the balance sheet date, that gives rise to a reasonable and measurable probability that the amounts recoverable from any of the counter parties to the reinsurance contract are not recoverable, in whole or in part, an impairment loss is charged to profit for the year.

During the year, there being impairment of financial assets, therefore, impairment loss has been recognized. The nature and amount of the impairment loss is disclosed in note 4.10.

4.27 Segment reporting

A business segment is a distinguishable component of the company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The segments given below are consistent with those used by the management for evaluation of performance and allocation of resources.

Based on its classification of insurance contracts issued, the company has four primary business segments for reporting purposes namely fire, marine, motor and miscellaneous. The nature and business activities of these segments are disclosed in note 4.1.

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

Financing, administrative costs, investment and income taxes are managed on an overall basis and are therefore, not allocated to any segment. The accounting policies of operating segment are the same as those described in the summary of significant accounting policies.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them. Those assets and liabilities which can not be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

4.28 Dividend and appropriations to reserves

Dividend distribution to the company's shareholders and appropriations to reserves are recognized as a liability in the period in which these are approved.

5. Issued, subscribed and paid up capital

2011	2010		2011	2010
(Number of shares)			Rupees	Rupees
7,446,030	7,446,030	ordinary shares of Rs 10 each fully paid in cash	74,460,300	74,460,300
60,616,470	60,616,470	ordinary shares of Rs 10 each issued as fully paid bonus shares	606,164,700	606,164,700
68,062,500	68,062,500		680,625,000	680,625,000

Ordinary shares of the company held by associated undertakings as at December 31 were as follows:

Name of associated undertaking	Note	2011	2010
		(Number of shares)	
Kohinoor Mills Limited	5.1	643,667	2,076,608
Kohinoor Textile Mills Limited		-	6,398,541
Maple Leaf Cement Factory Limited		-	4,570,389
Nishat Mills Limited		10,226,244	10,226,244
		10,869,911	23,271,782

5.1 These are associated undertakings by virtue of common directorship.

6. Provision for outstanding claims includes Rs. 14,922,818 (2010: Rs. 26,697,031) due to associated undertakings.

7. Deferred taxation

	Note	2011 Rupees	2010 Rupees
Opening balance as on January 1		-	9,592,239
Charged to profit and loss account	25	-	(1,164,601)
Closing balance as on December 31		-	8,427,638

Deferred tax liability comprises temporary differences arising due to;

		2011 Rupees	2010 Rupees
Accelerated tax depreciation		-	9,679,223
Provision for doubtful debts		-	(78,317)
Gratuity expense		-	(1,173,268)
		-	8,427,638

8. Creditors and accrued expenses

	Note	2011 Rupees	2010 Rupees
Accrued expenses		3,815,741	5,575,504
Commission payable		56,855,414	48,199,748
Mark-up accrued on borrowings from banks		3,304,457	6,871,468
Gratuity payable	8.1	5,226,897	3,352,197
Federal insurance fee payable		254,173	284,216
Federal excise duty payable		3,986,143	4,415,286
Workers' Welfare Fund		-	8,382,743
Others		5,628,580	4,743,056
		79,071,405	81,824,218

8.1 Gratuity payable

8.1.1 The amounts recognized in balance sheet are as follows:

	2011 Rupees	2010 Rupees
Present value of defined benefit obligation	4,876,132	3,943,245
Unrecognised actuaril gain	774,485	256,393
Non-vested past service cost	(423,720)	(847,441)
	5,226,897	3,352,197

8.1.2 The movement in the present value of defined benefit obligation is as follows:

	2011 Rupees	2010 Rupees
Present value of defined benefit obligation as at January 1	3,352,197	-
Current service cost	938,357	808,957
Interest Cost	512,622	363,287
Vested past service cost	-	1,756,232
Amortization of non-vested past service cost	423,721	423,721
Present value of defined benefit obligation as at December 31	5,226,897	3,352,197

8.1.3 Charge to profit and loss account:

	2011 Rupees	2010 Rupees
Current service cost	938,357	808,957
Interest cost	512,622	363,287
Vested past service cost	-	1,756,232
Amortization of non-vested past service cost	423,721	423,721
	1,874,700	3,352,197

9. Finances under mark-up arrangements - secured

	Note	2011 Rupees	2010 Rupees
Short term running fianance		218,056,815	10,321,013
Short term finance		-	460,000,000
	9.1	218,056,815	470,321,013

9.1 Short term running finance and short term finance are available from commercial banks under mark-up arrangements amounting to Rs 1,450,000,000 (2010: Rs 1,300,000,000). These are secured against a pledge of shares as referred to in note 15.2 to the financial statements. Mark-up is payable on a quarterly basis at rates ranging from 13.42% per annum to 15.79% per annum (2010: 14.27% per annum to 15.39% per annum), in case of former and between 13.00% per annum to 15.19% per annum (2010: 13.95% per annum and 14.96% per annum), in case of latter. These facilities will expire between in March 31, 2012 to August 31, 2012.

10. Contingencies and commitments

10.1 Contingencies

The company is contingently liable for Rs. 3,109,723 (2010: Rs. 2,987,723) on account of claims lodged against the company but not acknowledged as debts.

Guarantees issued by a commercial bank on behalf of the company amount to Rs. 690,450 (2010: Rs. 663,250).

10.2 Commitments

Nil (2010: Nil)

11. Cash and other equivalents

	Note	2011 Rupees	2010 Rupees
Cash in hand		12,839	9,355

12. Current and other accounts

	Note	2011 Rupees	2010 Rupees
Current accounts		13,786,846	2,067,584
Saving accounts	12.1	41,090,607	38,613,744
		54,877,453	40,681,328

12.1 These accounts bear mark-up ranging from 5% per annum to 13% per annum (2010: 5% per annum to 13% per annum).

13. Deposit maturing within 12 months

	Note	2011 Rupees	2010 Rupees
Cash deposit with State Bank of Pakistan		350,000	350,000
Term Deposit Receipts with Banks	13.1	1,000,000	1,000,000
		1,350,000	1,350,000

13.1 This deposit carries mark-up of 9% per annum (2010: 9% per annum).

14. Deposit maturing after 12 months

This deposit carries mark-up at a rate of 12% per annum (2010: 12% per annum).

15. Investments

	Note	2011 Rupees	2010 Rupees
Held-to-maturity- Government securities			
8% - 12% Pakistan Investment Bonds of the Government of Pakistan 3 bond of face value of Rs. 2,000,000 each, 1 bond of face value of Rs. 62,000,000 and 1 bond of Rs. 5,000,000 (2010: 3 bonds of face value of Rs. 2,000,000 each 1 bond of face value of Rs. 62,000,000) and 1 bond of Rs. 5,000,000) market value as at December 31, 2011 Rs. 72,591,558 (2010: Rs. 72,816,722)	15.1	**70,306,347**	70,085,563
Available-for-sale - Quoted equities			
Associates			
Pak Gen Power Limited (Formerly AES Pak Gen)			
6,407,796 (2010: 7,441,632) Ordinary shares of Rs. 10 each;		**88,899,557**	103,238,862
Others			
Adamjee Insurance Company Limited			
4,138,572 (2010: 4,138,572) Ordinary shares of Rs.10 each;	15.2	**289,700,040**	359,454,876
MCB Bank Limited			
41,704,116 (2010: 37,912,833) Ordinary shares of Rs.10 each;	15.2	**6,658,245,500**	6,658,245,500
Kohinoor Energy Limited			
30,000 (2010: 30,000) Ordinary shares of Rs. 10 each;		**577,600**	577,600
UTP Large Capital Fund			
33,348 (2010: 20,000) Ordinary shares of Rs. 10 each;		**460,000**	460,000
Available-for-sale - Unquoted equities			
Associated			
Lalpir Power Limited (Formerly AES Lalpir)			
6,906,159 (2010: 6,906,159) ordinary shares of Rs. 10 each	15.3	**103,022,382**	103,022,382
		7,211,211,426	7,295,084,783

15.1 Maturity dates of Pakistan Investment Bonds fall between June 2012 and July 2020.

15.2 5,500,000 shares (2010: 8,700,000 shares) of MCB Bank Limited and 3,150,000 shares (2010: 3,490,000 shares) of Adamjee Insurance Company Limited are pledged with banks as referred to in note 9 to the financial statements.

15.3 Break up value is Rs. 34.03 (2010: 36) per share based on the audited accounts for the year ended December 31, 2011. The investment includes 500 shares held in the name of nominee director of the company.

15.4 The company holds 4.9% shareholding in MCB Bank Limited. In order that the company is not considered as a sponsor of MCB Bank Limited, the company had filed a writ petition in the Honorable Lahore High Court in 2010, Lahore to declare null and void the State Bank of Pakistan's BPRD Circular No 4 dated May 22, 2008 which requires a person(s) holding 5% or more of sponsor shares, acquired individually or in concert with his family members, group companies, subsidiaries and affiliates / associates, of a bank to be placed in a blocked account with Central Depository Company (CDC). The court has suspended the operation of the impugned circular and reserved its judgment after hearing the case. The management is confident that the outflow of financial resources as a result of the eventual outcome of the above matter is unlikely.

15.5 During the year, the company has recognized impairment loss amounting Rs. 69,754,893 (2010: Nil) on available-for-sale investments.

16. Amounts due from other insurers/reinsurers

	Note	2011 Rupees	2010 Rupees
Amounts due from other insurers/reinsurers - unsecured			
Considered good		**155,369,798**	164,482,710
Considered doubtful		**1,723,762**	223,762
		157,093,560	164,706,472
Less: Provision for doubtful debts	16.1	**(1,723,762)**	(223,762)
		155,369,798	164,482,710

16.1 Provision for doubtful receivables

	2011 Rupees	2010 Rupees
Balance as at January 1	**223,762**	223,762
Provision made during the year	**1,500,000**	-
Balance as at December 31	**1,723,762**	223,762

17. Prepayments

	Note	2011 Rupees	2010 Rupees
Prepaid Reinsurance Premium	17.1	**112,730,356**	113,034,370
Others		**834,258**	1,158,618
		113,564,614	114,192,988

17.1 Movement in prepaid reinsurance premium

	2011 Rupees	2010 Rupees
As at January 1	**113,034,370**	88,833,279
Reinsurance premium ceded during the year	**289,081,330**	264,569,736
Reinsurance expense for the year	**(289,385,344)**	(240,368,645)
As at December 31	**112,730,356**	113,034,370

18. Sundry receivables

	2011 Rupees	2010 Rupees
Advances to employees - considered good	**479,457**	240,302
Accrued return on deposits and other accounts	**239,856**	147,390
Other receivables - considered good	**1,219,992**	2,121,666
Security deposits - considered good	**1,922,922**	2,000,722
	3,862,227	4,510,080

18.1 Included in advance to employees is an amount of Rs. 126,200 (2010: Rs. 6,000) due from executives.

19. Fixed assets

	Freehold land Rupees	Leasehold improvement Rupees	Building Rupees	Computer equipment Rupees	Furniture and fixtures Rupees	Motor vehicles Rupees	Tracker Rupees	office equipment Rupees	Total Rupees
Year ended December 31, 2011									
Opening net book value	10,446,900	910,405	41,796,217	1,711,066	3,554,029	17,516,076	3,337,281	6,033,441	85,305,415
Additions (at cost)	-	225,465	-	510,550	527,779	7,008,224	3,947,788	1,411,005	13,630,811
Disposals (at NBV)	-	-	-	-	-	(238,424)	-	-	(238,424)
Depreciation charge for the year	-	(105,197)	(4,179,622)	(293,992)	(396,973)	(4,293,544)	(1,002,686)	(1,086,632)	(11,358,646)
Net book vlaue as at Dec 31, 2011	**10,446,900**	**1,030,673**	**37,616,595**	**1,927,624**	**3,684,835**	**19,992,332**	**6,282,383**	**6,357,814**	**87,339,156**
At December 31, 2011									
Cost	10,446,900	1,379,502	60,376,167	4,382,430	5,614,518	34,091,215	8,039,807	11,877,795	136,208,334
Accumulated depreciation	-	(348,829)	(22,759,572)	(2,454,806)	(1,929,683)	(14,098,883)	(1,757,424)	(5,519,981)	(48,869,178)
Net book value as at Dec 31, 2011	10,446,900	1,030,673	37,616,595	1,927,624	3,684,835	19,992,332	6,282,383	6,357,814	87,339,156
Year ended December 31, 2010									
Opening net book value	10,446,900	169,151	46,347,790	1,574,391	2,646,642	16,472,404	1,625,465	6,465,722	85,748,465
Additions (at cost)	-	835,750	92,450	412,900	1,289,868	6,052,557	2,125,876	611,848	11,421,249
Disposals (at NBV)	-	-	-	-	-	(1,537,412)	-	-	(1,537,412)
Depreciation charge for the year	-	(94,496)	(4,644,023)	(276,225)	(382,481)	(3,471,473)	(414,060)	(1,044,129)	(10,326,887)
Net book vlaue as at Dec 31, 2010	**10,446,900**	**910,405**	**41,796,217**	**1,711,066**	**3,554,029**	**17,516,076**	**3,337,281**	**6,033,441**	**85,305,415**
At December 31, 2010									
Cost	10,446,900	1,154,037	60,376,167	3,871,880	5,086,739	27,327,991	4,092,019	10,466,790	122,822,523
Accumulated depreciation	-	(243,632)	(18,579,950)	(2,160,814)	(1,532,710)	(9,811,915)	(754,738)	(4,433,349)	(37,517,108)
Net book value as at Dec 31, 2010	10,446,900	910,405	41,796,217	1,711,066	3,554,029	17,516,076	3,337,281)	6,033,441	85,305,415
Depreciation rates (%)	-	10	10	15	10	20	20	15	

19.1 The assets disposed off during the year comprise a motor vehicle of which the original cost was Rs. 245,000 and accumulated depreciation was Rs. 6,576 and hence, the book value was Rs. 238,424. Motor vehicles also include salvage assets of Rs. 960,000.

20. Deferred taxation

	2011 Rupees	2010 Rupees
Opening balance as on January 1	**(8,427,638)**	-
Charged to profit and loss account	**27,260,400**	-
Closing balance as on December 31	**18,832,762**	-
Debit/ (credit) balance arising from:		
Accelerated tax depreciation	**(8,858,488)**	-
Gratuity expense	**1,829,414**	-
Provision for doubtful debts	**603,317**	-
Unabsorbed tax depreciation	**25,258,519**	-
Deferred tax asset	**18,832,762**	-

21. Management expenses

	Note	2011 Rupees	2010 Rupees
Salaries, wages and benefits	21.1	**21,900,534**	18,603,492
Rent, rates, taxes and electricity		**3,528,560**	2,989,116
Communication		**1,592,653**	1,393,519
Printing and stationery		**470,925**	448,592
Travelling and entertainment		**1,493,409**	1,340,920
Car maintenance		**3,966,814**	2,699,472
Depreciation		**4,949,978**	3,585,481
Repair and maintenance		**622,133**	587,092
Service charges charged by co-insurers		**3,590,707**	5,252,866
Tracker Monitoring		**3,150,432**	1,362,300
Other expenses		**624,529**	549,848
		45,890,664	38,812,698

21.1 Included in salaries, wages and benefits are Rs. 769,729 (2010: Rs. 653,864) in respect of provident fund contribution by the company and Rs. 266,075 (2010: Rs 338,691) in respect of gratuity fund.

22. Other income

This represents provision of Workers Welfare Fund written back no more considered payable.

23. Financial charges

	Note	2011 Rupees	2010 Rupees
Mark up on borrowings from banks		**70,418,925**	87,176,200
Bank charges		**518,525**	315,620
		70,937,450	87,491,820

24. General and administration expenses

	Note	2011 Rupees	2010 Rupees
Salaries, wages and benefits [including Chief Executive Officer's remuneration Rs. 2,632,080 (2010: Rs. 2,308,800)]	24.1	**24,697,171**	23,056,061
Repair and maintenance		**895,992**	666,900
Legal and professional charges		**1,480,550**	4,227,263
Audit fee	24.2	**694,948**	683,754
Travelling and entertainment		**451,902**	587,338
Depreciation		**6,408,668**	6,741,406
Rent, rates, taxes and electricity		**1,166,437**	1,250,195
Communication		**851,773**	794,396
Printing and stationery		**1,250,933**	1,150,101
Insurance		**981,588**	3,110,544
Car maintenance		**1,786,873**	1,483,855
Worker's Welfare Fund		**-**	8,382,743
Provision for doubtful debts		**1,500,000**	-
Other expenses		**2,574,568**	1,390,932
		44,741,403	53,525,488

24.1 Included in salaries, wages and benefits are Rs. 1,127,681 (2010: Rs. 983,295) in respect of provident fund contribution by the company and Rs. 1,608,625 (2010 : Rs 2,519,194) in respect of the gratuity expense. Provident fund contribution and gratuity contribution in respect of Chief Executive Officer amount to Rs. 175,472 (2010: Rs. 153,924) and Rs. 259,010 (2010 : 494,312), respectively.

The company provides a company maintained car to the Chief Excutive Officer.

24.2 Audit Fee

	Note	2011 Rupees	2010 Rupees
Annual audit		400,000	400,000
Half yearly review		200,000	200,000
Out of pocket expenses		94,948	83,754
		694,948	683,754

25. Provision for taxation

	Note	2011 Rupees	2010 Rupees
For the year			
- Current		58,690,376	38,834,949
- Deferred	20	(27,260,400)	(1,164,601)
		31,429,976	37,670,348
Prior year			
- Current		36,397,044	(572,803)
		67,827,020	37,097,545

25.1 Tax Charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate	2011 %	2010 %
Applicable tax rate	35.00	35.00
Effect of:		
- income chargeable to tax at a reduced rate	(30.56)	(23.68)
- income exempt from tax	(0.30)	(2.15)
- impairment loss	5.30	-
- prior year tax	2.50	(0.14)
- Other	2.90	-
Effective tax rate	14.84	9.03

26. Reconciliation to profit and loss account

	2011 Rupees	2010 Rupees
Operating cash flows	(43,078,585)	39,770,763
Depreciation	(11,358,646)	(10,326,887)
Financial charges	(70,937,450)	(87,491,820)
Profit on disposal of fixed assets	66,576	169,265
Increase in assets other than cash	31,840,921	68,160,397
Decrease in liabilities other than borrowings	(22,471,837)	(101,996,907)
Others		
- Increase in provision for unearned premium	(15,741,472)	(41,293,654)
- Increase in commission income unearned	(438,570)	(7,205,570)
- Income on investments, current and other deposits	516,803,686	501,137,679
- Investment related expenses	974,000	1,291,247
- Increase in provision for commission expense deferred	3,671,214	11,442,336
	389,329,837	373,656,849

26.1 Cash at the end of the year

For the purposes of cash flow statement cash includes:

	2011 Rupees	2010 Rupees
Cash and other equivalents	12,839	9,355
Current and other accounts	54,877,453	40,681,328
Deposit maturing within 12 months	1,350,000	1,350,000
Finance under mark up arrangements	(218,056,815)	(470,321,013)
	(161,816,523)	(428,280,330)

27. Transactions with related parties

The related parties comprise associated undertakings, other related companies, directors of the company, Chief Executive and post employment benefit plans. The company in the normal course of business carries out transactions with various related parties. Amounts due to related parties are disclosed in note 6 to the financial statements. Expense charged in respect of staff retirement benefits is disclosed in note 21.1 and 24.1 and remuneration of Chief Executive is disclosed in note 24. Year end balances and other significant transactions with related parties are as follows :

	2011 Rupees	2010 Rupees
Premium written	75,957,718	81,201,500
Premium ceded	24,033,421	25,658,319
Claims paid	33,789,766	13,951,892
Dividend received	76,911,205	20,542,924
Dividend paid	49,063,128	46,543,564
Payment in respect of services	226,069	245,708
Balance of amount due to coinsurers\ reinsurers	-	4,976,604

28. Segment Reporting

The company has four primary business segments for reporting purposes namely fire, marine, motor and miscellaneous.

Segment revenue and segment results and its reconciliation to the company's profit is available in profit and loss account.

Assets and liabilities, wherever possible, have been assigned to the following segments based on specific identification or allocated on the basis of gross premium earned by the segments.

	Fire		Marine		Motor		Miscellaneous		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	Rupees		Rupees		Rupees		Rupees		Rupees	
Other information										
Segment assets	202,052,880	193,602,247	34,950,992	32,791,728	65,985,746	12,232,784	67,539,351	74,729,978	370,528,969	313,356,737
Unallocated corporate assets									7,550,649,699	7,639,858,924
Consolidated total assets									7,921,178,668	7,953,215,661
Segment liabilities	177,770,538	188,180,105	26,768,234	28,252,980	97,582,650	43,134,712	112,601,373	119,382,963	414,722,795	378,950,760
Unallocated corporate liabilities									372,745,885	625,697,250
Consolidated total liabilities									787,468,680	1,004,648,010

Capital expenditure and depreciation have not been allocated as fixed assets to which they relate are included in unallocated corporate assets.

29. Financial assets and liabilities

	Interest/mark up bearing			Non Interest/mark up bearing			Total	
	Maturity upto one year Rupees	Maturity after one year Rupees	Sub total Rupees	Maturity upto one year Rupees	Maturity after one year Rupees	Sub total Rupees	**2011 Rupees**	2010 Rupees
Financial assets								
On balance sheet								
Cash and other equivalents	-	-	-	12,839	-	12,839	**12,839**	9,355
Current and other accounts	41,090,607	-	41,090,607	13,786,846	-	13,786,846	**54,877,453**	40,681,328
Deposit maturing within 12 months	1,350,000	-	1,350,000	-	-	-	**1,350,000**	1,350,000
Deposit maturing after 12 months	-	500,000	500,000	-	-	-	**500,000**	500,000
Investments	2,015,817	68,290,530	70,306,347	7,140,905,079	-	7,140,905,079	**7,211,211,426**	7,295,084,783
Premiums due but unpaid	-	-	-	107,069,504	-	107,069,504	**107,069,504**	51,207,271
Amounts due from other insurers/reinsurers	-	-	-	155,369,798	-	155,369,798	**155,369,798**	164,482,710
Accrued investment income	-	-	-	2,820,896	-	2,820,896	**2,820,896**	2,822,486
Reinsurance recoveries against outstanding claims	-	-	-	110,459,253	-	110,459,253	**110,459,253**	108,423,253
Sundry receivables	-	-	-	3,862,227	-	3,862,227	**3,862,227**	4,510,080
	44,456,424	68,790,530	113,246,954	7,534,286,442	-	7,534,286,442	**7,647,533,396**	7,669,071,266
Off balance sheet	-	-	-	-	-	-	-	-
Total	44,456,424	68,790,530	113,246,954	7,534,286,442	-	7,534,286,442	**7,647,533,396**	7,669,071,266
Financial liabilities								
On balance sheet								
Provision for outstanding claims [including IBNR]	-	-	-	156,670,252	-	156,670,252	**156,670,252**	134,112,342
Amounts due to other insurers\reinsurers	-	-	-	82,208,033	-	82,208,033	**82,208,033**	68,078,168
Deposit received against bonds	-	-	-	32,621,558	-	32,621,558	**32,621,558**	38,428,244
Creditors and accrued expenses	-	-	-	67,529,643	-	67,529,643	**67,529,643**	76,900,918
Finances under mark-up arrangements	218,056,815	-	218,056,815	-	-	-	**218,056,815**	470,321,013
	218,056,815	-	218,056,815	339,029,486	-	339,029,486	**557,086,301**	787,840,685
Off balance sheet								
Guarantees	-	-	-	690,450	-	690,450	**690,450**	663,250
Contingencies	-	-	-	3,109,723	-	3,109,723	**3,109,723**	2,987,723
	-	-	-	3,800,173	-	3,800,173	**3,800,173**	3,650,973
Total	218,056,815	-	218,056,815	342,829,659	-	342,829,659	**560,886,474**	791,491,658
On balance sheet gap	(173,600,391)	68,790,530	(104,809,861)	7,195,256,956	-	7,195,256,956	**7,090,447,095**	6,881,230,581
Off balance sheet gap	-	-	-	(3,800,173)	-	(3,800,173)	**(3,800,173)**	(3,650,973)

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

29. Financial assets and liabilities (Cont'd)

	Interest/mark up bearing			Non Interest/mark up bearing			Total	
	Maturity upto one year Rupees	Maturity after one year Rupees	Sub total Rupees	Maturity upto one year Rupees	Maturity after one year Rupees	Sub total Rupees	2010 Rupees	2009 Rupees
Financial assets								
On balance sheet								
Cash and other equivalents	-	-	-	9,355	-	9,355	**9,355**	616
Current and other accounts	38,613,744	-	38,613,744	2,067,584	-	2,067,584	**40,681,328**	43,214,489
Deposit maturing within 12 months	1,350,000	-	1,350,000	-	-	-	**1,350,000**	1,350,000
Deposit maturing after 12 months	-	500,000	500,000	-	-	-	**500,000**	500,000
Investments	3,094,904	66,990,659	70,085,563	7,224,999,220	-	7,224,999,220	**7,295,084,783**	7,116,565,687
Premiums due but unpaid	-	-	-	51,207,271	-	51,207,271	**51,207,271**	25,117,172
Amounts due from other insurers\reinsurers	-	-	-	164,482,710	-	164,482,710	**164,482,710**	182,686,963
Accrued investment income	-	-	-	2,822,486	-	2,822,486	**2,822,486**	2,822,496
Reinsurance recoveries against outstanding claims	-	-	-	108,423,253	-	108,423,253	**108,423,253**	75,342,845
Sundry receivables	-	-	-	4,510,080	-	4,510,080	**4,510,080**	6,158,902
	43,058,648	67,490,659	110,549,307	7,558,521,959	-	7,558,521,959	**7,669,071,266**	7,453,759,170
Off balance sheet	-	-	-	-	-	-	-	-
Total	43,058,648	67,490,659	110,549,307	7,558,521,959	-	7,558,521,959	**7,669,071,266**	7,453,759,170
Financial liabilities								
On balance sheet								
Provision for outstanding claims [including IBNR]	-	-	-	134,112,342	-	134,112,342	**134,112,342**	98,173,725
Amounts due to other insurers\reinsurers	-	-	-	68,078,168	-	68,078,168	**68,078,168**	38,629,459
Deposit received against bonds	-	-	-	38,428,244	-	38,428,244	**38,428,244**	25,179,789
Creditors and accrued expenses	-	-	-	76,900,918	-	76,900,918	**76,900,918**	56,721,144
Finances under mark-up arrangements	470,321,013	-	470,321,013	-	-	-	**470,321,013**	600,352,824
	470,321,013	-	470,321,013	317,519,672	-	317,519,672	**787,840,685**	819,056,941
Off balance sheet								
Guarantees	-	-	-	663,250	-	663,250	**663,250**	675,400
Contingencies	-	-	-	2,987,723	-	2,987,723	**2,987,723**	1,606,061
	-	-	-	3,650,973	-	3,650,973	**3,650,973**	2,281,461
Total	470,321,013	-	470,321,013	321,170,645	-	321,170,645	**791,491,658**	821,338,402
On balance sheet gap	(427,262,365)	67,490,659	(359,771,706)	7,241,002,287	-	7,241,002,287	**6,881,230,581**	6,634,702,229
Off balance sheet gap	-	-	-	(3,650,973)	-	(3,650,973)	**(3,650,973)**	(2,281,461)

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

30. Risk Management

30.1 Insurance Risk

The company accepts the insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each line of business to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Reinsurance cover is purchased to mitigate the effect of potential loss to the company from individual, large or catastrophic events. Reinsurance treaties are obtained from well reputed reinsurers.

30.1.1 Concentration of insurance risk

The spread of risk is of extreme importance to optimize benefits. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location. The company measures concentration of insurance risk by type of contracts as summarised below:

	Gross aggregate exposure		Maximum Reinsurance Cover		Net	
	2011	2010	2011	2010	2011	2010
	Rupees					
Fire	128,610,459,547	110,729,089,569	107,982,715,793	90,889,772,989	20,627,743,754	19,839,316,580
Marine	43,889,213,772	18,427,434,024	14,101,579,139	11,733,430,049	29,787,634,633	6,694,003,975
Motor	3,860,258,722	2,255,699,355	1,558,920,213	320,222,293	2,301,338,509	1,935,477,062
Miscellaneous	3,291,247,176	2,814,920,201	2,924,011,982	2,517,212,911	367,235,194	297,707,290
	179,651,179,217	134,227,143,149	126,567,227,127	105,460,638,242	53,083,952,090	28,766,504,907

For the analysis of insurance risk concentration in fire, marine, motor and miscellaneous segments, the shared characteristic has been taken as the territory (Pakistan). Cash outflows involved for settlement of incurred insurance liabilities may vary significantly as compared to the total contractual liabilities under insurance contracts. Historical data for such outflows is given below:

	Gross claims paid		Reinsurance recoveries		Net	
	2011	2010	2011	2010	2011	2010
	Rupees					
Fire	68,835,541	59,745,843	61,335,853	50,052,451	7,499,688	9,693,392
Marine	21,801,904	15,376,812	16,482,511	9,312,050	5,319,393	6,064,762
Motor	27,254,298	17,444,654	8,429,211	2,003,231	18,825,087	15,441,423
Miscellaneous	3,645,573	15,423,943	3,102,643	14,573,168	542,930	850,775
	121,537,316	107,991,252	89,350,218	75,940,900	32,187,098	32,050,352

Risk assessment is carried out on a regular basis for the evaluation of physical hazards associated with commercial / industrial / residential occupation of the policy holders. Any one risk shall be defined to never be less than the property contained within an area which is separated from another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area. Details regarding the fire separation / segregation with respect to manufacturing processes, storage, utilities, etc are extracted from the layout plan of the insured facility. Reference is also made to the standard construction specifications as laid down by IAP (Insurance Association of Pakistan). For instance, the presence of Perfect Party Walls, Double Fire Proof Iron Doors, physical separation between the buildings within the insured's premises.

Concentration of vaoius insurane risks, with reference to geocoding, are monitored through MIS reports generated from the IT system.

The Company follows a policy of obtaining sufficient reinsurance covers to mitigate the accumulation of risk in case of catastrophic events.

For marine risk, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea/air/inland transit) sailing dates, origin and destination of the shipments, per carry limits, etc. are fed in to the IT system. Shipment declarations are also endorsed on the policies.

The voyage cards are maintained for direct and facultative marine business in IT system. The voyage card shows the accumulation of risk on a particular vessel, respective retentions and cessions under treaty.

30.1.2 Reinsurance risk

Reinsurance ceded do not relieve the company from its obligation to policy holders and as a result the company remains liable for the portion of outstanding claims reinsured to the extent that reinsurer fails to meet the obligation under the reinsurance agreement.

In common with other insurance companies, in order to minimize the financial exposure arising from large claims, the company in the normal course of business, enters into agreements with other parties for reinsurance purposes.

To minimize its exposure to significant losses from reinsurer insolvencies, the company considers the credit rating of the reinsurers before finalizing treaty agreements with them every year. Furthermore, the company obtains reinsurance from a number of reinsurers, who are dispersed over several geographical regions, to spread the concentration of its reinsurance risk to different geographical regions.

30.1.3 Sensitivity analysis

The company enters into short term insurance contracts, therefore, it does not assume any significant impact of changes in market conditions on unexpired risks. The risks associated with the insurance contracts are complex and subject to a number of variables which complicate the quantitative sensitivity analysis. However, some results of sensitivity testing are set out below, showing the impact on profit before tax (net of reinsurance) and shareholders' equity:

	Profit befor taxtation		Sharesholders' equity	
Particulars	**2011**	2010	**2011**	2010
	Rupees			
Effect of 10% increase/(decrease) in				
Amount and number of claims				
Fire	**946,403**	832,767	**615,162**	541,299
Marine	**581,101**	770,217	**377,716**	500,641
Motor	**3,723,382**	1,750,893	**2,420,198**	1,138,080
Miscellaneous	**20,015**	136,979	**13,010**	89,036
	5,270,901	3,490,856	**3,426,086**	2,269,056

30.1.4 Claims development

The table below shows the development of claims over the years. This disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments.

Reporting year	2007	2008	2009	2010	2011	Total
	.... Rupees					
Estimate of ultimate claims costs:						
- At the end of reporting year	99,820,171	145,728,365	95,116,399	150,526,588	158,232,780	649,424,303
- One year later	100,702,782	112,691,790	97,392,909	151,832,022	-	462,619,503
- Two years later	102,723,762	114,138,758	90,405,414	-	-	307,267,934
- Three years later	99,631,366	114,418,953	-	-	-	214,050,319
- Four years later	99,581,235	-	-	-	-	99,581,235
Current estimate of cumulative	99,581,235	114,418,953	90,405,414	151,832,022	158,232,780	614,470,404
Cumulative payments to date	90,904,521	105,109,375	75,337,396	117,859,646	74,845,544	464,056,482
Liability recognized in balance sheet	8,676,714	9,309,578	15,068,018	33,972,376	83,387,236	150,413,922
Liability reserve prior to 2007						6,256,330
Total liability in balance sheet						156,670,252

30.2 Financial risks

The company’s activities expose it to a variety of financial risks, including the effects of changes in market interest rates such as KIBOR, credit and liquidity risk associated with various financial assets and liabilities, respectively, as referred to in note 29 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 9 to the financial statements.

The company finances its operations through equity, borrowings and management of working capital.

Taken as a whole, risk arising from the company's financial instruments is limited, as there is no significant exposure to market risk in respect of such instruments other than those disclosed in note 4.10.

Financial risk factors

(a) Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date, if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its receivables from other insurers / reinsurers and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

Concentration of credit risk occurs when a number of counter parties have a similar type of business activities. As a result, anychange in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. Thecompany's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitorsand limits the company's exposure to credit risk through monitoring of client's exposure and review and conservative estimates of provisions for doubtful assets, if any. The management is of the view that it is not exposed to significant concentration of credit riskas it's financial assets are adequately diversified in entities of sound financial standing, covering various industrial sector segments.

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

	2011 Rupees	2010 Rupees
Bank Deposit	**56,727,453**	42,531,328
Investments	**7,211,211,426**	7,295,084,783
Premium due but unpaid	**107,069,504**	51,207,271
Amount due from other insurers / reinsurers	**155,369,798**	164,482,710
Accrued Investment income	**2,820,896**	2,822,486
Reinsurance recoveries against outstanding claims	**110,459,253**	108,423,253
Sundry receivable	**3,862,227**	4,510,080
	7,647,520,557	7,669,061,911

The company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits company's exposure to credit risk through monitoring of clients' credit exposure review and conservative estimates of provisions for doubtful receivables, if any. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in organization of sound financial standing covering various industrial sectors and segment.

An analysis of the age of premiums due but unpaid and amount due from other insurers/ reinsurers that are past due but not impaired is as follows:

	2011 Rupees	2010 Rupees
- Upto one year	**155,258,450**	147,405,430
- Past one but less than three years	**97,834,179**	51,895,394
- Over three but less than five years	**6,707,555**	7,979,350
- More than five years	**2,639,118**	8,409,807
	262,439,302	215,689,981

Reinsurance assets bearing credit risk together with their credit rating are summarized below:

Rating	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Other reinsurance assets	**2011**	2010
	....	Rupees	....		
PRCL	-	22,642,646	35,224,380	**57,867,026**	51,905,491
A and above	6,258,705	48,364,365	19,129,571	**73,752,641**	34,164,432
A-, AA-	6,463,151	19,494,489	39,227,839	**65,185,479**	44,744,963
BBB	131,656	3,819,045	7,131,795	**11,082,496**	66,984,197
Others	3,489,828	16,138,708	12,016,771	**31,645,307**	50,923,859
	16,343,340	110,459,253	112,730,356	**239,532,949**	248,722,942

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

	Rating		Rating	2011	2010
	Short Term	Long term	Agency	Rupees	Rupees
Albaraka Islamic Bank Limited	A2	A	PACRA	-	21,161
Allied Bank Limited	A1+	AA	PACRA	-	101,830
Summit Bank Limited	A2	A-	PACRA	11,962,169	13,726,369
Bank Alfalah Limited	A1+	AA	PACRA	10,160	10,160
Faysal Bank Limited	A1+, A-1+	AA, AA	PACRA, JCR-VIS	-	11,883
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	6,716,477	1,635,834
Habib Bank Limited	A-1+	AA+	JCR-VIS	41,928	69,085
HSBC Middle East Bank Limited	P-1, F1+	A1, AA	Moody's Fitch	2,248,773	-
MCB Bank Limited	A1+	AA+	PACRA	29,192,417	24,948,398
Silk Bank Limited	A-2	A-	JCR-VIS	-	202
Samba Bank Limited	A-1	A	JCR-VIS	-	8,585
United Bank Limited	A-1+	AA+	JCR-VIS	4,697,749	147,821
Askari Bank Limited	A1+	AA	PACRA	7,780	-
				54,877,453	40,681,328
Deposits maturing within 12 months					
Soneri Bank Limited	A1+	AA-	PACRA	1,000,000	1,000,000
State Bank Of Pakistan		Not Available		350,000	350,000
				1,350,000	1,350,000
Deposits maturing after 12 months					
Escorts Investment Bank Limited	A-1	A-	JCR-VIS	500,000	500,000

(b) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2011, the company had Rs 1,450,000,000 (2010: Rs 1,300,000,000) of available borrowing limits from financial institutions and Rs 56,740,292 (2010: Rs 42,540,683) of cash and bank balances.

The following are the undiscounted cashflows of contractual maturities of financial liabilities as at December 31, 2011:

	Carrying amount	Less than one year	One to five years	More than five years
	......Rupees......			
Provision for outstanding claims	156,670,252	156,670,252	-	-
Deposits received against bonds	32,621,558	32,621,558	-	-
Amount due to other insurers / reinsurers	82,208,033	82,208,033	-	-
Creditors and accrued expenses	67,529,643	67,529,643	-	-
Finances under markup arrangements	218,056,815	218,056,815	-	-
	557,086,301	557,086,301	-	-

The following are the undiscounted cashflows of contractual maturities of financial liabilities as at December 31, 2010:

	Carrying amount	Less than one year	One to five years	More than five years
	....................Rupees....................			
Provision for outstanding claims	134,112,342	134,112,342	-	-
Deposits received against bonds	38,428,244	38,428,244	-	-
Amount due to other insurers / reinsurers	68,078,168	68,078,168	-	-
Creditors and accrued expenses	76,900,918	76,900,918	-	-
Finances under mark-up arrangements - secured	470,321,013	470,321,013	-	-
	787,840,685	787,840,685	-	-

(c) Market risk

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective is to manage and control market risk exposures within acceptable parameters, while optimising the return. The market risks associated with the company's business activities are interest / mark-up rate risk and price risk. The company is not exposed to material currency risk.

(i) Interest rate risk

Interest / yield rate risk arises from the possibility that changes in interest rate will affect the value of financial instruments. Yield risk is the risk of decline in earnings due to adverse movement of the yield rate. The company is exposed to interest / yield rate risk for certain deposits with the banks.

	2011	2010	**2011**	2010
	Effective interest rate		**Rupees**	Rupees
Financial assets				
Fixed rate instruments				
Bank balances - saving accounts	**10.50%**	7.30%	**41,090,607**	38,613,744
Deposits maturing within 12 months	**9.00%**	9.00%	**1,000,000**	1000,000
Deposits maturing after 12 months	**12.00%**	12.00%	**500,000**	500,000
Investments - government securities	**11.86%**	11.92%	**73,000,000**	73,000,000
Total exposure			**115,590,607**	113,113,744
Financial liabilities				
Floating rate instruments				
Short term running finance	**15.01%**	16.42%	**218,056,815**	10,321,013
Short term finance	**14.38%**	14.32%	**-**	460,000,000
Total exposure			**218,056,815**	470,321,013

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on finances under mark-up arrangements, at the balance sheet date, fluctuate by 1% higher / lower with all the other variables held constant, profit before taxation for the year would have been higher / lower by Rs 4,831,105 (2010: Rs 6,468,670) and shareholders equity would have been higher / lower by Rs 3,140,218, mainly as a result of higher / lower interest expense on floating rate borrowings.

(ii) Price risk

Available-for-sale investments are stated at lower of cost and market value (market value being taken as lower if the fall is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002. The carrying and market value of these investments have been disclosed in note 15 to the financial statements. Fair value is determined on the basis of objective evidence at each reporting date.

The company minimizes such risk by investing in financially sound companies. In addition, the company actively monitors the key factors that affect investment market.

10% increase in the prices of available for sale investments or a similar decrease will not result in any change in the carrying value of these investments. A reduction in market value below the cost of respective investments will affect the carrying value as explained in note 4.10.

(iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign reinsurers. The company is not exposed to any significant currency risk.

(d) Capital risk management

The company's goals and objectives when managing capital are:

- to be an appropriately capitalised institution in compliance with the paid up capital reuqirement set by SECP;
- to safeguard the company's ability to continue as a going concern;
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- maintain strong ratings; and
- to ensure a strong capital base so as to maintain investor, creditor and market confidence and to sustain furure development of the business.

30.3 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values except for investments which are stated as explained in note 4.10. Fair value is determined on the basis of objective evidence at each reporting date.

31. Date of authorization for issue

These financial statements were authorized for issue on March 21, 2012 by the Board of Directors of the company.

32. Event after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2011 of Rs. 1.5 per share (2010: Rs 1.5 per share), amounting to Rs. 102,093,750 (2010: Rs. 102,093,750) at their meeting held on March 21, 2012 for approval of the members at the Annual General Meeting to be held on April 30, 2012.

33. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant rearrangements have been made.

Hasan Mansha			
Chairman	Director	Director	Principal & Chief Executive Officer

Disclosure of Categories of Shareholding
as at December 31, 2011

Description	# of Shareholders	Shares Held	Percentage
Directors, CEO & thier spouse & minor children			
Mian Hassan Mansha (Director)	1	8,872,025	13.04
Mr. Aamir Fayyaz Sheikh (Director)	1	500	-
Mr. Jehanzeb Amin (Director)	1	500	-
Associated companies, Undertakings & Related parties"			
Nishat Mills Ltd.	1	10,226,244	15.02
Kohinoor Mills	1	643,667	0.95
NIT and ICP	-	-	-
Public Sector Companies & Corporations	-	-	-
Executives	-	-	-
"Banks, Development Financial Institutions, Non-Banking Financial Institution.	1	12,401,871	18.22
Insurance Companies	1	457,038	0.67
Modarabas and Mutual Funds"	-	-	-
General Public			
a. Local	-	-	-
b. Foreign	-	-	-
Others			
a - Joint stock companies	1	10,214,914	15.01
b - All others	5	25,245,741	37.09
Total	**13**	**68,062,500**	**100.00**

Shareholders Holding ten percent or more Voting Interest:-	# of Shareholders	Shares Held	Percentage
Allied Bank Limited	1	12,401,871	18.22
Nishat Mills Limited	1	10,226,244	15.02
Samin Textiles Limited	1	10,214,914	15.01
Mian Hassan Mansha	1	8,872,025	13.04
Mian Umer Mansha	1	8,872,025	13.04
Mian Raza Mansha	1	7,956,119	11.69

Pattern of Share Holding
as at December 31, 2011

No. of Shareholders	Shareholding From	Shareholding To	Total Shares held
2	1	500	1,000
1	455001	460000	457,038
1	640001	645000	643,667
1	915001	920000	915,903
1	2395001	2400000	2,399,454
1	5100001	5105000	5,102,240
1	7955001	7960000	7,956,119
2	8870001	8875000	17,744,050
1	10225001	10230000	10,226,244
1	10210001	10215000	10,214,914
1	12400001	12405000	12,401,871
13			68,062,500

Classification of Shares by Categories
as at December 31, 2011

Categories of Members	Number	Shares held	Percentage
Individuals	8	34,118,766	50.13
Investment Companies	0	0	0.00
Insurance Companies	1	457,038	0.67
Joint Stock Companies	3	21,084,825	30.98
Financial Institutions	1	12,401,871	18.22
Modaraba Companies	0	0	0.00
Foreign Investors	0	0	0.00
Others	0	0	0.00
Total	13	68,062,500	100.00

FORM OF PROXY

Security General Insurance Company Limited

I ____

of ____

being a shareholder of the Security General Insurance Company Limited do hereby appoint

____

of ____

also a Shareholder of the said company, to be my proxy and to vote for me at the annual general meeting of the Company to be held on the 30th day of April, 2011 and at any time adjournment thereof in the same manner as I myself would vote if personally present at such meeting.

As witness my hand in this day of ______________________ 2011.

Signature ______________________

Address ______________________

____

Holder of Share No. __________ to. __________

____

witness:

Name ______________________

Address ______________________

Head Office, SGI House, 18-C/E-1, Gulberg III, Lahore.
Tel: 042-35775024-29 Fax: 92-42-35775030