ANNUAL REPORT

2012

SECURITY GENERAL INSURANCE COMPANY LIMITED

Security General Insurance Company Limited

Annual Report 2012

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Form of Proxy

Branch Network

CORPORATE BRANCH
9-B, 3rd Floor, LDA Flats, Lawrance Road, Lahore.
Zaheer Mojahid Haidar
D.G.M. Marketing, 0333-4302340
Naveed Hayat Tarar
A.G.M. Marketing, 0333-4371578
Tariq Butt
A.G.M. Marketing, 0321-4628356
Ph: 042-36279192-3, 042-36307735-6

FAISALABAD BRANCH
2nd Floor, Regency Plaza, New Civil Lines,
Faisalabad.
Main Saud
A.G.M. Marketing, 0321-7665555
Ph: 041-2408353-4

MULTAN BRANCH
1st Floor, Business City Plaza, Bosan Road,
Multan.
Muhammad Naeem CH.
A.G.M. Marketing, 0300-6342430
Ph: 061-6522331-32

NEW MULTAN BRANCH
1st Floor, Business City Plaza, Bosan Road,
Multan.
Syed Muhammad Rafiq Shah
Chief Manager Marketing 0300-8780040
Aftab A. Khan
Manager Marketing 0300-9638331
061-6220027, 061-6220037

SIALKOT BRANCH
Office No. 1 & 2, First Floor, Kashmir Centre,
Kutchery Road, Sialkot.
Sabar Salam
Manager Marketing, 0321-9618788
Ph: 052-4274631-2

BAHAWALPUR BRANCH
1st Floor, Shah Din Plaza, Farid Gate,
Bahawalpur.
Syed Muhammad Shafique Shah
Manager Marketing 0333-2884090
Ph: 062-2884090

NEW KARACHI CITY BRANCH
House No. 84-P, Ghazali Road Block No. 2,
P.E.C.H.S Karachi.
Muhammad Mohsinullah
Regional Head Marketing 0300-2401634
Ph: 021-34302951-2
021-34306798-99

HYDERABAD BRANCH
B/2, Block B-1, Railway Housing Society,
Auto Bahan Road, Unit # 03, Latifabad,
Hyderabad.
Muhammad Anees Qurashi
Manager Marketing, 0300-3017098
Ph: 022-3820244

KARACHI MAIN BRANCH
1st Floor, Karachi Chamber, Hasrat Mohani Road,
Off. I.I., Chundrigar Road,
Karachi.
Ph: 021-32400880
021-32461089

ISLAMABAD BRANCH
Office No. 4, 1st Floor, Vip Square, 1-8 Markaz,
Islamabad
Asif Noor
Branch Manager 0333-4355557
Ph: 051-4861216-7
051-4861218

GUJRANWALA BRANCH
Apartment No. 10, 1st Floor, Bhutta Centre,
Nigar Phattak, G.T Road,
Gujranwala.
Zaheer Mujahid, 0333-4302340
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

Insurer Financial Strength Rating

Company Information

Board of Directors

Mian Hassan Mansha	Chairman
Mahmood Akhtar	Director
Badar ul Hassan	Director
Inayat Ullah Niazi	Director
Jehanzaib Amin	Director
Nabiha Shahnawaz	CEO
Khalid Mahmood Chohan	Company Secretary

Audit Committee

Mian Hassan Mansha	Chairman
Inayat Ullah Niazi	Member
Jehanzaib Amin	Member
Khalid Mahmood Chohan	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

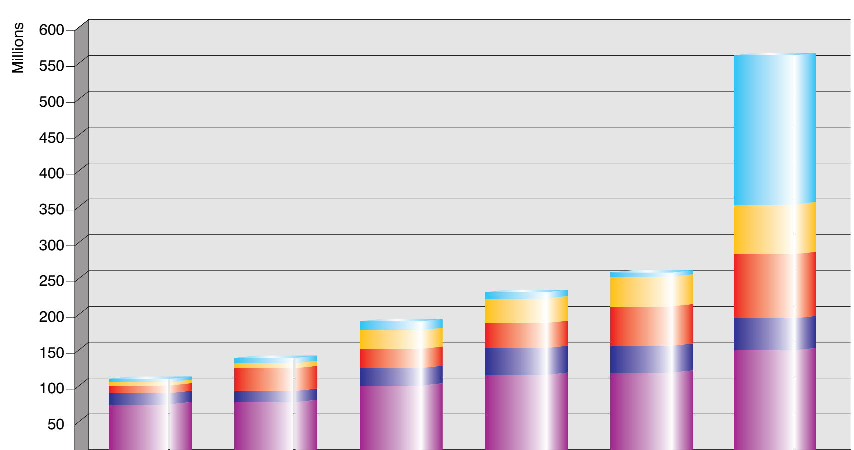
Nabiha Shahnawaz	CEO
Farrukh Aleem	CFO
Khalid Mahmood Chohan	Company Secretary

Key Financial Data

(Rupees in Million)

Description	2012	2011	2010	2009	2008	2007
Gross premium	**1,006**	451	402	328	237	181
Profit after Tax	**527**	389	374	314	154	6,262
Profit before Tax	**585**	457	411	329	200	6,285
Investment Income	**633**	509	496	446	298	6,329
Underwriting Income	**56**	48	50	47	41	27
Net Revenue	**198**	155	127	120	69	43
Net Claims	**70**	53	35	31	17	17
Paid-up Capital	**681**	681	681	681	681	227
Authorized Share Capital	**1,000**	1,000	1,000	1,000	1,000	300
Underwriting Reserve	**863**	347	308	231	125	100
Investments	**7,273**	7,211	7,295	7,117	7,225	6,969
Tangible Fixed Assets	**107**	87	85	86	80	79
Retained Profit	**6,740**	6,451	6,266	6,028	5,850	6,297

DEPARTMENT WISE PREMIUM GRAPH



	2007	2008	2009	2010	2011	2012
ENGG	7,629,498	12,635,890	23,094,040	15,881,926	8,963,073	379,809,765
MISC.	8,695,611	13,246,501	47,667,808	62,420,062	76,931,545	126,659,114
MOTOR	19,230,889	57,068,401	47,665,049	62,074,011	99,586,776	162,820,285
MARINE	27,747,506	29,581,459	45,147,149	69,127,640	68,654,090	82,860,599
FIRE	117,525,855	121,876,871	164,734,262	192,558,767	197,297,768	253,949,066
	180,829,359	**234,409,122**	**328,308,308**	**402,062,406**	**451,433,252**	**1,006,098,829**

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

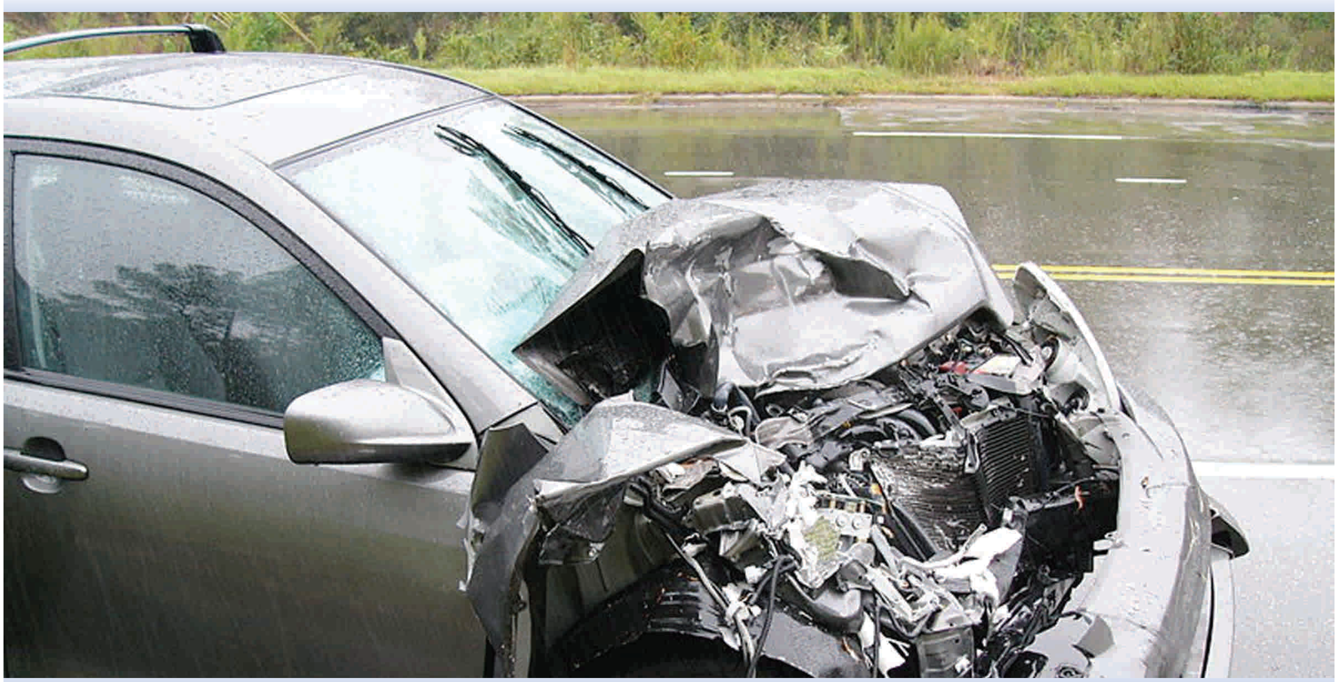
SGI offers insurance protection at minimum cost to customers in respect of the following:

1) "ACT ONLY'' Liability

2) Third Party Liability

3) Private & Commercial vehicle comprehensive insurance

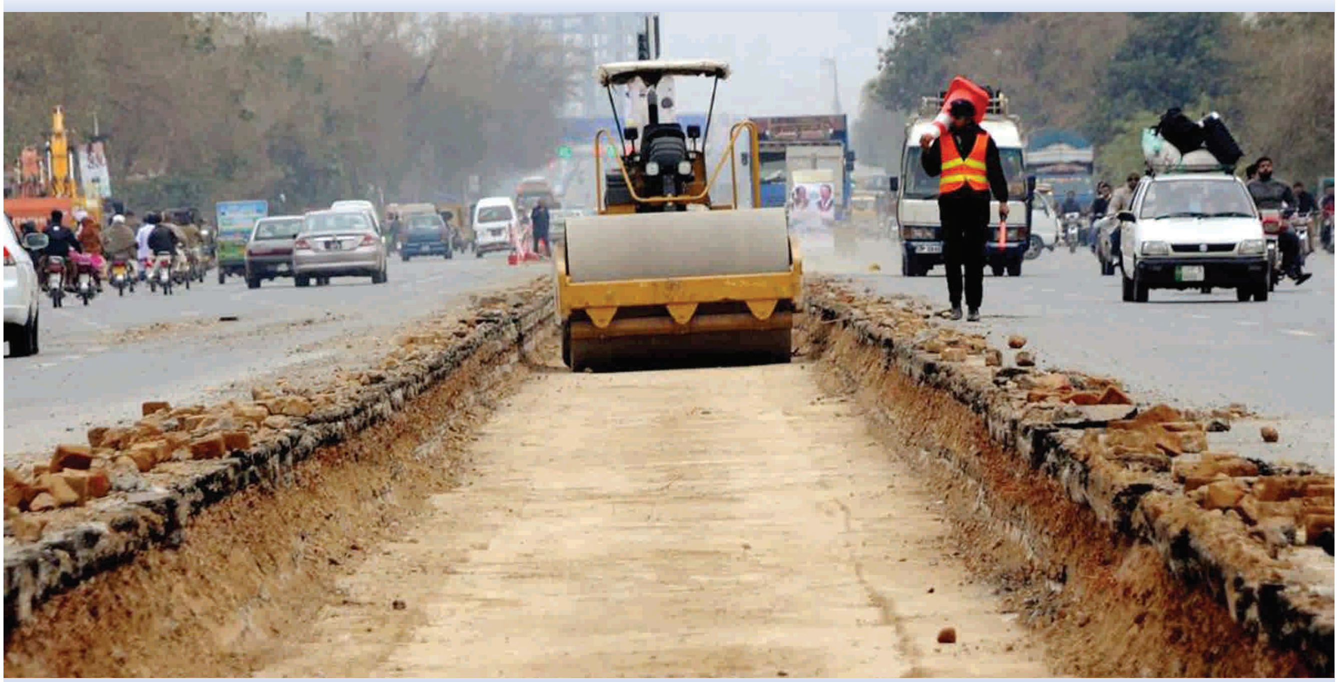
4) Motor Cycle comprehensive insurance



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 31 December 2012.

Lahore.
Dated: March 19, 2013

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. There was no casual vacancy on the Board of Directors during the year.

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 19, 2013

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 25, 2013 (Tuesday) at 11:00 a.m. at SGI House, 18-C/E-1, Gulberg III, Lahore, to transact the following business:

1. To receive, approve and adopt the audited accounts of the Company for the year ended December 31, 2012 together with the Directors' and Auditors' reports thereon.

2. To approve Final Cash Dividend @ 20% (i.e. Rs. 2/- Per Share) for the year 2012, as recommended by the Board in addition to 20% interim dividend already paid.

3. To appoint Statutory Auditors of the Company for the year 2013 and fix their remuneration. The present Auditors M/s. A. F. Ferguson & Company, Chartered Accountants, Lahore, retire and being eligible offer themselves for re-appointment.

By order of the Board

LAHORE
Dated: March 19, 2013

Khalid Mahmood Chohan
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed for entitlement of 20% Final Cash Dividend (i.e Rs. 2/- per share) from 19-04-2013 to 25-04-2013 (both days inclusive). Transfers received in order at SGI House, 18-C/E-1, Gulberg III, Lahore, upto 1:00 p.m. on 18-04-2013 will be considered in time for entitlement of 20% Final Cash Dividend and attending of Annual General 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 19, 2013 has revised the remuneration of Ms. Nabiha Shahnawaz Cheema, Chief Executive Officer of the Company from Rs. 300,000/- to Rs. 400,000/- per month with effect from January 2013 and two months gross salary as Bonus annually. There is no change in other terms and conditions of her appointment.

LAHORE
Dated March 19, 2013

Khalid Mahmood Chohan
Company Secretary

Directors' Report To The Members

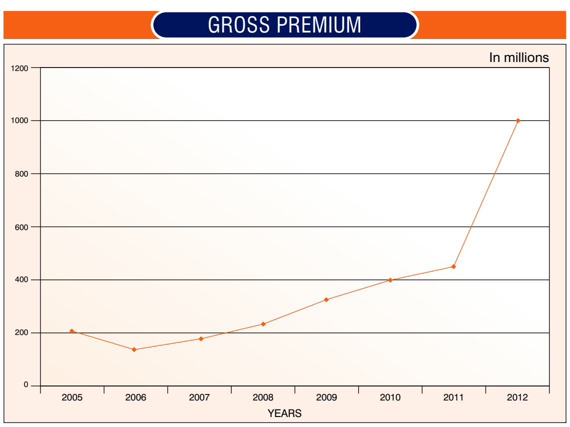
On behalf of the Board of Directors of Security General Insurance Company Limited, I am pleased to present the 17th annual report of your company for the year ended December 31, 2012.

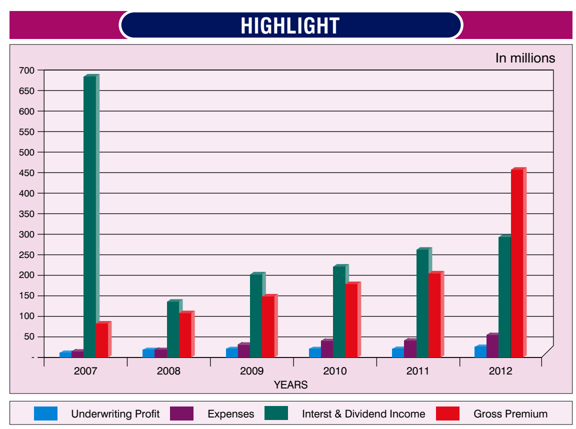
During 2012 SGI's not only achieved its premium growth target but actually surpassed it. The Company also paid back amounts borrowed from the banks and there is no borrowing as at 31-12-2012. The Company during the year did not default in payment of any of its obligations. Cash and bank deposits increased from Rs. 56 million as at 31-12-2011 to Rs.164 million as at 31-12-2012. Share holders equity increased from 7.1 billion (as at 31-12-2011) to 7.4 billion (as at 31-12-2012).

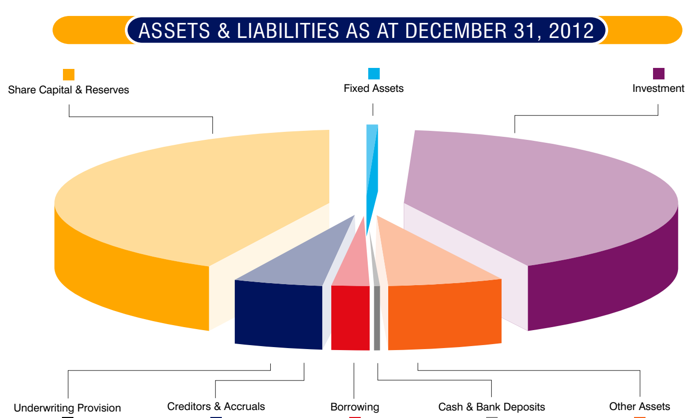
COMPANY'S PERFORMANCE DURING 2012:

SGI underwrote a gross premium of Rs.1 billion during the year 2012. This shows a growth of 123% over last year. Cash flows from underwriting activities have remained positive.

	Dec, 2012	Dec, 2011	Increase/Decrease
	(Rupees in million)		%
Gross Premium	1,006	451	123
Net Premium	198	155	28
Net Commission	10	9	11
Net Claims	70	53	32
Profit from underwriting business	56	48	17
Other income (not attributable to Investment activities)	12	17	(29)
Investment income	633	509	24
Financial charges	31	71	(56)
Profit before tax	585	457	28
Profit after tax	527	389	35

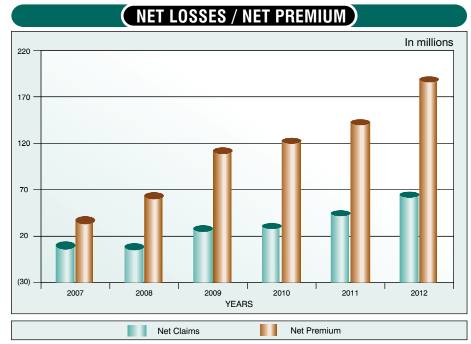






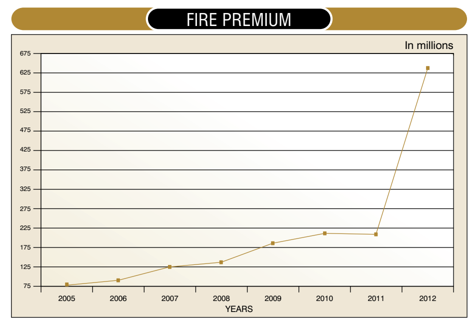
UNDERWRITING ACTIVITY:

SGI underwrote a gross premium of Rs. 1 billion during the year 2012. Underwriting profit for the year stands at Rs. 56 million (2011 Rs. 48 million). Underwriting profit bears a percentage of 28% to the net premium revenue.



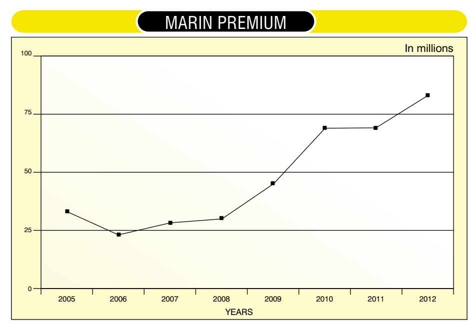
FIRE & PROPERTY DAMAGE:

Premium written in Fire business has increased as compared to same period during last year by 11%. The underwriting profit from fire business for period ended December 31st 2012 is 34%. Fire and property portfolio represent 32% of the total underwriting portfolio of SGI.



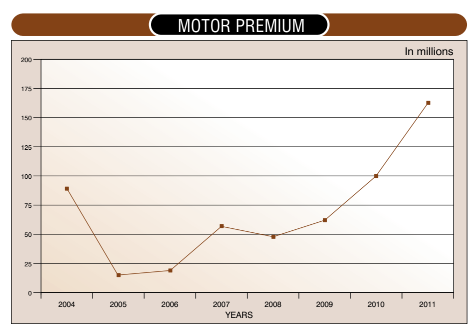
MARINE AVIATION AND TRANSPORT BUSINESS:

Premium from marine business has remained to the same during the period ended December 31st 2012 as compared to the period ended December 31st 2011 that is Rs. 32 million. Marine business represents 16% of the total underwriting portfolio of the company. Underwriting profit from marine business is 41% of the net premium.



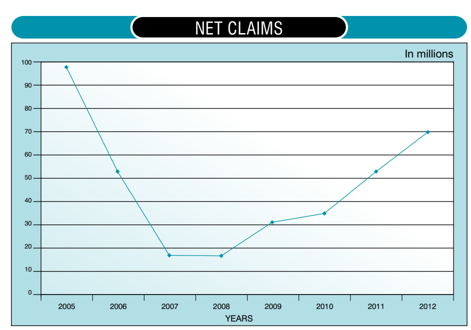
MOTOR

The gross premium from motor business has increased from Rs. 100 million during the period ended December 31st 2011 to Rs. 163 million during the period ended December 31st 2012. The profitability from the motor business for the period ended December 31st 2012 is 19% of net premium from this business. Motor Business represents 43% of the total underwriting portfolio of the company.



CLAIMS:

The overall claims expenses has increased from Rs. 53 million during the period ended December 31st 2011 to Rs. 70 million during the period ended December 31st 2012. Net Claims are 35% of premium (2011: 34%).



INVESTMENT:

The market value of our investment portfolio increased from 6 billion to Rs. 10 billion on the December 31st 2012 the Company earned dividend of Rs. 625 million from its investment portfolio (2011:566 million). The company also purchased investment of AICL shares of Rs. 63 million.

CASH FLOW:

As of December 31st 2012 Company's cash flow from underwriting activities is positive. Cash flow from financing activities is negative because of payment of dividend and financial charges. Overall business cash flow is positive.

EARNING PER SHARE:

Earnings per share has increased from 5.72 during the period ended December 31st 2011 to Rs 7.74 during the period ended December 31st 2012.

APPROPIRATIONS:

Directors, in their meeting held on March 19, 2013, have recommended a 20% cash dividend. This is in addition to 20% cash dividend paid on the basis of half yearly results for 2012.

The Directors have also recommended to transfer an amount of Rs.6 billion to the general reserve.

CREDIT RATING:

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

BOARD AUDIT COMMITTEE:

As required under the code of corporate governance for insurance companies, the board audit committee reviewed the results of all four quarter 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

STATUTORY AUDIT:

The auditors have expressed an unqualified opinion on the financial statement of the Company for the year 2012.

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 there from 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 investment of Provident Fund as at 31st December 2012 stands at Rs.12,000,000.
- The number of board meetings held during the year were 6 and were attended by the directors as follows:

Mian Hassan Mansha (Chairman)	4
Jehanzaib Amin	2
Aamir Fayyaz Sheikh	0*
Muhammad Azam	1*
Mahmood Akhtar	4
Shahzad Ahmad Malik	1*
Inayat Ullah Niazi	6
Badar ul Hassan	6
Nabiha Shahnawaz (CEO)	6

*Election of Directors were held on april 30, 2012 for which board fixed 5 no of elected Directors therefore Mr. Aamir Fayyaz Sheikh, Mr. Muhammad Azam and Mr. Shahzad Ahmad Malik were retired and not elected.

- The aggregate shares held by the Associated Companies are:

1.	Nishat Mills Limited	10,226,244

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

There are no material changes /commitments between the year end and the date of signing of this report except those mentioned in appropriations.

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 al take this opportunity to thank the SECP for the cooperation extended to the company throughout the year, and our re-insurers 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 GOVERANCE:

The provision of the Code of Corporate Government 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

Nabiha Shahnawaz
CEO

Dated: March 19, 2012

Auditors' Report To The Members

We have audited the annexed financial statements comprising of:

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

of Security General Insurance Company Limited as at 31, December 2012, together with the notes forming part thereof, for the year ended December 31, 2012.

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;

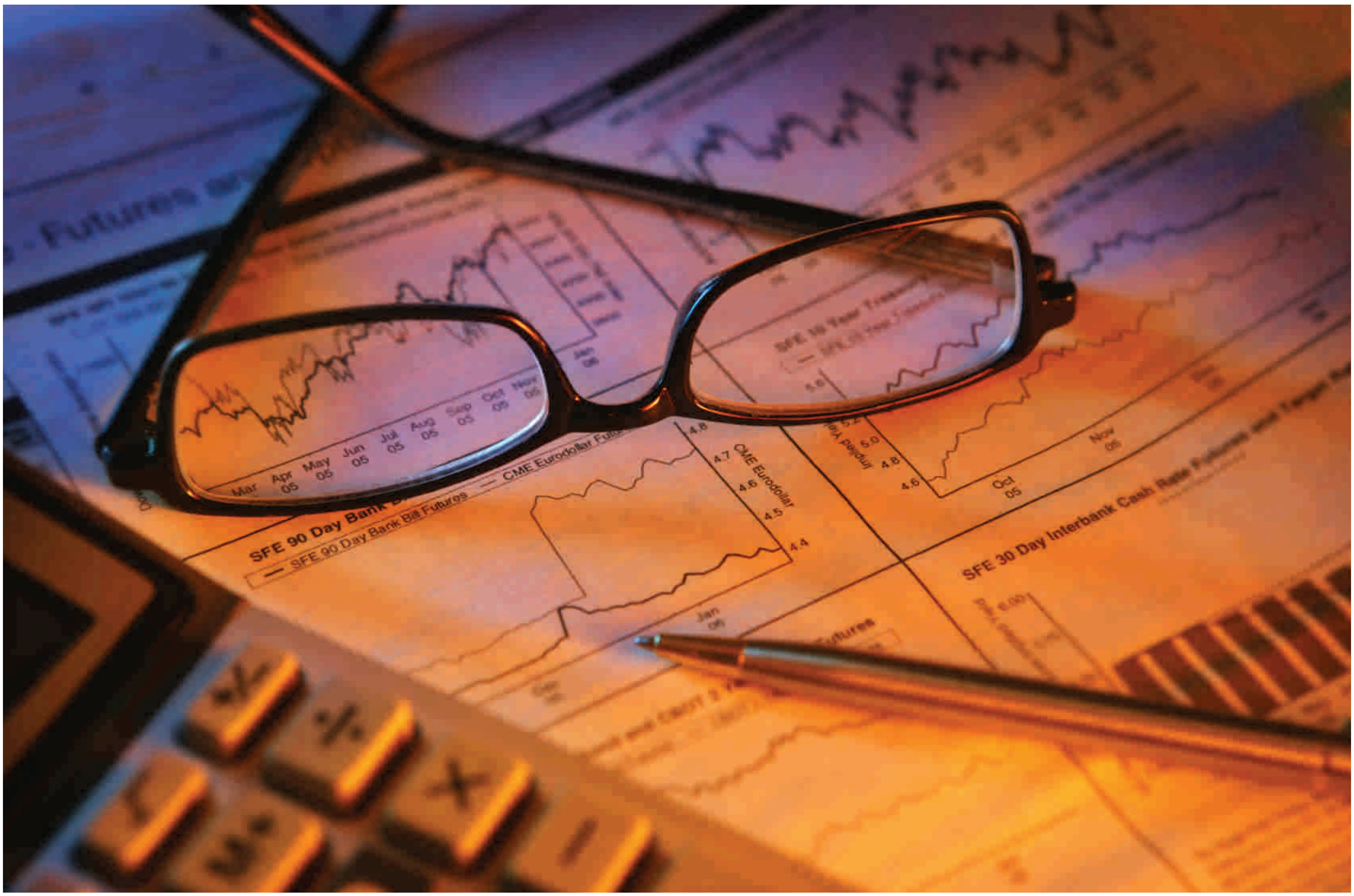
(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984 and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;

(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 2012 and of the profit, its cash flows and changes in equity for the year ended December 31, 2012, 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 19, 2013

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



Financial Statements 2012

Balance Sheet
for the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
Share capital and reserves			
Authorised capital 100,000,000 (2011: 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 (2011: 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		**6,739,654,344**	6,451,084,988
		7,422,279,344	7,133,709,988
Underwriting provisions			
Provision for outstanding claims [including IBNR]	6	**212,775,523**	156,670,252
Provision for unearned premium		**650,220,492**	190,097,932
Commission income unearned		**54,808,209**	27,326,287
Total underwriting provisions		**917,804,224**	374,094,471
Creditors and accruals			
Premium received in advance		**4,936,134**	1,416,398
Cash margin		**71,047,602**	32,621,558
Amounts due to other insurers / reinsurers		**133,298,527**	82,208,033
Creditors and accrued expenses	7	**180,580,940**	79,071,405
		389,863,203	195,317,394
Borrowings			
Finances under mark-up arrangements - secured	8	**-**	218,056,815
Total Liabilities		**1,307,667,427**	787,468,680
Contingencies and commitments	9		
Total Equity and Liabilities		**8,729,946,771**	7,921,178,668

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

as at December 31, 2012

	Note	2012 Rupees	2011 Rupees
Cash and bank deposits			
Cash and other equivalents	10	988	12,839
Current and other accounts	11	162,766,066	54,877,453
Deposits maturing within 12 months	12	1,350,000	1,350,000
Deposits maturing after 12 months	13	500,000	500,000
		164,617,054	56,740,292
Investments	14	7,272,989,781	7,211,211,426
Other assets			
Premiums due but unpaid - unsecured considered good		116,138,326	107,069,504
Amounts due from other insurers / reinsurers	15	238,363,467	155,369,798
Accrued investment income		2,949,885	2,820,896
Reinsurance recoveries against outstanding claims		165,602,338	110,459,253
Commission expense deferred		59,365,372	42,317,708
Prepayments	16	560,919,396	113,564,614
Taxation-payments less provision		13,832,111	11,591,032
Sundry receivables	17	6,086,196	3,862,227
		1,163,257,091	547,055,032
Fixed assets	18		
Freehold Land		22,671,528	10,446,900
Leasehold improvements		991,982	1,030,673
Building		33,854,935	37,616,595
Computer equipment		2,423,118	1,927,624
Furniture and fixtures		3,455,601	3,684,835
Motor vehicles		29,770,134	19,992,332
Office equipment		5,774,315	6,357,814
Tracker		8,209,364	6,282,383
		107,150,977	87,339,156
Deferred Taxation	19	21,931,868	18,832,762
Total Assets		8,729,946,771	7,921,178,668

Director

Principal & Chief Executive Officer

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

	Note	Fire and property Damage Rupees	Marine, aviation and transport Rupees	Motor Rupees	Miscellaneous Rupees	Treaty Rupees	2012 Rupees	2011 Rupees
Revenue account								
Net premium revenue		64,005,086	32,077,485	84,681,470	16,815,113	3,617	197,582,771	155,379,139
Net claims		(10,518,792)	(7,914,688)	(46,197,729)	(5,386,174)	(3,042)	(70,020,425)	(52,709,024)
Expenses	20	(26,875,628)	(8,411,781)	(14,163,992)	(11,739,179)	-	(61,190,580)	(45,890,664)
Net commission		(4,667,814)	(2,473,645)	(8,133,678)	5,015,234	(252)	(10,260,155)	(9,196,746)
Underwriting result		21,942,852	13,277,371	16,186,071	4,704,994	323	56,111,611	47,582,705
Investment income							633,014,761	508,664,751
Income on current and other deposits							11,863,874	8,138,935
Other income							-	8,382,743
Financial charges	21						(30,962,961)	(70,937,450)
Gain / (loss) on sale of fixed assets							509,771	66,576
Workers' Welfare Fund	7.3						(29,658,192)	-
General and administration expenses	22						(55,538,712)	(44,741,403)
							529,228,541	409,574,152
Profit before taxation							585,340,152	457,156,857
Provision for taxation	23						(58,552,046)	(67,827,020)
Profit after taxation							526,788,106	389,329,837
Profit and loss appropriation account								
Balance at commencement of the year							6,451,084,988	6,265,942,651
Final dividend for the year ended December 31, 2011 Rs. 1.5 per share (2010: Rs 1 per share)							(102,093,750)	(102,093,750)
Profit after taxation for the year							526,788,106	389,329,837
Interim dividend Rs 2 per share (2011: Rs 1.5 per share)							(136,125,000)	(102,093,750)
Balance unappropriated profit at the end of the year							6,739,654,344	6,451,084,988

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Nabiha
Principal & Chief Executive Officer

Statement of Comprehensive Income

for the year ended December 31, 2012

	Year ended December 31	
	2012 Rupees	2011 Rupees
Profit for the year	**526,788,106**	389,329,837
Other comprehensive income for the year	**-**	-
Total comprehensive income for the year	**526,788,106**	389,329,837

The annexed notes 1 to 31 form an integral part of these financial statements.

Chairman	Director	Director	Principal & Chief Executive Officer

Statement of Changes in Equity

for the year ended December 31, 2012

	Share capital Rupees	Reserve for issue of bonus shares Rupees	General reserve Rupees	Retained earnings Rupees	Total Rupees
Balance as at January 1, 2011	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)
Total comprehensive income for the period	-	-	-	389,329,837	389,329,837
Interim dividend for the year 2011 at Rs. 1.5 per share	-	-	-	(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
Total comprehensive income for the period	-	-	-	526,788,106	526,788,106
Final dividend for the year ended December 31, 2011 at Rs. 1.5 per share	-	-	-	(102,093,750)	(102,093,750)
Interim dividend for the year 2012 at Rs. 2 per share	-	-	-	(136,125,000)	(136,125,000)
Balance as at December 31, 2012	**680,625,000**	**-**	**2,000,000**	**6,739,654,344**	**7,422,279,344**

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Principal & Chief Executive Officer

Cash Flow Statement

for the year ended December 31, 2012

	Note	2012 Rupees	2011 Rupees
Operating cash flows			
Underwriting activities			
Premiums received		1,058,402,831	393,519,425
Reinsurance premiums paid		(779,743,924)	(281,407,694)
Claims paid		(213,701,919)	(122,941,108)
Reinsurance and other recoveries received		123,205,856	100,272,196
Commissions paid		(101,217,246)	(76,362,370)
Commissions received		119,657,861	77,088,134
Other underwriting payments		(4,446,615)	(3,590,707)
Other underwriting receipts		12,742,119	9,072,741
Net cash generated from underwriting activities		214,898,963	95,650,617
Other operating activities			
Income tax paid		(63,892,231)	(60,678,954)
General management expenses paid		(105,127,181)	(78,050,248)
Net cash used in other operating activities		(169,019,412)	(138,729,202)
Total cash generated from all operating activities		45,879,551	(43,078,585)
Investment activities			
Profit /return received		18,699,044	16,708,387
Dividends received		624,847,113	566,016,748
Payments for purchase of investments		(63,351,525)	(1,892,614)
Proceeds from disposal of investments		2,000,000	20,727,645
Fixed capital expenditure		(33,395,129)	(13,630,811)
Proceeds from disposal of fixed assets		1,542,626	305,000
Total cash generated from investing activities		550,342,129	588,234,355
Financing activities			
Dividends paid		(238,218,750)	(204,187,500)
Financial charges paid		(32,069,353)	(74,504,463)
Total cash used in financing activities		(270,288,103)	(278,691,963)
Net cash generated from all activities		325,933,577	266,463,807
Cash at the beginning of the period		(161,816,523)	(428,280,330)
Cash at the end of the period	24.1	164,117,054	(161,816,523)

Reconciliation of operating cash flows to profit and loss account is given as note 24 to these financial statements.

The annexed notes 1 to 31 form an integral part of these financial statements.

Chairman	Director	Director	Principal & Chief Executive Officer

Statement of Premium

for the year ended December 31, 2012

Business underwritten inside Pakistan

Direct and facultative

Class	Premiums written Rupees	Unearned premium reserve		Premiums earned Rupees	Reinsurance ceded Rupees	Prepaid reinsurance premium		Reinsurance expense Rupees	Other income Rupees	Net premium revenue	
		Opening Rupees	Closing Rupees			Opening Rupees	Closing Rupees			**December 31, 2012 Rupees**	December 31, 2011 Rupees
Fire and property damage	633,758,831	97,511,358	513,170,130	218,100,059	562,129,285	66,475,313	470,079,242	158,525,356	4,430,383	**64,005,086**	57,683,040
Marine, aviation and transport	82,860,599	9,064,675	7,652,119	84,273,155	54,758,698	5,241,068	5,351,267	54,648,499	2,452,829	**32,077,485**	32,398,472
Motor	162,820,285	54,065,934	69,720,057	147,166,162	84,489,691	16,992,579	33,911,176	67,571,094	5,086,402	**84,681,470**	57,586,601
Miscellaneous	126,659,114	29,455,965	59,678,186	96,436,893	107,097,409	24,021,396	50,724,520	80,394,285	772,505	**16,815,113**	7,711,064
Total	1,006,098,829	190,097,932	650,220,492	545,976,269	808,475,083	112,730,356	560,066,205	361,139,234	12,742,119	**197,579,154**	155,379,177
Treaty	3,617	-	-	3,617	-	-	-	-	-	**3,617**	(38)
Grand total	1,006,102,446	190,097,932	650,220,492	545,979,886	808,475,083	112,730,356	560,066,205	361,139,234	12,742,119	**197,582,771**	155,379,139

Note: Net Premium revenue includes administration surcharge of Rs. 12,742,119 (2011: Rs. 9,072,741) earned on insurance policies issued by the company.

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Nabiha
Principal & Chief Executive Officer

Statement of Claims

for the year ended December 31, 2012

Business underwritten inside Pakistan

Direct and facultative

Class	Claims paid Rupees	Outstanding claims		Claims expense Rupees	Reinsurance and other recoveries received Rupees	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue Rupees	Net claims expenses	
		Opening Rupees	Closing Rupees			Opening Rupees	Closing Rupees		**December 31, 2012 Rupees**	December 31, 2011 Rupees
Fire and property damage	90,493,797	60,254,681	71,928,492	102,167,608	79,680,668	53,786,892	65,755,040	91,648,816	**10,518,792**	9,464,032
Marine, aviation and transport	24,353,109	16,007,119	22,594,705	30,940,695	16,269,585	9,559,676	16,316,098	23,026,007	**7,914,688**	5,811,013
Motor	83,446,967	40,620,249	44,575,978	87,402,696	35,970,158	9,822,886	15,057,695	41,204,967	**46,197,729**	37,233,818
Miscellaneous	12,792,651	39,788,203	73,676,348	46,680,796	10,110,916	37,289,799	68,473,505	41,294,622	**5,386,174**	200,145
Total	211,086,524	156,670,252	212,775,523	267,191,795	142,031,327	110,459,253	165,602,338	197,174,412	**70,017,383**	52,709,008
Treaty	3,042	-	-	3,042	-	-	-	-	**3,042**	16
Grand total	211,089,566	156,670,252	212,775,523	267,194,837	142,031,327	110,459,253	165,602,338	197,174,412	**70,020,425**	52,709,024

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha
Chairman

Director

Director

Principal & Chief Executive Officer

Statement of Expenses

for the year ended December 31, 2012

Business underwritten inside Pakistan

Direct and facultative		Deferred commission						Net underwriting expenses	
Class	Commissions paid or payable Rupees	Opening Rupees	Closing Rupees	Net commission expenses Rupees	Other management expenses Rupees	Under writing expense Rupees	Commissions from reinsurers Rupees	**December 31, 2012 Rupees**	December 31, 2011 Rupees
Fire and property damage	64,133,820	30,268,973	39,828,079	54,574,714	26,875,628	81,450,342	49,906,900	**31,543,442**	27,474,984
Marine, aviation and transport	18,654,865	2,061,811	1,511,820	19,204,856	8,411,781	27,616,637	16,731,211	**10,885,426**	7,843,455
Motor	22,545,267	7,139,224	9,980,298	19,704,193	14,163,992	33,868,185	11,570,515	**22,297,670**	17,119,054
Miscellaneous	14,149,554	2,847,700	8,045,175	8,952,079	11,739,179	20,691,258	13,967,313	**6,723,945**	2,649,864
Total	119,483,506	42,317,708	59,365,372	102,435,842	61,190,580	163,626,422	92,175,939	**71,450,483**	55,087,357
Treaty	252	-	-	252	-	252	-	**252**	53
Grand total	119,483,758	42,317,708	59,365,372	102,436,094	61,190,580	163,626,674	92,175,939	**71,450,735**	55,087,410

The annexed notes 1 to 31 form an integral part of these financial statements.

Hasan Mansha

Chairman

Director

Director

Principal & Chief Executive Officer

Statement of Investment Income

for the year ended December 31, 2012

	December 31, 2012 Rupees	December 31, 2011 Rupees
Income from non-trading investments		
Held to maturity		
Return on Government securities	**9,090,984**	8,988,499
Available for sale		
- Dividend income		
- Dividend income from related parties	**33,282,388**	76,911,205
- Dividend income from others	**591,609,726**	489,105,543
	624,892,114	566,016,748
- Gain on sale of shares	**-**	4,388,340
	624,892,114	570,405,088
	633,983,098	579,393,587
Less: Investment related expenses	**(968,337)**	(974,000)
Impairment loss	**-**	(69,754,836)
Net investment income	**633,014,761**	508,664,751

The annexed notes 1 to 31 form an integral part of these financial statements.

Chairman	Director	Director	Principal & Chief Executive Officer

Notes to the Financial Statements
for the year ended December 31, 2012

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 11 branches in Pakistan (2011: 10). The registered office and the principal place of business is situated at SGI House, 18-C, E1, 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 applicable to the company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards, amendments to published standards and interpretations effective in current year

The following amendments to standards are mandatory for the first time for the financial year beginning January 1, 2012:

- Amendment to IFRS 7,'Financial instruments: Disclosures', on transfer of financial assets is effective for annual periods beginning on or after July 1, 2011. These amendments are as part the IASBs comprehensive review of off balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset. The Company has determined that there is no significant transfer of financial assets that require disclosure under the guidance above.

  The other new standards amendments and interpretations that are mandatory for accounting period beginning on or after January 01,2012 are considered not to be relevant or to have any significant impact on company's financial reporting and operations.

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)
Amendment to IFRS 1,'First time adoption',on hyperinflation and fixed dates	July 1, 2011
Amendment to IAS 12, 'Income taxes', on deferred tax	January 1, 2012

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 interpretations 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 (accounting periods beginning on or after)**
IAS 27 - (revised), 'Separate financial statements'	January 1, 2013
IAS 28 - (revised), 'Associate and joint venture'	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
IFRIC 20 - Stripping costs in the production phase of a surface mine	January 1, 2013
IFRS 1 - 'First time adoption', on government loans	January 1, 2013
-Amendment to IFRSs 10, 11 and 12 on transition guidance	January 1, 2013
- Amendment to IFRS 7, 'Financial instruments: Disclosures'	January 1, 2013

2.2.4 Standards, amendments and interpretations 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:

	Effective date (accounting periods beginning on or after)
Amendment to IAS 1, 'Financial statement presentation'	July 1, 2012
Amendment to IAS 19, 'Employee benefits'	January 1, 2013
Amendment to IAS 32,'Financial instruments: Presentation'	January 1, 2014
IFRS 9, 'Financial instruments	January 1, 2015

3. Basis of measurement

These financial statements have been prepared under the historical cost convention, except for recognition of certain employee retirement benefits 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 & 23
d)	Provision for doubtful receivables	4.6 & 15
e)	Useful lives and residual values of fixed assets	4.14 & 18
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 caused by one or more of the following Fire, earthquake, riot and strike, explosion, atmospheric disturbance, flood, burglary, etc according to the terms and conditions of the policy.

- Marine insurance contracts generally provide cover against one or more of the following cargo risk, war risk and damages occurring during transit between the points of origin and final destination according to the terms and conditions of the policy.

- Motor insurance contracts provide indemnity against one or more of the following total or partial loss of vehicle, third party loss and other comprehensive car coverage, etc according to the terms and conditions of the policy.

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

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

Majority of the insurance contracts entered into by the company are for a period of twelve months. Policy for recognition of premium revenue is disclosed in note 4.17 to these financial statements.

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 as follows;

- for contracts of 12 months tenure, company maintains provision for unearned premium net of reinsurances by applying the 1 / 24th method as stipulated in SEC (Insurance) Rules, 2002 for non life insurance companies.

- for marine insurance contracts, company maintains provision for unearned premium net of reinsurances by applying 1 / 6th method consistent with 1 / 24th method as stipulated in SEC (Insurance) Rules, 2002 for non life insurance companies.

- for contracts having tenure of more than 12 months, company maintains provision for unearned premium net of reinsurances relating to the unexpired period of coverage at the reporting date.

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, judgment 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 ratios based on current estimates of known claims for the current and prior period are as follows:

	Loss ratios based on current estimates of known claims	
	2012	2011
Fire and property damage	**15%**	17%
Marine, aviation and transport	**27%**	28%
Motor	**46%**	33%
Miscellaneous	**18%**	33%

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 28.1.4 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, 2012 is referred to in note 16 and note 28.2 to the financial statements, respectively.

4.5 Amounts due to / from other insurers / 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 unquoted investments is computed by reference to net assets of the investee on the basis of the latest available 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, 2012 is Rs. 10,351,697,439 (2011: 5,880,043,233). Had the company complied with IAS 39, the carrying value of investments as at December 31, 2012 would have been greater by Rs. 3,149,383,030.

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. 350,217,628 as this is not expected to reverse.

4.12 Reinsurance recoveries against outstanding claims

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

4.13 Prepaid reinsurance expense

The portion of reinsurance expense not yet recognized as an expense is recognized 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, 2012 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 capitalized, 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

There is an approved gratuity fund for all of its permanent employees. 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, 2012 using the "Projected Unit Credit Method" based on the following assumptions;

- Discount rate	11.0%
- Expected rate of increase in salary	10.0%
- 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 sale 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 expenses

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 presented 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.

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

2012	2011		2012	2011
(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	2012 (Number of shares)	2011 (Number of shares)
Nishat Mills Limited	5.1	10,226,244	10,226,244

5.1 This is an associated undertaking by virtue of common directorship.

6. Provision for outstanding claims includes Rs. 5,474,224 (2011: Rs. 3,001,358) due to associated undertakings.

7. Creditors and accrued expenses

	Note	2012 Rupees	2011 Rupees
Accrued expenses		8,974,778	3,815,741
Commission payable		65,121,926	56,855,414
Mark-up accrued on borrowings from banks		2,198,065	3,304,457
Gratuity payable	7.1	1,314,727	5,226,897
Federal insurance fee payable	7.2	3,769,876	254,173
Federal excise duty payable	7.2	60,319,617	3,986,143
Workers' Welfare Fund	7.3	29,658,192	-
Others		9,223,759	5,628,580
		180,580,940	79,071,405

7.1 Gratuity payable

7.1.1 The amounts recognized in balance sheet are as follows:

	2012	2011
Present value of defined benefit obligation	8,198,453	4,876,132
Unrecognised actuarial gain/(loss)	(1,585,216)	774,485
Benefits Payable	220,800	-
Non-vested past service cost	-	(423,720)
Less Fair Value of Plan Assets	(5,519,310)	
	1,314,727	5,226,897

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

	2012	2011
Present value of defined benefit obligation as at January 1	5,226,897	3,352,197
Current service cost	1,299,532	938,357
Interest cost	609,517	512,622
Actuarial Gain/Losses Charge	(22,067)	-
Contributions made by the Company during the year	(6,222,872)	-
Amortization of non-vested past service cost	423,720	423,721
Present value of defined benefit obligation as at December 31	1,314,727	5,226,897

7.1.3 Charge to profit and loss account:

	2012	2011
Current service cost	1,299,532	938,357
Interest cost	609,517	512,622
Actuarial Gain/Losses Charge	(22,067)	-
Amortization of non-vested past service cost	423,720	423,721
	2,310,702	1,874,700

7.2 Government duties outstanding at the reporting date on account of Federal insurance fee and Federal excise duty were paid after December 31, 2012 within the stipulated time period allowed by the relevant laws.

7.3 The charge on account of Worker's Welfare Fund for years 2010, 2011 and 2012 aggregating to Rs. 29,658,192 has been provided for in the current year as Sindh High Court, through a recent judgement has endorsed the vires of amendments introduced in Workers Welfare Fund Ordinance, 1971 (WWF Ordinance). Such charge was earlier not provided in respective years as Lahore High Court had struck down the subject amendments in WWF Ordinance.

8. Finances under mark-up arrangements - secured

	Note	2012 Rupees	2011 Rupees
Short term running finance		-	218,056,815
Short term finance		-	-
	8.1	-	218,056,815

8.1 Short term running finance and short term finance facilities are available from commercial banks under mark-up arrangements amounting to Rs 1,100,000,000 (2011: Rs 1,450,000,000). These are secured against a pledge of shares as referred to in note 14.3 to the financial statements. Mark-up is payable on a quarterly basis at rates ranging from 11.04% per annum to 13.99% per annum (2011: 13.42% per annum to 15.79% per annum), in case of former and between 10.61% per annum to 13.10% per annum (2011: 13.00% per annum and 15.19% per annum), in case of latter. These facilities will expire between in March 31, 2013 to August 31, 2013. During the year, amounts availed under these facilities have been repaid to the banks.

9. Contingencies and commitments

9.1 Contingencies

The company is contingently liable for Rs. 1,902,723 (2011: Rs. 3,109,723) 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 784,500 (2011: Rs. 690,450).

9.2 Commitments

Nil (2011: Nil)

10. Cash and other equivalents

	Note	2012 Rupees	2011 Rupees
Cash in hand		988	12,839

11. Current and other accounts

	Note	2012 Rupees	2011 Rupees
Current accounts		9,324,084	13,786,846
Saving accounts	11.1	153,441,982	41,090,607
		162,766,066	54,877,453

11.1 These accounts bear mark-up ranging from 5% per annum to 13% per annum (2011: 5% per annum to 13% per annum).

12. Deposits maturing within 12 months

	Note	2012 Rupees	2011 Rupees
Cash deposit with the State Bank of Pakistan		350,000	350000
Term Deposit Receipts with Banks	12.1	1,000,000	1,000,000
		1,350,000	1,350,000

12.1 This deposit carries mark-up of 9% per annum (2011: 9% per annum).

13. Deposit maturing after 12 months

This deposit carries mark-up at a rate of 12% per annum (2011: 12% per annum).

14. Investments

	Note	2012 Rupees	2011 Rupees
Held-to-maturity - Government securities			
8% - 12% Pakistan Investment Bonds of the Government of Pakistan 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 (2011: 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, 2012 Rs. 72,453,783 (2011: Rs. 72,591,558)	14.1	**70,675,372**	70,306,347
Available-for-sale - Quoted equities			
Associated			
Pak Gen Power Limited (Formerly AES Pak Gen)			
6,407,796 (2011: 6,407,796) ordinary shares of Rs. 10 each	14.2	**88,899,557**	88,899,557
Others			
Adamjee Insurance Company Limited			
5,098,072 (2011: 4,138,572) Ordinary shares of Rs. 10 each.	14.3	**351,109,370**	289,700,040
MCB Bank Limited			
45,874,527 (2011: 41,704,116) Ordinary shares of Rs. 10 each	14.3	**6,658,245,500**	6,658,245,500
Kohinoor Energy Limited			
30,000 (2011: 30,000) Ordinary shares of Rs. 10 each.		**57,7600**	577,600
UTP Large Capital Fund			
33,348 (2011: 33,348) 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 (2011: 6,906,159) ordinary shares of Rs. 10 each	14.4	**103,022,382**	103,022,382
		7,272,989,781	7,351,824,120

14.1 Maturity dates of Pakistan Investment Bonds fall between October 2013 and August 2021.

14.2 The investment includes 500 shares held in the name of nominee director of the company.

14.3 3,500,000 shares (2011: 3,150,000 shares) of Adamjee Insurance Company Limited and Nil (2011: 5,500,000 shares) of MCB Bank Limited are pledged with banks as referred to in note 8 to the financial statements.

14.4 Break up value is Rs. 35.34 (2011: 34.03) per share based on the audited accounts for the year ended December 31, 2012. The investment includes 500 shares held in the name of nominee director of the company.

14.5 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. Amounts due from other insurers / reinsurers

		2012 Rupees	2011 Rupees
Amounts due from other insurers / reinsurers - unsecured			
Considered good		**238,363,467**	155,369,798
Considered doubtful		**3,423,444**	1,723,762
		241,786,911	157,093,560
Less: Provision for doubtful debts	15.1	**(3,423,444)**	(1,723,762)
		238,363,467	155,369,798

15.1 Provision for doubtful receivables

		2012 Rupees	2011 Rupees
Balance as at January 1		**1,723,762**	223,762
Provision made during the year		**1,699,682**	1,500,000
Balance as at December 31		**3,423,444**	1,723,762

16. Prepayments

		2012 Rupees	2011 Rupees
Prepaid reinsurance premium	16.1	**560,066,205**	112,730,356
Others		**853,191**	834,258
		560,919,392	113,564,614

16.1 Movement in prepaid reinsurance premium

	2012 Rupees	2011 Rupees
As at January 1	**112,730,356**	113,034,370
Reinsurance premium ceded during the year	**808,475,083**	289,081,330
Reinsurance expense for the year	**(361,139,238)**	(289,385,344)
As at December 31	**560,066,205**	112,730,356

17. Sundry receivables

	2012 Rupees	2011 Rupees
Advances to employees - considered good	**286,559**	479,457
Accrued return on deposits and other accounts	**1,984,850**	239,856
Other receivables - considered good	**1,612,465**	1,219,992
Security deposits - considered good	**2,202,322**	1,922,922
	6,086,196	3,862,227

17.1 Included in advance to employees is an amount of Rs. Nil (2011: Rs. 126,200) due from executives.

18. 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, 2012									
Opening net book value	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
Additions (at cost)	12,224,628	67,358	-	851,230	147,436	16,206,753	3,494,516	403,208	33,395,129
Disposals (at NBV)	-	-	-	-	-	(1,006,323)	(17,196)	(9,336)	(1,032,855)
Depreciation charge for the year	-	(106,049)	(3,761,660)	(355,736)	(376,670)	(5,422,628)	(1,550,339)	(977,371)	(12,550,453)
Net book value as at December 31, 2012	**22,671,528**	**991,982**	**33,854,935**	**2,423,118**	**3,455,601**	**29,770,134**	**8,209,364**	**5,774,315**	**107,150,977**
At December 31, 2012									
Cost	22,671,528	1,446,860	60,376,167	5,233,660	5,761,954	46,749,398	11,503,291	12,227,603	165,970,461
Accumulated depreciation	-	(454,878)	(26,521,232)	(2,810,542)	(2,306,353)	(16,979,264)	(3,293,927)	(6,453,288)	(58,819,484)
Net book value as at December 31, 2012	22,671,528	991,982	33,854,935	2,423,118	3,455,601	29,770,134	8,209,364	5,774,315	107,150,977
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 value as at December 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 December 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**
Depreciation rates (%)	-	10	10	15	10	20	20	15	

18.1 The assets disposed off during the year comprise Motor vehicles, Trackers and Office equipment of which the original cost was Rs. 3,548,570, Rs. 31,032 and Rs. 53,400 and accumulated depreciation was Rs. 2,542,247, Rs. 13,836 and Rs. 44,064 and hence, the book value was Rs. 1,006,324, Rs. 17,196 and Rs. 9,336 respectively.

19. Deferred taxation

	2012 Rupees	2011 Rupees
Opening balance as on January 1	**18,832,762**	(8,427,638)
Charged to profit and loss account	**3,099,106**	27,260,400
Closing balance as on December 31	**21,931,868**	18,832,762
Debit / (credit) balance arising from:		
Accelerated tax depreciation	**(8,199,221)**	(8,858,488)
Gratuity expense	**-**	1,829,414
Provision for doubtful debts	**1,198,205**	603,317
Unabsorbed tax depreciation	**28,932,884**	25,258,519
Deferred tax asset	**21,931,868**	18,832,762

20. Management expenses

	Note	2012 Rupees	2011 Rupees
Salaries, wages and benefits	20.1	**29,346,443**	21,900,534
Rent, rates, taxes and electricity		**3,907,943**	3,528,550
Communication		**1,798,803**	1,592,653
Printing and stationery		**552,615**	470,925
Travelling and entertainment		**1,527,253**	1,493,409
Car maintenance		**5,407,167**	3,966,814
Depreciation		**6,370,007**	4,949,978
Repair and maintenance		**599,274**	622,133
Service charges charged by co-insurers		**4,446,615**	3,590,707
Tracker monitoring		**6,224,886**	3,150,432
Other expenses		**1,009,574**	624,529
		61,190,580	45,890,664

20.1 Included in salaries, wages and benefits are Rs. 991,533 (2011: Rs. 769,729) in respect of provident fund contribution by the company and Rs. 433,988 (2011: Rs. 266,075) in respect of gratuity fund.

21. Financial charges

	Note	2012 Rupees	2011 Rupees
Mark-up on borrowings from banks		**30,151,263**	70,418,925
Bank charges		**811,698**	518,525
		30,962,961	70,937,450

22. General and administration expenses

	Note	2012 Rupees	2011 Rupees
Salaries, wages and benefits [including Chief Executive Officer's remuneration Rs. 3,600,000 (2011: Rs. 2,632,080)]	22.1	**31,429,903**	24,697,171
Repair and maintenance		**1,021,531**	895,992
Legal and professional charges		**1,913,677**	1,480,550
Audit fee	22.2	**772,589**	694,948
Travelling and entertainment		**786,917**	451,902
Depreciation		**6,180,446**	6,408,668
Rent, rates, taxes and electricity		**1,390,586**	1,166,437
Communication		**971,750**	851,773
Printing and stationery		**1,686,327**	1,250,933
Insurance		**1,149,940**	981,588
Car maintenance		**2,524,403**	1,786,873
Worker's Welfare Fund		**29,658,192**	-
Provision for doubtful debts		**1,699,682**	1,500,000
Other expenses		**4,010,961**	2,574,568
		85,196,904	44,741,403

22.1 Included in salaries, wages and benefits are Rs. 1,332,552 (2011: Rs. 1,127,681) in respect of provident fund contribution by the company and Rs. 1,876,714 (2011: Rs. 1,608,625 in respect of the gratuity expense. Provident fund contribution and gratuity contribution in respect of Chief Executive Officer amount to Rs. 240,000 (2011: Rs. 175,472) and Rs. 335,505 (2011: 259,010), respectively.

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

22.2 Audit Fee

	Note	2012 Rupees	2011 Rupees
Annual audit		440,000	400,000
Half yearly review		220,000	200,000
Out of pocket expenses		112,589	94,948
		772,589	694,948

23. Provision for taxation

	Note	2012 Rupees	2011 Rupees
For the year			
- Current		61,651,152	58,690,376
- Deferred	19	(3,099,106)	(27,260,400)
		58,552,046	31,429,976
Prior year			
- Current		-	36,397,044
		58,552,046	67,827,020

23.1 Tax Charge reconciliation

	2012 %	2011 %
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	35.00	35.00
Effect of:		
- income chargeable to tax at a reduced rate	(26.90)	(30.56)
- income exempt from tax	-	(0.30)
- impairment loss	-	5.30
- prior year tax	(0.30)	2.50
- Others	2.20	2.90
Effective tax rate	10.00	14.84

24. Reconciliation to profit and loss account

	2012	2011
Operating cash flows	45,879,551	(43,078,585)
Depreciation	(12,550,453)	(11,358,646)
Financial charges	(30,962,961)	(70,937,450)
Profit on disposal of fixed assets	509,771	66,576
Increase in assets other than cash	600,379,518	31,840,921
Increase in liabilities other than borrowings	(251,757,474)	(22,471,837)
Others		
- (Increase) in provision for unearned premium	(460,122,560)	(15,741,472)
- (Increase) in commission income unearned	(27,481,922)	(438,570)
- Income on investments, current and other deposits	644,878,635	516,803,686
- Investment related expenses	968,337	974,000
- Decrease in provision for commission expense deferred	17,047,664	3,671,214
	526,788,106	389,329,837

24.1 Cash at the end of the year

For the purposes of cash flow statement cash includes:

	2012	2011
Cash and other equivalents	988	12,839
Current and other accounts	162,766,066	54,877,453
Deposit maturing within 12 months	1,350,000	1,350,000
Finance under mark up arrangements	-	(218,056,815)
	164,117,054	(161,816,523)

25. Transactions with related parties

The related parties comprise associated undertakings by virtue of common directorship, 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 20.1 and 22.1 and remuneration of Chief Executive is disclosed in note 22. Year end balances and other significant transactions with related parties are as follows :

	2012 Rupees	2011 Rupees
Premium written	**103,649,059**	75,957,718
Premium ceded	**-**	24,033,421
Claims paid	**22,446,386**	33,789,766
Dividend received	**33,282,388**	76,911,205
Dividend paid	**35,791,854**	49,063,128
Payment in respect of services	**261,872**	226,069
Premium receivable	**3,195,676**	3,949,274

26. 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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	Rupees		Rupees		Rupees		Rupees		Rupees	
Other information										
Segment assets	**269,448,716**	202,052,880	**48,477,100**	34,950,992	**98,657,682**	65,985,746	**134,595,126**	67,539,351	**551,178,624**	370,528,969
Unallocated corporate assets									**8,178,768,147**	7,550,649,699
Consolidated total assets									**8,729,946,771**	7,921,178,668
Segment liabilities	**619,084,995**	177,770,538	**31,951,992**	26,768,234	**120,876,725**	97,582,650	**143,207,845**	112,601,373	**915,121,557**	414,722,795
Unallocated corporate liabilities									**392,545,870**	372,745,885
Consolidated total liabilities									**1,307,667,427**	787,468,680

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

27. 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	**2012 Rupees**	2011 Rupees
Financial assets								
On balance sheet								
Cash and other equivalents	-	-	-	988	-	988	**988**	12,839
Current and other accounts	153,441,982	-	153,441,982	9,324,084	-	9,324,084	**162,766,066**	54,877,453
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	2,022,906	68,652,466	70,675,372	7,202,314,409	-	7,202,314,409	**7,272,989,781**	7,211,211,426
Premiums due but unpaid	-	-	-	116,138,326	-	116,138,326	**116,138,326**	107,069,504
Amounts due from other insurers / reinsurers	-	-	-	238,363,467	-	238,363,467	**238,363,467**	155,369,798
Accrued investment income		-	-	2,949,885	-	2,949,885	**2,949,885**	2,820,896
Reinsurance recoveries against outstanding claims	-	-	-	165,602,338	-	165,602,338	**165,602,338**	110,459,253
Sundry receivables	-	-	-	6,086,196	-	6,086,196	**6,086,196**	3,862,227
	156,814,888	69,152,466	225,967,354	7,740,779,693	-	7,740,779,693	**7,966,747,047**	7,647,533,396
Off balance sheet	-	-	-	-	-	-	**-**	-
Total	156,814,888	69,152,466	225,967,354	7,740,779,693	-	7,740,779,693	**7,966,747,047**	7,647,533,396
Financial liabilities								
On balance sheet								
Provision for outstanding claims [including IBNR]	-	-	-	212,775,523	-	212,775,523	**212,775,523**	156,670,252
Amounts due to other insurers\reinsurers	-	-	-	133,298,527	-	133,298,527	**133,298,527**	82,208,033
Deposit received against bonds	-	-	-	71,047,602	-	71,047,602	**71,047,602**	32,621,558
Creditors and accrued expenses	-	-	-	180,580,940	-	180,580,940	**180,580,940**	67,529,643
Finances under mark-up arrangements	-	-	-	-	-	-	**-**	218,056,815
	-	-	-	597,702,592	-	597,702,592	**597,702,592**	557,086,301
Off balance sheet								
Guarantees	-	-	-	784,500	-	784,500	**784,500**	690,450
Contingencies	-	-	-	1,902,723	-	1,902,723	**1,902,723**	3,109,723
	-	-	-	2,687,223	-	2,687,223	**2,687,223**	3,800,173
Total	-	-	-	600,389,815	-	600,389,815	**600,389,815**	560,886,474
On balance sheet gap	156,814,888	69,152,466	225,967,3543	7,143,077,101	-	7,143,077,101	**7,369,044,455**	7,090,447,095
Off balance sheet gap	-	-	-	(2,687,223)	-	(2,687,223)	**(2,687,223)**	(3,800,173)

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

27. 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	**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.

28. Risk management

28.1 Insurance risk

The company accepts the insurance risk through its insurance contracts where it assumes the risk of loss from persons or organizations 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.

28.1.1 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 summarized below:

	Gross aggregate exposure		Maximum Reinsurance Cover		Net	
	2012	2011	2012	2011	2012	2011
Fire	180,142,999,011	128,610,459,547	150,410,626,866	107,982,715,793	29,732,372,145	20,627,743,754
Marine	30,152,220,836	43,889,213,772	22,343,782,484	14,101,579,139	7,808,438,352	29,787,634,633
Motor	7,122,491,692	3,860,258,722	4,419,504,314	1,558,920,213	2,702,987,378	2,301,338,509
Miscellaneous	6,340,315,220	3,291,247,176	5,726,083,551	2,924,011,982	614,231,669	367,235,194
	223,758,026,759	179,651,179,217	182,899,997,215	126,567,227,127	40,858,029,544	53,083,952,090

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	
	2012	2011	2012	2011	2012	2011
Fire	90,493,797	68,835,541	79,680,668	61,335,853	10,813,129	7,499,688
Marine	24,353,109	21,801,904	16,269,585	16,482,511	8,083,524	5,319,393
Motor	83,446,967	27,254,298	35,970,158	8,429,211	47,476,809	18,825,087
Miscellaneous	12,792,651	3,645,573	10,110,916	3,102,643	2,681,735	542,930
	211,086,524	121,537,316	142,031,327	89,350,218	69,055,197	32,187,098

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 various insurance risks, with reference to geocoding, are monitored thorough 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 risks, 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 considered and analyzed. Shipment declarations are also endorsed on the policies.

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

28.1.2 Reinsurance risk

Reinsurance ceded does not relieve the company from its obligation to policy holders and as a result the company remains liable for the portion of outstanding claims 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 a panel of reinsurers 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.

28.1.3 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:

Particulars	Profit befor taxtation		Sharesholders' equity	
	2012	2011	**2012**	2011
	Rupees			
Effect of 10% increase / (decrease) in				
Amount and number of claims:				
Fire	**1,051,879**	946,403	**683,721**	615,162
Marine	**791,469**	581,101	**514,454**	377,716
Motor	**4,619,773**	3,723,382	**3,002,852**	2,420,198
Miscellaneous	**538,617**	20,015	**350,101**	13,010
	7,001,738	5,270,901	**4,551,129**	3,426,086

28.1.4 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	2008	2009	2010	2011	2012	Total
	.... Rupees					
Estimate of ultimate claims costs:						
- At the end of reporting year	145,728,365	95,116,399	150,526,588	158,232,780	231,793,491	781,397,623
- One year later	112,691,790	97,392,909	151,832,022	160,703,607	-	522,620,328
- Two years later	114,138,758	90,405,414	192,304,268	-	-	396,848,440
- Three years later	114,418,953	94,715,200	-	-	-	209,134,153
- Four years later	114,150,103	-	-	-	-	114,150,103
Current estimate of cumulative claims	114,150,103	94,715,200	192,304,268	160,703,607	231,793,491	793,666,669
Cumulative payments to date	105,239,953	81,095,599	167,938,718	126,271,582	120,094,209	600,640,061
Liability recognized in balance sheet	8,910,150	13,619,601	24,365,550	34,432,025	111,699,282	193,026,608
Liability reserve prior to 2008						19,748,915
Total liability in balance sheet						212,775,523

28.2 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 27 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 8 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, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. The company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and 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 risk as 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:

	2012 Rupees	2011 Rupees
Bank deposits	**164,616,066**	56,727,453
Investments	**7,272,989,781**	7,211,211,426
Premiums due but unpaid	**116,138,326**	107,069,504
Amount due from other insurers / reinsurers	**238,363,467**	155,369,798
Accrued investment income	**2,949,885**	2,820,896
Reinsurance recoveries against outstanding claims	**165,602,338**	110,459,253
Sundry receivables	**6,086,196**	3,862,227
	7,966,746,059	7,647,520,557

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:

	2012 Rupees	2011 Rupees
- Upto one year	**247,564,648**	155,258,450
- Past one but less than three years	**83,779,996**	97,834,179
- Over three but less than five years	**21,742,842**	6,707,555
- More than five years	**1,414,307**	2,639,118
	354,501,793	262,439,302

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	**2012**	2011
			Rupees		
PRCL	-	-	-	**-**	57,867,026
A and Above	21,606,812	132,965,661	126,845,438	**283,939,064**	73,752,641
A-, AA-	6,889,051	21,088,694	414,191,624	**442,169,369**	65,185,479
BBB	137,224	11,668	13,323,152	**13,472,044**	11,082,496
Others	6,535,724	11,536,315	5,705,991	**23,778,030**	31,645,307
	35,168,811	165,602,338	560,066,205	**763,358,507**	239,532,949

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

Current and other accounts	Rating Short Term	Rating Long term	Rating Agency	2012 Rupees	2011 Rupees
Albaraka Islamic Bank Limited	A1	A	PACRA	21,161	-
Allied Bank Limited	A1+	AA+	PACRA	862,999	-
Summit Bank Limited	A2	A-	PACRA	1,063,518	11,962,169
Bank Alfalah Limited	A1+	AA	PACRA	740,760	10,160
Faysal Bank Limited	A1+, A-1+	AA, AA	PACRA, JCR-VIS	11,883	-
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	4,620,076	6,716,477
Habib Bank Limited	A-1+	AAA	JCR-VIS	252,332	41,928
HSBC Middle East Bank Limited	P-1, F1+	A1, AA	Moody's, Fitch	81,275	2,248,773
MCB Bank Limited	A1+	AAA	PACRA	148,181,809	29,192,417
Silk Bank Limited	A-3	A-	JCR-VIS	223,820	-
Samba Bank Limited	A-1	AA-	JCR-VIS	-	-
United Bank Limited	A-1+	AA+	JCR-VIS	2,518,369	4,697,749
Askari Bank Limited	A1+	AA	PACRA	4,185,730	7,780
Atlas Bank Limited				2,334	-
				162,766,066	54,877,453
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, 2012, the company had Rs. 1,100,000,000 (2011: Rs. 1,450,000,000) of available borrowing limits from financial institutions and Rs. 164,617,054 (2011: Rs. 56,740,292) of cash and bank balances.

The following are the undiscounted cash flows of contractual maturities of financial liabilities as at December 31, 2012:

	Carrying amount	Less than one year	One to five years	More than five years
	....................Rupees....................			
Provision for outstanding claims	212,775,523	212,775,523	-	-
Deposits received against bonds	71,047,602	71,047,602	-	-
Amount due to other insurers / reinsurers	133,298,527	133,298,527	-	-
Creditors and accrued expenses	180,580,940	180,580,940	-	-
Finances under markup arrangements	-	-	-	-
	597,702,592	597,702,592	-	-

The following are the undiscounted cash flows 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 mark-up arrangements - secured	218,056,815	218,056,815	-	-
	557,086,301	557,086,301	-	-

(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.

	2012	2011	**2012**	2011
	Effective interest rate		**Rupees**	Rupees
Financial assets				
Fixed rate instruments				
Bank balances - saving accounts	**10%**	10.50%	**153,441,982**	41,090,607
Deposits maturing within 12 months	**9.00%**	9.00%	**1,000,000**	1,000,000
Deposits maturing after 12 months	**12.00%**	12.00%	**500,000**	500,000
Investments - government securities	**11.86%**	11.86%	**73,000,000**	73,000,000
Total exposure			**227,941,982**	115,590,607
Financial liabilities				
Floating rate instruments				
Short term running finance	**12.19%**	15.01%	**-**	218,056,815
Short term finance	**12.22%**	14.38%	**-**	-
Total exposure			**-**	218,056,815

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. Nil (2011: Rs. 4,831,105) and shareholders equity would have been higher / lower by Rs. Nil, 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 14 and note 4.10 respectively, 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 requirement 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 future development of the business."

28.3 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.

29. Date of authorization for issue

These financial statements were authorized for issue on March 19, 2013 by the Board of Directors of the company.

30. Event after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2012 of Rs. 2 per share (2011: Rs. 1.5 per share), amounting to Rs. 136,125,000 (2011: Rs. 102,093,750) at their meeting held on March 19, 2013 for approval of the members at the Annual General Meeting to be held on April 25, 2013.

31. 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, 2012

Description	# of Shareholders	Shares Held	Percentage
Directors, CEO & thier spouse & minor children			
Mian Hassan Mansha (Director)	1	8,872,025	13.04
Mr. Jehanzeb Amin (Director)	1	500	-
Associated companies, Undertakings & Related parties"			
Nishat Mills Ltd.	1	10,226,244	15.02
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	2	10,858,581	15.95
b - All others	6	25,246,241	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
Samin Textiles Limited	1	10,214,914	15.01
Nishat Mills Limited	1	10,226,244	15.02
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
ASSOCIATED COMPANY:			
Nishat Mills Limited	1	10,226,244	15.02

Pattern of Share Holding

as at December 31, 2012

No. of Shareholders	Shareholding From	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	10210001	10215000	10,214,914
1	10225001	10230000	10,226,244
1	12400001	12405000	12,401,871
13			68,062,500

Classification of Shares by Categories

as at December 31, 2012

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 25th day of April, 2013 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 ____________________________ 2012.

Signature ____________________________

Address ____________________________

____

Holder of Share No. ____________ to. ____________

____

witness:

Name ____________________________

Address ____________________________