

Habib Insurance Company Limited

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Habib Insurance Company Limited

Company Information

Board of Directors

Chairman	:	Rafiq M. Habib
Directors	:	Abbas D. Habib
		Mazher Ali Jumani
		Mansoor G. Habib
		Mohamedali R. Habib
		Sajjad Hussain Habib
		Aun Mohammad A. Habib

**Managing Director
& Chief Executive** : Ali Raza D. Habib

Company Secretary : Shabbir Gulamali

Auditors : M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
Karachi

Share Registrar : M/s. Noble Computer Services (Pvt.) Ltd.
Mezzanine Floor, House of Habib Building,
Siddiqsons Tower, 3 Jinnah Cooperative
Housing Society, Main Shahrah-e-Faisal,
Karachi-75350

Registered Office : 1st Floor, State Life Bldg. No. 6,
Habib Square, M. A. Jinnah Road,
P.O. Box 5217, Karachi-74000,
Pakistan
Tel : (92-21) 2424030/38/39
Fax : (92-21) 2421600
UAN : (92-21) 111 03 03 03
Website : www.habibinsurance.net

Habib Insurance Company Limited

Sixty Eighth Report of the Directors' to the Shareholders for the year ended December 31, 2010

The Shareholders,

The Board of Directors have pleasure in presenting the Sixty Eighth Annual Report along with the audited accounts of the Company for the year ended December 31, 2010.

	Rupees in '000
Net profit after tax for 2010	168,482
Amount available after appropriations for the year 2009	<u>28,878</u>
	<u>197,360</u>
The Board of Directors now propose:	
Payment of dividend at Rs. 1.25 per share of Rs. 5/- each i.e. @ 25%	100,101
Issue of one bonus share for every eight shares held i.e. @ 12.5%	50,050
Unappropriated profit carried forward	<u>47,209</u>
	<u>197,360</u>
Basic earnings per share of Rs. 5/- each	2.10

2010 has been by the Grace of Allah a good year for your Company and the Directors are pleased to recommend a payout of 37.5% to shareholders as mentioned above.

Despite the adverse conditions witnessed in the country during the year under review, there has been all round progress in the Company with certain key areas benefiting as a result of planned efforts on selective underwriting of business. Appreciable growth in business of 10% in both gross and net premiums was recorded and with favourable claim ratios and better control on expenses, the underwriting results of the Company have risen to Rs. 87.5 million, an increase of 18.95% over the previous year.

There has been a drop in investment income from Rs. 184.9 million to Rs. 149.4 million, mainly because of fall in Capital Gains to Rs. 90.3 million from Rs. 156.7 million of the previous year due to more conducive opportunities prevailing then, but the more reliable Dividend Income rose in 2010 by an impressive 29.17% to Rs. 43.3 million.

Finally the overall profit after tax of the Company for 2010 was Rs. 168.5 million as compared to Rs. 204.7 million for the previous year. The Board felt appropriate to increase the capital by Rs. 50 million by way of issue of Bonus Shares as mentioned above.

The Pakistan Credit Rating Agency has maintained the Company's Insurer Financial Strength (IFS) rating to A+. This denotes strong capacity to meet policy holders and contract obligations.

Habib Insurance Company Limited

These are difficult times that the country is going through and the management of the economy remains stressful. The recovery from the devastation of the flood has been a monumental task. The Nation remains under high alert with security concerns from within and outside of the country. The catastrophe in Japan and the massive upheaval taking place in the Middle East have contributed to the oil spike bringing further strain on the National Economy. Inflationary trends continue to spiral upwards. However, the positive features have been the substantial rise in Exports and Home Remittance contributing to the stability in Foreign Exchange Reserves and the Pak Rupee to Dollar parity is well controlled within a narrow margin. The KSE 100 index has shown remarkable resilience and is around the 12000 level.

We pray to Allah for peace, stability and progress in Pakistan.

The planning for 2011 has been set for improved growth Inshallah. It will be a constant endeavour of the management to pursue the well defined strategy of achieving success based on careful selection of business.

Most importantly, we are indeed thankful to all our clients and customers who have placed their confidence in our Company and will strive even more towards meeting all their insurance requirements. A special mention as always, is made for all the support and guidance we received from our panel of reinsurers. The Board of Directors would like to express their appreciation to all the staff members of the Company for their dedication and hard work throughout the year.

Corporate Social Responsibility (CSR)

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

- corporate philanthropy amounting to Rs. 2.0 million by way of donations during the year for social and educational development and welfare of under privileged classes;
- energy conservation, environmental protection, and occupational safety and health by restricting unnecessary lighting, implementing tobacco control law and “No Smoking Zone”, and providing a safe and healthy work environment;
- business ethics, requiring all staff members to sign and comply with the Company’s “Statement of Ethics and Business Practices”;
- amicable staff relations, recognition of merit and performance, and on-going opportunities for learning and growth of staff, both on-the-job and through formal training programmes;
- employment through a transparent procedure, without discrimination on the basis of religion, caste, language, etc.;
- contribution to the national exchequer by the Company by way of direct taxes of over Rs. 23.0 million during the year; furthermore, an additional amount of over Rs. 147.8 million was deducted/ collected by the Company on account of withholding taxes and federal excise duties and paid to the Government of Pakistan.

Audit Committee

The audit committee of the Company comprises of the following members:

Mr. Abbas D. Habib	Chairman
Mr. Mazher Ali Jumani	Member
Mr. Mohamedali R. Habib	Member
Mr. Aun Mohammad A. Habib	Member

Habib Insurance Company Limited

Auditors

The present auditors Messrs KPMG Taseer Hadi & Co., Chartered Accountants, retire and offer themselves for reappointment. As suggested by the Audit Committee, the Board of Directors has recommended their reappointment as auditors of the Company for the year ending December 31, 2011, at a fee to be mutually agreed.

Statement on Corporate and Financial Reporting Framework

1. The financial statements, prepared by the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of account of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements, changes if any, have been adequately disclosed and accounting estimates are based on reasonable and prudent judgement.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no doubts upon the Company's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. Key operating and financial data for the last six years is annexed.
9. The value of investments and balance in deposit accounts of Provident Fund as at December 31, 2010 is Rs. 30.6 million.
10. During the year four Board meetings were held and the attendance of the Directors is as follows:

Date of Meeting

Attended by

April 07, 2010

Mr. Rafiq M. Habib
Mr. Abbas D. Habib
Mr. Mazher Ali Jumani
Mr. Mansoor G. Habib
Mr. Mohamedali R. Habib
Mr. Sajjad Hussain Habib
Mr. Aun Mohammad A. Habib
Mr. Ali Raza D. Habib

Chief Executive

April 30, 2010

Mr. Rafiq M. Habib
Mr. Abbas D. Habib
Mr. Mazher Ali Jumani
Mr. Mansoor G. Habib
Mr. Mohamedali R. Habib
Mr. Aun Mohammad A. Habib
Mr. Ali Raza D. Habib

Chief Executive

Habib Insurance Company Limited

August 11, 2010

Mr. Abbas D. Habib
Mr. Mazher Ali Jumani
Mr. Mansoor G. Habib
Mr. Sajjad Hussain Habib
Mr. Aun Mohammad A. Habib
Mr. Ali Raza D. Habib
Chief Executive

October 21, 2010

Mr. Rafiq M. Habib
Mr. Abbas D. Habib
Mr. Mazher Ali Jumani
Mr. Mansoor G. Habib
Mr. Mohamedali R. Habib
Mr. Sajjad Hussain A. Habib
Mr. Aun Mohammad A. Habib
Mr. Ali Raza D. Habib
Chief Executive

11. The pattern of shareholding and additional information regarding pattern of shareholding is annexed.
12. Except as stated below, no trades in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary and their spouses and minor children.

Acquired:	No. of Shares
Mr. Mansoor G. Habib	18,000

On behalf of the Board of Directors

Karachi: March 30, 2011

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Six Years' Review at a Glance

(Rupees in '000)

Years	2010	2009	2008	2007	2006	2005
Gross Written Premium	777,531	702,869	737,442	685,606	559,526	452,759
Net Premium Revenue	394,642	359,040	397,960	335,974	268,075	229,715
Investment Income / (Loss)	149,356	184,886	(390,531)	443,297	604,110	132,579
Net Claims	183,788	175,704	202,219	217,176	122,423	94,606
Profit / (Loss) after Tax	168,482	204,743	(396,428)	420,378	600,945	147,901
Paid-up Capital	400,403	400,403	355,914	296,595	219,700	169,000
Reserves & Retained Earnings	451,484	423,141	307,376	941,080	740,402	249,307
Total Assets - at Book Value	1,666,984	1,625,473	1,460,429	2,101,104	1,523,545	863,209
Cash Dividend - %	25	35	12.5	60	65	35
Stock Dividend - %	12.5	–	12.5	20	35	30

Habib Insurance Company Limited

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2010

This statement is being presented to comply with the Code of Corporate Governance contained in listing regulations of the Karachi Stock Exchange (Guarantee) Limited and Lahore Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive Directors on its Board of Directors. All elected Directors of the Board are non-executive Directors.
2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year.
5. The Company's 'Statement of Ethics and Business Practices', has been signed by all the Directors and employees of the Company.
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 has been maintained and amended / updated from time to time.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a Director elected by the Board for this purpose. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The members of the Board are well conversant with the listing regulations and corporate requirements and as such fully aware of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Internal Auditors, including their remuneration and terms and conditions of employment, as determined by the CEO. No new appointments in these positions were made during the year.
11. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

Habib Insurance Company Limited

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed underwriting/ claim settlement/ reinsurance & co-insurance committee(s).
16. The Board has formed an audit committee. It comprises of 4 members, all of whom are non-executive Directors including the Chairman of the committee.
17. The meetings of the committees were held at least once every quarter prior to the approval of interim and final results of the Company and as required by the Code. The terms of reference of the audit committee have been formed and advised to the audit committee for compliance.
18. The Board has outsourced the internal audit function to Messrs Abbas Karjatwala & Company, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and their representatives are involved in the internal audit function on a full time basis.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The related party transactions with details of pricing methods have been placed before the Audit Committee and approved by the Board of Directors.
22. We confirm that all material principles contained in the Code have been complied with.

On behalf of the Board of Directors

Karachi: March 30, 2011

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

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 **Habib Insurance Company Limited** ("the Company") 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' statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such controls, the Company's corporate governance procedures and risks.

Further sub-regulation (xiii-a) of Listing Regulations 35 (previously Regulation No. 37) notified by the Karachi Stock Exchange (Guarantee) Limited vide circular no. KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at 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.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 31 December 2010.

Karachi: March 30, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants

Habib Insurance Company Limited

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

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

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

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

In our opinion:

- (a) proper books of 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 2010 and of the profit, its cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- (d) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi: March 30, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
Mazhar Saleem

Habib Insurance Company Limited

Balance Sheet as at December 31, 2010

	Note	2010 (Rupees in '000)	2009 (Rupees in '000)		Note	2010 (Rupees in '000)	2009 (Rupees in '000)
Share Capital and Reserves				Cash and Bank Deposits	10		
Authorised share capital [100,000,000 (December 31, 2009: 100,000,000) ordinary shares of Rs. 5 each]		<u>500,000</u>	<u>500,000</u>	Cash and other equivalents		409	939
Paid-up share capital	5.1	400,403	400,403	Current and other accounts		<u>57,590</u>	<u>25,581</u>
Retained earnings		197,360	219,019			57,999	26,520
Reserves		<u>254,122</u>	<u>204,122</u>	Loans - secured, considered good to employees	11	3,143	2,268
TOTAL EQUITY		851,885	823,544	Investments	12	925,540	932,041
Underwriting Provisions				Deferred Taxation	13	15,592	7,275
Provision for outstanding claims (including IBNR)		134,727	150,231	Current Assets - others			
Provision for unearned premium		311,226	287,708	Premiums due but unpaid	14	181,589	197,745
Commission income unearned		<u>32,875</u>	<u>30,854</u>	Amounts due from other insurers/ reinsurers	15	116,498	123,704
Total underwriting provisions		478,828	468,793	Accrued investment income	16	152	6,848
Deferred Liability				Reinsurance recoveries against outstanding claims		80,598	96,390
Staff retirement benefits	6	20,284	17,899	Deferred commission expense		36,032	36,053
Creditors and Accruals				Advances, deposits and prepayments	17	149,809	128,282
Premiums received in advance		3,836	8,855	Sundry receivables	18	<u>61,085</u>	<u>27,137</u>
Amounts due to other insurers/ reinsurers	7	88,272	102,823			625,763	616,159
Accrued expenses		9,483	10,552	Fixed Assets	19		
Taxation - provision less payments		48,053	22,514	Tangible and intangible			
Other creditors & accruals	8	<u>142,717</u>	<u>150,848</u>	Furniture and fixtures and office equipments		9,722	11,156
		292,361	295,592	Computer and related equipments		1,453	1,429
Other liabilities				Motor vehicles		24,119	28,187
Unclaimed dividends		23,627	19,643	Capital work in progress - office premises		3,000	436
				Computer software		<u>654</u>	<u>-</u>
TOTAL LIABILITIES		815,100	801,927			38,948	41,208
TOTAL EQUITY AND LIABILITIES		<u>1,666,985</u>	<u>1,625,471</u>	TOTAL ASSETS		<u>1,666,985</u>	<u>1,625,471</u>
Contingencies	9						

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

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Profit and Loss Account for the year ended December 31, 2010

(Rupees in '000)

	Note	Fire and Property	Marine and Transport	Motor	Other Classes	2010	2009
Revenue Account							
Net premium revenue		113,441	115,292	113,188	52,722	394,643	359,040
Net claims		(24,056)	(37,794)	(87,711)	(34,226)	(183,787)	(175,704)
Expenses	20	(45,695)	(28,560)	(23,990)	(15,993)	(114,238)	(102,495)
Net commission		5,642	(5,506)	(8,625)	(658)	(9,147)	(7,307)
Underwriting result		49,332	43,432	(7,138)	1,845	87,471	73,534
Net investment income						149,355	184,886
Other income - net	21					5,284	5,732
General and administration expenses	20					(49,922)	(52,856)
Profit before tax						192,188	211,296
Taxation - net	22					(23,706)	(6,553)
Profit after tax						168,482	204,743
Other comprehensive income						-	-
Total comprehensive income for the year						168,482	204,743
Profit and loss appropriation account							
Balance at commencement of the year						219,019	(346,746)
Profit after tax for the year						168,482	204,743
Transfer (to) / from general reserve						(50,000)	450,000
Issuance of bonus shares for the year 2009: Nil (2008: 12.5%)						-	(44,489)
Cash dividend for the year ended December 31, 2009 at Rs. 1.75 per share (2008: Rs. 0.625 per share)						(140,141)	(44,489)
						(21,659)	565,765
Balance of unappropriated profit at end of the year						197,360	219,019
Basic earnings per share of Rs. 5 each	23					Rupees 2.10	2.56

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

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Changes in Equity for the year ended December 31, 2010

(Rupees in '000)

	Share Capital Issued, subscribed and paid up	Reserves		Total
		Capital Reserves Reserve for exceptional losses (note 5.2)	Revenue Reserves General reserve Retained earnings	
Balance as on January 01, 2009	355,914	9,122	645,000 (346,746)	663,290
Total comprehensive income for the year				
Profit for the year	-	-	204,743	204,743
Transaction with owners recorded directly in equity				
Bonus share distribution for the year ended December 31, 2008 at 12.5%	44,489	-	(44,489)	-
Final dividend for the year ended December 31, 2008 of Rs. 0.625 per share	-	-	(44,489)	(44,489)
	44,489	-	(88,978)	(44,489)
Others				
Transfer from general reserve	-	-	(450,000)	450,000
Balance as on December 31, 2009	400,403	9,122	195,000 219,019	823,544
Total comprehensive income for the year				
Profit for the year	-	-	168,482	168,482
Transaction with owners recorded directly in equity				
Final dividend for the year ended December 31, 2009 of Rs. 1.75 per share	-	-	(140,141)	(140,141)
Others				
Transfer to general reserve	-	-	50,000 (50,000)	-
Balance as at December 31, 2010	400,403	9,122	245,000 197,360	851,885

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

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Cash Flow for the year ended December 31, 2010

	2010 (Rupees in '000)	2009 (Rupees in '000)
Operating Cash Flows		
a) Underwriting activities		
Premiums received	765,490	695,776
Reinsurance premiums paid	(390,518)	(353,143)
Claims paid	(332,569)	(315,830)
Reinsurance and other recoveries received	149,070	118,860
Commissions paid	(75,180)	(81,003)
Commissions received	85,168	79,000
Other underwriting receipts	241	127
Net cash inflow from underwriting activities	201,702	143,787
b) Other operating activities		
Income tax paid	(6,484)	(4,001)
General management expenses paid	(125,649)	(119,544)
Other operating payments	(64,534)	26,307
Loans advanced	(2,116)	(619)
Loans repayment received	1,241	885
Net cash outflow from other operating activities	(197,542)	(96,972)
Total cash inflow from all operating activities	4,160	46,815
Investment activities		
Profit / return received	10,026	10,861
Dividends received	50,032	30,139
Payments for investments	(750,606)	(1,133,934)
Proceeds from disposal of investments	857,600	1,067,496
Fixed capital expenditure	(9,085)	(11,318)
Proceeds from disposal of fixed assets	5,509	2,409
Total cash inflow / (outflow) from investing activities	163,476	(34,347)
Financing activities		
Dividends paid	(136,157)	(43,383)
Total cash outflow from financing activities	(136,157)	(43,383)
Net cash inflow / (outflow) from all activities	31,479	(30,915)
Cash at beginning of the year	26,520	57,435
Cash at end of the year	57,999	26,520

	2010 (Rupees in '000)	2009 (Rupees in '000)
Reconciliation to Profit and Loss Account		
Operating cash flows	4,160	46,815
Depreciation/ amortisation expense	(9,652)	(11,318)
Profit on disposal of fixed assets	1,250	1,055
Decrease/ (Increase) in assets other than cash	43,684	(2,812)
Decrease in liabilities other than running finance	18,735	12,209
	58,177	45,949
Other adjustments		
Income tax paid	6,484	4,001
Provision for premiums due but unpaid	(20,135)	(14,250)
Provision for amount due from other insurers/ reinsurers	(10,249)	(8,791)
Provision for impairment	9,970	(10,661)
Provision for gratuity	(4,234)	(4,534)
Gratuity paid	1,849	1,878
Profit/ Return received	10,026	10,861
Dividends received	50,032	30,139
Capital gain	90,268	156,704
Provision for taxation	(23,706)	(6,553)
	110,305	158,794
	168,482	204,743

Definition of cash

Cash comprises of cash in hand, policy stamps and bank balances which are readily convertible to cash in hand and which are used in the cash management function on a day-to-day basis.

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

Cash and bank deposits

Cash and other equivalents		
Cash in hand	289	301
Policy stamps	120	638
	409	939
Current and other accounts		
Current accounts	11,378	7,216
Profit and loss sharing accounts	46,212	18,365
	57,590	25,581
Cash and bank deposits as per balance sheet	57,999	26,520

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

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
Managing Director
& Chief Executive

Habib Insurance Company Limited

Statement of Premiums for the year ended December 31, 2010

(Rupees in '000)

Business underwritten inside Pakistan

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	2010 Net premium revenue	2009 Net premium revenue
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	308,963	130,551	151,047	288,467	197,235	68,559	90,768	175,026	113,441	104,961
2. Marine and Transport	194,875	21,261	27,083	189,053	75,374	6,332	7,945	73,761	115,292	99,722
3. Motor	135,239	70,360	74,809	130,790	16,770	6,580	5,748	17,602	113,188	127,415
4. Other Classes	138,454	65,536	58,287	145,703	86,588	41,371	34,978	92,981	52,722	26,942
Grand Total	<u>777,531</u>	<u>287,708</u>	<u>311,226</u>	<u>754,013</u>	<u>375,967</u>	<u>122,842</u>	<u>139,439</u>	<u>359,370</u>	<u>394,643</u>	<u>359,040</u>

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

RAFIQ M. HABIB
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Director

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Director

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Statement of Claims for the year ended December 31, 2010

(Rupees in '000)

Business underwritten inside Pakistan

Class	Claims paid	Outstanding claims		Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	2010 Net claims expense	2009 Net claims expense
		Opening	Closing			Opening	Closing			
Direct and facultative										
1. Fire and Property	73,394	31,152	47,162	89,404	50,045	20,964	36,267	65,348	24,056	21,164
2. Marine and Transport	70,988	13,644	19,160	76,504	38,468	14,546	14,788	38,710	37,794	31,865
3. Motor	114,936	39,162	41,106	116,880	25,805	7,655	11,019	29,169	87,711	84,413
4. Other Classes	73,251	66,273	27,299	34,277	34,752	53,225	18,524	51	34,226	38,262
Grand Total	332,569	150,231	134,727	317,065	149,070	96,390	80,598	133,278	183,787	175,704

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

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Director

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Statement of Expenses for the year ended December 31, 2010

(Rupees in '000)

Business underwritten inside Pakistan

Class	Commission paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expense	Other management expenses	Underwriting expense	Commissions from reinsurers*	2010 Net underwriting expense	2009 Net underwriting expense
Direct and facultative									
1. Fire and Property	41,682	21,527	20,783	42,426	45,695	88,121	48,068	40,053	34,839
2. Marine and Transport	31,360	3,486	4,742	30,104	28,560	58,664	24,598	34,066	30,004
3. Motor	11,059	6,033	7,249	9,843	23,990	33,833	1,218	32,615	32,930
4. Other Classes	8,173	5,007	3,258	9,922	15,993	25,915	9,264	16,651	12,029
Grand Total	92,274	36,053	36,032	92,295	114,238	206,533	83,148	123,385	109,802

* Commission from reinsurers is arrived at after taking the impact of the opening and closing balances of unearned commission.

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

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Habib Insurance Company Limited

Statement of Investment Income for the year ended December 31, 2010

	Note	2010 (Rupees in '000)	2009
Income from Non-Trading Investments			
Held-to-maturity			
Return on Government Securities		4,692	4,491
Available-for-sale			
Dividend income		43,325	33,541
Return on other fixed income securities		1,808	1,781
Gain on sale of investments		90,268	156,704
		<u>140,093</u>	<u>196,517</u>
Reversal / (provision) for impairment in value of available-for-sale securities - net	12.5.2	9,970	(10,661)
Investments related expenses		<u>(708)</u>	<u>(970)</u>
Net investment income		<u>149,355</u>	<u>184,886</u>

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

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Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Notes to the Financial Statements for the year ended December 31, 2010

1. STATUS AND NATURE OF BUSINESS

Habib Insurance Company Limited (the Company) was incorporated as a Public Limited Company in the year 1942 under the Companies Act, 1913 (now the Companies Ordinance, 1984). The registered office of the Company is situated at Habib Square, M.A. Jinnah Road, Karachi and the shares of the Company are quoted on the Karachi and Lahore Stock Exchanges. The Company is engaged in the general insurance business.

2. BASIS OF PREPARATION

These financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan (SECP) through Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002], vide SRO 938 dated December 12, 2002.

2.1 Statement of compliance

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

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

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that obligations under certain employee benefits are measured at present value and certain investments which are stated at their fair value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is also the Company's functional currency. All financial information presented in Pak Rupees has been rounded to the nearest thousands, unless otherwise stated.

2.4 Use of estimates and judgements

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The estimates / judgments and associated assumptions used in the preparation of the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Habib Insurance Company Limited

The estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumption and estimates are significant to the financial statements, or judgments was exercised in application of accounting policies, are as follows:

	Note
- Provision for outstanding claims including IBNR	4.4
- Premium deficiency reserve	4.7
- Defined benefit plan	4.8.2
- Classification of investments and impairment	4.9
- Useful lives of assets and methods of depreciation	4.10
- Provision for taxation current and deferred tax	4.16
- Provision	4.2, 4.19 and 4.20

3. STANDARDS AND IFRIC INTERPRETATIONS THAT ARE NOT YET EFFECTIVE

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after January 1, 2011:

- Amendment to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after February 01, 2010).
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after July 01, 2010).
- IAS 24 – Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after January 01, 2011.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011).
- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after January 1, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.
- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after January 01, 2012).
- Amendments to IFRS 7 - Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after July 01, 2011).

Habib Insurance Company Limited

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. Insurance contracts are classified into following main categories:

- Fire and property
- Marine and transport
- Motor
- Other classes (which includes mainly bankers blanket bond, personal accident, health, liability, engineering etc).

These contracts are entered with group companies, corporate clients, and individual residing or located in Pakistan.

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

4.2 Premium

Premium under a policy is recognised at the time of the date of issuance of the policy.

Administrative surcharge is recognised as premium at the time policies are written.

Revenue from premiums is determined after taking into account the unearned portion of premium by applying 1/24th method as prescribed by the SEC (Insurance) Rules, 2002. The unearned portion of premium income is recognised as liability.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any.

4.3 Reinsurance contracts

Insurance contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued are reinsurance contracts. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognises the entitled benefits under the contract as various reinsurance assets. 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.

Habib Insurance Company Limited

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.

The deferred portion of reinsurance premium ceded is recognised as a prepayment which is calculated by using 1/24th method as prescribed by the SEC (Insurance) Rules, 2002.

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 recognises that impairment loss in the profit and loss account.

4.4 Claims expense

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, and any adjustments to claims outstanding from previous years.

The Company recognises liability in respect of all claims incurred upto the balance sheet date which is based on the best estimate of the claims intimated or assessed on or before the end of the financial year and 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 an 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 is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date.

4.5 Reinsurance and other recoveries against outstanding claims

Claims recoveries against outstanding claims from the reinsurer and salvage recoveries are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised as a liability and are measured at the amount expected to be received.

4.6 Commission

Commission expense incurred in obtaining and recording policies is deferred and recognised in profit and loss account as an expense in accordance with the pattern of recognition of premium revenue.

Commission income from reinsurers is recognised at the time of issuance of the underlying insurance policy. These are deferred and recognised as liability and recognised in the profit and loss account as revenue in accordance with the pattern of recognition of the reinsurance premiums.

Profit commission, if any, under the terms of reinsurance arrangements, is recognised on accrual basis.

4.7 Premium deficiency reserve

The Company is required as per SEC (Insurance) Rules, 2002 and IFRS-4, to maintain a provision in respect of premium deficiency for the class of business where the unearned premium reserve is not adequate to meet the expected future liability, after reinsurance, from claims and other expenses,

Habib Insurance Company Limited

including reinsurance expense, commissions and other underwriting expenses, expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve is recorded as an expense in the profit and loss account and the same shall be recognised as a liability.

The Company determines adequacy of liability of premium deficiency by carrying out analysis of expired periods. For this purpose average loss ratio of last three years inclusive of claims settlement cost but excluding major exceptional claims are taken into consideration to determine ultimate loss ratio to be applied on unearned premium.

Based on an analysis, no provision has been made as the unearned premium reserve for each class of business as at the year end is adequate to meet the expected future liability after reinsurance, from claims and other expenses, expected to be incurred after the balance sheet date in respect of policies in force at the balance sheet date.

4.8 Staff retirement benefits

4.8.1 Defined contribution plan

The Company operates a recognised Provident Fund scheme for all its eligible employees. Equal contributions are made by the Company and the employees at the applicable rate.

4.8.2 Defined benefit plan

The Company operates an unfunded approved gratuity scheme for all its permanent employees who attain the minimum qualification period for entitlement of gratuity. Gratuity is based on employees' last drawn salary.

Provisions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account. The most recent valuation was carried out as of December 31, 2010 using the "Projected Unit Credit Method".

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for amortisation actuarial gains and losses.

Cumulative net amortisation actuarial gains and losses at the end of previous year which exceed 10% of the present value of the Company's gratuity obligations are amortised over the expected average remaining working lives of the employees.

4.8.3 Employees' compensated absences

During the year, the Company engaged an actuary for estimating accrual for staff compensated absences. Provisions are made to cover the obligations for accumulating compensated absences and are charged to profit and loss account on the basis of such actuarial valuation.

Actuarial gains and losses and all past service cost are recognised immediately in profit and loss account.

Previously the management determined this accrual based on leave balances of employees as at the year end. Had this change not been made, the profit for the year ended December 31, 2010 and charge for taxation would have been lower by Rs. 0.768 million and 0.413 million respectively and liability for other long term employee benefits would have been higher by Rs. 1.181 million.

Habib Insurance Company Limited

The effect of the abovementioned change on future period is not disclosed because it is impracticable to estimate that effect.

4.9 Investments

4.9.1 Recognition

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs except for held for trading investments in which case transaction costs are charged to the profit and loss account. All purchase and sale of investments that require delivery within the required time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investments. These are recognised and classified as follows:

- Investment at fair value through profit and loss (held for trading)
- Available for sale
- Held to maturity

4.9.2 Measurement

4.9.2.1 Investment at fair value through profit or loss (held for trading)

At the time of acquisition, quoted investments which are acquired principally for the purpose of generating profit from short term fluctuations in price or are part of portfolio for which there is a recent actual pattern of short term profit taking are classified as held for trading.

Subsequent to initial recognition these are remeasured at fair value by reference to quoted market prices with the resulting gain or loss being included in net profit or loss for the period in which it arises.

4.9.2.2 Available-for-sale

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

Quoted

Subsequent to initial recognition at cost, quoted investments are stated at the lower of cost or market value (market value on an individual investment basis being taken as lower if the fall is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002 vide S.R.O. 938 dated December 2002. The Company uses stock exchange quotations at the balance sheet date to determine the market value. Also see note no.12.4.

In case of fixed income securities redeemable at a given date where the cost is different from the redemption value, such difference is amortised uniformly over the period between the acquisition date and the date of maturity in determining cost at which these investments are stated as per the requirements of the SEC (Insurance) Rules, 2002.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

Habib Insurance Company Limited

Unquoted

Unquoted investments are recorded at cost less accumulated impairment losses, if any.

Provision for diminution in the value of securities is made after considering impairment losses, if any.

4.9.2.3 Held-to-maturity

At the time of acquisition, investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequently, these are measured at amortised cost less provision for impairment in value, if any. Amortised cost is calculated by taking into account any discount or premium on acquisition by using the effective yield method.

The difference between the redemption value and the purchase price of the held-to-maturity investments is amortised and taken to the profit and loss account over the term of the investment.

These are reviewed for impairment at year end and any losses arising from impairment in values are charged to the profit and loss account.

4.10 Fixed assets

4.10.1 Tangibles

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment loss. Depreciation on tangible fixed assets except vehicles is charged to income applying the straight line method at the rates specified in note 19.1 to the financial statements after taking into account residual value, if any. Depreciation on vehicles is charged to income applying the reducing balance method whereby the cost of the asset is written off over the estimated useful life. The useful lives, residual value and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date. Depreciation on additions is charged for the full month in which an asset is put to use and on deletions upto the month immediately preceding the deletion.

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and where the carrying values exceeds the estimated recoverable amounts the assets are written down to their recoverable amounts.

Capital work-in-progress is stated at cost less any impairment in value. It consists of advances made to suppliers in respect of tangible and intangible assets.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised and assets so replaced, if any, are retired. Gain or loss on disposal of fixed asset is included in income currently.

4.10.2 Intangibles

These are stated at cost less accumulated amortisation and any provision for impairment loss. Amortisation of intangible fixed assets is charged to income applying the straight line method at the rates specified in note 19.3 to the financial statements after taking into account residual value, if any.

Habib Insurance Company Limited

Full month's amortisation is calculated from the month the assets are available for use using the straight line method, whereby the cost of the intangible asset is amortised over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortisation method is reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable, if any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

4.11 Investment and other income

Gain / (loss) on sale of investments

Gain / (loss) on sale of available-for-sale investments is taken to profit and loss account in the year of sale.

Dividend income and bonus shares

Dividend income is recognised when the right to receive the same is established.

Entitlement of bonus shares is recognised when the right to receive the same is established by increasing the number of shares to which the Company is entitled without giving any monetary effect in the financial statements either in terms of cost or value thereof which is in accordance with the requirement of the ICAP's Technical Release-15.

Return on term finance certificates

The difference between the redemption value and the purchase price of the Term Finance Certificates is amortised and taken to the profit and loss account over the term of the investment.

Return on fixed income securities

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

Income on held-to-maturity investment

Income from held-to-maturity investments is recognised on a time proportionate basis taking account the effective yield on the investment.

Profit on bank accounts and deposits

Profit on bank accounts and deposits is recognised on accrual basis.

4.12 Management expenses

Underwriting expenses have been allocated to various classes of business on a basis deemed equitable by the management. Expenses not attributable to the underwriting business are charged as administrative expenses.

Habib Insurance Company Limited

4.13 Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, for which discrete financial information is available.

The Company presents segments reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The reported operating segments are also consistent with the internal reporting provided to the Board of Directors who assess the performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

The Company has four primary business segments for reporting purposes namely fire and property, marine and transport, motor and other classes.

4.13.1 Fire and property

The perils covered under fire insurance include damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation, impact and other coverage.

4.13.2 Marine and transport

Marine and transport insurance provides coverage against cargo risk, war risk and damages occurring in inland transit.

4.13.3 Motor

Motor insurance provides comprehensive car coverage and indemnity against third party loss.

4.13.4 Other classes

Other classes includes mainly bankers blanket bond, personal accident, health, liability, engineering etc.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them. Those assets and liabilities which can not be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities. Financing, investment and income taxes are managed on an overall basis and are therefore, not allocated to any segment.

4.14 Financial instruments

Financial assets and financial liabilities within the scope of IAS 39 are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and are derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in the profit and loss.

Habib Insurance Company Limited

Financial instruments carried on the balance sheet include cash and bank balances, loan to employees, investments, premium due but unpaid, amount due from other insurers / reinsurers, accrued investment income, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amount due to other insurers / reinsurers, accrued expenses, other creditors and accruals and unclaimed dividends. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.15 Offsetting of financial assets and liabilities

Financial assets and financial liabilities are only offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amount and the Company intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

4.16 Taxation

4.16.1 Current

Provision for current taxation is based on 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 include adjustments, where considered necessary, to provision for tax made in previous years arising from assessments finalised during the current year for such years.

4.16.2 Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the balance sheet date between the tax bases and carrying amounts of assets and liabilities for financial reporting purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

4.17 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consists of cash in hand, stamps in hand and deposits with banks.

4.18 Foreign currency translation

Transactions in foreign currencies are accounted for in rupees at the rates prevailing on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into rupees at the rates of exchange which approximate those prevailing at the balance sheet date. Exchange differences are taken to the profit and loss account.

Habib Insurance Company Limited

4.19 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 future for the goods and / or services received, whether or not billed to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and 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 estimate.

4.20 Impairment

The carrying amount of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or group of assets. If such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit and loss account. An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognised.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Changes in the provisions are recognised as income or expense.

4.21 Dividend declaration and reserve appropriation

Dividend declaration and reserve appropriations are recognised when approved.

5. PAID-UP SHARE CAPITAL AND RESERVES

5.1 Paid-up capital

2010 (Number of Shares)	2009		2010 (Rupees in '000)	2009
1,000,000	1,000,000	Ordinary shares of Rs. 5/- each issued as fully paid in cash	5,000	5,000
79,080,650	79,080,650	Ordinary shares of Rs. 5/- each issued as fully paid bonus shares	395,403	395,403
<u>80,080,650</u>	<u>80,080,650</u>		<u>400,403</u>	<u>400,403</u>
80,080,650	71,182,800	Ordinary shares of Rs. 5/- each at the beginning of the year	400,403	355,914
—	8,897,850	Fully paid bonus shares issued during the year	—	44,489
<u>80,080,650</u>	<u>80,080,650</u>		<u>400,403</u>	<u>400,403</u>

Habib Insurance Company Limited

5.1.1 At December 31, 2010 related parties including directors and their dependents held 10.406 million (12.99%) [2009: 10.388 million (12.97%)] number of ordinary shares of Rs. 5/- each.

5.2 Reserves for exceptional losses

Under the Income Tax Act, 1922 applicable to insurance companies, the Company set aside in prior years amounts up to ten percent of premium earnings, net of reinsurances of the year as a reserve for exceptional losses, which was treated as a allowable deduction in arriving at the taxable income. This option was withdrawn by the Income Tax Ordinance, 1979 with retrospective effect to the accounting year ended December 31, 1978. Accordingly, the Company has ceased to set aside such amounts, but has retained the reserves created up to December 31, 1978.

6. STAFF RETIREMENT BENEFITS

Defined benefit plan - unfunded gratuity scheme

The latest actuarial valuation was carried out on December 31, 2010 by M/s. Akhtar and Hasan (Private) Limited using "Projected Unit Credit Actuarial Cost Method". The main assumptions used for the actuarial valuation are as follows:

- Discount rate 14.50% (2009: 12.75%) per annum compounded
- Expected rate of increase in the salaries of the employees 12.50% (2009: 10.75%) per annum compounded
- Expected service length of the employees 15 years (2009:15 years)
- Normal retirement 60 years (2009: 60 years)

	2010	2009
	(Rupees in '000)	
6.1 Liability in balance sheet		
Present value of defined benefit obligations	21,374	19,027
Unrecognised actuarial loss	(1,090)	(1,128)
	20,284	17,899
6.2 Movement in liability during the year		
Opening balance	17,899	15,243
Charged to profit and loss account	4,234	4,534
Benefits paid during the year	(1,849)	(1,878)
Closing balance	20,284	17,899
6.3 Reconciliation of the present value of defined benefit obligations		
Present value of obligations as at January 1,	19,027	19,105
Current service cost	1,745	1,741
Interest cost	2,489	2,663
Benefits paid	(1,849)	(1,878)
Actuarial gain	(38)	(2,604)
Present value of obligations as at December 31,	21,374	19,027

Habib Insurance Company Limited

	2010	2009			
	(Rupees in '000)				
6.4 Movement in the unrecognised gain / (loss)					
Unrecognised loss as at January 1,	(1,128)	(3,862)			
Recognised during the year	–	130			
Actuarial gain on obligation during the year	38	2,604			
Unrecognised loss as at December 31,	<u>(1,090)</u>	<u>(1,128)</u>			
6.5 Charge for the defined benefit plan					
Current service cost	1,745	1,741			
Interest cost	2,489	2,663			
Actuarial loss recognised	–	130			
	<u>4,234</u>	<u>4,534</u>			
6.6 Historical data of the fund					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	(Rupees in '000)				
Present value of defined benefit obligations	21,374	19,027	19,105	17,249	13,378
Fair value of plan assets	–	–	–	–	–
Deficit	<u>21,374</u>	<u>19,027</u>	<u>19,105</u>	<u>17,249</u>	<u>13,378</u>
Experience adjustments					
- Actuarial gain on obligation	<u>38</u>	<u>2,604</u>	<u>1,404</u>	<u>1,324</u>	<u>1,028</u>
6.7 Expected accrual of expenses in respect of defined benefit scheme in the next financial year on the advice of the actuary is Rs. 5.041 million.					
	2010	2009			
	(Rupees in '000)				
7. AMOUNT DUE TO OTHER INSURERS / REINSURERS					
Foreign reinsurers	8,307	46,905			
Local reinsurers	34,172	5,450			
Co-insurers	45,793	50,468			
	<u>88,272</u>	<u>102,823</u>			
8. OTHER CREDITORS AND ACCRUALS					
Federal excise duty	11,190	9,110			
Federal insurance fee	735	617			
Withholding tax payable	765	830			
Agents commission payable	111,519	94,425			
Amount payable against purchase of securities	–	33,728			
Worker's welfare fund payable	8,412	4,490			
Sundry creditors	10,096	7,648			
	<u>142,717</u>	<u>150,848</u>			

Habib Insurance Company Limited

9. CONTINGENCIES

As at December 31, 2010 there is no contingency.

	Note	2010 (Rupees in '000)	2009
10. CASH AND BANK DEPOSITS			
Cash and other equivalents			
Cash in hand		289	301
Policy stamps		120	638
		<u>409</u>	<u>939</u>
Current and other accounts			
Current accounts		11,378	7,216
Profit and loss sharing accounts	10.1	46,212	18,365
		<u>57,590</u>	<u>25,581</u>
		<u>57,999</u>	<u>26,520</u>

10.1 These carry profit rates ranging between 5% to 11% (2009: 5% to 11%) per annum.

11. LOANS - (secured, considered good)

To employees	<u>3,143</u>	<u>2,268</u>
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This represents loans provided to the employees of the Company and are secured against provident fund balances or deposit of title documents. These loans are recoverable in monthly instalments over various period.

These loans carry a mark-up rate of 5% to 10% (2009: 5% to 10%) per annum except loans amounting to Rs. 0.271 million (2009: Rs. 0.722 million) which are interest free.

11.1 Reconciliation of carrying amount of loans

Opening balance	2,268	2,534
Mark-up for the year	124	89
Disbursements during the year	2,116	619
	<u>4,508</u>	<u>3,242</u>
Repayments during the year	(1,365)	(974)
	<u>3,143</u>	<u>2,268</u>

Habib Insurance Company Limited

	Note	2010 (Rupees in '000)	2009
12. INVESTMENTS			
12.1 Type of investments			
Held-to-maturity			
Government securities (deposited with SBP)	12.2.1	44,266	40,067
Commercial Paper	12.2.2	9,191	-
		<u>53,457</u>	<u>40,067</u>
Available-for-sale			
	12.3		
- Units of open end mutual funds deposited with the State Bank of Pakistan - quoted	12.3.1	349	349
- Units of open end mutual funds	12.3.2	5,000	-
- Term Finance Certificates - quoted	12.3.3	9,471	9,317
- Modaraba Certificates - quoted	12.3.4	15,012	10,206
- Ordinary shares of quoted / unquoted companies	12.3.5	455,858	424,992
- Ordinary shares of quoted companies / units of open end mutual funds (related parties)	12.3.6	386,393	447,110
		<u>872,083</u>	<u>891,974</u>
		<u>925,540</u>	<u>932,041</u>

12.2 Held-to-maturity - amortised cost

12.2.1 Government securities

This represents 1 year Treasury bills with a fixed mark-up rate ranging from 11.85% to 12.44% (2009: 11.72% to 14.11%) and maturing between January 13, 2011 to July 28, 2011. The fair value of the treasury bills as at December 31, 2010 is Rs. 44.197 million (face value being Rs. 44.70 million) [2009: 40.052 million]. These securities are deposited with the State Bank of Pakistan in compliance of section 29 of Insurance Ordinance, 2000.

12.2.2 Commercial paper

2010 (Number of notes)	2009	Face Value (Rupees)	Name of the investee entity	Note	2010 (Rupees in '000)	2009
2	-	5,000,000	Pak Electron Limited		<u>9,191</u>	<u>-</u>

This represent commercial papers having face value of Rs. 10 million purchased on October 28, 2010 at a cost of Rs. 8.935 million and carry markup at the rate of 16.11 percent (9 months KIBOR plus 2.5%). This commercial paper will mature on 25 July 2011.

Habib Insurance Company Limited

12.3 Available-for-sale

12.3.1 Units of open end mutual funds deposited with the State Bank of Pakistan - quoted

2010 (Number of units)	2009	Face Value (Rupees)	Name of the investee entity	Note	2010 (Rupees in '000)	2009
27,500	27,500	10	National Investment (Unit) Trust		252	252
3,714	3,714	50	Pakistan Income Fund		97	97
					349	349

12.3.2 Units of open end mutual funds - quoted

2010 (Number of Certificates)	2009				2010	2009
10,681	-	500	Atlas Money Market Fund		5,000	-

12.3.3 Term Finance Certificates - quoted

2010 (Number of Certificates)	2009				2010	2009
1,000	1,000	5,000	Bank Al-Falah Limited	12.3.2.1	4,764	4,632
1,000	1,000	5,000	Engro Fertilizers Limited	12.3.2.1	4,707	4,685
					9,471	9,317

12.3.3.1 These carry mark-up rate equal to six months KIBOR plus 1.50% and 1.55% per annum respectively, receivable semi-annually in arrears with no floor or cap. The credit ratings of the above securities are AA- and AA respectively.

12.3.4 Modaraba certificates - quoted

2010 (Number of Certificates)	2009				2010	2009
49,000	49,000	10	First Habib Bank Modaraba		331	203
2,015,000	1,525,000	5	First Habib Modaraba		13,695	9,017
109,000	109,000	10	Standard Chartered Modaraba		986	986
					15,012	10,206

Habib Insurance Company Limited

12.3.5 Ordinary shares of quoted / unquoted companies

2010 (Number of shares)	2009	Face Value (Rupees)	Name of the investee entity	2010 (Rupees in '000)	2009
Oil & Gas					
75,000	76,625	10	Shell Pakistan Limited	15,617	19,184
–	15,000	10	Oil & Gas Development Company Limited	–	1,665
105,000	25,000	10	Pakistan Oilfields Limited	29,040	5,742
135,000	–	10	Pakistan Petroleum Limited	28,359	–
Chemicals					
122,984	111,804	10	Dawood Hercules Chemicals Limited	24,395	20,103
100,000	250,000	10	Engro Corporation Limited	18,817	45,376
110,000	100,000	10	Fauji Fertilizer Company Limited	12,970	10,501
50,000	40,000	10	BOC Pakistan Limited	4,555	5,078
11,000	11,000	10	Clariant Pakistan Limited	1,922	1,922
12,500	–	10	ICI Pakistan Limited	2,133	–
Industrial Metals & Mining					
66,000	55,000	10	International Industires Limited	3,231	3,231
Construction & Materials					
50,000	50,000	10	Lucky Cement Limited	3,739	3,739
–	22,750	10	Maple Leaf Cement Factory Limited	–	86
–	22,500	10	Lafarge Pakistan Cement Company Limited	–	49
General Industries					
230,000	230,000	10	Packages Limited	33,711	33,711
8,257	7,507	10	Ghani Glass Limited	407	387
Electronic & Electrical Equipment					
11,537	11,537	10	Pakistan Cables Limited	632	589
20,000	20,000	10	Electric Lamp Manufacturers Ltd (unquoted)	–	–
Industrial Engineering					
62,000	62,000	5	Al-Ghazi Tractors Limited	14,934	14,934
57,500	45,000	10	Millat Tractors Limited	28,633	17,299
Support Services					
80,000	80,000	10	TRG Pakistan Limited - Class 'A'	286	170
Automobile & Parts					
20,000	20,000	5	Agriauto Industries Limited	1,190	1,190
19,200	16,000	10	Atlas Battery Limited	2,930	2,930
18,000	18,000	10	Pak Suzuki Motor Company Limited	1,257	1,601
Beverage					
1,320	1,320	10	Shezan International Limited	124	124
Food Producers					
150	150	10	Nestle Pakistan Limited	79	79
5,100	14,000	50	Unilever Pakistan Limited	22,472	32,680
443	443	10	Colony Sugar Mills Limited	–	–
20,000	20,000	10	Dewan Sugar Mills Limited	72	48
285,000	285,000	5	Habib ADM Limited	4,334	4,334
427	427	10	Kohinoor Sugar Mills Limited	2	2
36,300	33,000	10	Noon Sugar Mills Limited	435	906

Habib Insurance Company Limited

2010 (Number of shares)	2009	Face Value (Rupees)	Name of the investee entity	2010 (Rupees in '000)	2009
Personal Goods					
6,000	6,000	10	Bata Pakistan Limited	4,135	5,440
117	117	10	Colony Textile Mills Limited	–	1
11,174	11,174	10	Dawood Lawrencepur Limited	486	659
50,000	48,900	10	Gadoon Textile Mills Limited	2,862	1,450
475,525	475,525	10	Gul Ahmed Textile Mills Limited	13,904	12,839
28,549	28,549	10	Gulistan Spinning Mills Limited	197	214
4,575	4,575	10	Kohinoor Industries Limited	7	9
93	93	10	Kohinoor (Gujarkhan) Mills Limited (unquoted)	–	–
20	20	10	National Silk & Rayon Mills Limited	–	–
24,750	24,750	10	Nishat (Chunian) Limited	518	430
159,500	110,000	10	Nishat Mills Limited	9,762	7,782
8,000	8,000	10	Saif Textile Mills Limited	36	44
Household Goods					
–	5,861	10	Feroze 1888 Limited (formerly Nakhbandi Industries Limited)	–	50
Pharma & Bio Tech					
252,000	252,000	10	Abbott Laboratories (Pakistan) Limited	27,004	27,004
59,800	59,800	10	Glaxosmithkline Pakistan Limited	5,989	5,989
Fixed Line Telecommunication					
250,000	200,000	10	Pakistan Telecommunication Company Limited	4,794	3,530
Electricity					
535,000	325,000	10	The Hub Power Company Limited	19,978	10,099
70,000	70,000	10	Kot Addu Power Company Limited	3,199	3,199
–	47,000	10	Sitara Energy Limited	–	836
Gas Water & Multiutilities					
–	150,345	10	Sui Southern Gas Company Limited	–	2,012
Banks					
55,000	–	10	Habib Bank Limited	6,078	–
–	50,000	10	MCB Bank Limited	–	11,097
100,000	50,000	10	National Bank of Pakistan	7,214	3,738
–	262,940	10	NIB Bank Limited	–	1,262
283,872	250,000	10	Soneri Bank Limited	2,359	2,763
142,000	142,000	10	Standard Chartered Bank (Pakistan) Ltd.	1,221	1,271
50,000	35,000	10	United Bank Limited	2,943	2,095
Non Life Insurance					
55,000	50,000	10	Adamji Insurance Company Limited	4,813	6,235
154,000	140,000	10	Atlas Insurance Limited	5,770	5,770
108,695	83,190	10	EFU General Insurance Limited	4,787	8,837
513,750	428,125	10	IGI Insurance Limited	49,777	37,628
216,720	180,600	10	New Jubilee Insurance Company Limited	12,858	10,518
225,000	225,000	10	Pakistan Reinsurance Company Limited	3,656	5,906
3,500	3,500	10	PICIC Insurance Limited	28	18
Life Insurance					
56,666	25,000	10	EFU Life Assurance Limited	4,275	3,482

Habib Insurance Company Limited

2010 (Number of shares)	2009	Face Value (Rupees)	Name of the investee entity	2010 (Rupees in '000)	2009
Financial Services					
31,250	31,250	10	Arif Habib Corporation Limited (formerly Arif Habib Securities Limited)	778	1,540
–	443,188	10	Jahangir Siddiqui & Company Limited	–	13,327
5,459	5,459	10	JS Global Capital Limited	154	258
				455,858	424,992

12.3.6 Ordinary shares of quoted companies / units of open end mutual fund (related parties)

2010 (Number of shares/units)	2009	Face Value (Rupees)	Name of the investee entity	2010 (Rupees in '000)	2009
1,502,888	1,252,407	10	Bank AL Habib Limited	49,704	41,029
140,000	140,000	5	Dynea Pakistan Limited	1,722	1,722
833,265	1,209,951	100	First Habib Income Fund (units)	84,452	125,000
350,000	350,000	100	First Habib Stock Fund (units)	35,000	35,000
1,387,854	1,196,426	10	Habib Metropolitan Bank Limited	34,697	34,697
4,236,076	3,388,861	5	Habib Sugar Mills Limited	55,038	55,038
41,600	41,600	10	Indus Motor Company Limited	10,503	8,175
2,165,080	2,165,080	5	Shabbir Tiles and Ceramics Limited	18,360	23,816
1,293,947	1,444,956	5	Thal Limited	96,917	122,633
				386,393	447,110

12.4 The Company uses stock exchange quotation, at the balance sheet date to determine the market value of quoted equity securities. Had these investment been measured at fair value as required by International Accounting Standard (IAS) - 39, the carrying value of investments and equity of the Company as at December 31, 2010 would have been higher by Rs. 176.916 million (2009: higher by Rs. 85.35 million).

12.5 Available-for-sale

Cost	12.5.1	1,347,330	1,377,191
Provision for impairment - net of reversals	12.5.2	(475,247)	(485,217)
		872,083	891,974

12.5.1 Market value of quoted available-for-sale investments is Rs. 1,048.999 million (December 31, 2009: Rs. 977.327 million).

Habib Insurance Company Limited

	Note	2010 (Rupees in '000)	2009
12.5.2 Provision for impairment - net of reversals			
Opening provision		485,217	474,556
(Reversal) / charge for the year		(9,970)	10,661
Closing provision		<u>475,247</u>	<u>485,217</u>
13. DEFERRED TAXATION			
Deferred tax asset / (liability) - net			
Deferred taxation comprises temporary difference relating to following:			
Taxable temporary differences			
Accelerated tax depreciation allowance		(773)	(1,104)
Deductible temporary differences			
Provisions		16,365	8,379
		<u>15,592</u>	<u>7,275</u>
13.1 Reconciliation of deferred tax			
Opening provision		7,275	5,728
Charge for the year		8,317	1,547
Closing balance		<u>15,592</u>	<u>7,275</u>
14. PREMIUMS DUE BUT UNPAID - unsecured			
Considered good	14.1	181,589	197,745
Considered doubtful		20,135	14,250
		<u>201,724</u>	<u>211,995</u>
Provision against doubtful debts	14.2	(20,135)	(14,250)
		<u>181,589</u>	<u>197,745</u>
14.1	This includes an amount of Rs. 73.719 million (December 31, 2009: Rs. 89.291 million) due from related parties.		

Habib Insurance Company Limited

	Note	2010 (Rupees in '000)	2009
14.2 Provision against premium due but unpaid - net			
Balance as on January 1,		14,250	8,913
Charge for the year		5,885	5,337
Balance as on December 31,		<u>20,135</u>	<u>14,250</u>
15. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS - unsecured			
Considered good			
- Premiums due from Co-insurers		77,159	87,496
- Foreign reinsurers		3,946	7,943
- Local reinsurers		17,811	15,251
- Claims due from Co-insurers		17,582	13,014
Considered doubtful - Premiums due from Co-insurers		10,249	8,791
		<u>126,747</u>	<u>132,495</u>
Provision against amount due from co-insurers	15.1	(10,249)	(8,791)
		<u>116,498</u>	<u>123,704</u>
15.1 Provision against premium due from Co-insurers - net			
Balance as on January 1,		8,791	8,640
Charge for the year		1,458	151
Balance as on December 31,		<u>10,249</u>	<u>8,791</u>
16. ACCRUED INVESTMENT INCOME			
Available-for-sale investments			
- Dividend income		-	6,707
- Mark-up on term finance certificates		141	135
Profit on bank accounts		11	6
		<u>152</u>	<u>6,848</u>
17. ADVANCES, DEPOSITS AND PREPAYMENTS			
Security deposits		1,550	1,674
Advances		4,267	829
Prepaid reinsurance premium ceded		139,439	122,842
Others		4,553	2,937
		<u>149,809</u>	<u>128,282</u>

Habib Insurance Company Limited

	Note	2010 (Rupees in '000)	2009
18. SUNDRY RECEIVABLES			
Federal excise duty receivable	18.1	1,408	1,408
Receivable against sale of investments		57,217	25,000
Other receivables		2,460	729
		<u>61,085</u>	<u>27,137</u>

18.1 The amount represents Federal Excise Duty (FED) paid by the Company under protest pertaining to prior years on the order of the Collector of Customs, Sales Tax and Federal Excise. The Company is of the view that it is not liable to pay FED as the same was not charged and collected. Presently, the matter is under appeal with the appellate authorities. Based on the merits of the case, the Company is confident that the ultimate decision would be in its favour. Hence, no provision has been made in these financial statements against receivable.

19. FIXED ASSETS

Tangible - operating fixed assets	19.1	35,294	40,772
Capital work in progress	19.2	3,000	436
Intangible - computer software	19.3	654	–
		<u>38,948</u>	<u>41,208</u>

19.1 Tangible - operating assets

(Rupees in '000)

	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 10	Depreciation Rate %
	As at Jan. 01, 10	Additions / (disposals)	As at Dec. 31, 10	As at Jan. 01, 10	for the year/ (disposals)	As at Dec. 31, 10		
Furniture, fixtures and office equipments	29,258	1,636 (946)	29,948	18,102	2,656 (532)	20,226	9,722	10-20
Computers and related equipment	9,721	1,153 (619)	10,255	8,292	1,129 (619)	8,802	1,453	33
Motor vehicles	55,212	5,514 (7,183)	53,543	27,025	5,739 (3,340)	29,424	24,119	20
	<u>94,191</u>	<u>8,303 (8,748)</u>	<u>93,746</u>	<u>53,419</u>	<u>9,524 (4,491)</u>	<u>58,452</u>	<u>35,294</u>	

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	Cost			Accumulated Depreciation			Written Down Value as at Dec. 31, 09	(Rupees in '000) Depreciation Rate %
	As at Jan. 01, 09	Additions / (disposals)	As at Dec. 31, 09	As at Jan. 01, 09	for the year/ (disposals)	As at Dec. 31, 09		
Furniture, fixtures and office equipments	27,588	1,837 (167)	29,258	15,598	2,610 (106)	18,102	11,156	10-20
Computers and related equipment	9,673	636 (588)	9,721	7,544	1,322 (574)	8,292	1,429	33
Motor vehicles	50,534	8,845 (4,167)	55,212	23,668	6,245 (2,888)	27,025	28,187	20
	<u>87,795</u>	<u>11,318</u> <u>(4,922)</u>	<u>94,191</u>	<u>46,810</u>	<u>10,177</u> <u>(3,568)</u>	<u>53,419</u>	<u>40,772</u>	

19.2 Capital work in progress

This represents advance to suppliers in respect of application software amounting Rs. 3.0 million (2009: Rs. 0.436 million).

19.3 Intangible assets

	Cost			Amortisation			Written Down Value as at Dec. 31, 10	Amortisation Rate %
	As at Jan. 01, 10	Additions	As at Dec. 31, 10	As at Jan. 01, 10	for the year	As at Dec. 31, 10		
Computer software	<u>9,070</u>	<u>782</u>	<u>9,852</u>	<u>9,070</u>	<u>128</u>	<u>9,198</u>	<u>654</u>	20
2009	<u>9,070</u>	<u>-</u>	<u>9,070</u>	<u>7,929</u>	<u>1,141</u>	<u>9,070</u>	<u>-</u>	20

Habib Insurance Company Limited

19.4 Disposal of tangible assets

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Book Value</u>	<u>Sale Proceeds</u>	<u>Net gain / (loss) (note 21)</u>	<u>Mode of disposal</u>	<u>Sold to</u>
(Rupees in '000)							
MOTOR VEHICLES							
Honda City	857	576	281	350	69	Negotiation	Dr. Arshad Ali
Habib Motorcycle	41	20	21	20	(1)	Negotiation	Abbas Abdi
Totota Corolla	1,229	975	254	650	396	Negotiation	Kashif Raza
Habib Motorcycle	44	23	21	18	(3)	Negotiation	Syed Ali Aqdas Shehzad
Dihatsu Cuore	376	301	75	275	200	Negotiation	Mr. Mazhar Abbas
Totoya Corolla	595	582	13	175	162		
Suzuki Splinter Motor Cycle	65	45	20	15	(5)		
Habib Motorcycle	41	23	18	15	(3)		
Yamaha Motorcycle	63	38	25	15	(10)		
Toyota Camry	2,154	350	1,804	2,000	196		
	2,918	1,038	1,880	2,220	340	Negotiation	Kamran Hyder
Toyota Corolla	1,244	83	1,161	1,225	64	Negotiation	Mirza Mehmood Baig
Habib Motor Cycle	41	21	20	15	(5)	Negotiation	Muhammad Ishaq
Dihatsu Cuore	433	303	130	425	295	Theft	Insurance Claim
Furniture & fixtures - (Various)							
	273	130	143	119	(24)	Negotiation	M Z Haider & Nasir Abbas
	430	215	215	51	(164)	-	Due to closure of Branches
Computer and related equipments - (Various)							
	619	619	-	45	45	Negotiation	Various Suppliers
Office equipment							
	46	23	23	28	5	Negotiation	Zeeshan Bakht
	53	42	11	30	19	Negotiation	Nasir Abbas Javaid
	144	122	22	36	14	Negotiation	Various Suppliers
	<u>8,748</u>	<u>4,491</u>	<u>4,257</u>	<u>5,507</u>	<u>1,250</u>		

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	Note	2010	2009
		(Rupees in '000)	
20. EXPENSES			
Salaries and wages including bonus, contribution to provident fund and staff welfare	20.1	85,784	78,155
Motor car expenses		14,340	12,691
Travelling and entertainment expenses		4,223	4,025
Rent, taxes and electricity		12,552	11,587
Communications		4,901	5,502
Printing and stationery		3,108	3,020
Repair and maintenance		3,286	2,769
Legal and professional expenses		3,374	3,083
Corporate & subscription		4,108	4,384
Depreciation		9,524	10,177
Amortisation		128	1,141
Donation	20.2	2,000	2,000
Auditors' remuneration	20.3	751	649
Provision for amount due from other insurers/ reinsurers	15.1	1,458	151
Provision for premiums due but unpaid	14.2	5,885	5,337
Worker's Welfare Fund		3,922	4,226
Other expenses		4,816	6,454
		164,160	155,351

The above expenses represents an amount of Rs. 114.238 million and Rs. 49.922 million (2009 : Rs. 102.495 million and Rs. 52.856 million) charged appropriately to underwriting under their respective classes and general and administration expenses respectively.

20.1 This includes staff retirement benefits amounting to Rs. 6.813 million (2009: Rs. 7.094 million).

20.2 An amount of Rs. 2.0 million (2009: Rs. 2.0 million) was donated to the following Trusts in which the Directors' have interest:

Name of Institution / Address	Director / Trustee	(Rupees in '000)
Al-Sayyeda Benevolent Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Rafiq M. Habib	
	2. Mr. Mansoor G. Habib	
	3. Mr. Aun Mohammad A. Habib	400
Rehmatbai Habib Widows & Orphans Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Aun Mohammad A. Habib	400
Rehmatbai Habib Food & Clothing Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Mohamedali R. Habib	
	2. Mr. Sajjad Hussain Habib	
	3. Mr. Aun Mohammad A. Habib	400
Habib Poor Fund UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Mansoor G. Habib	
	2. Mr. Mohamedali R. Habib	
	3. Mr. Aun Mohammad A. Habib	400
Habib Medical Trust UBL Building, I.I. Chundrigar Road, Karachi	1. Mr. Rafiq M. Habib	
	2. Mr. Mohamedali R. Habib	400
		2,000

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		2010	2009
		(Rupees in '000)	
20.3 Auditors' remuneration			
Annual audit		300	275
Interim review		125	115
Certifications fees and review of statement of compliance with Code of Corporate Governance		175	175
Out of pocket expenses		151	84
		<u>751</u>	<u>649</u>
21. OTHER INCOME - NET			
Income from financial assets			
Profit on bank accounts		3,793	4,203
Exchange gain		5	345
Mark-up on staff loan	11.1	124	89
		<u>3,922</u>	<u>4,637</u>
Income from non-financial assets			
Net gain on sale of fixed assets	19.4	1,250	1,055
Others		112	40
		<u>1,362</u>	<u>1,095</u>
		<u>5,284</u>	<u>5,732</u>
22. TAXATION - NET			
Current		27,700	8,100
Prior		4,323	-
Deferred		(8,317)	(1,547)
		<u>23,706</u>	<u>6,553</u>
22.1 Relationship between tax expense and accounting profit			
Profit before taxation for the year		<u>192,188</u>	<u>211,296</u>
Tax at the applicable rate of 35% (December 31, 2009: 35%)		67,266	73,954
Tax effect of expenses that are to allowable in determining taxable income		(3,490)	1,593
Tax effect of capital gains subject to separate rate of tax		(27,501)	(54,846)
Tax effect of income subject to lower rates		(10,831)	(8,385)
Tax effect of tax losses		-	(5,829)
Others		(1,738)	66
		<u>23,706</u>	<u>6,553</u>

22.2 In respect of tax years 2004 to 2007, the tax authorities have served notices on the Company under section 122(5A) in the returns filed by the Company in respect of the aforesaid years. The amendment mainly relates to proration of expenses against dividend and capital gains. Further, the tax authorities have also issued orders for the tax year 2008 and 2009 where certain disallowances have been made which mainly relates to the same matter. However, subsequent to the year end the Commissioner Income Tax has decided the matter in the favor of the Company. The Company has filed return of total income for the tax year 2010 (financial year ended December 31, 2009) which is deemed to have been assessed under the Income Tax Ordinance, 2001 unless selected by the taxation authorities for audit purposes.

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22.3 Subsequent to the year end, the Income Tax (Amendment) Ordinance, 2011 was promulgated on March 15, 2011. As per the Company's policy, provision for current year Tax has been made as per the law enacted or substantially enacted at the balance sheet date.

23. EARNINGS PER SHARE - basic and diluted

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

	2010 (Rupees in '000)	2009
Profit after tax for the year	<u>168,482</u>	<u>204,743</u>
	(Number of shares)	
Weighted average number of shares of Rs. 5/- each	<u>80,080,650</u>	<u>80,080,650</u>
	(Rupees)	
Basic earnings per share of Rs. 5/- each	<u>2.10</u>	<u>2.56</u>

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

24. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged to in the financial statements, including all benefits, to the Chief Executive, Directors and Executives / Key Management Personnel of the Company are as follows:

	Chief Executive		Directors		Executives / Key Management Personnel		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
	(Rupees in '000)							
Fees	<u>-</u>	<u>-</u>	<u>210</u>	<u>210</u>	<u>-</u>	<u>-</u>	<u>210</u>	<u>210</u>
Managerial remuneration	3,600	3,600	-	-	14,143	14,956	17,743	18,556
Bonus	-	-	-	-	2,555	2,033	2,555	2,033
Retirement benefits	180	183	-	-	748	831	928	1,014
Others	733	860	-	-	1,975	2,330	2,708	3,190
	<u>4,513</u>	<u>4,643</u>	<u>-</u>	<u>-</u>	<u>19,421</u>	<u>20,150</u>	<u>23,934</u>	<u>24,793</u>
Number of persons	<u>1</u>	<u>1</u>	<u>7</u>	<u>7</u>	<u>10</u>	<u>9</u>	<u>18</u>	<u>17</u>

24.1 In addition to the above, the Chief Executive and Executives of the Company are provided with Company maintained cars and medical reimbursement at actual as per the Company's policy.

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25. TRANSACTIONS WITH RELATED PARTIES

25.1 Related parties of the Company comprise of associated companies, companies with common directors, major shareholders, staff retirement funds, directors and key management personnel.

Transactions with related parties during the year and balances with them as at the year end are as follows:

<i>Transactions and balances with associated companies</i>	2010	2009
	(Rupees in '000)	
<i>Transactions during the year with associated companies</i>		
Premium written	316,335	259,776
Claims paid	79,437	98,419
Dividend received	10,210	9,158
Dividend paid	11,649	4,109
Investment made	376,500	638,394
Investment sold	477,128	579,136
Interest received on bank accounts	3,793	4,204
Bank charges	482	358
Assets purchased	1,200	4,132
<i>Balances with associated companies</i>		
Premium due but unpaid	73,074	88,500
Claims outstanding	67,005	10,360
Bank balances	56,336	24,732
Profit receivable on bank accounts	11	6
Investment held	386,393	447,110
<i>Bonus from associated companies</i>		
	(Number of shares / units)	
Bonus shares received	1,578,114	1,597,452
Bonus shares issued	—	821,818
Bonus units received	63,216	40,874
<i>Transactions during the year with other related parties including key management personnel</i>		
Premium written	2,698	2,379
Claims paid	2,590	2,164
Share registrar fees paid	266	191
Brokerage expenses paid	1,090	1,299
Contribution to the provident fund	2,579	2,560
Proceeds from sale of assets	8	603
<i>Balance with other related parties including key management personnel</i>		
Premium due but unpaid	—	791
Claims outstanding	2,753	373
Due to the provident fund	27	544

25.2 Remuneration to the key management personnel are in accordance with the terms of their employment (refer note 24). Contribution to the provident fund is in accordance with the Company's staff services rules.

25.3 Details of other balances and transactions with related parties during year ended December 31, 2009 are disclosed in note 12.3.6, and 14.1 to these financial statements.

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26. SEGMENT INFORMATION

Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirement of Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The following table presents information regarding segment assets and liabilities as at December 31, 2010 and December 31, 2009, allocated capital expenditures and depreciation / amortisation during the year. The above have been assigned to the following segments on the basis of gross premium earned by the segments.

(Rupees in '000)

	Fire and Property		Marine and Transport		Motor		Others		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Segment Assets										
Segment Assets	226,907	246,733	148,708	129,813	102,879	132,123	114,609	109,273	593,103	617,942
Unallocated corporate assets									1,073,882	1,007,529
Consolidated total assets									<u>1,666,985</u>	<u>1,625,471</u>
Segment Liabilities										
Segment liabilities	261,091	269,473	171,111	141,778	118,378	144,300	131,875	119,344	682,455	674,895
Unallocated corporate liabilities									132,645	127,032
Consolidated total liabilities									<u>815,100</u>	<u>801,927</u>
Capital expenditure										
Capital expenditure	3,476	4,519	2,278	2,378	1,576	2,420	1,756	2,001	<u>9,086</u>	<u>11,318</u>
Depreciation / amortisation	3,693	4,519	2,420	2,378	1,674	2,420	1,865	2,001	<u>9,652</u>	<u>11,318</u>

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27. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The Company issues contracts that transfer insurance risk or financial risk or both. This section summarises these risks and the way the Company manages them.

27.1 Insurance risk management

Insurance risk

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of compensation to the insured. Generally most insurance contracts carry the insurance risk for a period of one year.

The Company accepts insurance through issuance of general insurance contracts. For these general insurance contracts the most significant risks arise from fire, atmospheric disturbance, earthquakes, transit, theft and third party liabilities etc.

The Company's risk exposure is mitigated by employing a comprehensive framework to identify, assess, manage and monitor risk. This framework includes implementation of underwriting strategies which aim to ensure that the underwritten risks are well diversified in terms of type and amount of the risk. Adequate reinsurance is arranged to mitigate the effect of the potential loss to the Company from individual to large or catastrophic insured events. Further, the Company adopts strict claim review policies including active management and prompt pursuing of the claims and regular detailed review of claim handling procedures.

(a) Frequency and severity of claims

Risk associated with general insurance contracts includes the reasonable possibility of significant loss as well as the frequent occurrence of the insured events. This has been managed by having in place underwriting strategy, reinsurance arrangements and proactive claim handling procedures.

The reinsurance arrangements against major risk exposure include excess of loss, quota share, surplus arrangements and catastrophic coverage. The objective of having such arrangements is to mitigate adverse impacts of severe losses on Company's net retentions.

(b) Uncertainty in the estimation of future claim payments

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events as per terms and condition of the insurance contract.

An estimated amount of the claim is recorded immediately on the intimation to the Company. The estimation of the amount is based on management judgement or preliminary assessment by the independent surveyor appointed for the purpose. The initial estimates include expected settlement cost of the claims. Provision for IBNR is based on the management's best estimate which takes into account the past trends, expected future patterns of reporting of claims and the claim actually reported subsequent to the balance sheet date.

There are several variable factors which affect the amount and timing of recognised claim liabilities. The Company takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from initial recognised amount. Similarly, the provision for claims incurred but not reported is based on historic reporting pattern of the claims; hence, actual amount of incurred but not reported claims may differ from the amount estimated. Outstanding claims are reviewed on a periodic basis.

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(c) Key assumptions

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

(d) Changes in assumptions

The Company did not change its assumptions for the insurance contracts as disclosed in above (b) and (c).

(e) Sensitivity analysis

The insurance claim liabilities are sensitive to the incidence of insured events and severity/ size of claims. The impact of 10 % increase/ decrease in incidence of insured events on gross claim liabilities, underwriting results, net claim liabilities, profit before tax and shareholder's equity is as follows:

	<u>Underwriting results</u>		<u>Shareholder's equity</u>	
	2010	2009	2010	2009
	(Rupees in '000)			
Average claim cost				
Fire and property	2,406	2,116	1,564	1,376
Marine and transport	3,779	3,187	2,457	2,071
Motor	8,771	8,441	5,701	5,487
Other classes	3,423	3,826	2,225	2,487
	18,379	17,570	11,947	11,421
	18,379	17,570	11,947	11,421

Concentration of risk

To optimise 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 risk 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 with the commercial/ industrial/ residential occupation of the insured. Details regarding the fire separation/ segregation with respect to the manufacturing process, 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/ reinsurance personnel for their evaluation. Reference is made to the standard construction specification as laid down by IAP (Insurance Association of Pakistan). For instance, the presence of perfect party walls, double fire proof iron doors, physical separation between the building within an insured's premises. It is basically the property contained within an area which is separated by another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area.

The ability to manage catastrophic risk is tied managing the density of risk within a particular area. For catastrophic aggregates, the system assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardising Target Accumulations) codes with reference to the accumulation of sum insured in force at any particular location against natural perils.

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For marine risks, complete underwriting details such as sum insured, mode of transport (air/ inland transit), vessel identification, sailing date, origin and destination of the shipment, per carry limit, accumulation of sum insured on a single voyage etc are taken into consideration.

A number of proportional and non-proportional reinsurance arrangements are in place to protect the net account. Apart from the adequate event limit which is a multiple of the treaty capacity or the primary recovery from the proportional treaty. Losses may also be recovered from the non-proportional treaty which is very much in line with the risk management philosophy of the Company.

The Company minimises its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

The concentration of risk by type of contracts based on single risk with maximum exposure is summarised below:

	Gross sum insured		Reinsurance		Net	
	2010	2009	2010	2009	2010	2009
	(Rupees in '000)					
Fire and property	8,276	6,028	8,254	6,006	22	22
Marine and transport	258	610	246	598	12	12
Motor	19	13	18	12	1	1
Other classes	3,520	2,605	3,490	2,575	30	30
	<u>12,073</u>	<u>9,256</u>	<u>12,008</u>	<u>9,191</u>	<u>65</u>	<u>65</u>

Claims development tables

The following table shows the development of claims over a period of time on gross basis. For each class of business the uncertainty about the amount and timings of claims payment is usually resolved within a year.

Analysis on gross basis

Accident year	2006	2007	2008	2009	2010	Total
	(Rupees in '000)					
Estimate of ultimate claims cost:						
At end of accident year	<u>56,946</u>	<u>259,686</u>	<u>151,082</u>	<u>78,056</u>	<u>112,058</u>	<u>657,828</u>
One year later	<u>56,260</u>	<u>252,731</u>	<u>137,374</u>	<u>90,349</u>	<u>–</u>	<u>536,714</u>
Two years later	<u>49,546</u>	<u>253,433</u>	<u>99,812</u>	<u>–</u>	<u>–</u>	<u>402,791</u>
Three years later	<u>49,225</u>	<u>253,886</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>303,111</u>
Four years later	<u>49,302</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>49,302</u>
Estimate of cumulative claims	49,302	253,886	99,812	90,349	112,058	605,407
Cumulative payment made to date	<u>(49,090)</u>	<u>(253,314)</u>	<u>(95,194)</u>	<u>(73,082)</u>	<u>–</u>	<u>(470,680)</u>
Liability for outstanding claims	<u>212</u>	<u>572</u>	<u>4,618</u>	<u>17,267</u>	<u>112,058</u>	<u>134,727</u>

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27.2 Financial risk management

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

27.2.1 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 industries and by continually assessing the credit worthiness of counterparties.

27.2.1.1 Exposure to credit risk

Credit risk of the Company arises principally from the balances with banks, loans to employees, investments (except for investment in government securities and listed equity shares), premium due but unpaid, amount due from other insurers/ reinsurers, reinsurance and other recoveries against outstanding claims and sundry receivable (except receivable against FED). To reduce the credit risk the management continuously reviews and monitors the credit exposure towards the policyholders and other insurers/ reinsurers and makes provision against those balances considered doubtful of recovery.

In summary, compared to the amount included in statement of assets and liabilities, the maximum exposure to credit risk as at December 31, is as follows:

	Note	December 31, 2010		December 31, 2009	
		Balance as per the financial statement	Maximum exposure	Balance as per the financial statement	Maximum exposure
(Rupees in '000)					
Bank balances	10	57,590	57,590	25,581	25,581
Loan to employees	11	3,143	3,143	2,268	2,268
Investments	12	925,540	18,662	932,041	9,317
Premiums due but unpaid	14	181,589	181,589	197,745	197,745
Amounts due from other insurers/ reinsurers	15	116,498	116,498	123,704	123,704
Accrued investment income	16	152	152	6,848	6,848
Reinsurance recoveries against outstanding claims		80,598	80,598	87,254	87,254
Advances and deposits	17	10,370	10,370	5,440	5,440
Sundry receivables	18	61,085	59,677	27,137	25,729
		1,436,565	528,279	1,408,018	483,886

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Differences in the balances as per financial statements and maximum exposure in investments is due to investments in government securities of Rs. 44.266 million (2009: 40.067) and listed equity shares of Rs. 862.613 million (2009: 882.657 million) which are not exposed to credit risk. Furthermore, FED receivable of Rs. 1.408 million classified under sundry receivables (2009: Rs. 1.408 million) is also not considered to carry credit risk.

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

	Rating		Rating Agency
	Short term	Long term	
Habib Metropolitan Bank Limited	A1+	AA+	PACRA
Bank AL Habib Limited	A1+	AA+	PACRA
Habib Bank Limited	A1+	AA+	JCR-VIS
United Bank Limited	A1+	AA+	JCR-VIS

The credit quality of Company's exposure in Term Finance Certificates are disclosed in note 12.3.3.1 of the financial statements.

The management monitors exposure to credit risk in premium receivable from customers through regular review of credit exposure and prudent estimates of provisions for doubtful receivables as disclosed in note 14 to the financial statements.

27.2.1.2 Concentration of credit risk

Concentration of credit risk arises when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. The Company manages concentration of credit risk through diversification of activities among individuals, groups and industry segments.

Sector-wise analysis of premium due but unpaid at the reporting date was:

	December 31, 2010		December 31, 2009	
	(Rupees in'000)	%	(Rupees in'000)	%
Automobiles	30,388	15.1	40,338	19.0
Banks, Modaraba and Leasing	27,098	13.4	25,407	12.0
Textile and composite	28,703	14.2	26,501	12.5
Sugar	9,979	5.0	9,432	4.4
Chemicals and allied industries	4,632	2.3	5,673	2.7
Glass, Ceramics and tiles	7,341	3.6	11,155	5.3
Cable, Engineering and steel	3,431	1.7	2,242	1.1
Cement	220	0.1	176	0.1
Food and confectionary	4,167	2.1	6,479	3.1
Fuel and energy	3,681	1.8	2,209	1.0
Insurance	988	0.5	1,180	0.6
Pharmaceuticals	4,311	2.1	11,831	5.6
Others	76,785	38.1	69,372	32.6
	<u>201,724</u>	<u>100</u>	<u>211,995</u>	<u>100</u>

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Age analysis of premium due but unpaid at the reporting date was:

	December 31, 2010		December 31, 2009	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	149,645	–	163,962	–
1-2 years	15,672	–	26,586	–
2-3 years	19,131	2,859	7,365	168
Over 3 years	17,276	17,276	14,082	14,082
Total	201,724	20,135	211,995	14,250

The Company enters into re-insurance/ co-insurance arrangements with re-insurers/ other insurers having sound credit ratings accorded by reputed credit rating agencies. Further, the Company is required to comply with the requirements of circular no. 32/ 2009 dated October 27, 2009 issued by SECP which requires an insurance company to place at least 80% of their outward treaty cessions with reinsurers rated 'A' or above by Standard & Poors with the balance being placed with entities rated at least 'BBB' by reputable ratings agency. An analysis of all insurer/ reinsurance assets recognised by the rating of the entity from which it is due is as follows:

	Amount due from reinsurers	Reinsurance recoveries against outstanding claims	Prepaid reinsurance premium ceded	2010	2009
				(Rupees in '000)	
A or above (including PRCL)	125,106	80,598	124,399	330,103	331,222
BBB	904	–	15,040	15,944	6,443
Others	738	–	–	738	4,926
	126,748	80,598	139,439	346,785	342,591

Age analysis of amount due from other insurers/ reinsurers at the reporting date was:

	2010		2009	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	62,355	–	87,056	–
1-2 years	39,382	–	22,939	–
Over 2 years	25,011	10,249	22,500	8,791
Total	126,748	10,249	132,495	8,791

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Age analysis of reinsurers recoveries against outstanding claims at the reporting date was:

	2010		2009	
	Gross	Impairment	Gross	Impairment
	(Rupees in '000)			
Upto 1 year	64,372	–	36,923	–
1-2 years	13,140	–	49,972	–
Over 2 years	3,086	–	359	–
Total	80,598	–	87,254	–

In respect of the aforementioned insurance and reinsurance assets, the Company takes into account its past history/ track record of recoveries and financial position of the counterparties while creating provision for impairment. Further, reinsurance recoveries are made when corresponding liabilities are settled.

27.2.2 Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulty in meeting its financial obligations associated with financial liabilities. Liquidity risk arises because of the possibility that the Company might be unable to meet its payment obligations that are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities. The maturity profile is monitored to ensure adequate liquidity is maintained.

The following are the contractual maturities of financial liabilities:

	2010	2009
	Carrying Amount (Rupees in '000)	
Non-derivative financial liabilities		
Provision for outstanding claims	134,727	141,095
Amount due to other insurers/ reinsurers	88,272	102,823
Accrued expenses	9,483	10,552
Other creditors and accruals	142,717	150,848
Unclaimed dividends	23,627	19,643
	398,826	424,961

The carrying amounts represent contractual cash flows maturing within one year.

27.2.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices may affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. All transactions are carried in Pak Rupees therefore, the Company is not exposed to currency risk. However, the Company is exposed to interest rate risk and other price risk.

Habib Insurance Company Limited

27.2.3.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate exposure arises from balances held in profit and loss sharing accounts with reputable banks, term finance certificates and government securities. The Company limits interest rate risk by monitoring changes in interest rates. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instruments are:

	2010 Effective interest rate (in %)	2009 (in %)	2010 (Rupees in '000)	2009 (Rupees in '000)
Fixed rate instruments				
- Government securities	(11.85 to 12.44)	(11.8 to 14.1)	44,266	40,067
- Commercial paper	(16.11)	-	9,191	-
			<u>53,457</u>	<u>40,067</u>
Variable rate instruments				
- Bank balances	(5 to 11)	(5 to 11)	46,212	18,365
- Term finance certificates	(15.14 to 14.86)	(13.9 to 14.2)	9,471	9,317
			<u>55,683</u>	<u>27,682</u>

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account and equity of the Company.

Cash flow sensitivity analysis for variable rate instruments

The Company is exposed to cash flow interest rate risk in respect of its balances with profit and loss sharing account with banks and term finance certificates. A change of 100 basis points in interest rates at the year end would not have material impact on profit for the year and equity of the Company.

27.2.3.2 Equity price risk

Equity price risk is the risk of changes in the fair value of equity securities as the result of changes in the levels of KSE-100 Index and the value of individual shares. The equity price risk exposure arises from the Company's investments in equity securities and units of mutual funds. This arises from investments held by the Company for which prices in the future are uncertain. The Company policy is to manage price risk through diversification and selection of securities within specified limits set by the management. A summary analysis of investments by industry sector is disclosed in note 12 to these financial statements.

The Management monitors the fluctuations of prices of equity securities on regular basis. The Company also has necessary skills for monitoring and managing the equity portfolio in line with fluctuations of the market.

Market prices are subject to fluctuation and consequently the amount realised in the subsequent sale of an investment may significantly differ from the reported market value. Furthermore, amount realised in the sale of a particular security may be affected by the relative quantity of the security being sold.

Sensitivity analysis of equity investment as at the reporting date is as follows:

For available-for-sale equity investments, in case of 10% decrease in equity prices at the reporting date, the net income and equity would have been lower by Rs. 29.688 million (2009: 34.675 million). However, an increase of 10% in equity prices at the reporting such increase is restricted to amount of cost of investment of such securities, i.e., Rs. 20.556 million (2009: 27.403 million) as per the policy of the Company.

Habib Insurance Company Limited

27.3 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The carrying values of all financial assets and financial liabilities approximate their fair values, except for certain equity and debt instruments held, whose fair values have been disclosed in their respective notes to these financial statements.

28. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

The Company currently meets the paid-up capital requirement as required by the Securities and Exchange Commission of Pakistan.

29. NUMBER OF EMPLOYEES

The number of employees at the end of year was 210 (2009: 217).

30. SUBSEQUENT EVENT - NON ADJUSTING

In the meeting held on March 30, 2011, the Board of Directors of the Company proposed a final cash dividend of Rs. 1.25 per share (2009: 1.75 per share) amounting to Rs. 100.101 million (2009: 140.141 million) and bonus shares in the ratio of one share for every eight shares held (2009: Nil) amounting to Rs. 50.050 million (2009: Nil) for the year ended December 31, 2010, for approval by the members in the Annual General Meeting to be held on April 30, 2011.

31. RECLASSIFICATION

Following reclassifications have been made in these financial statements in order to give better and more appropriate presentation:

	From	To	2009 (Rupees in '000)
Salvage recoveries	Provision for outstanding claims (including IBNR)	Reinsurance and other recoveries against outstanding claims	9,136

32. DATE OF AUTORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors in their meeting held on March 30, 2011.

RAFIQ M. HABIB
Chairman

MAZHER ALI JUMANI
Director

MANSOOR G. HABIB
Director

ALI RAZA D. HABIB
*Managing Director
& Chief Executive*

Habib Insurance Company Limited

Pattern of Shareholding as at December 31, 2010

Number of Shareholders	Size of Shareholding Rs. 5/- each	Total Shares Held
307	1 to 100	9,839
312	101 to 500	91,957
217	501 to 1,000	166,411
517	1,001 to 5,000	1,296,654
169	5,001 to 10,000	1,265,205
64	10,001 to 15,000	1,783,092
50	15,001 to 20,000	845,744
22	20,001 to 25,000	500,637
20	25,001 to 30,000	560,827
15	30,001 to 35,000	485,232
10	35,001 to 40,000	384,764
17	40,001 to 45,000	701,133
7	45,001 to 50,000	334,443
9	50,001 to 55,000	474,069
10	55,001 to 60,000	570,242
10	60,001 to 65,000	635,977
3	65,001 to 70,000	208,391
8	70,001 to 75,000	581,886
5	75,001 to 80,000	394,403
18	80,001 to 85,000	1,478,989
4	85,001 to 90,000	355,377
4	90,001 to 95,000	373,589
2	95,001 to 100,000	198,625
7	100,001 to 105,000	703,146
5	105,001 to 110,000	539,997
2	110,001 to 115,000	223,264
1	115,001 to 120,000	115,042
4	120,001 to 125,000	484,709
8	125,001 to 130,000	1,026,310
6	130,001 to 135,000	801,926
1	135,001 to 140,000	135,688
1	140,001 to 145,000	142,975
3	145,001 to 150,000	440,436
1	150,001 to 155,000	154,868
4	155,001 to 160,000	627,212
7	160,001 to 165,000	1,123,574
3	175,001 to 180,000	528,579
3	180,001 to 185,000	551,741
6	195,001 to 200,000	197,811
3	200,001 to 205,000	1,201,200
2	210,001 to 215,000	642,828
1	220,001 to 225,000	445,305
1	225,001 to 230,000	228,775
1	230,001 to 235,000	231,431
1	240,001 to 245,000	243,649
1	245,001 to 250,000	247,093
1	250,001 to 255,000	250,731
1	265,001 to 270,000	265,518
2	270,001 to 275,000	544,106
1	275,001 to 280,000	278,823
2	285,001 to 290,000	577,952
2	290,001 to 295,000	583,749
1	310,001 to 315,000	310,957
1	315,001 to 320,000	318,977
2	330,001 to 335,000	663,304
1	340,001 to 345,000	340,632
1	345,001 to 350,000	348,732
3	350,001 to 355,000	1,051,584
1	370,001 to 375,000	371,770
1	380,001 to 385,000	384,246
1	385,001 to 390,000	389,029
1	390,001 to 395,000	390,314
5	400,001 to 405,000	2,006,053
1	405,001 to 410,000	409,387
1	420,001 to 425,000	420,661
1	445,001 to 450,000	448,450
2	480,001 to 485,000	960,966
1	500,001 to 505,000	504,504
1	510,001 to 515,000	513,000
1	520,001 to 525,000	523,283
1	525,001 to 530,000	528,531
1	540,001 to 545,000	544,185
2	560,001 to 565,000	1,125,131
1	565,001 to 570,000	569,072
1	640,001 to 645,000	640,129
1	650,001 to 655,000	650,449
1	660,001 to 665,000	664,668
1	685,001 to 690,000	688,329
2	700,001 to 705,000	1,407,920
1	790,001 to 795,000	793,266
1	805,001 to 810,000	807,306
1	840,001 to 845,000	840,845
1	865,001 to 870,000	866,949
1	905,001 to 910,000	907,191
1	1,170,001 to 1,175,000	1,172,577
1	1,335,001 to 1,340,000	1,339,485
1	1,520,001 to 1,525,000	1,521,532
1	1,525,001 to 1,530,000	1,530,000
1	1,530,001 to 1,535,000	1,533,457
1	1,755,001 to 1,760,000	1,759,280
1	1,880,001 to 1,885,000	1,884,184
2	1,895,001 to 1,900,000	3,793,771
1	3,215,001 to 3,220,000	3,219,240
1	3,465,001 to 3,470,000	3,467,490
1	3,500,001 to 3,505,000	3,503,527
1	3,705,001 to 3,710,000	3,707,732
1	4,020,001 to 4,025,000	4,022,903
1,937	TOTAL	80,080,650

Categories of Shareholders	Numbers	Shares Held	Percentage
1. Individuals	1,839	60,286,274	75.29
2. Insurance companies	7	4,567,976	5.70
3. Joint stock companies	46	8,257,123	10.31
4. Financial institutions	1	1,533,457	1.91
5. Charitable trusts	20	2,145,510	2.68
6. Government institutions	2	1,664	0.00
7. Modaraba companies	1	333,045	0.42
8. Foreign investors	21	2,955,601	3.69
	1,937	80,080,650	100.00

Habib Insurance Company Limited

Pattern of Shareholding as at December 31, 2010

Additional Information

Shareholders' Category	Number of shareholders/ folios	Number of shares held
Associated Companies		
Habib Sugar Mills Limited	1	3,467,490
Thal Limited	1	3,707,732
Karachi Mercantile Co. (Pvt.) Limited	1	221,148
NIT and ICP		
IDBP (ICP Unit)	2	1,664
Directors		
Mr. Rafiq M. Habib	1	107,867
Mr. Abbas D. Habib	2	486,988
Mr. Mazher Ali Jumani	2	6,955
Mr. Mansoor G. Habib	2	21,645
Mr. Mohamedali R. Habib	2	1,256,659
Mr. Sajjad Hussain Habib	1	183,683
Mr. Aun Mohammad A. Habib	1	183,674
Chief Executive Officer		
Mr. Ali Raza D. Habib	1	39,638
Directors' Spouses		
Mrs. Jamila Rafiq w/o Mr. Rafiq M. Habib	2	625,002
Mrs. Niamat-e-Fatima w/o Mr. Abbas D. Habib	1	13,497
Mrs. Sayyeda Mohamedali w/o Mr. Mohamedali R. Habib	1	84,082
Banks, Development Financial Institutions, Insurance Companies, Modaraba Companies and Mutual Funds		
	9	6,434,478
Joint Stock Companies and Corporations		
	43	860,753
Individuals/ Others		
	1,823	57,276,584
Charitable Trusts, Societies and Government Institutions		
	20	2,145,510
Foreign Investors		
	21	2,955,601
	1,937	80,080,650

Habib Insurance Company Limited

Notice of Annual General Meeting

NOTICE is hereby given that the 68th Annual General Meeting of the Shareholders of the Company will be held at The Institute of Chartered Accountants of Pakistan, Kehkashan, Clifton, Karachi, on Saturday, April 30, 2011 at 11:30 a.m. to transact the following business:

1. To receive and adopt the Audited Accounts for the year ended December 31, 2010 together with the Directors' and Auditors' Report thereon.
2. To approve payment of cash dividend @ 25% i.e. Rs. 1.25 per share of Rs. 5/- each for the year ended December 31, 2010 as recommended by the Board of Directors.
3. To approve the issue of bonus shares in the proportion of one share for every eight shares held i.e. 12.5% for the year ended December 31, 2010 as recommended by the Board of Directors.
4. To appoint Auditors for the year ending December 31, 2011 and to fix their remuneration. Messrs KPMG Taseer Hadi & Co., Chartered Accountants, being eligible offer themselves for reappointment.
5. To consider any other business of the Company with the permission of the Chair.

Special Business

6. To consider and pass the following special resolution regarding payment of proceeds of fractional bonus shares to a charitable institution.

"RESOLVED that in the event of any member holding shares which are not an exact multiple of 1:8, the Directors be and are hereby authorised to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realised to a charitable institution.

FURTHER RESOLVED that the Directors be and are hereby authorised and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required."

For item # 6, statement under section 160 of the Companies Ordinance, 1984 is annexed.

By order of the Board

Karachi: March 30, 2011

SHABBIR GULAMALI
Company Secretary

Habib Insurance Company Limited

Notes:

1. The share transfer books of the Company will remain closed from Monday, April 18, 2011 to Saturday, April 30, 2011 (both days inclusive).
2. A member entitled to attend and vote at this meeting is entitled to appoint another member of the Company as his/ her proxy to attend and vote on his/ her behalf. Proxy form, in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not less than 48 hours before the meeting.
3. The CDC account/ sub account holders are requested to bring with them their Computerised National ID Cards along with the Participant(s) ID number and their account numbers at the time of attending the AGM in order to facilitate identification of the respective shareholders. In case of corporate entity, the Board of Directors Resolution/ Power of Attorney with specimen signatures be produced at the time of meeting.
4. Members are requested to promptly communicate any change in their address to our Share Registrar, M/s. Noble Computer Services (Pvt.) Limited situated at Mezzanine Floor, House of Habib Building, Siddiqsons Tower, 3-Jinnah Cooperative Housing Society, Main Shahrah-e-Faisal, Karachi-75350.

Habib Insurance Company Limited

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

The statement is annexed to the Notice of the 68th Annual General Meeting to be held on April 30, 2011 at which certain business are to be transacted. The purpose of this statement is to set forth material facts concerning such special business.

ITEM NUMBER 6 OF THE AGENDA

The Board of Directors of Habib Insurance Company Limited in their meeting held on March 30, 2011 have proposed to issue bonus shares in the proportion of one share for every eight shares held and to pay the proceeds of fractional bonus shares to a charitable institution and in this regard to pass the following special resolution:

“RESOLVED that in the event of any member holding shares which are not an exact multiple of 1:8, the Directors be and are hereby authorised to consolidate all such fractions of bonus shares and sell these shares in the stock market and to pay the proceeds of sale when realised to a charitable institution.

FURTHER RESOLVED that the Directors be and are hereby authorised and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary or required.”

The Directors are interested in this business to the extent of their shareholding.

Status of approvals for investments in Associated Companies

As required under the SRO No. 865 (i)/2000 dated December 06, 2000, the position of various investments in Associated Companies against approvals held by the Company is as under:

1. Bank AL Habib Limited – Against approval of Rs. 60 million, the Company has not made any investment so far. The same will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.
2. Dynea Pakistan Limited – Against approval of Rs. 2 million, the Company has not made any investment so far. The same will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.
3. Habib Sugar Mills Limited – Against approval of Rs. 100 million, the Company has not made any investment so far. The same will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.
4. Habib Metropolitan Bank Limited – Against approval of Rs. 35 million, the Company has not made any investment so far. The same will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.
5. Shabbir Tiles & Ceramics Limited – Against approval of Rs. 30 million, the Company has not made any investment so far. The same will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.
6. Thal Limited – Against approval of Rs. 135 million, the Company has invested Rs. 57.3 million so far. The balance amount of Rs. 72.7 million will be invested on availability of shares at reasonable price. There was no major change in the financial position of the investee company.

Habib Insurance Company Limited

PROXY FORM

I/ We

of

being a member(s) of Habib Insurance Company Limited and holding

ordinary shares, as per Share Register Folio Number

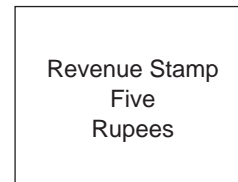
and/ or CDC Account and Participant's I.D. Numbers

hereby appointFolio Noof.....

or failing him/ herFolio Noof.....

another member of Habib Insurance Company Limited as my proxy to vote for me/ us and on my/ our behalf at the Sixty Eighth Annual General Meeting of the Company to be held on April 30, 2011 and at any adjournment thereof.

Signed this day of



SIGNATURE OF MEMBER(S)

(Signature should agree with the specimen signature registered with the Company)

A member entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend and vote instead of him/ her. No person shall act as proxy (except for a corporation) unless he/ she is entitled to be present and vote in his/ her own right.

CDC account holder or sub-account holder appointing a proxy should furnish attested copies of his/ her own as well as the proxy's CNIC/ passport with the proxy form. The proxy shall also produce his/ her original CNIC or passport at the time of the meeting. In case of corporate entity, the Board of Directors resolution/ power of attorney with specimen signature shall be submitted alongwith proxy form.

The instrument appointing a proxy should be signed by the member or by his/ her attorney duly authorised in writing. If the member is a corporation, its common seal (if any) should be affixed to the instrument.

The proxy form shall be deposited at the Registered Office of the Company not less than 48 hours before the time of the meeting.