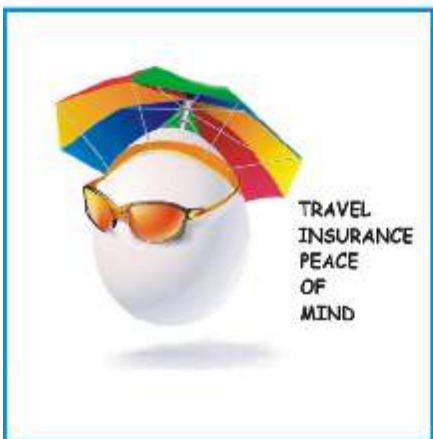
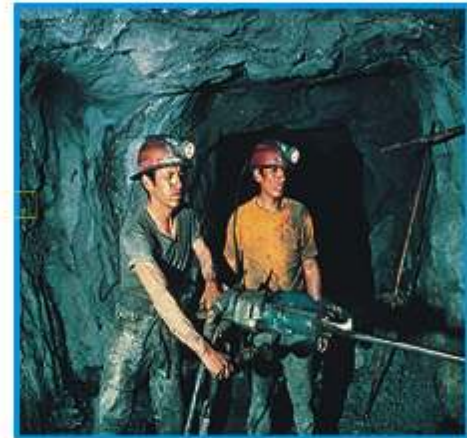




Annual Report 2012



The Universal Insurance Co. Ltd.



Corporate Information



Board of Directors

Mr. Raza Kuli Khan Khattak

(Chairman)

Lt. GEN (R) Ali Kuli Khan Khattak

Mr. Ahmed Kuli Khan Khattak

Begum Zeb Gohar Ayub Khan

(Chief Executive)

Mrs. Shahnaz Sajjad Ahmed

Dr. Shaheen Kuli Khan Khattak

Mr. Mushtaq Ahmed Khan F.C.A.

Ch. Sher Mohammad

Principal Officer

Mr. Muhammad Rafiq Chaudhry

Chief Operating Officer

Mr. Omar Ayub Khan

Chief Financial Officer

Mr. Amir Raza

Company Secretary

Mr. Amir Raza

Internal Auditor

Mr. Abdul Waheed Chaudhry

Auditors

**M/S. Riaz Ahmed & Company
Chartered Accountants**

Legal Advisor

Mr. Maqsood Hasan Advocate

Share Registrar

**M/S Hameed Majeed Associates (Pvt) Ltd.
H.M House, 7-Bank Square, Lahore
Phone # 042-37235081-82 Fax: # 042-37358817**

Registered Office:

**Universal Insurance House
63-Shahrah-e-Quaid-e-Azam Lahore, 54000
Pakistan.
Ph: 042-37353453-37353458
Fax: 042-37230326
Web: www.uic.com.pk
Email: info@uic.com.pk**

vision statement



We, at Universal Insurance Company Limited recognize the importance of satisfying our customers by consistently providing quality insurance services in accordance with their needs and expectations. We strive to be competent partner of our customers against insured perils.

Mission Statement Quality Policy



We strive to provide our customers cost effective insurance cover by continually increasing the productivity of our employees. To increase productivity, we conduct regular training programs during which employees are assessed and allocated a career path in accordance with their performance.

We diligently follow the applicable laws and ensure strict compliance by conducting regular internal audits and educating our employees about the law.

We try to improve our services by continually assessing our systems and procedures based on customers and team feedback. We strive to maintain a customer focused approach by ensuring that our service is delivered to the customer on time, according to the customer required specifications and within our stipulated cost.

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BOARD & MANAGEMENT COMMITTEES

- 1. Directors Executive Board**
Begum Zeb Gohar Ayub Khan
Lt. Gen (R) Ali Kuli Khan Khattak
Mr. Ahmed Kuli Khan Khattak
Mr. Mushtaq Ahmed Khan F.C.A.
Chairperson
Member
Member
Member
- 2. Audit Committee:-**
Lt. Gen (R) Ali Kuli Khan Khattak
Mr. Ahmed Kuli Khan Khattak
Mr. Mushtaq Ahmed Khan F.C.A.
Dr. Shaheen Kuli Khan Khattak
Ch. Sher Mohammad
Chairman
Member
Member
Member
Member
- 3. Investment Committee:-**
Mr. Mushtaq Ahmed Khan F.C.A
Ch. Sher Mohammad
Mr. Muhammad Rafiq Chaudhry
Chairman
Member
Member
- 4. Underwriting Committee:-**
Mr. Mushtaq Ahmed Khan F.C.A
Mr. Muhammad Rafiq Chaudhry
Mr. Fazal-ul-Rehman Malik
Chairman
Member
Member
- 5. Claim Settlement Committee:-**
Mr. Mushtaq Ahmed Khan F.C.A
Mr. Muhammad Rafiq Chaudhry
Mr. Amir Raza
Chairman
Member
Member
- 6. Re-Insurance & Co-Insurance Committee:-**
Mr. Mushtaq Ahmed Khan F.C.A
Mr. Muhammad Rafiq Chaudhry
Mr. Ghulam Qamber Naqvi
Chairman
Member
Member
- 7. Management Committee:-**
Mr. Mushtaq Ahmed Khan F.C.A
Mr. Muhammad Rafiq Chaudhry
Mr. Amir Raza
Mr. Abdul Waheed Ch.
Chairman
Member
Member
Member
- 8. Human Resource Committee:-**
Mr. Ahmed Kuli Khan Khattak
Mr. Mushtaq Ahmed Khan F.C.A
Dr. Shaheen Kuli Khan Khattak
Chaudhary Sher Mohammad
Chairman
Member
Member
Member



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 53rd Annual General Meeting of the Shareholders of the Universal Insurance Company Limited will be held on Tuesday 30th April, 2013 at 10:00 a.m. at the Registered Office of the Company at 63-Shahrah-e-Quaid-e-Azam, Lahore to transact the following business:-

A. ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended 31st December, 2012 and reports of the Directors and Auditor's thereon.
2. To appoint auditors for the year 2013 and to fix their remuneration. The Board on recommendations of Audit Committee of the company has proposed the appointment of M/s. Riaz Ahmad & Company Chartered Accountants as external auditor for the year 2013 being eligible, have offered themselves for re-appointment.

B. Any other business with permission of the Chair.

By Order of the Board

Dated: April 04, 2013

(AMIR RAZA)
Secretary



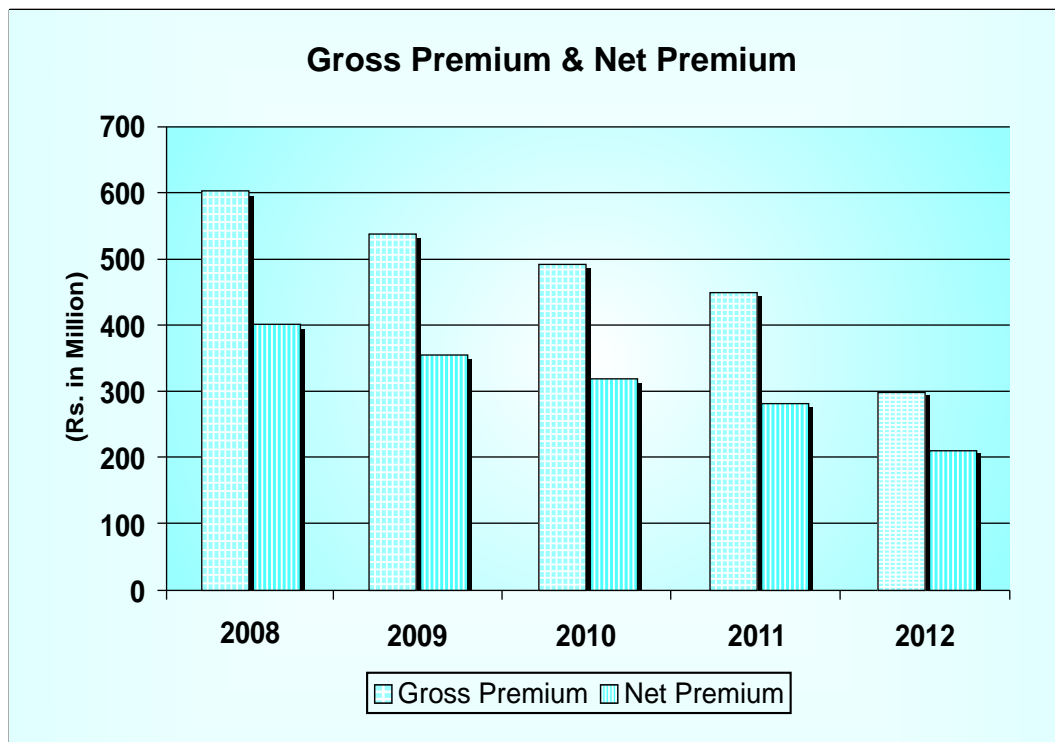
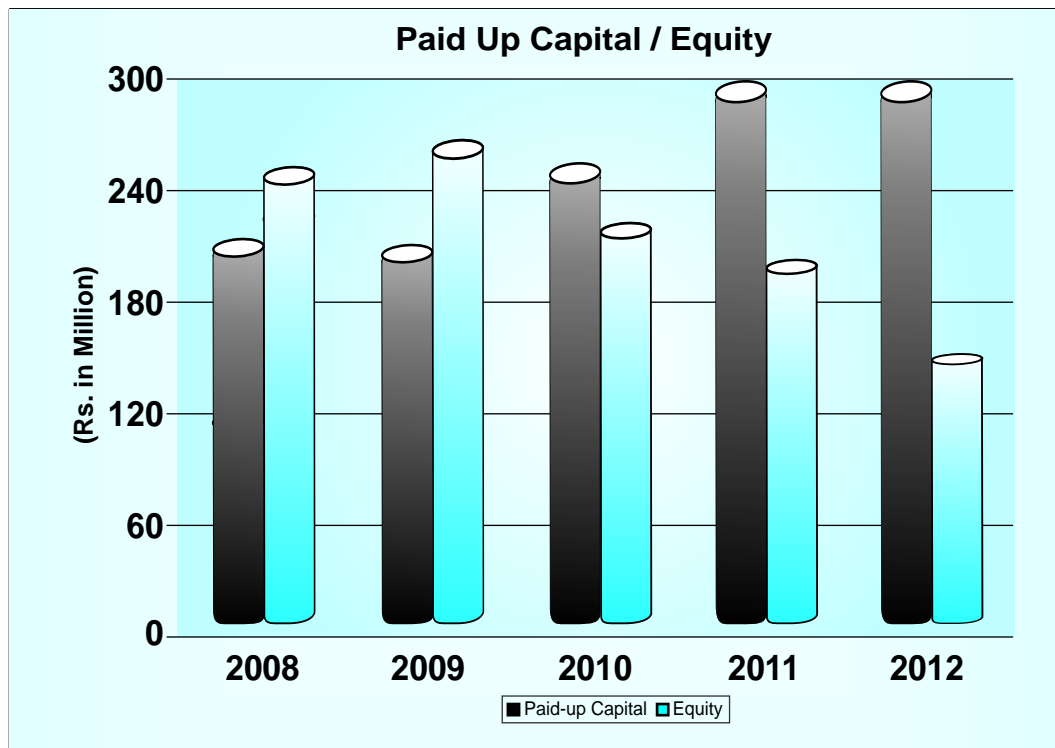
NOTES:

1. The Share Transfer Books of the Company will remain closed from 22nd April, 2013 to 30th April, 2013 (both days inclusive).
2. A member entitled to attend and vote at the above meeting may appoint another member as his / her proxy to attend and vote instead of him / her. Proxies, in order to be effective, must be received by the Universal Insurance Company Limited, Universal Insurance House, 63 - Shahrah-e-Quaid-e-Azam, Lahore not less than forty-eight hours before the time for holding the meeting and must be duly stamped, signed and witnessed. A member shall not be entitled to appoint more than one proxy.
3. CDC shareholder are requested to bring their original National Identity Cards, Account, Sub-Account Numbers and participant's Number in Central Depository Company for identification purposes for attending the meeting. In case of Corporate entity, the Board of Director's resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
4. Members are requested to notify shares registrar of the company promptly of any change in their addresses, if any.
5. Members who have not yet submitted photocopies of their valid Computerized National Identity cards to the company are requested to send the same at earliest directly to our shares registrar.
6. Form of proxy is appended to the annual report.

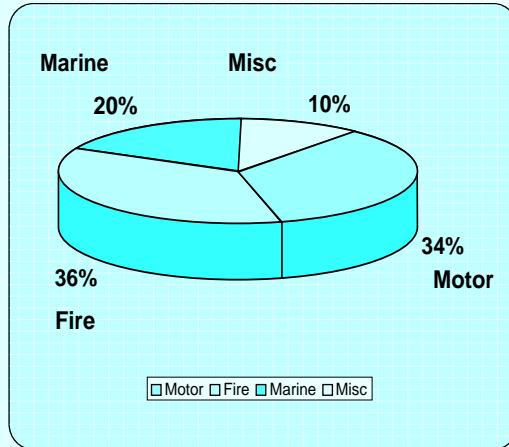


TEN YEARS KEY FINANCIAL DATA

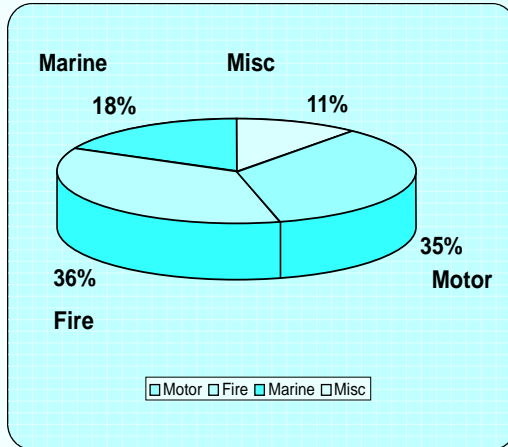
| | (Rupees in million) | | | | | | | | | |
|-----------------------------|---------------------|--------|--------|------|------|------|------|------|------|------|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Gross Premium | 295 | 464 | 503 | 539 | 611 | 550 | 568 | 514 | 371 | 301 |
| Net Premium | 211 | 292 | 329 | 361 | 407 | 372 | 391 | 300 | 188 | 162 |
| Net Claim | 102 | 143 | 177 | 182 | 197 | 187 | 203 | 147 | 86 | 69 |
| Investment | 135 | 135 | 160 | 115 | 145 | 89 | 46 | 39 | 23 | 11 |
| Underwriting (Loss)/ Profit | 1.4 | (2) | (17) | 58 | 96 | 75 | 80 | 75 | 54 | 47 |
| (Loss)/ Profit Before Tax | (66) | (110) | (103) | 11 | 34 | 63 | 35 | 41 | 26 | 20 |
| (Loss)/ Profit After Tax | (66) | (65) | (86) | 8 | 21 | 50 | 24 | 27 | 17 | 13 |
| Paid-up Capital | 300 | 300 | 262.50 | 210 | 210 | 120 | 100 | 80 | 80 | 50 |
| Cash and Banks | 62 | 130 | 88 | 159 | 152 | 143 | 212 | 239 | 171 | 158 |
| Total Property & Assets | 913 | 1069 | 1164 | 1066 | 922 | 788 | 753 | 663 | 547 | 432 |
| Equity | 143 | 208 | 233 | 265 | 257 | 236 | 174 | 145 | 130 | 83 |
| EPS (Rs) | (2.21) | (4.20) | (4.58) | 0.48 | 1.00 | 4.15 | 2.00 | 2.68 | 3.27 | 2.59 |



Gross Premium Class Wise

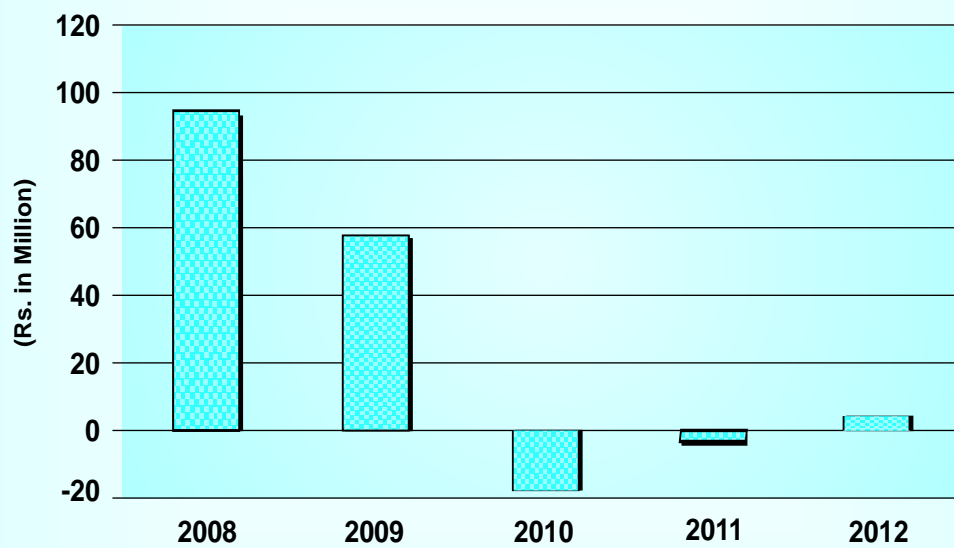


2012

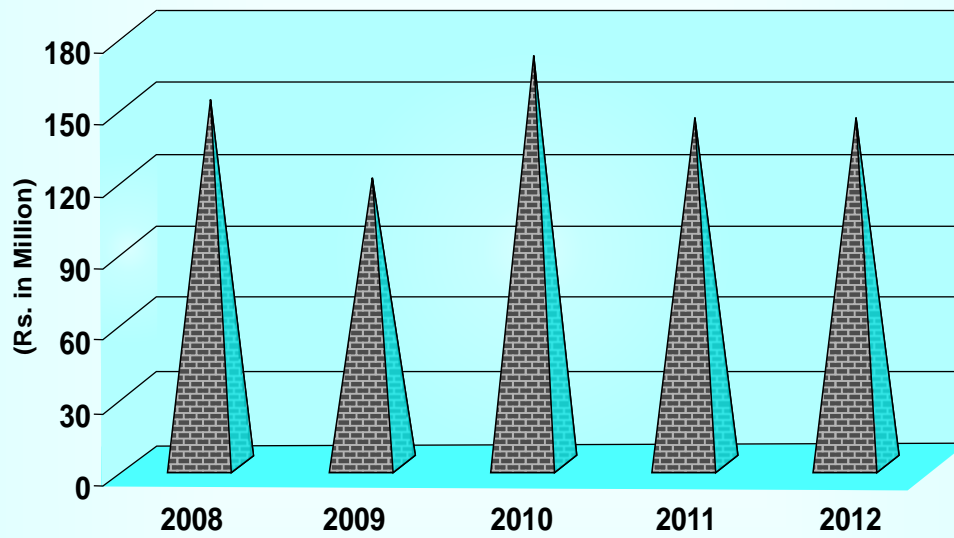


2011

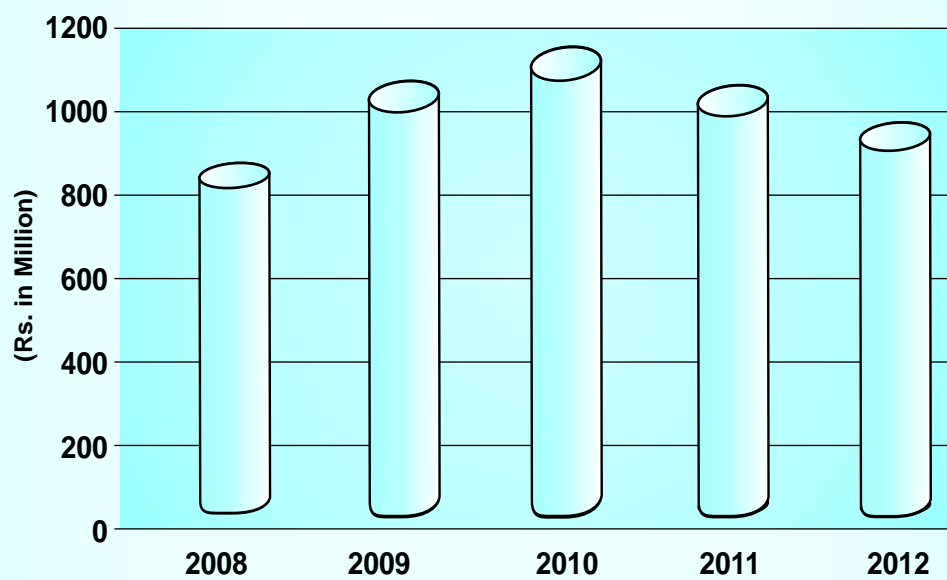
Underwriting Profit



Investment



Total Assets





DIRECTORS' REPORT TO THE SHAREHOLDERS

On behalf of the Board of Directors, it gives me great pleasure to present the **53rd Annual Report** and the audited account of the company for the year ended December 31, 2012.

OPERATING RESULTS:

The operating results for the year ended 31 December, 2012 are given below.

| | <u>2012</u> | <u>2011</u> |
|--------------------------------------|--------------------------|-------------|
| | -----Rupees in '000----- | |
| Gross premium | 295,135 | 464,208 |
| Net premium | 210,671 | 292,305 |
| Loss from underwriting business | 1,439 | (2,023) |
| Net claims | 101,608 | 143,400 |
| Management / administrative expenses | 178,568 | 232,010 |
| Capital and reserves | 143,380 | 207,765 |
| Loss before taxation | (65,672) | (110,583) |

PROFIT AND LOSS APPROPRIATION ACCOUNT

| | | |
|---|------------------|------------------|
| Balance of accumulated loss at the commencement of the year | (106,484) | (43,630) |
| Loss after taxation for the year | (66,256) | (64,808) |
| Other comprehensive loss for the year | (561) | 0 |
| items directly recognized in statement of changes in equity | 2,321 | 1,954 |
| Balance of accumulated loss at the end of the year | <u>(170,980)</u> | <u>(106,484)</u> |

REVIEW OF OPERATING RESULTS:

The Gross premium of the company has reduced by Rs. 169.073 Million. The key reason for this significant fall in business was downward revision of credit rating to BBB (Negative out look). Business of corporate clients, and bank business is usually placed in a insurance company having credit rating of at least A. On this account we have lost business to the tune of at least Rs 150.000 Million.

IFS Rating

Realizing the main reasons for the change of credit rating in Sept 2011 the management during the year of 2012 took many corrective measures comprising of rightsizing the staff strength and merger / closure of financially unviable branches. So it is hoped that rating agency may review its decision in near future based on the improvement in financial result for the year ended December 31, 2012.

INFORMATION TECHNOLOGY (IT)

Development of Re-insurance module is expected to be completed by June 2013. As the result of this all the modules will be integrated including underwriting, Account, Claim & Re-insurance which will deliver MIS Report promptly and accurately.



ISO Certification

The Company received ISO 9001:2000 certification from M/s. Lloyd's Register-EMEA, Karachi since May 17, 2003. M/s. Lloyd's Register-EMEA, Karachi has renewed Company's certification ISO 9001:2000 on May 27, 2012 for next 3 years which exhibits that Company meets the requirement of standard and maintains satisfactory level of implementation of ISO-Quality System.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK

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

- (a) The financial statements, prepared by the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- (b) The company has maintained proper books of account as required under the companies Ordinance, 1984.
- (c) The company has applied consistently appropriate accounting policies in preparation of the financial statements and accounting estimates are on the basis of prudent and reasonable judgment.
- (d) Financial statements have been prepared by the company in accordance with the International Financial Reporting Standards (IFRS) as applicable in Pakistan. The departure there from, if any, is disclosed adequately.
- (e) The system of internal control is sound in design and has been effectively implemented and monitored.
- (f) There are no significant doubts upon Company's ability to continue as a going concern.
- (g) The company has followed the best practices of the Corporate Governance as laid down in the Listing Regulations of the stock exchanges and there has been no material departure there from except for the matters qualified in the Auditors' Review Report to the members on statement of compliance with best practices of code of corporate governance.
- (h) Key operating and financial data for the last ten years in summarized form is annexed to this annual report.

Outstanding Taxes and Duties

Details of outstanding taxes and duties are given in the financial statements.

Related Party Transactions

The related party transactions are ratified by the Audit Committee and approved by the Board of Directors.

AUDIT COMMITTEE

The Board of Directors, in compliance with the Code, has constituted an Audit Committee comprising of the following non-executive directors:

- | | |
|--------------------------------------|----------|
| - Lt. Gen. (R) Ali Kuli Khan Khattak | Chairman |
| - Mr. Ahmed Kuli Khan Khattak | Member |
| - Mr. Mushtaq Ahmad Khan - F.C.A | Member |
| - Dr. Shaheen Kuli Khan Khattak | Member |
| - Ch. Sher Mohammad | Member |



Major responsibilities of the Audit Committee include reviewing reports of the Company's financials, monitoring internal audit functions and to ensure compliance with the relevant statutory requirements of relevant rules and laws, assisting the Board in discharging its responsibilities for safeguarding the Company's assets, and development & implementation of an effective internal control system for efficient and transparent operations of the Company with the requirement of Companies Ordinance, 1984 and Insurance Ordinance, 2000.

BOARD OF DIRECTOR'S MEETINGS.

During the year, Five (5) Board meetings were held. The number of meetings attended by each Director is given hereunder :

| <u>Name of Directors</u> | <u>No. of Meetings Attended</u> |
|------------------------------------|-------------------------------------|
| Mr. Raza Kuli Khan Khattak | 5 |
| Lt. Gen. (R) Ali Kuli Khan Khattak | 2 |
| Mr. Ahmed Kuli Khan Khattak | 4 |
| Begum Zeb Gohar Ayub Khan | 4 |
| Mrs. Shahnaz Sajjad Ahmad | 5 |
| Dr. Shaheen Kuli Khan Khattak | 4 |
| Mr. Mushtaq Ahmad Khan - FCA | 5 |
| Ch. Sher Mohammad | 4 |

Leave of absence was granted to the Directors who could not attend some of the Board meetings due to their other engagements.

Pattern of Shareholding

The pattern of shareholding is separately shown in the report.

Trading in Company's Shares

No trading in the shares of the Company was carried out by the Directors, CEO and their spouses and minor children. The CFO / Company Secretary has disposed of 25,000 shares during the financial year ended December 31, 2012.

Appointment of Auditors

The Auditors M/s. Riaz Ahmad & Co, Chartered Accountants retire at the conclusion of Annual General Meeting, given their consent for re-appointment for the year ending December 31, 2013.

Future Outlook

Consequent upon the corrective measures taken during the year ended on December 31, 2012 the loss before tax reduced to Rs. 65.672 Million from Rs. 110.583 Million. We are anticipating that the financial impact of these measures will start coming in the next financial year. Further management has decided to review the business performance of each branch at the end of each quarter so that appropriate decision could be taken at the beginning of next quarter. In the next financial year we are very hopeful that our credit rating will improve which would certainly be helpful to re-capture the lost business on this account. The existing marketing team is being motivated to generate quality business through the application of risk assessment policy.

Acknowledgement

We would like to thank the Insurance Division - Securities & Exchange Commission of Pakistan, Pakistan Reinsurance Company Ltd., State Bank of Pakistan, Other Reinsurers and Co-insurers for their continued cooperation and guidance through-out the year and our valued clients for their continued patronage extended to us.

For & on behalf of the Board of Directors

Raza Kuli Khan Khattak
Chairman

Date: April 04, 2013
Place: Lahore



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2012

The statement is being presented to comply with the Code of Corporate Governance (CCG) contained in the listing regulation No. 35 of the Karachi and Lahore stock exchanges respectively for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. At present the Board includes:

| Category | Names |
|-------------------------|--|
| Independent Directors | - |
| Executive Directors | Begum Zeb Gohar Ayub Khan |
| Non-Executive Directors | Mr. Raza Kuli Khan Khattak Mr. Ali Kuli Khan Khattak Mr. Ahmed Kuli Khan Khattak Mrs. Shahnaz Sajjad Ahmed Dr. Shaheen Kuli Khan Khattak Mr. Mushtaq Ahmad Khan F.C.A Chaudhry Sher Mohammad |

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company. However, after next election of directors, in line with requirements of CCG 2012, maximum number of directorship to be held by a director will be seven.
3. All the directors of the Company have confirmed that they are registered as taxpayer and none of them has defaulted in payment of any loan to a banking company, a Development Finance Institution or a Non Banking Finance Company and none of them is a member of any of the stock exchange.
4. One casual vacancy occurred during the year ended December 31, 2012.
5. The Company has prepared a "Code of conduct", and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board / shareholders.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meeting, 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.
9. Orientation Course:

All the directors on the Board are fully conversant with their duties and responsibilities as directors of corporate bodies. The directors were apprised of their duties and responsibilities through orientation courses.

Directors' Training Programs:

All directors of the Company are exempt due to 14 years of education and 15 years of experience on the Board of a listed company.



10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report has been prepared in compliance with the requirements of the CCG 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 CCG.
15. The Board has formed Underwriting, Claim Settlement and Coinsurance and Reinsurance Committee.
16. The Board has formed an Audit Committee. It comprises of five members, all of whom are non-executive directors and the chairman of the Committee is not an independent director and will be changed after next election of directors in line with requirements of CCG 2012.
17. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The term of references of the Committee have been formed and advised to the Committee for compliance.
18. The Board has formed a Human Resource and Remuneration Committee. It comprises of four members, all of whom are non-executive directors and the chairman of the Committee is non-executive director.
19. The Company has an internal audit department and is headed by an experienced person, who is fully conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.
20. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institution 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.
21. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
22. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of the Company's securities, was determined and intimated to directors, employees and stock exchanges.
23. Material / price sensitive information has been disseminated among all market participants at once through stock exchanges.
24. We confirm that all other material principles enshrined in the CCG have been complied with.

BEGUM ZEB GOHAR AYUB KHAN
CHIEF EXECUTIVE

Date: April 4, 2013

Place: Lahore



STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES ON TRANSFER PRICING FOR THE YEAR ENDED 31 DECEMBER 2012

The Company has fully complied with the best practices on transfer pricing as contained in the listing regulations of the respective stock exchange where the Company is listed.

For & on behalf of the Board of Directors

Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE



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 THE UNIVERSAL INSURANCE COMPANY LIMITED ("the Company") for the year ended 31 December 2012, to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed, and the Code of Corporate Governance applicable to listed insurance companies issued under SRO 68(1)/2003, by the Securities and Exchange Commission of Pakistan.

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 are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

- (i) Minutes of meetings of the Underwriting Committee, Claim Settlement Committee, Re-insurance and Co-insurance Committee held during the year were not readily available.
- (ii) Casual vacancy on the board of directors was not filled by the directors.
- (iii) Removal of Company Secretary was made without approval of Board of Directors.

Based on our review, except for the matters described in the paragraphs (i) to (iii) above, 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.

RIAZ AHMAD & COMPANY
Chartered Accountants

Name of engagement partner:
Syed Mustafa Ali

Date: April 04, 2013

LAHORE



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

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

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

In our opinion:

- a) proper books of account have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;
- 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 loss, its comprehensive loss, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

RIAZ AHMAD & COMPANY

Chartered Accountants

Name of engagement partner:

Syed Mustafa Ali

Date: April 04, 2013

LAHORE



BALANCE SHEET AS AT 31 DECEMBER 2012

| | Note | 2012 | 2011 |
|---|------|-----------|-----------|
| (RUPEES IN THOUSAND) | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Authorized share capital | | | |
| 50,000,000 (2011: 50,000,000) ordinary shares of Rupees 10 each | | 500,000 | 500,000 |
| Issued, subscribed and paid-up share capital | 3 | 300,000 | 300,000 |
| Accumulated loss | | (170,980) | (106,484) |
| Reserves | 4 | 14,360 | 14,249 |
| | | (156,620) | (92,235) |
| TOTAL EQUITY | | 143,380 | 207,765 |
| Surplus on revaluation of fixed assets | 5 | 247,442 | 230,544 |
| UNDERWRITING PROVISIONS | | | |
| Provision for outstanding claims (including IBNR) | | 296,614 | 319,304 |
| Premium deficiency reserve | 6 | 2,134 | 1,242 |
| Provision for unearned premium | | 81,272 | 136,314 |
| Commission income unearned | | 6,584 | 10,717 |
| Total underwriting provisions | | 386,604 | 467,577 |
| DEFERRED LIABILITY | | | |
| Employee benefit - unfunded | 7 | 5,516 | 16,328 |
| CREDITORS AND ACCRUALS | | | |
| Premiums received in advance | | 353 | - |
| Amounts due to other insurers / reinsurers | 8 | 30,977 | 56,462 |
| Accrued expenses | 9 | 34,050 | 26,898 |
| Other creditors and accruals | 10 | 61,076 | 59,414 |
| | | 126,456 | 142,774 |
| BORROWINGS | | | |
| Liabilities against assets subject to finance lease | 11 | - | 628 |
| OTHER LIABILITIES | | | |
| Deposits against performance bonds | | 2,826 | 2,946 |
| Unclaimed dividends | | 610 | 610 |
| TOTAL LIABILITIES | | 522,012 | 630,863 |
| CONTINGENCIES AND COMMITMENTS | | | |
| 12 | | | |
| TOTAL EQUITY AND LIABILITIES | | 912,834 | 1,069,172 |

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

Raza Kuli Khan
Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE

Mushtaq Ahmed Khan F.C.A.
Mushtaq Ahmed Khan F.C.A.
DIRECTOR

Ahmed Kuli Khan Khattak
Ahmed Kuli Khan Khattak
DIRECTOR

Muhammad Rafiq Chaudry
Muhammad Rafiq Chaudry
PRINCIPAL OFFICER



BALANCE SHEET AS AT 31 DECEMBER 2012

| | Note | 2012 (RUPEES IN THOUSAND) | 2011 |
|--|------|------------------------------|-------------------------|
| CASH AND BANK DEPOSITS | | | |
| Cash and other equivalents | 13 | 32 | 33 |
| Current and other accounts | 14 | 21,688 | 89,619 |
| Deposits maturing within 12 months | 15 | 40,155 | 40,000 |
| | | <u>61,875</u> | <u>129,652</u> |
| INVESTMENTS | 16 | 134,967 | 135,201 |
| DEFERRED TAXATION | 17 | 33,191 | 35,240 |
| CURRENT ASSETS - OTHERS | | | |
| Premiums due but unpaid - unsecured | 18 | 93,948 | 114,512 |
| Amounts due from other insurers / reinsurers - unsecured | 19 | 119,405 | 128,443 |
| Salvage recoveries accrued | | 1,050 | 2,500 |
| Accrued investment income | 20 | 2,494 | 530 |
| Reinsurance recoveries against outstanding claims | | 148,759 | 177,750 |
| Taxation - payment less provision | 21 | 6,452 | 5,848 |
| Deferred commission expense | | 12,649 | 23,242 |
| Prepayments | 22 | 31,589 | 48,625 |
| Loans to employees - unsecured considered good | 23 | 926 | 1,096 |
| Sundry receivables | 24 | 9,178 | 9,927 |
| | | <u>426,450</u> | <u>512,473</u> |
| FIXED ASSETS - TANGIBLE | 25 | | |
| OWNED | | | |
| Land and buildings | | 221,482 | 205,862 |
| Furniture, fixtures and office equipment | | 9,244 | 10,979 |
| Computer equipment | | 5,039 | 5,615 |
| Motor vehicles | | 19,219 | 32,441 |
| | | <u>254,984</u> | <u>254,897</u> |
| LEASED | | | |
| Motor vehicles | | 1,367 | 1,709 |
| | | <u>256,351</u> | <u>256,606</u> |
| TOTAL ASSETS | | <u><u>912,834</u></u> | <u><u>1,069,172</u></u> |

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

Raza Kuli Khan
Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE

Mushtaq Ahmed Khan F.C.A.
Mushtaq Ahmed Khan F.C.A.
DIRECTOR

Ahmed Kuli Khan Khattak
Ahmed Kuli Khan Khattak
DIRECTOR

Muhammad Rafiq Chaudhry
Muhammad Rafiq Chaudhry
PRINCIPAL OFFICER



PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

| Fire and Property Damage | Marine and Transport | Motor | Others | Treaty | Aggregate 2012 | Aggregate 2011 |
|--------------------------------|-------------------------|-------|--------|--------|-------------------|-------------------|
|--------------------------------|-------------------------|-------|--------|--------|-------------------|-------------------|

----- (RUPEES IN THOUSAND) -----

Note

| | | | | | | | |
|---|----|----------|----------|----------|----------|---|-----------|
| Revenue account | | | | | | | |
| Net premium revenue | | 53,998 | 31,055 | 99,526 | 26,092 | - | 210,671 |
| Net claims | | (10,108) | (8,208) | (69,477) | (13,815) | - | (101,608) |
| Change in premium deficiency reserve | 6 | - | - | (915) | 23 | - | (892) |
| Expenses | 26 | (29,411) | (16,195) | (27,987) | (8,655) | - | (82,248) |
| Net commission | | (10,921) | 639 | (13,585) | (617) | - | (24,484) |
| | | (40,332) | (15,556) | (41,572) | (9,272) | - | (106,732) |
| Underwriting result | | 3,558 | 7,291 | (12,438) | 3,028 | - | 1,439 |
| Investment income | | | | | | | 6,817 |
| Rental income | | | | | | | 1,400 |
| Other income | 27 | | | | | | 17,762 |
| | | | | | | | 27,418 |
| General and administration expenses | 28 | | | | | | (95,870) |
| Financial charges | | | | | | | (450) |
| Share of profit / (loss) from associates - net of tax | | | | | | | 3,230 |
| Loss before taxation | | | | | | | (65,672) |
| Taxation | 29 | | | | | | (584) |
| Loss after taxation | | | | | | | (66,256) |

PROFIT AND LOSS APPROPRIATION ACCOUNT

| | | |
|---|-----------|-----------|
| Balance of accumulated loss at the commencement of the year | (106,484) | (43,630) |
| Loss after taxation for the year | (66,256) | (64,808) |
| Other comprehensive loss for the year | (561) | - |
| Items directly recognised in statement of changes in equity | 2,321 | 1,954 |
| Balance of accumulated loss at the end of the year | (170,980) | (106,484) |
| Loss per share - basic and diluted - Rupees (Note 30) | (2.21) | (4.20) |

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

| | | | | |
|---|---|--|--|---|
|  Raza Kuli Khan Khattak CHAIRMAN |  Begum Zeb Gohar Ayub Khan CHIEF EXECUTIVE |  Mushtaq Ahmed Khan F.C.A. DIRECTOR |  Ahmed Kuli Khan Khattak DIRECTOR |  Muhammad Rafiq Chaudhry PRINCIPAL OFFICER |
|---|---|--|--|---|



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

| | 2012 (RUPEES IN THOUSAND) | 2011 |
|--|------------------------------|----------|
| Loss after taxation | (66,256) | (64,808) |
| Other comprehensive loss for the year | | |
| Remeasurement loss on employee benefit | (561) | - |
| Total comprehensive loss for the year | (66,817) | (64,808) |

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

| | | | | |
|---|---|--|--|---|
|  Raza Kuli Khan Khattak CHAIRMAN |  Begum Zeb Gohar Ayub Khan CHIEF EXECUTIVE |  Mushtaq Ahmed Khan F.C.A. DIRECTOR |  Ahmed Kuli Khan Khattak DIRECTOR |  Muhammad Rafiq Chaudhry PRINCIPAL OFFICER |
|---|---|--|--|---|

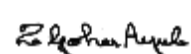


STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

| | ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL | CAPITAL RESERVES | | REVENUE RESERVE | ACCUMULATED LOSS | TOTAL EQUITY |
|---|---|------------------|---------|--------------------|---------------------|-----------------|
| | | SHARE PREMIUM | CAPITAL | | | |
| ----- (RUPEES IN THOUSAND) ----- | | | | | | |
| Balance as at 31 December 2010 | 262,500 | 4 | 18 | 14,105 | (43,630) | 232,997 |
| Issue of ordinary share capital - other than right | 37,500 | - | - | - | - | 37,500 |
| Transfer of incremental depreciation from surplus on revaluation of buildings | - | - | - | - | 1,763 | 1,763 |
| Share of associates accounted for under equity method | - | - | - | 122 | 191 | 313 |
| Loss for the year ended 31 December 2011 | - | - | - | - | (64,808) | (64,808) |
| Other comprehensive loss for the year ended 31 December 2011 | - | - | - | - | - | - |
| Total comprehensive loss for the year ended 31 December 2011 | - | - | - | - | (64,808) | (64,808) |
| Balance as at 31 December 2011 | 300,000 | 4 | 18 | 14,227 | (106,484) | 207,765 |
| Transfer of incremental depreciation from surplus on revaluation of buildings | - | - | - | - | 2,108 | 2,108 |
| Share of associates accounted for under equity method | - | - | - | 111 | 213 | 324 |
| Loss for the year ended 31 December 2012 | - | - | - | - | (66,256) | (66,256) |
| Other comprehensive loss for the year ended 31 December 2012 | - | - | - | - | (561) | (561) |
| Total comprehensive loss for the year ended 31 December 2012 | - | - | - | - | (66,817) | (66,817) |
| Balance as at 31 December 2012 | 300,000 | 4 | 18 | 14,338 | (170,980) | 143,380 |

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


Raza Kuli Khan Khattak
CHAIRMAN


Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE


Mushtaq Ahmed Khan F.C.A.
DIRECTOR


Ahmed Kuli Khan Khattak
DIRECTOR


Muhammad Rafiq Chaudhry
PRINCIPAL OFFICER



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

2012 2011
(RUPEES IN THOUSAND)

OPERATING CASH FLOWS

a) Underwriting activities

| | | |
|--|-----------|-----------|
| Premiums received | 295,783 | 475,523 |
| Reinsurance premiums paid | (122,960) | (177,889) |
| Claims paid | (155,301) | (213,355) |
| Reinsurance and other recoveries received | 61,444 | 87,005 |
| Commissions paid | (50,032) | (83,763) |
| Commissions received | 32,008 | 46,024 |
| Net cash inflow from underwriting activities | 60,942 | 133,545 |

b) Other operating activities

| | | |
|--|-----------|-----------|
| Income tax paid | (1,188) | (1,928) |
| Management expenses paid | (77,996) | (66,647) |
| Other operating payments | (66,955) | (95,658) |
| Other operating receipts | 2,495 | 3,143 |
| Loans to employees repaid / (given) | 170 | (453) |
| Other (payments) / receipts - net | (14,398) | 1,712 |
| Net cash outflow from other operating activities | (157,872) | (159,831) |
| Total cash outflow from all operating activities | (96,930) | (26,286) |

INVESTMENT ACTIVITIES

| | | |
|--|---------|----------|
| Profit / return received | 6,822 | 6,930 |
| Dividends received | 463 | 1,652 |
| Rental income received | 444 | 1,740 |
| Payments for purchase of investments | - | (15,096) |
| Proceeds from redemption / disposal of investments | 6,323 | 38,464 |
| Fixed capital expenditure | (3,567) | (3,712) |
| Proceeds from disposal of fixed assets | 19,475 | 2,318 |
| Net cash inflow from investing activities | 29,960 | 32,296 |

FINANCING ACTIVITIES

| | | |
|---|----------|---------|
| Share capital received | - | 37,500 |
| Financial charges paid | (450) | (348) |
| Payments on finance leases | (357) | (1,819) |
| Net cash (outflow) / inflow from financing activities | (807) | 35,333 |
| Net cash (outflow) / inflow from all activities | (67,777) | 41,343 |
| Cash at the beginning of the year | 129,652 | 88,309 |
| Cash at the end of the year | 61,875 | 129,652 |



CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

2012 2011
(RUPEES IN THOUSAND)

| | | |
|---|----------|----------|
| Operating cash flows | (96,930) | (26,286) |
| Depreciation | (12,731) | (15,693) |
| Provision for doubtful receivables | (22,635) | (19,593) |
| Gratuity | (4,534) | (3,470) |
| Fixed assets written off | (36) | (836) |
| Impairment loss on operating fixed assets | (2,000) | - |
| Financial charges | (450) | (348) |
| Profit on disposal of fixed assets | 9,057 | 624 |
| Decrease in assets other than cash | (65,451) | (80,735) |
| Decrease in liabilities other than borrowings | 113,625 | 74,522 |
| | (82,085) | (71,815) |

OTHER ADJUSTMENTS

| | | |
|---|----------|----------|
| Profit on investments and deposits | 6,830 | 6,180 |
| Share of profit / (loss) from associates - net of tax | 3,230 | (4,170) |
| Premium deficiency expense | (892) | (1,242) |
| Rental income | 1,400 | 1,164 |
| Profit on term deposit receipts | 5,261 | 5,075 |
| | 15,829 | 7,007 |
| Loss after taxation | (66,256) | (64,808) |

Definition of cash:

Cash comprises cash in hand, bank balances and other deposits which are readily convertible to cash and which are used in cash management function on a day to day basis.

Cash for the purposes of the Cash Flow Statement consists of:

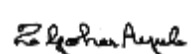
Cash and other equivalent

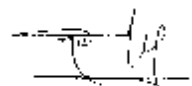
| | | |
|-------------------------------|--------|--------|
| Cash in hand (stamps in hand) | 32 | 33 |
| Current and other accounts | | |
| Current accounts | 13,978 | 60,561 |
| Saving accounts | 7,710 | 29,058 |
| | 21,688 | 89,619 |

Deposits maturing within 12 months

| | | |
|----------------------------------|--------|---------|
| Fixed and term deposits accounts | 40,155 | 40,000 |
| Total cash and cash equivalents | 61,875 | 129,652 |

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

Raza Kuli Khan Khattak Begum Zeb Gohar Ayub Khan Mushtaq Ahmed Khan F.C.A. Ahmed Kuli Khan Khattak Muhammad Rafiq Chaudhry
CHAIRMAN CHIEF EXECUTIVE DIRECTOR DIRECTOR PRINCIPAL OFFICER

STATEMENT OF PREMIUMS FOR THE YEAR ENDED 31 DECEMBER 2012

Business underwritten inside Pakistan

| Class | Premiums | | | | Reinsurance | | | | Net premium revenue | |
|--------------------------|------------------|--------------------------|---------|-----------------|-------------------|-----------------------------------|---------|---------------------|---------------------|---------|
| | Premiums written | Unearned premium reserve | | Premiums earned | Reinsurance ceded | Prepaid reinsurance premium ceded | | Reinsurance expense | 2012 | 2011 |
| | | Opening | Closing | | | Opening | Closing | | | |
| | | | | | | | | | | |
| (RUPEES IN THOUSAND) | | | | | | | | | | |
| Direct and facultative | | | | | | | | | | |
| Fire and property damage | 105,541 | 47,323 | 26,909 | 125,955 | 59,579 | 27,447 | 15,069 | 71,957 | 53,998 | 70,599 |
| Marine and transport | 58,112 | 11,243 | 6,784 | 62,571 | 29,287 | 5,621 | 3,392 | 31,516 | 31,055 | 41,585 |
| Motor | 100,426 | 60,444 | 38,720 | 122,150 | 22,075 | 9,067 | 8,518 | 22,624 | 99,526 | 141,262 |
| Others | 31,056 | 17,304 | 8,859 | 39,501 | 12,019 | 4,845 | 3,455 | 13,409 | 26,092 | 38,859 |
| Total | 295,135 | 136,314 | 81,272 | 350,177 | 122,960 | 46,980 | 30,434 | 139,506 | 210,671 | 292,305 |
| Treaty - proportional | - | - | - | - | - | - | - | - | - | - |
| Grand total | 295,135 | 136,314 | 81,272 | 350,177 | 122,960 | 46,980 | 30,434 | 139,506 | 210,671 | 292,305 |

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

Raza Kuli Khan
Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE

Mushtaq Ahmed Khan F.C.A.
Mushtaq Ahmed Khan F.C.A.
DIRECTOR

Ahmed Kuli Khan Khattak
Ahmed Kuli Khan Khattak
DIRECTOR

Muhammad Rafiq Chaudhry
Muhammad Rafiq Chaudhry
PRINCIPAL OFFICER



STATEMENT OF CLAIMS FOR THE YEAR ENDED 31 DECEMBER 2012

Business underwritten inside Pakistan

| Class | Claims paid | Outstanding claims | | Claims expenses | Reinsurance and other recoveries received | Reinsurance and other recoveries in respect of outstanding claims | | Reinsurance and other recoveries revenue | Net claims expense | |
|--------------------------|-------------|--------------------|---------|-----------------|---|---|---------|--|--------------------|---------|
| | | Opening | Closing | | | Opening | Closing | | 2012 | 2011 |
| (RUPEES IN THOUSAND) | | | | | | | | | | |
| Direct and facultative | | | | | | | | | | |
| Fire and property damage | 48,692 | 151,107 | 129,474 | 27,059 | 33,004 | 119,690 | 103,637 | 16,951 | 10,108 | 16,780 |
| Marine and transport | 20,496 | 44,350 | 36,684 | 12,830 | 9,264 | 26,311 | 21,669 | 4,622 | 8,208 | 10,941 |
| Motor | 69,455 | 89,945 | 98,533 | 78,043 | 13,178 | 17,563 | 12,951 | 8,566 | 69,477 | 82,760 |
| Others | 18,108 | 32,933 | 30,954 | 16,129 | 5,998 | 14,186 | 10,502 | 2,314 | 13,815 | 32,919 |
| Total | 156,751 | 318,335 | 295,645 | 134,061 | 61,444 | 177,750 | 148,759 | 32,453 | 101,608 | 143,400 |
| Treaty - proportional | - | 969 | 969 | - | - | - | - | - | - | - |
| Grand total | 156,751 | 319,304 | 296,614 | 134,061 | 61,444 | 177,750 | 148,759 | 32,453 | 101,608 | 143,400 |

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

Raza Khan Khattak
Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE

Mushtaq Ahmed Khan F.C.A.
Mushtaq Ahmed Khan F.C.A.
DIRECTOR

Ahmed Kuli Khan Khattak
Ahmed Kuli Khan Khattak
DIRECTOR

Muhammad Rafiq Chaudhry
Muhammad Rafiq Chaudhry
PRINCIPAL OFFICER



STATEMENT OF EXPENSES FOR THE YEAR ENDED 31 DECEMBER 2012

Business underwritten inside Pakistan

| Class | Commissions paid or payable | Deferred commission | | Net commission expense | Other management expenses | Underwriting expense | Commission from reinsurer | Net underwriting expense | |
|--------------------------|-----------------------------|---------------------|---------|------------------------|---------------------------|----------------------|---------------------------|--------------------------|---------|
| | | Opening | Closing | | | | | 2012 | 2011 |
| (RUPEES IN THOUSAND) | | | | | | | | | |
| Direct and facultative | | | | | | | | | |
| Fire and property damage | 25,718 | 11,619 | 6,430 | 30,907 | 29,411 | 60,318 | 19,986 | 40,332 | 57,450 |
| Marine and transport | 11,190 | 2,099 | 1,343 | 11,946 | 16,195 | 28,141 | 12,585 | 15,556 | 21,205 |
| Motor | 10,706 | 7,068 | 4,175 | 13,599 | 27,987 | 41,586 | 14 | 41,572 | 55,341 |
| Others | 2,418 | 2,456 | 701 | 4,173 | 8,655 | 12,828 | 3,556 | 9,272 | 15,690 |
| Total | 50,032 | 23,242 | 12,649 | 60,625 | 82,248 | 142,873 | 36,141 | 106,732 | 149,686 |
| Treaty - proportional | - | - | - | - | - | - | - | - | - |
| Grand total | 50,032 | 23,242 | 12,649 | 60,625 | 82,248 | 142,873 | 36,141 | 106,732 | 149,686 |

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

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

Raza Khan
Raza Kuli Khan Khattak
CHAIRMAN

Begum Zeb Gohar Ayub Khan
Begum Zeb Gohar Ayub Khan
CHIEF EXECUTIVE

Mushtaq Ahmed Khan F.C.A.
Mushtaq Ahmed Khan F.C.A.
DIRECTOR

Ahmed Kuli Khan Khattak
Ahmed Kuli Khan Khattak
DIRECTOR

Muhammad Rafiq Chaudhry
Muhammad Rafiq Chaudhry
PRINCIPAL OFFICER





STATEMENT OF INVESTMENT INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

2012 2011
(RUPEES IN THOUSAND)

INCOME FROM TRADING INVESTMENTS

Dividend income

From related parties

From others

| | |
|-----|-------|
| - | - |
| 442 | 1,312 |
| 442 | 1,312 |

INCOME FROM NON - TRADING INVESTMENTS

Held to maturity

Return on fixed income securities and deposits

4,347 3,140

Available for sale

Dividend income

From related parties

From others

| | |
|---|-----|
| - | - |
| - | 304 |
| - | 304 |

Gain on sale of investments at fair value through profit or loss

1,161 727

Gain on sale of investments - available for sale

- 1,053

Gain / (loss) on revaluation of investments at fair value through profit or loss

963 (359)

(Provision) for / reversal of impairment in value of available for sale investments - net

(83) 3

Less: Investment related expenses

(13) -

Net investment income

| | |
|-------|-------|
| 6,817 | 6,180 |
|-------|-------|

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

| | | | | |
|--|--|---|---|--|
|  Raza Kuli Khan Khattak CHAIRMAN |  Begum Zeb Gohar Ayub Khan CHIEF EXECUTIVE |  Mushtaq Ahmed Khan F.C.A. DIRECTOR |  Ahmed Kuli Khan Khattak DIRECTOR |  Muhammad Rafiq Chaudhry PRINCIPAL OFFICER |
|--|--|---|---|--|



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

1 THE COMPANY AND ITS OPERATIONS

The Universal Insurance Company Limited ("the Company") is a public limited company incorporated in Pakistan on 09 May 1958 under the Companies Act, 1913 (now the Companies Ordinance, 1984). The Company is listed on Karachi and Lahore Stock Exchanges and is engaged in the non-life insurance business. The registered office of the Company is situated at Universal Insurance House, 63 Shahrah-e-Quaid-e-Azam, Lahore.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

a) Statement of compliance

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

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

b) Basis of presentation

These financial statements are prepared in accordance with the format of financial statements prescribed under SEC (Insurance) Rules, 2002.

c) Accounting convention

These financial statements have been prepared under the historical cost convention except for investments at fair value through profit or loss which are stated at fair value, available for sale investments which are stated at lower of cost and market value, held to maturity investments which are stated at amortized cost, land and buildings which are stated at revalued amounts and the obligation under employee benefit which is measured at present value.

d) Critical accounting estimates and judgments

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

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to these financial statements or judgment was exercised in application of accounting policies are as follows:

- Provision for outstanding claims (including IBNR)
- Provision for doubtful receivables
- Useful lives, pattern of economic benefits of operating fixed assets



- Provision for unearned premiums
- Premium deficiency reserve
- Impairment of assets
- Provision for taxation
- Defined benefit plan
- Classification of investments

e) Amendments to published approved standards that are effective in current year and are relevant to the Company

The following amendments to published approved standards are mandatory for the Company's accounting periods beginning on or after 01 January 2012:

IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 July 2011). The new disclosure requirements apply to transfer of financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. These amendments are part of the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. However, this amendment has no material impact on the Company's financial statements.

f) Interpretations and amendments to published approved accounting standards that are effective in current year but not relevant to the Company

There are other new interpretations and amendments to the published approved accounting standards that are mandatory for accounting periods beginning on or after 01 January 2012 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

g) Standards and amendments to published approved accounting standards that are not yet effective but relevant to the Company

Following standard and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 January 2013 or later periods:

IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 January 2013). The International Accounting Standards Board (IASB) has amended the accounting requirements and disclosures related to offsetting of financial assets and financial liabilities by issuing amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7. These amendments are the result of IASB and US Financial Accounting Standard Board undertaking a joint project to address the differences in their respective accounting standards regarding offsetting of financial instruments. The clarifying amendments to IAS 32 are effective for annual periods beginning on or after 01 January 2014. However, these amendments are not expected to have a material impact on the Company's financial statements.

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2015). It addresses the classification, measurement and recognition of financial assets and financial liabilities. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that shall replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change shall mainly affect financial institutions. There shall be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Company does not have any such liabilities.



IFRS 13 'Fair value Measurement' (effective for annual periods beginning on or after 01 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This standard is not expected to have a material impact on the Company's financial statements.

IAS 1 (Amendment), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 July 2012). The main change resulting from this amendment is the requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. However, this amendment is not expected to have a material impact on the Company's financial statements.

IAS 16 (Amendment), 'Property, Plant and Equipment' (effective for annual periods beginning on or after 01 January 2013). This amendment requires that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. However, this amendment is not expected to have a material impact on the Company's financial statements.

IAS 19 (Amendment), 'Employee Benefits' (effective for periods beginning on or after 01 January 2013). The amendments eliminate the corridor approach and recognize all actuarial gains and losses in other comprehensive income as they occur and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability / (asset). The Company is yet to assess the full impact of the amendments.

On 17 May 2012, IASB issued Annual Improvements to IFRSs: 2009 – 2011 Cycle, incorporating amendments to five IFRSs more specifically in IAS 1 'Presentation of Financial Statements', IAS 32 'Financial instruments: Presentation' and IAS 34 'Interim financial reporting' that are considered relevant to the Company's financial statements. These amendments are effective for annual periods beginning on or after 01 January 2013. These amendments are unlikely to have a significant impact on the Company's financial statements and have therefore not been analyzed in detail.

- h) Standards, interpretations and amendments to published approved accounting standards that are not effective in current year and not considered relevant to the Company

There are other accounting standards, amendments to published approved accounting standards and new interpretation that are mandatory for accounting periods beginning on or after 01 January 2013 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

2.2 Insurance contracts

Insurance contracts are those contracts where the Company "(the insurer)" has accepted significant insurance risk from another party "(the policy holders)" by agreeing to compensate the policy holders if a specified uncertain future event "(the insured event)" adversely affects the policy holders.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life time, even if the insurance risk reduces significantly during this period, unless all rights and liabilities are extinguished or expired.



Insurance contracts issued by the company are generally classified in four basic categories i.e. Fire and Property, Marine aviation and transport, Motor and Miscellaneous and are issued to multiple types of clients with business in engineering, automobiles, cement, power, textile, paper, agriculture, services and trading sectors etc. and individuals as well. The tenure of these insurance contracts depends upon terms of the policies written and vary accordingly.

- Fire and property insurance contracts generally cover the assets of the policy holders against damages by fire, earthquake, riots and strike, explosion, atmospheric disturbance, flood, electric fluctuation and impact and burglary etc and loss of profit followed by the incident of fire.

- Marine aviation and transport insurance contracts generally provide cover for loss or damage to cargo while in transit to and from foreign land and inland transit due to various insured perils including loss of or damage to carrying vessel etc.

- Motor insurance contracts provide indemnity for accidental damage to or loss of insured vehicle including loss of or damage to third party and other comprehensive car coverage.

- Miscellaneous insurance contracts provide variety of coverage including cover against burglary, loss of cash in safe, cash in transit and cash on counter, fidelity guarantee, personal accident, workmen compensation, contractor's all risk, erection all risk, machinery breakdown, boiler damage, crop and health etc.

In addition to direct insurance, the Company also participates in risks under co-insurance contracts from other companies and also accepts risks through re-insurance inward by way of facultative acceptance on case to case basis provided such risks are within the underwriting policies of the Company. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

The Company neither issues investment contracts nor does it issue insurance contracts with discretionary participation features (DPF).

2.3 Premium

Premium written under a policy is recognized as income over the period of insurance from the date of issuance of the policy to which it relates to its expiry. Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of the incidence of risk. The portion of premium written relating to the unexpired period of coverage is recognized as unearned premium by the Company.

2.4 Reinsurance ceded

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

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

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

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired.



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

2.5 Claims expense

General insurance claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

The Company recognizes liability in respect of all claims incurred upto the balance sheet date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in the insurance contract. The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates.

Provision for IBNR except for claims pertaining to Accident and Health insurance is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and claims actually reported subsequent to the reporting period. Provision for IBNR claims pertaining to Accident and Health insurance, that is included in Other category, is determined on actuary's advice.

2.6 Premium deficiency reserve

Premium deficiency reserve is maintained where the unearned premium for any class of business is not sufficient to cover the net liability expected to be incurred after the balance sheet date in respect of the policies in that class of business, to comply with the requirements of section 34 (2)(d) of the Insurance Ordinance, 2000. Any movement in the reserve is charged to the profit and loss account.

For this purpose, loss ratios for each class except for Accident and Health insurance business are estimated based on historical claim development. Judgment is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. If these ratios are adverse, premium deficiency is determined. Provision for premium deficiency pertaining to Accident and Health insurance business included in Other category is determined on actuary's advice.

2.7 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents include cash in hand, cash at banks on current and saving accounts and bank deposits.

2.8 Loans to employees and agents

These are recognized at cost, which is the fair value of the consideration given.

2.9 Investments

Classification of an investment is made on the basis of intended purpose for holding such investment. Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on regular basis.

Investments are initially measured at fair value plus transaction costs directly attributable to acquisition, except for "Investment at fair value through profit or loss" which is measured initially at fair value.

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.

The Company assesses at the end of each reporting period whether there is any objective evidence that investments are impaired. If any such evidence exists, the Company applies the provisions of IAS 39 'Financial Instruments: Recognition and Measurement' to all investments, except investments in associates accounted for under equity method, which are tested for impairment in accordance with the provisions of IAS 36 'Impairment of Assets'.



a) Investments in associates

Associates are the entities over which the Company has significant influence but not control. Investments in these associates are accounted for using the equity method of accounting and are initially recognized at cost. The Company's share of its associates' post acquisition profits or losses, movement in other comprehensive income, and its share of post acquisition movement in reserves is recognized in the profit and loss account, statement of comprehensive income and reserves respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. Distributions received from an associate reduce the carrying amount of the investment.

b) Held-to-maturity

Investments with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity are subsequently measured at amortized cost using the effective yield method. Any premium paid or discount availed on the acquisition of held to maturity investment is deferred and included in the income for the period on a straight line basis over the term of investment. For investments carried at amortized cost, gains and losses are recognized in profit and loss account when the investments are de-recognized or impaired, as well as through the amortization process.

c) Available for sale

Investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity, changes in interest rates, equity prices or exchange rates are classified as available-for-sale.

Subsequent to initial recognition at cost, these are stated at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value of its quoted investments whereas fair value of investments in delisted / unlisted companies is determined by reference to the net assets and financial position of the investee on the basis of the latest available audited financial statements.

d) Investments at fair value through profit or loss

Investment classified as held-for-trading and those designated as such are included in this category. Investments are classified as held-for-trading if these are acquired for the purpose of selling in the short term. Gains or losses on investments held-for-trading are recognized in profit and loss account.

2.10 Premiums due but unpaid

These are recognized when due, at the fair value of the consideration receivable less provision for doubtful receivables, if any. Provision for impairment on premium receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to original terms of receivable. Receivables are also analyzed as per their aging and accordingly provision is maintained on a systematic basis.

2.11 Amounts due to / from other insurers / reinsurers

Amounts due to / from other insurers / reinsurers are carried at cost which is the fair value of the consideration to be received / paid in the future for services. However, 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 for the difference between the recoverable amount and the carrying amount.

2.12 Claim recoveries

Claim recoveries receivable from the reinsurers are recognized as an asset at the same time as the claims which give rise to the right of recovery are recognized as a liability and are measured at the amount expected to be received.



2.13 Taxation

a) Current

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 year for such years.

b) 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 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 profit and loss account, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

2.14 Deferred commission expense

Commission costs incurred in obtaining and recording policies of insurance and reinsurance are being deferred and recognized as an asset in correlation with unearned premium that will be recognized in the subsequent reporting periods.

2.15 Prepaid reinsurance expense

Premium for reinsurance contracts operative on a proportional and non-proportional basis is recorded as a liability on attachment of the underlying risks reinsured or on inception of the reinsurance contract respectively. For proportional reinsurance contracts, the reinsurance expense is recognized in accordance with the pattern of recognition of premium income to which they relate. For non-proportional reinsurance contracts, the reinsurance expense is recognized evenly in the period of indemnity. The portion of reinsurance premium not recognized as an expense is shown as a prepayment.

2.16 Fixed assets

Fixed assets except freehold land, buildings on freehold land and capital work in progress are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Freehold land is stated at revalued amount, buildings on freehold land are stated at revalued amounts less accumulated depreciation and accumulated impairment losses, if any, while capital work in progress is stated at cost less accumulated impairment losses (if any).

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 item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss account during the period in which they are incurred.



a) Depreciation

Depreciation on property, plant and equipment is charged to profit and loss account applying the reducing balance method so as to write off the cost / depreciable amount of the assets over their estimated useful lives at the rates given in Note 25.1. The Company charges the depreciation on additions from the date when the asset is available for use and on deletions upto the date when the asset is de-recognized. The residual values and useful lives are reviewed by the management, at each financial year-end and adjusted if impact on depreciation is significant.

b) De-recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is included in the profit and loss account in the year the asset is de-recognized.

2.17 Assets subject to finance lease

Assets held under finance leases are initially recorded at the lower of present value of minimum lease payments under the lease agreements and the fair value of the leased assets. The related obligations under the leases less financial charges allocated to future periods are shown as a liability. Depreciation on leased assets is charged applying the reducing balance method at the rates used for similar owned assets, so as to depreciate the assets over their estimated useful lives in view of the certainty of ownership of the assets at the end of the lease term.

The financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of interest on the outstanding liability.

2.18 Provision for unearned premium

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage.

Provision for unearned premium is being calculated as a proportion of the gross premium of each policy, determined as the ratio of the unexpired period of the policy and the total period, both measured to the nearest day as specified in Accounting Regulation 8(4)(a) of the SEC (Insurance) Rules, 2002 for non-life insurance.

2.19 Commission income unearned

Commission income receivable from reinsurers is taken to profit and loss account in accordance with the pattern of recognition of the reinsurance premium to which they relate.

2.20 Employee benefits

a) Gratuity

The Company operates an unfunded gratuity scheme for all permanent employees who are entitled to gratuity equivalent to last drawn gross salary multiplied by the number of years of service upto the date of leaving the Company. The latest actuarial valuation was carried out as at 31 December 2012, using the "Projected Unit Credit Method" to determine the liability on the reporting date. Actuarial gains or losses are recognized in other comprehensive income in the year in which they arise.

b) Compensated absences

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



2.21 Creditors, accruals and provisions

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

2.22 Borrowings

Borrowings are recognized initially at fair value and are subsequently stated at amortized cost. Any difference between the proceeds and the redemption value is recognized in the profit and loss account over the period of the borrowings using the effective interest method.

2.23 Provisions

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.

2.24 Revenue recognition

a) Premium income earned

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

- | | |
|--|---|
| - for direct business | evenly over the period of the policy |
| - for proportional re-insurance business | evenly over the period of the underlying insurance policies |

Where the pattern of incidence of risk varies over the period of the policy, the premium is recognized as revenue in accordance with the pattern of the incidence of risk.

b) Administrative surcharge

This represents documentation and other charges recovered by the Company from policyholders in respect of policies issued, at a rate of 5% of the premium restricted to a maximum of Rupees 2,000 per policy. Administrative surcharge is recognized as revenue at the time, the policies are written.

c) Commission income

Commission income from reinsurers 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. Profit commission, if any, which the Company may be entitled to under the terms of reinsurance, is recognized on accrual basis.

d) Dividend income and bonus shares

Dividend income is recognized when the right of receipt is established. Bonus shares are accounted for by increase in number of shares without any change in the value of investments.



e) Investment income

Income from held-to-maturity investments

Income from held-to-maturity investments is recognized on a time proportion basis taking into account the effective yield on the investments.

Income from available-for-sale investments

- Return on fixed income investments

Return on fixed income securities classified as available-for-sale is recognized on a time proportion basis.

- Gain / loss on sale of available-for-sale investments

Gain / loss on sale of available-for-sale investments is included in income currently.

Income from investments at fair value through profit or loss

Gain / loss on sale of investments at fair value through profit or loss is included in income currently.

f) Rental and other income

Rental and other income is recognized on accrual basis.

2.25 Expenses

Management expenses which are directly attributable to the underwriting business are allocated in accordance with the volume of each class of business and portion of management expenses which are not allocable to the underwriting business are charged as general and administration expenses. These expenses are charged to profit and loss account at the time the policies are accepted.

2.26 Impairment

a) Financial assets

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available for sale financial asset is calculated with reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.



b) Non - financial assets

The carrying amounts of the Company's non financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

2.27 Financial instruments

Financial instruments carried on the balance sheet include current and other accounts, deposits maturing within twelve months, loans to employees, investments, premiums due but unpaid, amounts due from other insurers / reinsurers, salvage recoveries accrued, accrued investment income, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amounts due to other insurers / reinsurers, accrued expenses, unclaimed dividends, other creditors and accruals, deposits against performance bonds and liabilities against assets subject to finance lease etc. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of instrument. Initial recognition is made at fair value plus transaction costs directly attributable to acquisition, except for "financial instrument at fair value through profit or loss" which is measured initially at fair value.

Financial assets are de-recognized when the Company loses control of the contractual rights that comprise the financial asset. The Company loses such control if it realizes the rights to benefits specified in contract, the rights expire or the Company surrenders those rights. Financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on subsequent measurement (except available for sale investments) and de-recognition is charged to the profit or loss currently. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.28 Off setting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.29 Earnings / (loss) per share

The Company presents basic earnings / (loss) per share for its shareholders. Basic earnings / (loss) per share is calculated by dividing the profit / (loss) attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

2.30 Borrowing cost

Interest, mark-up and other charges on long-term finances are capitalized up to 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 recognized in profit and loss account.



2.31 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

2.32 Dividend and appropriation to reserves

Dividend and appropriation to reserves are recognized as liability in the Company's financial statements in the year in which these are approved.

2.33 Foreign currencies

These financial statements are presented in Pak Rupees, which is the Company's functional currency. All monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date, while the transactions in foreign currencies during the year are initially recorded in functional currency at the rates of exchange prevailing at the transaction date. 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. Exchange gains and losses are included in the income currently.

2.34 Segment reporting

The Company accounts for segment reporting using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002 as the primary reporting format based on the Company's practice of reporting to the management on the same basis.

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

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

3. ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

| 2012 (NUMBER OF SHARES) | 2011 | | 2012 (RUPEES IN THOUSAND) | 2011 |
|----------------------------|-------------------|---|------------------------------|----------------|
| 14,720,000 | 14,720,000 | Ordinary shares of Rupees 10 each fully paid in cash | 147,200 | 147,200 |
| 15,280,000 | 15,280,000 | Ordinary shares of Rupees 10 each issued as fully paid bonus shares | 152,800 | 152,800 |
| <u>30,000,000</u> | <u>30,000,000</u> | | <u>300,000</u> | <u>300,000</u> |



2012 2011
(RUPEES IN THOUSAND)

3.1 Movement during the year

| | | | | |
|-------------------|-------------------|--|----------------|----------------|
| 30,000,000 | 26,250,000 | At 01 January | 300,000 | 262,500 |
| - | 3,750,000 | Issued during the year as fully paid ordinary shares - other than right shares | - | 37,500 |
| <u>30,000,000</u> | <u>30,000,000</u> | At 31 December | <u>300,000</u> | <u>300,000</u> |

3.2 Bibojee Services (Private) Limited (the Holding Company) holds 24,158,326 (2011: 24,158,326) ordinary shares of the Company.

4. RESERVES

2012 2011
(RUPEES IN THOUSAND)

Composition of reserves is as follows:

Capital reserves:

Share premium reserve

Capital reserve

Revenue reserve

| | |
|---------------|---------------|
| 4 | 4 |
| 18 | 18 |
| 22 | 22 |
| 14,338 | 14,227 |
| <u>14,360</u> | <u>14,249</u> |

5. SURPLUS ON REVALUATION OF FIXED ASSETS

Freehold land

133,243 119,843

Buildings on freehold land

Surplus on revaluation

Related deferred tax liability

Incremental depreciation on surplus on revaluation

Related deferred tax liability

Surplus on revaluation of buildings - net of deferred tax

Share of surplus on revaluation of fixed assets of associated companies accounted for under equity method

| | |
|----------------|----------------|
| 55,669 | 47,706 |
| (19,484) | (16,697) |
| 36,185 | 31,009 |
| (5,653) | (3,545) |
| 1,979 | 1,241 |
| (3,674) | (2,304) |
| <u>32,511</u> | <u>28,705</u> |
| 165,754 | 148,548 |
| 81,688 | 81,996 |
| <u>247,442</u> | <u>230,544</u> |



2012 2011
(RUPEES IN THOUSAND)

6. PREMIUM DEFICIENCY RESERVE

| | | |
|---|--------------|--------------|
| Balance as at 01 January | 1,242 | - |
| Premium deficiency expense for the year | 892 | 1,242 |
| Balance as at 31 December | <u>2,134</u> | <u>1,242</u> |

7. EMPLOYEE BENEFIT - Unfunded

Gratuity

The amounts recognized in the balance sheet are as follows:

| | | |
|---|--------------|---------------|
| Present value of defined benefit obligation | 5,516 | 3,359 |
| Gratuity of Managing Directors | - | 12,969 |
| | <u>5,516</u> | <u>16,328</u> |

a) Change in present value of net staff gratuity

| | | |
|---|--------------|--------------|
| Liability as at 01 January | 3,359 | - |
| Charge for the year | 4,534 | 3,470 |
| Benefits paid during the year | (2,681) | (111) |
| Payable to outgoing employees | (257) | - |
| Remeasurement loss recognized in Other Comprehensive Income | 561 | - |
| Liability as at 31 December | <u>5,516</u> | <u>3,359</u> |

b) Movement in liability for defined benefit obligation

| | | |
|---|--------------|--------------|
| Present value of defined benefit obligation as at 01 January | 3,359 | - |
| Current service cost | 3,878 | 3,252 |
| Interest cost | 656 | 218 |
| Benefits paid during the year | (2,681) | (111) |
| Payable to outgoing employees (Note 10) | (257) | - |
| Remeasurement loss recognized in Other Comprehensive Income | 561 | - |
| Present value of defined benefit obligation as at 31 December | <u>5,516</u> | <u>3,359</u> |

c) Charge for the year

| | | |
|----------------------|--------------|--------------|
| Current service cost | 3,878 | 3,252 |
| Interest cost | 656 | 218 |
| | <u>4,534</u> | <u>3,470</u> |



- d) Assumptions used for valuation of the defined benefit scheme are as under:

| Per annum | |
|----------------------|------|
| 2012 | 2011 |
| 12% | 13% |
| 11% | 12% |
| 2012 | 2011 |
| (RUPEES IN THOUSAND) | |

- e) Historical information

| | | |
|---|-------|-------|
| Present value of defined benefit obligation | 5,516 | 3,359 |
|---|-------|-------|

- f) The expected charge for the year ended 31 December 2013 is Rupees 3.509 million.

8. AMOUNTS DUE TO OTHER INSURERS / REINSURERS

| | | |
|---------------------------|--------|--------|
| Amounts due to coinsurers | 15,544 | 15,378 |
| Amounts due to reinsurers | 15,433 | 41,084 |
| | 30,977 | 56,462 |

9. ACCRUED EXPENSES

| | | |
|--------------------|--------|--------|
| Salaries payable | 5,865 | 8,373 |
| Audit fee payable | 345 | 337 |
| Expenses payable | 2,013 | 3,504 |
| Commission payable | 25,827 | 14,684 |
| | 34,050 | 26,898 |

10. OTHER CREDITORS AND ACCRUALS

| | | |
|---|--------|--------|
| Federal excise duty | 28,401 | 25,856 |
| Federal insurance fee | 1,239 | 1,428 |
| Sundry creditors | 17,886 | 13,536 |
| Leave encashment payable | 7,711 | 11,734 |
| Gratuity payable to outgoing employees (Note 7 (b)) | 257 | - |
| Income tax deducted at source | 992 | 1,937 |
| Others | 4,590 | 4,923 |
| | 61,076 | 59,414 |



2012 2011
(RUPEES IN THOUSAND)

11. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Minimum lease payments:

Not later than 1 year

- 656

Less: Future finance charges on finance lease

- (28)

Present value of minimum lease payments

- 628

Present value of minimum lease payments:

Not later than 1 year

- 628

- 11.1 This lease finance facility, obtained from Askari Leasing Limited, has been fully repaid during the year and the Company has exercised its option to purchase the lease vehicle on completion of the lease term. The facility was payable in monthly instalments and was secured against title of the leased vehicle in the name of lessor and demand promissory note. The rate of finance charge was 16.93 % (2011: 16.93 %) per annum.

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

- 12.1.1 The insured has filed a petition against the Company in Lahore High Court, Lahore for alleged claim of Rupees 7.30 million. The petition is still pending before the court. The Company is confident that the outcome of the petition will be in its favour, hence, no provision for claim has been recognized in these financial statements.

- 12.1.2 The Company issued a performance bond on behalf of a contractor in favour of National Highway Authority (NHA). Owing to subsequent developments, NHA instituted a civil suit for recovery of Rupees 2.621 million against the contractor and the Company. This suit was dismissed and subsequently on appeal in the District Court the said appeal was also dismissed. Now, NHA has filed a Civil Revision Application in Honourable High Court of Sindh at Karachi. No provision against claim of NHA has been made in these financial statements, as the management is confident of a favourable outcome of the litigation.

12.2 Commitments

As at 31 December 2012, commitments for revolving letters of credits, other than for capital expenditure, were outstanding for Rupees 0.747 million (2011: Rupees 0.747 million).

2012 2011
(RUPEES IN THOUSAND)

13. CASH AND OTHER EQUIVALENTS

Stamps-in-hand

32 33

14. CURRENT AND OTHER ACCOUNTS

Saving accounts (Note 14.1)

7,710 29,058

Current accounts

13,978 60,561

21,688 89,619

- 14.1 These include balance of Rupees 0.747 million (2011: Rupees 0.747 million) kept with a bank as security against letters of credit. Rate of profit on bank balances ranges from 6% to 7% (2011: 5% to 8.5%) per annum.

2012 2011
(RUPEES IN THOUSAND)

15. DEPOSITS MATURING WITHIN 12 MONTHS

Term deposit receipts

41,357 41,202

Provision for impairment

(1,202) (1,202)

Term deposit receipts - considered good (Note 15.1)

40,155 40,000

- 15.1 These represent term deposit receipts issued by financial institutions and carry interest at the rates ranging from 10% to 11.20% (2011: 11.80%) per annum.



| | 2012 | 2011 |
|--|----------------------|----------------|
| | (RUPEES IN THOUSAND) | |
| 16. INVESTMENTS | | |
| In related parties | | |
| Investments in associates (Note 16.1) | 95,180 | 91,955 |
| Others | | |
| Held-to-maturity (Note 16.2) | 34,967 | 34,145 |
| Available for sale (Note 16.3) | 752 | 835 |
| Investments at fair value through profit or loss (Note 16.4) | 4,068 | 8,266 |
| | <u>134,967</u> | <u>135,201</u> |

16.1 Investments in associates

| NUMBER OF SHARES | | FACE VALUE | NAME OF ENTITY | 2012 | 2011 |
|------------------|-----------|---------------|---|----------------------|---------|
| 2012 | 2011 | | | 2012 | 2011 |
| RUPEES | | | | (RUPEES IN THOUSAND) | |
| Quoted | | | | | |
| | | | Personal Goods | | |
| 7,152 | 7,152 | 10 | Bannu Woollen Mills Limited Equity held 0.09% (2011: 0.09%) | | |
| | | | Cost | 32 | 32 |
| | | | Share of post acquisition reserves: | | |
| | | | As at 01 January | 1,040 | 673 |
| | | | Share of profit after income tax | 108 | 107 |
| | | | Share of items directly credited in equity | 6 | (4) |
| | | | Dividend received | (21) | (36) |
| | | | | 1,133 | 740 |
| | | | Share of surplus on revaluation of fixed assets recognized during the year | 10 | 300 |
| | | | | 1,175 | 1,072 |
| | | | Industrial Engineering | | |
| 1,192,148 | 1,192,148 | 10 | Gandhara Industries Limited Equity held 5.60% (2011: 5.60%) | | |
| | | | Cost | 12,160 | 12,160 |
| | | | Share of post acquisition reserves: | | |
| | | | As at 01 January | 78,563 | 82,834 |
| | | | Share of profit / (loss) after income tax | 3,124 | (4,271) |
| | | | | 81,687 | 78,563 |
| | | | | 93,847 | 90,723 |
| | | | Automobile and Parts | | |
| 5,000 | 5,000 | 10 | Gandhara Nissan Limited Equity held 0.01% (2011: 0.01%) | | |
| | | | Cost | 103 | 103 |
| | | | Share of post acquisition reserves: | | |
| | | | As at 01 January | 57 | 63 |
| | | | Share of loss after income tax | (2) | (6) |
| | | | | 55 | 57 |
| | | | | 158 | 160 |
| | | | | 95,180 | 91,955 |



- 16.1.1 Summarized un-audited financial statements of the associates, including the aggregated amounts of assets, liabilities, revenues and profits / (losses) are as follows:

| NAME | ASSETS | LIABILITIES | REVENUE | PROFIT / (LOSS) |
|------|------------------------|-------------|--|-----------------|
| | As at 31 December 2012 | | From 01 January 2012 to 31 December 2012 | |

------(RUPEES IN THOUSAND)-----

| | | | | |
|-----------------------------|-----------|-----------|-----------|----------|
| Bannu Woollen Mills Limited | 1,625,831 | 315,891 | 737,701 | 119,814 |
| Gandhara Industries Limited | 4,275,494 | 2,599,630 | 2,572,937 | 55,791 |
| Gandhara Nissan Limited | 2,665,483 | 1,082,376 | 1,628,435 | (20,398) |

| NAME | ASSETS | LIABILITIES | REVENUE | PROFIT / (LOSS) |
|------|------------------------|-------------|--|-----------------|
| | As at 31 December 2011 | | From 01 January 2011 to 31 December 2011 | |

------(RUPEES IN THOUSAND)-----

| | | | | |
|-----------------------------|-----------|-----------|-----------|----------|
| Bannu Woollen Mills Limited | 1,468,927 | 274,537 | 620,379 | 118,537 |
| Gandhara Industries Limited | 4,093,705 | 2,473,632 | 1,532,767 | (51,119) |
| Gandhara Nissan Limited | 2,750,817 | 1,147,312 | 1,766,386 | (57,340) |

2012 2011
(RUPEES IN THOUSAND)

- 16.1.2 Fair value of investments in associates is as follows:

| | | |
|-----------------------------|--------|-------|
| Bannu Woollen Mills Limited | 390 | 100 |
| Gandhara Industries Limited | 15,069 | 8,679 |
| Gandhara Nissan Limited | 30 | 12 |

The management, in accordance with provisions of IAS 36 "Impairment of Assets" has determined the recoverable amount of its investments in associates accounted for under equity method i.e. higher of fair value less cost to sell and value in use. Based on value in use calculations as at 31 December 2012, the management concluded that the carrying amount of investments in associates do not exceed the recoverable amount. Based on favourable value in use, there was no impairment loss on investments in associated companies with significant influence (tested for impairment) under IAS 36 "Impairment of Assets".

2012 2011
(RUPEES IN THOUSAND)

- 16.2 Held-to-maturity

| | Maturity | Coupon rate (%) | | |
|--------------------------|------------|-----------------|---------------|---------------|
| Pakistan Investment Bond | 06-10-2013 | 8.00 | 14,762 | 14,069 |
| Pakistan Investment Bond | 18-08-2016 | 11.50 | 15,395 | 15,326 |
| Pakistan Investment Bond | 22-07-2020 | 12.00 | 4,810 | 4,750 |
| | | | <u>34,967</u> | <u>34,145</u> |

- 16.2.1 Market value of these PIBs as on 31 December 2012 is Rupees 31.390 million (2011: Rupees 30.575 million). Profit on PIBs is received bi-annually.

- 16.2.2 These investments are made to meet the statutory requirement as required by section 29(2)(a) of The Insurance Ordinance, 2000.



16.3 Available for sale

| NUMBER OF SHARES / UNITS | | FACE VALUE | NAME OF ENTITY | 2012 | 2011 |
|--------------------------|------|---------------|----------------|------|------|
| 2012 | 2011 | | | | |

RUPEES

(RUPEES IN THOUSAND)

Quoted

| | | | | | |
|---------------------------|--------|----|--|-----|-----|
| Ordinary shares | | | | | |
| Personal goods | | | | | |
| - | 26,740 | 10 | Fawad Textile Mills Limited | - | 268 |
| 49,000 | 49,000 | 10 | Hamid Textile Mills Limited | 490 | 490 |
| Industrial transportation | | | | | |
| 888 | 888 | 10 | Pakistan National Shipping Corporation | 24 | 24 |
| | | | | 514 | 782 |
| Mutual funds | | | | | |
| Open-ended mutual fund | | | | | |
| 1,880 | 1,773 | | Atlas Stock Market Fund | 500 | 500 |
| Close-ended mutual fund | | | | | |
| 23,245 | 23,245 | 10 | JS Growth Fund | 135 | 135 |
| 6,391 | 6,391 | 10 | PICIC Investment Fund | 85 | 85 |
| | | | | 720 | 720 |

Un-Quoted

| | | | | | |
|--|-------|----|------------------------------------|-------|-------|
| Ordinary shares | | | | | |
| 1,106 | 1,106 | 10 | Nowshera Engineering Works Limited | 11 | 11 |
| 26,740 | - | 10 | Fawad Textile Mills Limited | 268 | - |
| | | | | 279 | 11 |
| | | | | 1,513 | 1,513 |
| Provision for impairment in value of investments (Note 16.3.1) | | | | (761) | (678) |
| | | | | 752 | 835 |

16.3.1 Provision for impairment in value of investments

| | | |
|------------------------------------|------|------|
| Opening balance as at 01 January | 678 | 681 |
| Provision made during the year | 132 | 48 |
| Provision reversed during the year | (49) | (51) |
| | 83 | (3) |
| Closing balance as at 31 December | 761 | 678 |



16.3.2 At 31 December 2012, the fair value of available for sale securities was Rupees 1.118 million (2011: Rupees 0.884 million). As per the Company's accounting policy, available for sale investments are stated at lower of cost or market value (market value being taken as lower if the reduction is other than temporary). However, International Accounting Standard (IAS) 39, "Financial Instruments: Recognition and Measurements" dealing with the recognition and measurement of financial instruments requires that these instruments should be measured at fair value. Accordingly, had these investments been measured at fair value, their carrying value as at 31 December 2012 would have been higher by Rupees 0.366 million (2011: Rupees 0.049 million).

16.4 Investments at fair value through profit or loss

| NUMBER OF SHARES / UNITS | | FACE VALUE | NAME OF ENTITY | 2012 | 2011 |
|--------------------------|------|---------------|----------------|------|------|
| 2012 | 2011 | | | | |

RUPEES

(RUPEES IN THOUSAND)

Quoted

Ordinary shares

Banks

| | | | | | |
|--------|---------|----|------------------------------------|-------|--------|
| 26,089 | 23,718 | 10 | National Bank of Pakistan | 3,097 | 3,097 |
| | | | Construction and materials | | |
| - | 104,511 | 10 | Pioneer Cement Limited | - | 6,402 |
| | | | Electricity | | |
| 40,000 | 40,000 | 10 | The Hub Power Company Limited | 1,198 | 1,198 |
| | | | Chemicals | | |
| - | 95,000 | 10 | Fauji Fertilizer Bin Qasim Limited | - | 4,041 |
| | | | | 4,295 | 14,738 |

Mutual funds

Close-ended mutual fund

| | | | | | |
|--------|--------|----|------------------------|-------|-------|
| 13,500 | 76,500 | 10 | PICIC Growth Fund | 509 | 2,889 |
| | | | Open-ended mutual fund | | |
| 1,445 | 1,184 | | Atlas Income Fund | 500 | 500 |
| | | | | 1,009 | 3,389 |

5,304 18,127

Unrealized loss on remeasurement of investments

(1,236) (9,861)

4,068 8,266



| | 2012 | 2011 |
|--|----------------------|----------|
| | (RUPEES IN THOUSAND) | |
| 17. DEFERRED TAXATION | | |
| The (liability) / asset for deferred taxation comprises temporary differences arising due to: | | |
| Taxable temporary differences | | |
| Accelerated tax depreciation | 4,726 | 5,560 |
| Surplus on revaluation of buildings | 17,505 | 15,456 |
| Liabilities against assets subject to finance lease | 478 | 378 |
| | 22,709 | 21,394 |
| Deductible temporary differences | | |
| Tax losses | 62,494 | 40,745 |
| Provision for doubtful receivables | 10,594 | 6,067 |
| Employee benefits | 4,720 | 9,822 |
| | 77,808 | 56,634 |
| Deferred income tax asset - net | 55,099 | 35,240 |
| Less: Deferred income tax asset recognized (Note 17.1) | 33,191 | 35,240 |
| Net deferred income tax asset not recognized | 21,908 | - |
| 17.1 The net deferred income tax asset recognized in these financial statements is restricted upto Rupees 33.191 million (2011: Rupees 35.240 million) as the temporary differences are not expected to reverse in foreseeable future because taxable profits in near future will not be probably available against which the temporary differences can be utilized. | | |
| 18. PREMIUMS DUE BUT UNPAID - Unsecured | 2012 | 2011 |
| | (RUPEES IN THOUSAND) | |
| Considered good | | |
| Due from associates (Note 18.1) | 22,267 | 25,704 |
| Others | 71,681 | 88,808 |
| | 93,948 | 114,512 |
| Considered doubtful | | |
| Due from associates | - | - |
| Others | 37,245 | 21,521 |
| | 37,245 | 21,521 |
| Provision for doubtful receivables (Note 18.2) | (37,245) | (21,521) |
| | 93,948 | 114,512 |
| 18.1 Due from associates: | | |
| Janana De Malucho Textile Mills Limited | 2,619 | 8,453 |
| Babri Cotton Mills Limited | 458 | 227 |
| Rahman Cotton Mills Limited | 3,750 | 7,661 |
| Gandhara Nissan Limited | 4,930 | 4,219 |
| Gandhara Industries Limited | 10,425 | 5,033 |
| The General Tyre and Rubber Company of Pakistan Limited | 11 | 37 |
| Gammon Pakistan Limited | 74 | 74 |
| | 22,267 | 25,704 |
| 18.1.1 Maximum aggregate balance due from associates at the end of any month was Rupees 31.210 million (2011: Rupees 72.399 million). | | |



| | 2012 | 2011 |
|---|----------------------|---------|
| | (RUPEES IN THOUSAND) | |
| 18.2 Provision for doubtful receivables | | |
| Balance as at 01 January | 21,521 | 12,399 |
| Provision made during the year - net of reversal (Note 28.2) | 19,916 | 16,889 |
| | 41,437 | 29,288 |
| Bad debts written off | (4,192) | (7,767) |
| Balance as at 31 December | 37,245 | 21,521 |
| 19. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS - Unsecured | | |
| Amounts due from coinsurers | 127,361 | 127,892 |
| Amounts due from reinsurers | 1,506 | 7,294 |
| | 128,867 | 135,186 |
| Provision for doubtful receivables (Note 19.1) | (9,462) | (6,743) |
| Amounts due from other insurers / reinsurers - considered good | 119,405 | 128,443 |
| 19.1 Provision for doubtful receivables | | |
| Balance as at 01 January | 6,743 | 4,039 |
| Provision made during the year (Note 28.2) | 2,719 | 2,704 |
| Balance as at 31 December | 9,462 | 6,743 |
| 20. ACCRUED INVESTMENT INCOME | | |
| This represents profit accrued on term deposit receipts. | | |
| 21. TAXATION - Payment less provision | | |
| Advance income tax | 6,557 | 5,929 |
| Provision for taxation | (105) | (81) |
| | 6,452 | 5,848 |
| 22. PREPAYMENTS | | |
| Prepaid reinsurance premium ceded | 30,434 | 46,980 |
| Others | 1,155 | 1,645 |
| | 31,589 | 48,625 |
| 23. LOANS TO EMPLOYEES - Unsecured considered good | | |
| Executives | 338 | 380 |
| Others | 588 | 716 |
| | 926 | 1,096 |
| 23.1 These represent interest free loans given to employees in accordance with the policy of the Company. These are recoverable in equal monthly instalments. | | |
| 24. SUNDRY RECEIVABLES | 2012 | 2011 |
| | (RUPEES IN THOUSAND) | |
| Advances to employees against expenses - unsecured considered good | 894 | 1,835 |
| Security deposits | 2,963 | 3,424 |
| Rent recoverable from holding company | 1,820 | 864 |
| Sales tax receivable | 122 | 260 |
| Others | 3,379 | 3,544 |
| | 9,178 | 9,927 |

25. FIXED ASSETS

Owned assets (Note 25.1)
Leased assets (Note 25.1)

2012
(RUPEES IN THOUSAND)
254,984
1,367
256,351

2011

(RUPEES IN THOUSAND)
254,897
1,709
256,606

| | OWNED | | | | | | LEASED | | | |
|------------------------------------|---------------|----------------------------|--|--------------------|----------------|-----------|--|----------------|-----------|----------|
| | Freehold land | Buildings on freehold land | Furniture, fixtures and office equipment | Computer equipment | Motor vehicles | Sub total | Furniture, fixtures and office equipment | Motor vehicles | Sub total | Total |
| As at 01 January 2011 | 115,600 | 84,589 | 22,395 | 14,157 | 87,952 | 324,693 | 2,258 | 6,051 | 8,309 | 333,002 |
| Cost / revalued amount | - | (14,909) | (11,919) | (6,662) | (49,119) | (82,609) | (868) | (2,474) | (3,342) | (85,951) |
| Accumulated depreciation | - | 69,680 | 10,476 | 7,495 | 38,833 | 242,084 | 1,390 | 3,577 | 4,967 | 247,051 |
| Net book value | 115,600 | 69,680 | 10,476 | 7,495 | 38,833 | 242,084 | 1,390 | 3,577 | 4,967 | 247,051 |
| Year ended 31 December 2011 | - | - | 566 | 499 | 2,647 | 3,712 | - | - | - | 3,712 |
| Opening net book value | 115,600 | 69,680 | 10,476 | 7,495 | 38,833 | 242,084 | 1,390 | 3,577 | 4,967 | 247,051 |
| Additions | - | - | - | - | - | - | - | - | - | - |
| Transferred from leased assets: | - | - | - | - | - | - | - | - | - | - |
| Cost | - | - | 2,258 | - | 2,571 | 4,829 | (2,258) | (2,571) | (4,829) | - |
| Accumulated depreciation | - | - | (943) | - | (1,268) | (2,211) | 943 | 1,268 | 2,211 | - |
| Net book value | - | - | - | - | 1,303 | 2,618 | (1,315) | (1,303) | (2,618) | - |
| Disposals: | - | - | - | - | - | - | - | - | - | - |
| Cost | - | - | (17) | - | (3,473) | (3,490) | - | - | - | (3,490) |
| Accumulated depreciation | - | - | 15 | - | 1,781 | 1,796 | - | - | - | 1,796 |
| Net book value | - | - | (2) | - | (1,692) | (1,694) | - | - | - | (1,694) |
| Written-off: | - | - | - | - | - | - | - | - | - | - |
| Cost | - | - | (199) | - | (2,476) | (2,675) | - | - | - | (2,675) |
| Accumulated depreciation | - | - | 130 | - | 1,709 | 1,839 | - | - | - | 1,839 |
| Net book value | - | - | (69) | - | (767) | (836) | - | - | - | (836) |
| Depreciation charge | - | (3,484) | (1,307) | (2,379) | (7,883) | (15,053) | (75) | (565) | (640) | (15,693) |
| Surplus on revaluation (Note 25.2) | 13,400 | 10,666 | (14,024) | (9,041) | (54,780) | (96,238) | - | - | - | (96,238) |
| Closing net book value | 129,000 | 76,862 | 10,979 | 5,615 | 32,441 | 254,897 | - | 1,709 | 1,709 | 256,606 |
| As at 31 December 2011 | 129,000 | 95,255 | 25,003 | 14,656 | 87,221 | 351,135 | - | 3,480 | 3,480 | 354,615 |
| Cost / revalued amount | - | (18,393) | (14,024) | (9,041) | (54,780) | (96,238) | - | (1,771) | (1,771) | (98,009) |
| Accumulated depreciation | - | 76,862 | 10,979 | 5,615 | 32,441 | 254,897 | - | 1,709 | 1,709 | 256,606 |
| Net book value | 129,000 | 76,862 | 10,979 | 5,615 | 32,441 | 254,897 | - | 1,709 | 1,709 | 256,606 |
| Year ended 31 December 2012 | - | - | 184 | 1,797 | 1,586 | 3,567 | - | - | - | 3,567 |
| Opening net book value | 129,000 | 76,862 | 10,979 | 5,615 | 32,441 | 254,897 | - | 1,709 | 1,709 | 256,606 |
| Additions | - | - | - | - | - | - | - | - | - | - |
| Disposals: | - | - | - | - | - | - | - | - | - | - |
| Cost | - | - | (2,073) | (2,221) | (29,107) | (33,401) | - | - | - | (33,401) |
| Accumulated depreciation | - | - | 1,363 | 1,811 | 19,809 | 22,983 | - | - | - | 22,983 |
| Net book value | - | - | (710) | (410) | (9,298) | (10,418) | - | - | - | (10,418) |
| Written-off: (Note 28) | - | - | - | - | - | - | - | - | - | - |
| Cost | - | - | (26) | (50) | - | (76) | - | - | - | (76) |
| Accumulated depreciation | - | - | 16 | 24 | - | 40 | - | - | - | 40 |
| Net book value | - | - | (10) | (26) | - | (36) | - | - | - | (36) |
| Depreciation charge | - | (3,743) | (1,199) | (1,937) | (5,510) | (12,389) | - | (342) | (342) | (12,731) |
| Impairment loss (Note 28) | - | - | - | - | - | - | - | - | - | (2,000) |
| Surplus on revaluation (Note 25.2) | 13,400 | 7,963 | - | - | - | 21,363 | - | - | - | 21,363 |
| Closing net book value | 142,400 | 79,082 | 9,244 | 5,039 | 19,219 | 254,984 | - | 1,367 | 1,367 | 256,351 |
| As at 31 December 2012 | 142,400 | 103,218 | 23,088 | 14,182 | 59,700 | 342,588 | - | 3,480 | 3,480 | 346,068 |
| Cost / revalued amount | - | (22,136) | (13,844) | (9,143) | (40,481) | (85,604) | - | (2,113) | (2,113) | (87,717) |
| Accumulated depreciation | - | 79,082 | 9,244 | 5,039 | 19,219 | 254,984 | - | 1,367 | 1,367 | 256,351 |
| Net book value | 142,400 | 79,082 | 9,244 | 5,039 | 19,219 | 254,984 | - | 1,367 | 1,367 | 256,351 |
| Annual rate of depreciation (%) | - | 5% | 10-30% | 30% | 20% | - | 15% | 20% | - | - |

25.2 Surplus on revaluation

Latest revaluation of land and buildings was carried out by Messers Sadruddin Associates (Private) Limited (PBA approved value) as on 31 December 2012. Had there been no revaluation, carrying values of land and buildings as on 31 December 2012 would have been lower by Rupees 133.243 million (2011: Rupees 119.843 million) and Rupees 50.016 million (2011: Rupees 44.161 million) respectively.



25.3 The depreciation charge for the year has been allocated as follows:

| | 2012 | 2011 |
|---|---------------|---------------|
| (RUPEES IN THOUSAND) | | |
| Expenses (Note 26) | 8,487 | 10,462 |
| General and administration expenses (Note 28) | 4,244 | 5,231 |
| | <u>12,731</u> | <u>15,693</u> |

25.4 The Company has applied for No Objection Certificates to lessor in respect of leases matured. These certificate are under process of issuance therefore, leased assets have not been transferred to owned assets.

25.5 Detail of operating fixed assets, having book value exceeding Rupees 50,000, disposed of during the year is as follows:

| DESCRIPTION | COST | ACCUMULATED DEPRECIATION | (RUPEES IN THOUSAND) | | | MODE OF DISPOSAL | PARTICULAR OF PURCHASES |
|--|---------------|--------------------------|----------------------|---------------|--------------|-------------------------|--|
| | | | NET BOOK VALUE | SALE PROCEEDS | GAIN/ (LOSS) | | |
| Motor vehicles | | | | | | | |
| Suzuki Mehran LXG-6675 | 239 | 114 | 125 | 237 | 112 | As per Company's policy | Mr. Shahbaz Hameed - Company's employee |
| Nissan Sunny LEC-8816 | 1,317 | 440 | 877 | 1,070 | 193 | Negotiation | Mr. Malik Waqar Safdar, Lahore |
| Nissan Sunny LWR-0479 | 1,126 | 809 | 317 | 640 | 323 | Negotiation | Mr. Muhammad Uman Butt, Lahore |
| Suzuki Mehran LRM-7172 | 346 | 276 | 70 | 250 | 180 | Negotiation | Mr. Mahmood Younas, Lahore |
| Suzuki Cultus STL-569 | 503 | 412 | 91 | 352 | 261 | Negotiation | Mr. Danyal Ahmed Khan, Lahore |
| Cuore LEC-239 | 532 | 325 | 207 | 532 | 325 | As per Company's policy | Mr. Hamid Hassan Rizwi - Company's ex-employee |
| Nissan Sunny LZU-96 | 1,409 | 1,098 | 311 | 525 | 214 | Negotiation | Mr. Muhammad Javed, Lahore |
| Suzuki Cultus ADZ-160 | 256 | 187 | 69 | 340 | 271 | Negotiation | Mr. Muhammad Saleem Shehzad, Lahore |
| Suzuki Mehran FSN-166 | 180 | 63 | 117 | 125 | 8 | Negotiation | Mr. Sagheer Ayub, Lahore |
| Nissan Sunny LEC-8805 | 1,101 | 377 | 724 | 800 | 76 | Negotiation | Mr. Muhammad Ibrahim Anjum, Multan |
| Suzuki Khyber STK-290 | 419 | 332 | 87 | 265 | 178 | Negotiation | Mr. Mirza Muhammad Amir, Lahore |
| Suzuki Mehran LB-702 | 183 | 66 | 117 | 200 | 83 | Negotiation | Mr. Mazhar Ul Hassan, Islamabad |
| Toyota Corolla GLI AWE-074 | 1,400 | 121 | 1,279 | 1,275 | (4) | Negotiation | Mr. Salman Noor Bukhari, Rawalpindi |
| Nissan Sunny LWR-0842 | 1,451 | 1,043 | 408 | 685 | 277 | Negotiation | Mr. Waqar Mustafa, Dera Ismail Khan |
| Suzuki Baleno LRX-1079 | 836 | 700 | 136 | 480 | 344 | Negotiation | Mr. Yousaf Shehzad, Lahore |
| Nissan Sunny IDM-4159 | 1,011 | 880 | 131 | 455 | 324 | Negotiation | Mr. Mohammad Arshad, Sargodha |
| Suzuki Cultus IDN-8115 | 387 | 278 | 109 | 479 | 370 | Negotiation | Mr. Muhammad Mubashir Javed, Sargodha |
| Nissan Sunny LWR-0640 | 1,461 | 1,060 | 401 | 759 | 358 | Negotiation | Mr. Abid Ahmed, Sargodha |
| Nissan Sunny LWR-0493 | 1,128 | 819 | 309 | 758 | 449 | Negotiation | Mr. Muhammad Naeem, Lahore |
| Toyota Corolla LEC-5367 | 1,058 | 376 | 682 | 1,135 | 453 | Negotiation | Mr. Qamar Zaman, Sheikhpura |
| Nissan Sunny LWR-0495 | 1,127 | 818 | 309 | 745 | 436 | Negotiation | Mr. Mazhar-Ul-Hassan, Islamabad |
| Nissan Sunny LWR-0178 | 1,166 | 846 | 320 | 650 | 330 | Negotiation | Mr. Jahanzeb Khan, Lahore |
| Suzuki Cultus FSH-5152 | 612 | 491 | 121 | 380 | 259 | Negotiation | Mr. Muhammad Nawaz, Nankana Sahib |
| Suzuki Mehran LW-2637 | 409 | 324 | 85 | 320 | 235 | Negotiation | Mr. Muhammad Adnan Masood, Bahawalpur |
| Nissan Sunny LWG-1183 | 1,188 | 915 | 273 | 755 | 482 | Negotiation | Mr. Muhammad Bashir Bhatti, Lahore |
| Nissan Sunny LZU-0034 | 1,379 | 1,102 | 277 | 820 | 543 | Negotiation | Mr. Saqib Bashir Cheema, Wazirabad |
| Nissan Sunny LWF-402 | 1,198 | 918 | 280 | 660 | 380 | Negotiation | Mrs. Aneela Rauf, Sadiqabad |
| Nissan Sunny LWR-0237 | 1,166 | 858 | 308 | 720 | 412 | Negotiation | Mr. Muhammad Ashraf, Sadiqabad |
| Suzuki Mehran MNA-3443 | 342 | 223 | 119 | 330 | 211 | Negotiation | Mr. Ateeq-Ur-Rehman, Sadiqabad |
| Nissan Sunny LZO-0034 | 1,165 | 934 | 231 | 750 | 519 | Negotiation | Mr. Aqeel Abbas - Company's ex-employee |
| Honda CD / 70 LER-11A-5635 | 66 | 12 | 54 | 66 | 12 | As per Company's policy | |
| | <u>26,161</u> | <u>17,217</u> | <u>8,944</u> | <u>17,558</u> | <u>8,614</u> | | |
| Aggregate of items with individual book value not exceeding Rupees 50,000: | | | | | | | |
| Furniture, fixtures and office equipment | 2,073 | 1,363 | 710 | 317 | (393) | | |
| Computer equipment | 2,221 | 1,811 | 410 | 64 | (346) | | |
| Motor vehicles | 2,946 | 2,592 | 354 | 1,536 | 1,182 | | |
| | <u>7,240</u> | <u>5,766</u> | <u>1,474</u> | <u>1,917</u> | <u>443</u> | | |
| | <u>33,401</u> | <u>22,983</u> | <u>10,418</u> | <u>19,475</u> | <u>9,057</u> | | |





| | 2012 | 2011 |
|---|----------------------|----------------|
| | (RUPEES IN THOUSAND) | |
| 26. EXPENSES | | |
| Salaries and other benefits (Note 26.1) | 49,271 | 68,501 |
| Rent, rates and taxes | 5,095 | 6,192 |
| Electricity charges | 1,634 | 2,140 |
| Insurance | 3,171 | 4,246 |
| Communication | 3,015 | 3,988 |
| Printing and stationery | 535 | 648 |
| Travelling and entertainment | 3,422 | 3,376 |
| Depreciation (Note 25.3) | 8,487 | 10,462 |
| Repairs and maintenance | 3,100 | 3,659 |
| Legal and professional | 58 | 890 |
| Advertisement | 15 | 41 |
| Provision for leave encashment | 1,396 | 2,447 |
| Others | 1,640 | 2,901 |
| Service charges | 1,409 | 852 |
| | <u>82,248</u> | <u>110,343</u> |
| 26.1 These include Rupees 2.462 million (2011: Rupees 2.606 million) in respect of employees' retirement benefit. | | |
| 26.2 The above expenses of management allocated to the underwriting business represent directly attributable expenses and indirect expenses allocated to the various classes of business on the basis of gross premium revenue. | | |
| 27. OTHER INCOME | 2012 | 2011 |
| | (RUPEES IN THOUSAND) | |
| Income from financial assets | | |
| Profit on term deposit receipts | 5,261 | 5,075 |
| Profit on bank accounts | 531 | 1,656 |
| Credit balances written-back | 949 | 1,091 |
| | <u>6,741</u> | <u>7,822</u> |
| Income from non-financial assets | | |
| Fronting fee | 1,510 | 1,048 |
| Gain on disposal of fixed assets | 9,057 | 624 |
| Miscellaneous | 454 | 439 |
| | <u>11,021</u> | <u>2,111</u> |
| | <u>17,762</u> | <u>9,933</u> |
| 28. GENERAL AND ADMINISTRATION EXPENSES | | |
| Salaries and other benefits (Note 28.1) | 41,469 | 64,743 |
| Rent, rates and taxes | 1,337 | 1,857 |
| Electricity charges | 1,431 | 1,356 |
| Insurance | 1,585 | 2,122 |
| Communication | 1,840 | 2,557 |
| Printing and stationery | 1,306 | 1,938 |
| Travelling and entertainment | 4,082 | 4,503 |
| Depreciation (Note 25.3) | 4,244 | 5,231 |
| Repairs and maintenance | 2,732 | 3,379 |
| Legal and professional | 2,899 | 2,579 |
| Provision for doubtful receivables (Note 28.2) | 22,635 | 19,593 |
| Provision for leave encashment | 1,895 | 3,486 |
| Fixed assets written off (Note 25.1) | 36 | 836 |
| Debit balances written off | 795 | - |
| Impairment loss on operating fixed assets (Note 25.1) | 2,000 | - |
| Advertisement | 654 | 1,846 |
| Auditors' remuneration (Note 28.3) | 507 | 477 |
| Others | 4,423 | 4,816 |
| | <u>95,870</u> | <u>121,319</u> |



28.1 These include Rupees 2.072 million (2011: Rupees 14.700 million) in respect of employees' retirement benefit.

2012 2011
(RUPEES IN THOUSAND)

28.2 Provision for doubtful receivables

| | | |
|--|---------------|---------------|
| Premiums due but unpaid (Note 18.2) | 19,916 | 16,889 |
| Amounts due from other insurers / reinsurers (Note 19.1) | 2,719 | 2,704 |
| | <u>22,635</u> | <u>19,593</u> |

28.3 Auditors' remuneration

| | | |
|---------------------------------|------------|------------|
| Statutory audit fee | 300 | 300 |
| Out of pocket expenses | 82 | 52 |
| Half yearly review | 100 | 100 |
| Certification and other charges | 25 | 25 |
| | <u>507</u> | <u>477</u> |

29. TAXATION

Current:

| | | |
|--------------|--------------|--------------|
| Current year | (105) | (81) |
| Prior years | (479) | 5,201 |
| | <u>(584)</u> | <u>5,120</u> |

Deferred

| | |
|--------------|---------------|
| - | 40,655 |
| <u>(584)</u> | <u>45,775</u> |

29.1 In view of taxable loss for the year, provision for current taxation represents tax charge against rental income under the Income Tax Ordinance, 2001. The Company has carried forwardable tax losses of Rupees 178.554 million (2011: Rupees 116.414 million). Numerical reconciliation between average tax rate and applicable tax rate has not been presented being impracticable.

30. LOSS PER SHARE - BASIC AND DILUTED

2012 2011
(RUPEES IN THOUSAND)

There is no dilutive effect on basic loss per share which is based on:

| | | |
|---|-----------------|-----------------|
| Loss after taxation attributable to ordinary shareholders | <u>(66,256)</u> | <u>(64,808)</u> |
|---|-----------------|-----------------|

NUMBER OF SHARES

| | | |
|--|-------------------|-------------------|
| Weighted average number of ordinary shares outstanding during the year | <u>30,000,000</u> | <u>15,446,149</u> |
|--|-------------------|-------------------|

RUPEES

| | | |
|------------------------------------|---------------|---------------|
| Loss per share - basic and diluted | <u>(2.21)</u> | <u>(4.20)</u> |
|------------------------------------|---------------|---------------|



31. REMUNERATION OF CHIEF EXECUTIVE, PRINCIPAL OFFICER AND EXECUTIVES

The aggregate amount charged in these financial statements for remuneration including all benefits to the chief executive, ex-managing director, principal officer and executives of the Company is as follows:

| | 2012 | | | |
|-------------------------|----------------------------------|-----------------------------|----------------------|------------|
| | CHIEF EXECUTIVE | EX- MANAGING DIRECTOR | PRINCIPAL OFFICER | EXECUTIVES |
| | ----- (RUPEES IN THOUSAND) ----- | | | |
| Managerial remuneration | 840 | - | 1,740 | 11,700 |
| House rent | 360 | - | 785 | 4,570 |
| Utilities | 1,767 | - | 180 | 976 |
| Medical allowance | 119 | - | - | - |
| | 3,086 | - | 2,705 | 17,246 |
| Number of persons | 1 | - | 1 | 13 |

| | 2011 | | |
|-----------------------------|----------------------------------|---|------------|
| | CHIEF EXECUTIVE | EX-MANAGING DIRECTOR & PRINCIPAL OFFICER | EXECUTIVES |
| | ----- (RUPEES IN THOUSAND) ----- | | |
| Managerial remuneration | 840 | 4,080 | 15,764 |
| House rent | 360 | 684 | 6,210 |
| Provident fund contribution | - | 102 | 223 |
| Utilities | 275 | 117 | 1,385 |
| Medical allowance | 136 | 86 | - |
| | 1,611 | 5,069 | 23,582 |
| Number of persons | 1 | 1 | 17 |

31.1 Chief executive, principal officer and executives are also provided with the free use of the Company's maintained cars and residential telephones.

31.2 Aggregate amount charged in the financial statements for meeting fee to all directors was Rupees 0.440 million (2011: Rupees 0.500 million).



32. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise holding company, associated companies, other related parties and key management personnel. The Company in the normal course of business carries out transactions with various related parties. Detail of period end balances and transactions with related parties, other than those which have been specifically disclosed elsewhere in these financial statements are as follows:

| | 2012 | 2011 |
|--|----------------------|--------|
| | (RUPEES IN THOUSAND) | |
| HOLDING COMPANY | | |
| Period end balances | | |
| Provision for outstanding claims | 44 | 118 |
| Commission payable | 5,904 | - |
| Rent receivable | 1,820 | 864 |
| Transactions during the year | | |
| Premiums underwritten | 654 | 949 |
| Premiums received | 654 | 1,277 |
| Amount paid | 12,600 | - |
| Claims paid | 90 | - |
| Shares issued | - | 37,500 |
| Commission paid | - | 12,611 |
| Rental income | 1,388 | 1,152 |
| Rent received | 432 | 1,728 |
| ASSOCIATED COMPANIES | | |
| Period end balances | | |
| Provision for outstanding claims | 14,517 | 10,391 |
| Premiums due but unpaid | 22,267 | 25,704 |
| Transactions during the year | | |
| Premiums underwritten | 36,537 | 72,200 |
| Premiums received / adjusted | 39,974 | 82,908 |
| Claims paid | 5,854 | 13,808 |
| Dividend received | 21 | 36 |
| Other related parties | | |
| Company's contribution to provident fund trust | | 1,142 |

33. SEGMENT REPORTING

The Company has following four primary segments:

- Fire and property damage insurance provides coverage against damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation and other related perils.
- Marine and transport insurance provide coverage against cargo risk, war risk, damages occurring in inland transit and other related perils.
- Motor insurance provides comprehensive car coverage. indemnity against third party loss and other related coverages.
- Others insurance provides coverage against burglary, loss of cash in safe and cash in transit, engineering losses and other coverages.

| | FIRE AND PROPERTY DAMAGE | | MARINE AND TRANSPORT | | MOTOR ACCIDENT | | OTHERS | | TOTAL | |
|---|--------------------------|---------|----------------------|--------|----------------|---------|--------|----------|----------|-----------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| (RUPEES IN THOUSAND) | | | | | | | | | | |
| Revenue | | | | | | | | | | |
| Gross premium earned | 125,955 | 177,908 | 62,571 | 83,008 | 122,150 | 165,941 | 39,501 | 56,694 | 350,177 | 483,551 |
| Segment results | 3,558 | (3,631) | 7,291 | 9,439 | (12,438) | 3,161 | 3,028 | (10,992) | 1,439 | (2,023) |
| Investment income | | | | | | | | | | |
| Rental income | | | | | | | | | 6,817 | 6,180 |
| Other income | | | | | | | | | 1,400 | 1,164 |
| General and administration expenses | | | | | | | | | 17,762 | 9,933 |
| Financial charges | | | | | | | | | (95,870) | (121,319) |
| Share of profit / (loss) from associates - net of tax | | | | | | | | | (450) | (348) |
| | | | | | | | | | 3,230 | (4,170) |
| Loss before taxation | | | | | | | | | (67,111) | (108,560) |
| Taxation | | | | | | | | | (65,672) | (110,583) |
| Loss after taxation | | | | | | | | | (584) | 45,775 |
| | | | | | | | | | (66,256) | (64,808) |
| Other information | | | | | | | | | | |
| Segment assets | 202,052 | 249,421 | 64,609 | 76,183 | 100,880 | 118,130 | 38,704 | 49,693 | 406,245 | 493,427 |
| Unallocated assets | | | | | | | | | 506,589 | 575,745 |
| Total assets | | | | | | | | | 912,834 | 1,069,172 |
| Segment liabilities | 174,256 | 234,675 | 51,596 | 70,278 | 145,596 | 161,348 | 48,959 | 60,684 | 420,407 | 526,985 |
| Unallocated liabilities | | | | | | | | | 101,605 | 103,878 |
| Total liabilities | | | | | | | | | 522,012 | 630,863 |





34. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest / mark-up rate risk, price risk and currency risk). The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is also responsible for developing the Company's risk management policies.

The individual risk wise analysis is given below:

34.1 Credit risk and concentration of credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counterparties in various sectors and by continually assessing the credit worthiness of counterparties.

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result any change in economic, political or other conditions would affect their ability to meet contractual obligations in similar manner. The Company's credit risk exposure is not significantly different from that reflected in these financial statements. The management monitors and limits the Company's exposure and makes 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 its financial assets are adequately diversified in entities of sound financial standing, covering various industrial sectors.

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

| | 2012 | 2011 |
|---|----------------------|----------------|
| | (RUPEES IN THOUSAND) | |
| Current and other accounts | 21,688 | 89,619 |
| Deposits maturing within 12 months | 40,155 | 40,000 |
| Investments | 39,787 | 43,246 |
| Premiums due but unpaid | 93,948 | 114,512 |
| Amounts due from other insurers / reinsurers | 119,405 | 128,443 |
| Salvage recoveries accrued | 1,050 | 2,500 |
| Accrued investment income | 2,494 | 530 |
| Reinsurance recoveries against outstanding claims | 148,759 | 177,750 |
| Loans to employees | 926 | 1,096 |
| Sundry receivables | 8,162 | 7,832 |
| | <u>476,374</u> | <u>605,528</u> |

Provision is made for doubtful receivables according to the Company's policy. The impairment provision is written off when the Company expects that it cannot recover the balance due. During the year receivables of Rupees 22.635 million were further impaired and provided for. The provision for doubtful debts is shown in the respective notes of these financial statements.



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

2012 2011
(RUPEES IN THOUSAND)

| | | |
|------------------------------------|---------------|----------------|
| Upto one year | 34,991 | 82,402 |
| Past one but less than three years | 58,957 | 32,110 |
| | <u>93,948</u> | <u>114,512</u> |

The credit quality of the Company's bank balances can be assessed with reference to external credit ratings as follows:

| | SHORT TERM | LONG TERM | RATING AGENCY | 2012 (RUPEES IN THOUSAND) | 2011 (RUPEES IN THOUSAND) |
|---------------------------|------------|-----------|---------------|------------------------------|------------------------------|
| Bank AL Habib Limited | A-1+ | AA+ | PACRA | 12,435 | 4,617 |
| Habib Bank Limited | A-1+ | AA+ | JCR-VIS | 8,252 | 82,370 |
| National Bank of Pakistan | A-1+ | AAA | JCR-VIS | 942 | 2,566 |
| United Bank Limited | A-1+ | AA+ | JCR-VIS | 59 | 66 |
| | | | | <u>21,688</u> | <u>89,619</u> |

Term deposit receipts

| | | | | | |
|---------------------------------|------|------|-------|---------------|---------------|
| Habib Bank Limited | A-1+ | AA | PACRA | 40,000 | - |
| Trust Investment Bank Limited | A3 | BBB- | PACRA | 155 | - |
| Habib Metropolitan Bank Limited | A-1+ | AA+ | PACRA | - | 40,000 |
| | | | | <u>40,155</u> | <u>40,000</u> |

The credit quality of amount due from other insurers / reinsurers can be assessed with reference to external credit ratings as follows:

| | Amounts due from other insurers / reinsurers | Reinsurance recoveries against outstanding claims | 2012 | 2011 |
|-----------------------------|--|---|----------------------|----------------|
| | | | (RUPEES IN THOUSAND) | |
| A or above (including PRCL) | 107,315 | 144,507 | 251,822 | 299,195 |
| BBB | 12,090 | 4,252 | 16,342 | 6,998 |
| Others | - | - | - | - |
| Total | <u>119,405</u> | <u>148,759</u> | <u>268,164</u> | <u>306,193</u> |

34.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Liquidity requirements are monitored regularly and the management ensures that sufficient liquid funds are available.



The following are the contractual maturities of financial liabilities, including estimated interest payments on an undiscounted cash flow basis:

| 2012 | | | |
|-----------------|-----------------------|---------------|--------------------|
| Carrying amount | Contractual cash flow | Upto one year | More than one year |

----- (RUPEES IN THOUSAND) -----

Financial liabilities

| | | | | |
|---|---------|---------|---------|---|
| Provision for outstanding claims (including IBNR) | 296,614 | 296,614 | 296,614 | - |
| Amounts due to other insurers / reinsurers | 30,977 | 30,977 | 30,977 | - |
| Accrued expenses | 34,050 | 34,050 | 34,050 | - |
| Other creditors and accruals | 22,476 | 22,476 | 22,476 | - |
| Deposits against performance bonds | 2,826 | 2,826 | 2,826 | - |
| Unclaimed dividends | 610 | 610 | 610 | - |
| | 387,553 | 387,553 | 387,553 | - |

| 2011 | | | |
|-----------------|-----------------------|---------------|--------------------|
| Carrying amount | Contractual cash flow | Upto one year | More than one year |

----- (RUPEES IN THOUSAND) -----

Financial liabilities

| | | | | |
|---|---------|---------|---------|---|
| Provision for outstanding claims (including IBNR) | 319,304 | 319,304 | 319,304 | - |
| Amounts due to other insurers / reinsurers | 56,462 | 56,462 | 56,462 | - |
| Accrued expenses | 26,898 | 26,898 | 26,898 | - |
| Other creditors and accruals | 18,459 | 18,459 | 18,459 | - |
| Liabilities against assets subject to finance lease | 628 | 656 | 656 | - |
| Deposits against performance bonds | 2,946 | 2,946 | 2,946 | - |
| Unclaimed dividends | 610 | 610 | 610 | - |
| | 425,307 | 425,335 | 425,335 | - |

34.3 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 optimizing the return. The market risks associated with the Company's business activities are interest / mark-up rate risk, price risk and currency risk.



a) Interest / mark-up rate risk

Interest / mark-up rate risk is the risk that the value of a financial instrument or future cash flows of a financial instrument will fluctuate due to changes in the market interest / mark-up rates. Sensitivity to interest / mark-up rate risk arises from mismatching of financial assets and liabilities that mature or repaid in a given period. The Company manages this mismatchment through risk management strategies where significant changes in gap position can be adjusted. At the reporting date, the interest / mark-up rate profile of the Company's significant interest / mark-up bearing financial instruments was as follows:

| 2012 | 2011 | 2012 | 2011 |
|-------------------------|------|----------------------|------|
| Effective interest rate | | (RUPEES IN THOUSAND) | |
| Percentage | | | |

Fixed rate financial instruments

Financial assets

| | | | | |
|-----------------------|---------------|-----------|--------|--------|
| Investments - PIBs | 8% to 12% | 8% to 12% | 34,967 | 34,145 |
| Term deposit receipts | 10% to 11.20% | 11.80% | 40,155 | 40,000 |

Floating rate financial instruments

Financial assets

| | | | | |
|---------------|----------|------------|-------|--------|
| Bank deposits | 6% to 7% | 5% to 8.5% | 7,710 | 29,058 |
|---------------|----------|------------|-------|--------|

Financial liabilities

| | | | | |
|---|---|--------|---|-----|
| Liabilities against assets subject to finance lease | - | 16.93% | - | 628 |
|---|---|--------|---|-----|

Sensitivity analysis

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 will not effect fair value of any financial instrument. For cash flow sensitivity analysis of variable rate instruments, a hypothetical change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all variables remain constant.

(RUPEES IN THOUSAND)

2012

| | | |
|---|----|------|
| Cash flow sensitivity-variable rate financial liabilities | - | - |
| Cash flow sensitivity-variable rate financial assets | 77 | (77) |
| Decrease / (increase) in loss for the year | 77 | (77) |



(RUPEES IN THOUSAND)

2011

| | | |
|---|-----|-------|
| Cash flow sensitivity-variable rate financial liabilities | (6) | 6 |
| Cash flow sensitivity-variable rate financial assets | 291 | (291) |
| Decrease / (increase) in loss for the year | 285 | (285) |

b) Price risk

Price risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest / mark-up rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instrument traded in the market. The Company is not exposed to commodity price risk. The Company is exposed to equity price risk that arises as a result of changes in the levels of KSE-Index and the value of individual shares.

The available for sale investments are stated at lower of cost or market value (market value being taken as lower if the fall is other than temporary) in accordance with the requirements of SEC (Insurance) Rules, 2002. The carrying and market value of these investments has been disclosed in the note 16.3 to the financial statements. Fair value is determined on the basis of objective evidence at each reporting date.

As the Company is only exposed to price risk for investments classified in the available for sale and at fair value through profit or loss category, a 10% increase / decrease in share prices at year end would have decreased / increased loss for the year as follows:

| Impact on loss before tax | Impact on equity |
|---------------------------------|---------------------|
|---------------------------------|---------------------|

(RUPEES IN THOUSAND)

2012

| | | |
|---|-----|-----|
| Effect of increase in share price - Decrease in loss and increase in equity | 416 | 416 |
| Effect of decrease in share price - Increase in loss and decrease in equity | 416 | 416 |

2011

| | | |
|---|-----|-----|
| Effect of increase in share price - Decrease in loss and increase in equity | 860 | 860 |
| Effect of decrease in share price - Increase in loss and decrease in equity | 867 | 867 |

c) Currency risk

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



34.4 Financial instruments by categories

| Held to maturity | | Available for sale | | At fair value through profit or loss | | Loans and receivables | | Total | |
|------------------|------|--------------------|------|--------------------------------------|------|-----------------------|------|-------|------|
| 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |

----- (RUPEES IN THOUSAND) -----

Financial assets as per balance sheet

| | | | | | | | | | | |
|---|---------------|---------------|------------|------------|--------------|--------------|----------------|----------------|----------------|----------------|
| Current and other accounts | - | - | - | - | - | - | 21,688 | 89,619 | 21,688 | 89,619 |
| Deposits maturing within 12 months | - | - | - | - | - | - | 40,155 | 40,000 | 40,155 | 40,000 |
| Investments | 34,967 | 34,145 | 752 | 835 | 4,068 | 8,266 | - | - | 39,787 | 43,246 |
| Premiums due but unpaid | - | - | - | - | - | - | 93,948 | 114,512 | 93,948 | 114,512 |
| Amounts due from other insurers / reinsurers | - | - | - | - | - | - | 119,405 | 128,443 | 119,405 | 128,443 |
| Salvage recoveries accrued | - | - | - | - | - | - | 1,050 | 2,500 | 1,050 | 2,500 |
| Accrued investment income | - | - | - | - | - | - | 2,494 | 530 | 2,494 | 530 |
| Reinsurance recoveries against outstanding claims | - | - | - | - | - | - | 148,759 | 177,750 | 148,759 | 177,750 |
| Loans to employees | - | - | - | - | - | - | 926 | 1,096 | 926 | 1,096 |
| Sundry receivables | - | - | - | - | - | - | 8,162 | 7,832 | 8,162 | 7,832 |
| | <u>34,967</u> | <u>34,145</u> | <u>752</u> | <u>835</u> | <u>4,068</u> | <u>8,266</u> | <u>436,587</u> | <u>562,282</u> | <u>476,374</u> | <u>605,528</u> |

Other financial liabilities

2012 2011
(RUPEES IN THOUSAND)

Financial liabilities as per balance sheet

| | | |
|---|----------------|----------------|
| Provision for outstanding claims (including IBNR) | 296,614 | 319,304 |
| Amounts due to other insurers / reinsurers | 30,977 | 56,462 |
| Accrued expenses | 34,050 | 26,898 |
| Other creditors and accruals | 22,476 | 18,459 |
| Liabilities against assets subject to finance lease | - | 628 |
| Deposits against performance bonds | 2,826 | 2,946 |
| Unclaimed dividends | 610 | 610 |
| | <u>387,553</u> | <u>425,307</u> |

35. INSURANCE RISK

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims and similar procedures are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.



Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. Reinsurance policies are written with approved reinsurers on either a proportionate basis or non-proportionate basis. The reinsurers, carefully selected and approved, or dispersed over several geographical regions.

Experience shows that larger is the portfolio of similar insurance contracts, smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company principally issues the general insurance contracts e.g. marine and transport, fire and property, motor and others. Risks under non-life insurance policies usually cover twelve month duration. For general insurance contracts, the most significant risks arise from accidental fire, atmospheric disaster and terrorist activities. Insurance contracts at times also cover risk for single incidents that expose the Company to multiple insurance risks.

a) Concentration of insurance risk

To optimize benefits from the principle of average and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location, the most important of which is risk survey.

Risk surveys are carried out on a regular basis for the evaluation of physical hazards associated primarily with the commercial / industrial occupation of the insured. Details regarding the fire separation / segregation with respect to the manufacturing processes, storage, utilities, etc. are extracted from the layout plan of the insured facility. Such details are formed part of the reports which are made available to the underwriters / reinsurers for their evaluation. Reference is made to the standard construction specifications laid down by IAP (Insurance Association of Pakistan). For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

A risk management solution is implemented to help assess and plan for risk in catastrophic scenarios. It provides a way to better visualize the risk exposure to the Company determines the appropriate amount of reinsurance coverage to protect the business portfolio.

b) Reinsurance risk

As per general practice of the insurance industry, in order to minimize financial exposure arising from large claims, the Company, in the normal course of business, enters into agreements with other companies for reinsurance purposes. Such reinsurance arrangements provide for greater diversification of business, allow management to control exposure to potential losses arising from sizeable risk, and provide additional underwriting capacity which also constitutes towards the growth of premium. A significant portion of the reinsurance is affected under treaty, facultative and also under excess of loss reinsurance contracts to protect the Company's exposure towards catastrophic losses.

To minimize its exposure to any possible losses from reinsurers' insolvencies, the Company evaluates the financial condition of the reinsurers, their rating and monitors concentrations of credit risk arising from the respective geographic regions, activities or economic characteristics of the reinsurers.

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



The concentration of risk by type of contracts is summarized below by reference to liabilities:

| | Gross sum insured | | Reinsurance | | Net | |
|----------------------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| ----- (RUPEES IN THOUSAND) ----- | | | | | | |
| Fire | 59,302,634 | 70,796,859.0 | 33,209,475 | 41,062,178 | 26,093,159 | 29,734,681 |
| Marine | 57,818,731 | 91,120,128.0 | 28,909,366 | 45,560,064 | 28,909,365 | 45,560,064 |
| Motor | 7,596,404 | 13,583,591.0 | 1,671,209 | 2,037,539 | 5,925,195 | 11,546,052 |
| Others | 1,994,105 | 3,695,164.0 | 777,701 | 1,034,646 | 1,216,404 | 2,660,518 |
| | <u>126,711,874</u> | <u>179,195,742</u> | <u>64,567,751</u> | <u>89,694,427</u> | <u>62,144,123</u> | <u>89,501,315</u> |

c) Neutral assumptions for claims estimation

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available .

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the reinsurance recoveries.

The estimation process takes into account the past claims reporting pattern and details of reinsurance programs. The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and premium deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of balance sheet date. The expected future liability except for Accident and Health insurance business is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable. Provision for premium deficiency pertaining to Accident and Health insurance business included in Other category is determined on actuary's advice.

d) Sensitivity analysis

The risks associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company considers that the liability for insurance claims recognized in the balance sheet is adequate. However, actual experience may differ from the expected outcome.

As the Company enters into short term insurance contracts, it does not assume any significant impact of changes in market conditions on unexpired risks. However, some results of sensitivity testing are set out below, showing the impact on loss before tax, net of reinsurance:

| | Net impact of increase / decrease in average claim by | | | |
|----------------------------------|---|---------------|----------------------|--------------|
| | 10 % on | | | |
| | Underwriting result | | Shareholders' equity | |
| | 2012 | 2011 | 2012 | 2011 |
| ----- (RUPEES IN THOUSAND) ----- | | | | |
| Fire | 1,011 | 1,678 | 657 | 1,091 |
| Marine | 821 | 1,094 | 534 | 711 |
| Motor | 6,948 | 8,276 | 4,516 | 5,379 |
| Others | 1,382 | 3,292 | 898 | 2,140 |
| | <u>10,162</u> | <u>14,340</u> | <u>6,605</u> | <u>9,321</u> |



36. MATURITY ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES

| 2012 | | | | | | |
|----------------------------|-------------------------|-----------|--------------------------------|-------------------------|-----------|-------|
| Interest / mark-up bearing | | | Non interest / mark-up bearing | | | Total |
| Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |

----- (RUPEES IN THOUSAND) -----

Financial assets on balance sheet

| | | | | | | | |
|---|--------|--------|--------|---------|---|---------|---------|
| Current and other accounts | 7,710 | - | 7,710 | 13,978 | - | 13,978 | 21,688 |
| Deposits maturing within 12 months | 40,155 | - | 40,155 | - | - | - | 40,155 |
| Investments | 14,762 | 20,205 | 34,967 | 4,820 | - | 4,820 | 39,787 |
| Premiums due but unpaid | - | - | - | 93,948 | - | 93,948 | 93,948 |
| Amounts due from other insurers / reinsurers | - | - | - | 119,405 | - | 119,405 | 119,405 |
| Salvage recoveries accrued | - | - | - | 1,050 | - | 1,050 | 1,050 |
| Accrued investment income | - | - | - | 2,494 | - | 2,494 | 2,494 |
| Reinsurance recoveries against outstanding claims | - | - | - | 148,759 | - | 148,759 | 148,759 |
| Loans to employees | - | - | - | 926 | - | 926 | 926 |
| Sundry receivables | - | - | - | 8,162 | - | 8,162 | 8,162 |
| | 62,627 | 20,205 | 82,832 | 393,542 | - | 393,542 | 476,374 |

Off balance sheet

| | | | | | | | |
|-------|--------|--------|--------|---------|---|---------|---------|
| | - | - | - | - | - | - | - |
| Total | 62,627 | 20,205 | 82,832 | 393,542 | - | 393,542 | 476,374 |

Financial liabilities on balance sheet

| | | | | | | | |
|--|---|---|---|----------|---|----------|----------|
| Insurance contract - short term | - | - | - | 81,272 | - | 81,272 | 81,272 |
| Reinsurance assets held to cover insurance contracts | - | - | - | (30,434) | - | (30,434) | (30,434) |
| | - | - | - | 50,838 | - | 50,838 | 50,838 |
| Provision for outstanding claims (including IBNR) | - | - | - | 296,614 | - | 296,614 | 296,614 |
| Amounts due to other insurers / reinsurers | - | - | - | 30,977 | - | 30,977 | 30,977 |
| Accrued expenses | - | - | - | 34,050 | - | 34,050 | 34,050 |
| Other creditors and accruals | - | - | - | 22,476 | - | 22,476 | 22,476 |
| Deposits against performance bonds | - | - | - | 2,826 | - | 2,826 | 2,826 |
| Unclaimed dividends | - | - | - | 610 | - | 610 | 610 |
| | - | - | - | 438,391 | - | 438,391 | 438,391 |

Off balance sheet

| | | | | | | | |
|-------|---|---|---|---------|---|---------|---------|
| | - | - | - | - | - | - | - |
| Total | - | - | - | 438,391 | - | 438,391 | 438,391 |

| | | | | | | | |
|-----------------------|--------|--------|--------|----------|---|----------|--------|
| On balance sheet gap | 62,627 | 20,205 | 82,832 | (44,849) | - | (44,849) | 37,983 |
| Off balance sheet gap | - | - | - | - | - | - | - |



| 2011 | | | | | | |
|----------------------------|-------------------------|-----------|--------------------------------|-------------------------|-----------|-------|
| Interest / mark-up bearing | | | Non interest / mark-up bearing | | | Total |
| Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |

----- (RUPEES IN THOUSAND) -----

Financial assets on balance sheet

| | | | | | | | |
|---|--------|--------|---------|---------|---|---------|---------|
| Current and other accounts | 29,058 | - | 29,058 | 60,561 | - | 60,561 | 89,619 |
| Deposits maturing within 12 months | 40,000 | - | 40,000 | - | - | - | 40,000 |
| Investments | - | 34,145 | 34,145 | 9,101 | - | 9,101 | 43,246 |
| Premiums due but unpaid | - | - | - | 114,512 | - | 114,512 | 114,512 |
| Amounts due from other insurers / reinsurers | - | - | - | 128,443 | - | 128,443 | 128,443 |
| Salvage recoveries accrued | - | - | - | 2,500 | - | 2,500 | 2,500 |
| Accrued investment income | - | - | - | 530 | - | 530 | 530 |
| Reinsurance recoveries against outstanding claims | - | - | - | 177,750 | - | 177,750 | 177,750 |
| Loans to employees | - | - | - | 1,096 | - | 1,096 | 1,096 |
| Sundry receivables | - | - | - | 7,832 | - | 7,832 | 7,832 |
| | 69,058 | 34,145 | 103,203 | 502,325 | - | 502,325 | 605,528 |

Off balance sheet

| | | | | | | | |
|-------|--------|--------|---------|---------|---|---------|---------|
| | - | - | - | - | - | - | - |
| Total | 69,058 | 34,145 | 103,203 | 502,325 | - | 502,325 | 605,528 |

Financial liabilities on balance sheet

| | | | | | | | |
|--|-----|---|-----|----------|---|----------|----------|
| Insurance contract - short term | - | - | - | 136,314 | - | 136,314 | 136,314 |
| Reinsurance assets held to cover insurance contracts | - | - | - | (46,980) | - | (46,980) | (46,980) |
| | - | - | - | 89,334 | - | 89,334 | 89,334 |
| Provision for outstanding claims (including IBNR) | - | - | - | 319,304 | - | 319,304 | 319,304 |
| Amounts due to other insurers / reinsurers | - | - | - | 56,462 | - | 56,462 | 56,462 |
| Accrued expenses | - | - | - | 26,898 | - | 26,898 | 26,898 |
| Other creditors and accruals | - | - | - | 18,459 | - | 18,459 | 18,459 |
| Liabilities against assets subject to finance lease | 628 | - | 628 | - | - | - | 628 |
| Deposits against performance bonds | - | - | - | 2,946 | - | 2,946 | 2,946 |
| Unclaimed dividends | - | - | - | 610 | - | 610 | 610 |
| | 628 | - | 628 | 514,013 | - | 514,013 | 514,641 |

Off balance sheet

| | | | | | | | |
|-------|-----|---|-----|---------|---|---------|---------|
| | - | - | - | - | - | - | - |
| Total | 628 | - | 628 | 514,013 | - | 514,013 | 514,641 |

| | | | | | | | |
|----------------------|--------|--------|---------|----------|---|----------|--------|
| On balance sheet gap | 68,430 | 34,145 | 102,575 | (11,688) | - | (11,688) | 90,887 |
|----------------------|--------|--------|---------|----------|---|----------|--------|

| | | | | | | | |
|-----------------------|---|---|---|---|---|---|---|
| Off balance sheet gap | - | - | - | - | - | - | - |
|-----------------------|---|---|---|---|---|---|---|



37. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in these financial statements approximate to their fair values except for available for sale investments which are stated at lower of cost and market value in accordance with the requirements of the SEC (Insurance) Rules, 2002. The carrying and fair value of these investments have been disclosed in note 16.3 to these financial statements. Fair value is determined on the basis of objective evidence at each reporting date.

38. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and to maintain an optimum capital structure to reduce the cost of capital.

The Company's objectives when managing capital are :

- (i) To be in compliance with the paid-up capital requirement set by the SECP.
- (ii) To safe guard the entity's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to stakeholders.
- (iii) To provide an adequate return to shareholders.

The Company manages the capital structure in context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debts.

39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on April 04, 2013 by the Board of Directors of the Company.

40. GENERAL

Figures have been rounded-off to the nearest thousand Rupees unless otherwise stated.

41. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purpose of comparison.

| | | | | |
|---|---|--|--|---|
|  Raza Kuli Khan Khattak CHAIRMAN |  Begum Zeb Gohar Ayub Khan CHIEF EXECUTIVE |  Mushtaq Ahmed Khan F.C.A. DIRECTOR |  Ahmed Kuli Khan Khattak DIRECTOR |  Muhammad Rafiq Chaudhry PRINCIPAL OFFICER |
|---|---|--|--|---|



PATTERN OF SHAREHOLDING AS ON 31 DECEMBER 2012

| Number of ShareHolders | Shareholdings | | Total Number of Share Held | Percentage of Total Capital |
|------------------------|---------------|----------|----------------------------|-----------------------------|
| | From | To | | |
| 251 | 1 - | 100 | 6,264 | 0.02 |
| 167 | 101 - | 500 | 48,815 | 0.16 |
| 123 | 501 - | 1000 | 93,728 | 0.31 |
| 324 | 1001 - | 5000 | 816,031 | 2.72 |
| 62 | 5001 - | 10000 | 444,399 | 1.48 |
| 33 | 10001 - | 15000 | 392,448 | 1.31 |
| 13 | 15001 - | 20000 | 228,985 | 0.76 |
| 5 | 20001 - | 25000 | 111,158 | 0.37 |
| 3 | 25001 - | 30000 | 80,767 | 0.27 |
| 4 | 30001 - | 35000 | 132,699 | 0.44 |
| 2 | 35001 - | 40000 | 74,627 | 0.25 |
| 4 | 40001 - | 45000 | 167,704 | 0.56 |
| 1 | 45001 - | 50000 | 50,000 | 0.17 |
| 1 | 65001 - | 70000 | 65,625 | 0.22 |
| 2 | 70001 - | 75000 | 141,320 | 0.47 |
| 1 | 75001 - | 80000 | 77,472 | 0.26 |
| 1 | 80001 - | 85000 | 80,193 | 0.27 |
| 1 | 85001 - | 90000 | 85,625 | 0.29 |
| 1 | 90001 - | 95000 | 94,750 | 0.32 |
| 2 | 95001 - | 100000 | 191,705 | 0.64 |
| 1 | 100001 - | 105000 | 104,842 | 0.35 |
| 2 | 105001 - | 110000 | 216,534 | 0.72 |
| 2 | 120001 - | 125000 | 245,285 | 0.82 |
| 1 | 145001 - | 150000 | 146,851 | 0.49 |
| 1 | 155001 - | 160000 | 158,136 | 0.53 |
| 1 | 180001 - | 185000 | 182,220 | 0.61 |
| 1 | 225001 - | 230000 | 229,920 | 0.77 |
| 1 | 245001 - | 250000 | 247,928 | 0.83 |
| 1 | 415001 - | 420000 | 415,237 | 1.38 |
| 1 | 510001 - | 515000 | 510,406 | 1.70 |
| 1 | 24155001 - | 24160000 | 24,158,326 | 80.53 |
| 1,014 | | | 30,000,000 | 100.00 |

CATEGORIES OF SHAREHOLDERS AS AT 31 DECEMBER 2012

| Sr. # | Categories | No. of Shareholders | Shares Held | %age of Capital |
|---------------|---|---------------------|-------------------|-----------------|
| 1 | Executives | 3 | 192,923 | 0.6431 |
| 2 | Directors, Chief Executive Officer, and their spouse and minor children | 8 | 1,276,347 | 4.2545 |
| 3 | Associated Companies, Undertakings and Related Parties | 1 | 24,158,326 | 80.5278 |
| 4 | NIT and ICP | 1 | 1,363 | 0.0045 |
| 5 | Banks, Development Financial Institutions, Non Banking Financial Institutions | 13 | 333,368 | 1.1112 |
| 6 | Insurance Companies | 2 | 55,558 | 0.1852 |
| 7 | General Public (Local) | 982 | 3,924,448 | 13.0815 |
| 8 | Others | 4 | 57,667 | 0.1922 |
| TOTAL: | | 1,014 | 30,000,000 | 100.0000 |



**DETAILED CATEGORIES OF SHAREHOLDERS
AS ON DECEMBER 31ST, 2012**

| Sr. # | Name | Shares Held | %age of Capital |
|--|---|-------------------|-----------------|
| Executives | | | |
| 1 | Fazal-ur-Rehman Malik | 65,625 | 0.2188 |
| 2 | Ghulam Qamber Naqvi | 41,673 | 0.1389 |
| 3 | Muhammad Rafiq Chaudhry | 85,625 | 0.2854 |
| Running Total: | | 192,923 | 0.6431 |
| Directors, Chief Executive Officer, and their spouse and minor children | | | |
| 1 | Raza Kuli Khan Khattak | 510,406 | 1.7014 |
| 2 | Lt.Gen. Ali Kuli Khan Khattak | 247,928 | 0.8264 |
| 3 | Mr.Ahmed Kuli Khan Khattak | 229,920 | 0.7664 |
| 4 | Mrs. Zeb Gohar Ayub Khan | 123,962 | 0.4132 |
| 5 | Dr. Shaheen Kuli Khan Khattak | 77,472 | 0.2582 |
| 6 | Ms. Shahnaz Sajjad Ahmed | 77,472 | 0.2582 |
| 7 | Mushtaq Ahmed Khan F.C.A. | 2,625 | 0.0088 |
| 8 | Choudhry Sher Mohammad | 6,562 | 0.0219 |
| Running Total: | | 1,276,347 | 4.2545 |
| Associated Companies, Undertakings and Related Parties | | | |
| 1 | Bibojee Services Pvt. Limited | 24,158,326 | 80.5278 |
| Running Total: | | 24,158,326 | 80.5278 |
| NIT and ICP | | | |
| 1 | Investment Corporation of Pakistan, | 1,363 | 0.0045 |
| Running Total: | | 1,363 | 0.0045 |
| Banks, Development Financial Institutions, Non Banking Financial Institutions | | | |
| 1 | PEARL CAPITAL MANAGEMENT (PVT.) LIMITED | 448 | 0.0015 |
| 2 | AWJ SECURITIES (SMC-PRIVATE) LIMITED. | 13,245 | 0.0442 |
| 3 | ISMAIL ABDUL SHAKOOR SECURITIES (PRIVATE) LIMITED | 3,500 | 0.0117 |
| 4 | SALIM SOZER SECURITIES (PVT.) LTD. | 94,750 | 0.3158 |
| 5 | STOCK MASTER SECURITIES (PRIVATE) LTD. | 105 | 0.0004 |
| 6 | CLIKTRADE LIMITED | 40 | 0.0001 |
| 7 | DARSON SECURITIES (PVT) LIMITED | 22,282 | 0.0743 |
| 8 | ALI HUSAIN RAJABALI LTD | 10,000 | 0.0333 |
| 9 | CAPITAL VISION SECURITIES (PVT) LTD. | 770 | 0.0026 |
| 10 | FIRST NATIONAL EQUITIES LIMITED | 1 | 0.0000 |
| 11 | IDBP (ICP UNIT) | 4,648 | 0.0155 |
| 12 | SHIRAZI INVESTMENT (PVT.) LIMITED | 1,359 | 0.0045 |
| 13 | SONERI BANK LIMITED | 182,220 | 0.6074 |
| Running Total: | | 333,368 | 1.1112 |
| Insurance Companies | | | |
| 1 | GULF INSURANCE CO. LTD., | 22,243 | 0.0741 |
| 2 | EXCEL INSURANCE CO.LTD. | 33,315 | 0.1111 |
| Running Total: | | 55,558 | 0.1852 |
| General Public (Local) | | | |
| Running Total: | | 3,924,448 | 13.0815 |



| Sr. # | Name | Shares Held | %age of Capital |
|-------|------|-------------|-----------------|
|-------|------|-------------|-----------------|

Others

| | | | |
|---|--|--------|--------|
| 1 | DEPUTY ADMINISTRATOR ABANDONED PROPERTIES ORGANIZATION | 37,431 | 0.1248 |
| 2 | MILLWALA SONS (PRIVATE) LIMITED | 3,599 | 0.0120 |
| 3 | SULTAN TEXTILE MILLS (K) LTD | 16,632 | 0.0554 |
| 4 | N. H. CAPITAL FUND LIMITED | 5 | 0.0000 |

Running Total: **57,667** **0.1922**

Grand Total: 30,000,000 100.0000

Information Under Clause XVI (I) of the Code of Corporate Governance

All trade in the Company's shares carried out by its Directors, CEO, CFO, Company Secretary and their spoused and minor children during the year January 01, 2012 to December 31, 2012 are as follow:

| | Sale | Purchase |
|-----------------|--------|----------|
| Amir Raza - CFO | 25,000 | - |



HEAD OFFICE EXECUTIVE/ DEPARTMENTAL HEAD

| Name | Designation | Telephone Office | Fax No. |
|-----------------------------|---|------------------|--------------|
| Begum Zeb Gohar Ayub Khan | Chief Executive | 042-37312836 | 042-37230326 |
| Mr. Mushtaq Ahmed Khan | Member Board of Director | 042-37350482 | 042-37230326 |
| Mr. Muhammad Rafiq Chaudhry | Principal Officer | 042-37355579 | 042-37230326 |
| Mr. Omar Ayub Khan | Chief Operating Officer | 042-37312836 | 042-37230326 |
| Mr. Fazal-ur-Rehman Malik | Executive Director (Operations & Development)/ HR | 042-37311666 | 042-37230326 |
| Mr. Amir Raza | Chief Financial Officer/ Company Secretary | 042-37242913 | 042-37230326 |
| Syed Ghulam Qamber Naqvi | General Manager -Reinsurance | 042-37238616 | 042-37230326 |
| Mr. Ghulam Rasul Imtiaz | General Manager -Underwriting & Claims | 042-37112671 | 042-37353209 |
| Mr. Shahbaz Hameed | Assistant General Manager- Legal / HR | 042-37112691 | 042-37230326 |
| Mr. Aftab Rashid | Assistant General Manager-IT | 042-37355426 | 042-37230326 |
| Mr. Abdul Waheed Chaudhry | Internal Auditor | 042-37353357 | 042-37230326 |
| Mr. Muhammad Zafar Iqbal | Manager-IT | 042-37355426 | 042-37230326 |
| Mr. Muhammad Qasim | Manager-Underwriting | 042-37353458 | 042-37230326 |



COUNTRY WIDE BRANCH NETWORK

| Sr. No. | Br_Code | Branch | Address | Ph No. | Fax No. |
|---------|---------|------------------------------------|--|---|--------------------------------|
| 1 | 101 | Brandreth Road branch, Lahore | Room # 201, 2nd Floor Shahzadi Rafaqat Market, 83-Brandreth Road, Lahore | 042- 37641593, 042-37637367 | 042-37630866 |
| 2 | 104 | Madina Town branch, Faisalabad | 1st Floor, Main Susan Road (Madina Town), Faisalabad | 041-8733171-3 | 041-8733170 |
| 3 | 106 | Queens Road branch Lahore | Mumtaz Centre, 15-A Queens Road, Lahore | 042-39919724, 042-36365649 | 042-36374872 |
| 4 | 113 | Blue Area branch, Islamabad | 3rd Floor, Waheed Plaza, 52- W, Jinnah Avenue, Blue Area, Islamabad | 051-2277555-56, 051-2825552 | 051-2825554 |
| 5 | 117 | Principal Office, Karachi | 807 - Business And Finance Centre, I.I Chundrigar Road, Road, Karachi | 021- 32446036-38 | 021- 32446039 |
| 6 | 126 | Dean Trade Center branch, Peshawar | Dean Trade Center, 145, 146 3rd floor Opp: State Bank of Pakistan, Saddar Road, Peshwar Cantt | 091-5273794, 091-5250081, 091-5273789 | 091-5272246 |
| 7 | 137 | Queens Road branch, Lahore | Mumtaz Centre, 15-A Queens Road, Lahore | 042-36362277; 042-36373784 | 042-36303558 |
| 8 | 139 | Abbot Road branch, Sialkot | Near OK, Sports, Abbot Road, Sialkot | 052-4262603-4 052-4263371-4 | 052- 4262601, 052-4268073 |
| 9 | 143 | Vehari Branch, Vehari. | 55-Faisal Town, Vehari | 067-3363529 | 067-3363529 |
| 10 | 144 | Sadiqabad Branch, Sadiqabad. | Mukarram Manzil, Al-falah, Town, Saddiqabad. | 068- 5702195 | 068 -5702195, 068 - 5701395 |
| 11 | 148 | Mazang Branch, Lahore. | Room No. 6, 1st floor jalal center, 59-A Mazang road opp. Eye ward Ganga Ram Hospital, Lahore | 042-36309087 | 042-36302510 |
| 12 | 149 | Mcleod Road Branch, Lahore. | 301-302, Zia Chamber Mcleod Road, Lahore | 042-37356316, 042-37236247 | 042-37221609 |
| 13 | 154 | Madina Town Branch, Faisalabad. | 1st Floor, Main Susan Road (Madina Town), Faisalabad | 041-8555444, 041-8555441 | 041-8555442 |
| 14 | 159 | Sargodha Branch - II, Sargodha. | Master R. M. Motors near falcon CNG station, Lahore Road Sargodha | 048-3220720 | 048-3220721 |
| 15 | 162 | Bosan Road Branch, Multan. | Office No. 55, 56, 57 first floor, Business City, Bosan Road, Multan | 061-6004564, 061-6214564 | 061-6214564 |
| 16 | 164 | Eden Centre Branch. | 213, Eden Center, 43 - Jail Raod, Lahore | 042-37596684-6 | 042-37585297 |
| 17 | 169 | Paris Road Branch, Silakot | Oberoi Building, Paris Road, Sialkot | 052-4596849, 052-4591023, 052-4591025 | 052-4593022 |
| 18 | 170 | Paris Road Branch, Silakot | Oberoi Building, Paris Road, Sialkot | 052-4598402, 052-4591024 | 052-4593022; 052-4583022 |
| 19 | 171 | Queens Road branch, Lahore | Mumtaz Centre, 15-A Queens Road, Lahore | 042-36374533 | 042-36303558 |



FORM OF PROXY

I / We _____ of
_____ being a member(s) of The
Universal Insurance Company Limited and holder of _____ Ordinary Shares
as per Registered Folio No./CDC Participation ID and Account
No. _____ hereby appoint _____ of
_____ or failing him / her
_____ of
_____ who is
also member of The Universal Insurance Company Limited vide Registered Folio
No./CDC Participant's ID and Account No. _____ as may / our proxy
to vote for me / us and on my / our behalf at the 53rd Annual General Meeting of the
Company to be held on Tuesday 30th April, 2013 at 10:00 a.m and any adjournment
thereof.

Signed this _____ day of _____ 2013.

**AFFIX
REVENUE
STAMP
RS. 5/-**

Signature _____

Witness: _____

Witness: _____

Name with NIC No.: _____

Name with NIC No.: _____

Address _____

Address _____

IMPORTANT:

1. This form of Proxy duly completed must be deposited at the Company's Registered office The Universal Insurance Company Limited, 63-Shahrah-e-Quaid-e-Azam, Lahore not later than 48 hours before the time of holding the meeting.
2. A Proxy should also be a member of the Company.
3. CDC Shareholders and their proxies must attach an attested photocopy of their National identity Card of Passport with this Proxy with this Proxy form.



THE UNIVERSAL INSURANCE CO. LTD.

UNIVERSAL INSURANCE HOUSE

63-SHAHRAH-E-QUAID-E-AZAM

LAHORE-54000 PAKISTAN.

PH: 042-3735 5426, 3732 4244, 3732 4194

FAX: 042-3723 0326

WEB: www.uic.com.pk

E-MAIL: info@uic.com.pk