ALFALAH
INSURANCE COMPANY

peace of mind

CONTENTS

COMPANY INFORMATION

Chairman
H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan

Board of Directors
H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan
Mr. Khalid Mana Saeed Al Otaiba
Mr. Mohammad Yousuf
Mr. Nasar us Samad ureshi
H.E. Sheikh Saif Bin Mohammed Bin Butti
Mr. Atif Aslam Bajwa
Mr. Adeel Khalid Bajwa

Chief Executive & Managing Director
Mr. Nasar us Samad Qureshi

Chief Financial Officer & Company Secretary
Mr. Adnan Waheed

Audit Committee
Mr. Atif Aslam Bajwa (Chairman)
Mr. Mohammad Yousuf
Mr. Adeel Khalid Bajwa
Mr. Adnan Waheed (Secretary)

HR & Finance Committee
Mr. Atif Aslam Bajwa
Mr. Mohammad Yousuf
Mr. Nasar us Samad Qureshi
Mr. Adnan Waheed (Secretary)

Underwriting Committee
Mr. Nasar us Samad Qureshi
Mr. Abdul Haye Mughal
Mr. Amjad Masood (Secretary)

Claim Committee
Mr. Nasar us Samad Qureshi
Mr. Abdul Haye Mughal
Mr. Manzoor Hussain (Secretary)

Reinsurance/Coinsurance Committee
Mr. Nasar us Samad Qureshi
Mr. Abdul Haye Mughal
Mr. Shahzad Aamir Rafique (Secretary)

Bankers
Bank Alfalah Limited
HSBC Bank Middle East Limited - Pakistan
Habib Bank Limited

Auditors
M/s Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Legal Advisors
Cornelius Lane & Mufti
Salahuddin, Saif & Aslam (Attorneys at Law)

Head Office
5-Saint Mary Park,
Gulberg III, Lahore.
UAN: 111-786-234
Fax: 92-42-35774329
Email: afi@alfalahinsurance.com
Web: www.alfalahinsurance.com

VISION

To be a leading insurer by providing the most comprehensive yet flexible and cost effective risk management solutions to our clients backed with friendly and efficient claims service and to enhance the Alfalah brand value for the benefit of all stakeholders.

MISSION

We undertake to provide world class services with unmatched security to our clients and help in increasing awareness about insurance in the country as well as enhancing public confidence in the insurance industry in Pakistan.

We will introduce new and modern insurance products comparable with international standards and will emerge as an innovative insurer providing complete risk management solutions to the insuring public in Pakistan.

His Highness Sheikh Nahayan Mabarak Al Nahayan
Chairman Abu Dhabi Group

His Highness
Sheikh Hamdan Bin
Mubarak Al Nahayan
Chairman

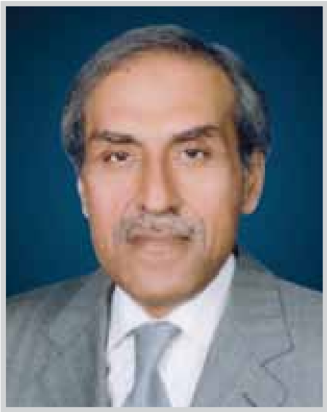
His Excellency
Sheikh Saif Bin
Mohammed Bin Butti
Director

Mr. Khalid Mana
Saeed Al Otaiba
Director

Mr. Atif Bajwa
Director

Mr. Mohammad Yousuf
Director

Mr. Adeel Bajwa
Director



Mr. Nasar us Samad Qureshi
MD & CEO




As we pass another successful year, we, here at Alfalah Insurance Company with this annual report bring to you some of the beautiful landmarks of Peshawar and Multan. We started this journey of recognizing monuments initially in 2010 with the 'Gates of Lahore', then in 2011 with 'Karachi Landmarks' and now the historical cities of Peshawar and Multan for the year 2012.

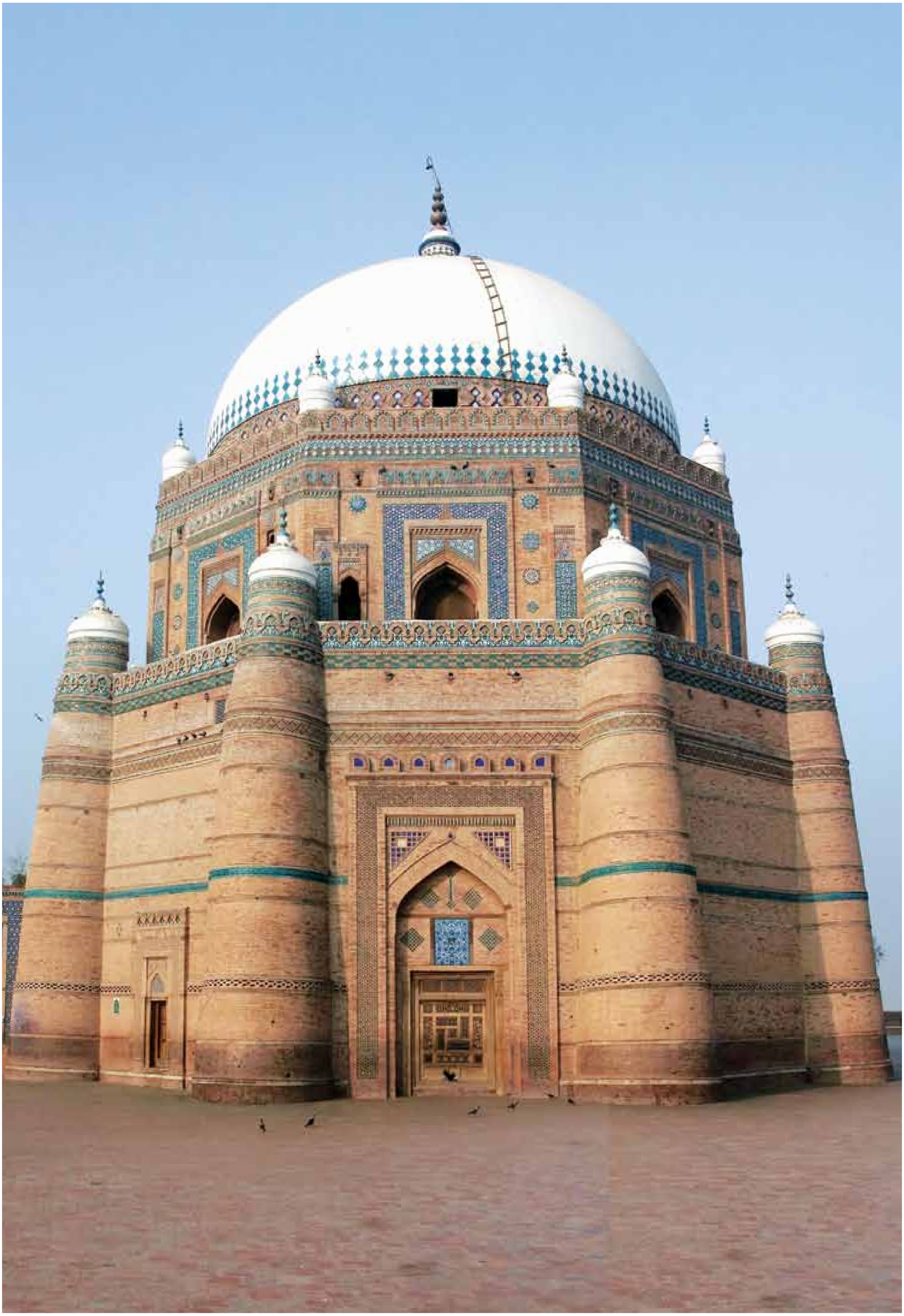
In 2012, Alfalah Insurance Company achieved a milestone of crossing Rs. 1 Billion Gross Premium, the fastest ever to cross this benchmark by any non-life insurance company in Pakistan within a time span of only six years since incorporation. On this achievement, we have been selected by The Federation of Pakistan Chambers of Commerce & Industry for the 1st FPCCI Achievement Award, for the year 2012. Success never comes without dedicated team-work and motivation.

This year we have selected Multan and Peshawar for the reason that our branches are located in these beautiful cities.




Multan is considered to be the most historical city of Pakistan, full of archaeological sites and ancient monuments. On the other hand, Peshawar, being the capital city of Khyber Pakhtunkhwa is rich with mesmerizing landmarks. We have selected the most alluring architectures which will be, no doubt a pleasure to view and to know about in more detail. Starting with the most famous Khyber Pass and Islamia College; which are renowned architectures of the 17th century leading to the attractive handicrafts of Peshawar.

In this report our motive is to increase familiarity and interest about the cities where Alfalah Insurance Company has a presence through its branch network. It is our firm and foremost obligation to gratify our customers up to the highest standards by providing them unique products and solutions to maximize their security. Our story of continuous growth and success is evidence of the dedicated hard work of 'Team Alfalah' and the trust our customers have in our products and service.



RUKN-E-ALAM

The Rukn-e-Alam, stands tall as a glittering testimony of the era before the Mughals. Aptly named as the 'Glory of Multan', its colossal dome can be viewed from any and every side of the city. Built between 1320 and 1324, it is the mausoleum of Shah Rukn-e-Alam, who is amongst the most revered sufi saints of Multan and that fact speaks for itself judging from the numbers of over 100,000 who come as humble pilgrims to his mosque.

Built originally by Ghias-ud-Din Tughlak for himself the tomb was handed over by his son to the descendants of Shah Rukn-e-Alam for his burial.

The sepulcher is an architectural masterpiece; the building itself is an octagon, 51 feet 9 inches in diameter internally, with walls that are 41 feet 4 inches high and 13 feet 3 inches thick, supported at the angles by sloping towers. Over this, is a smaller octagon of 25 feet and 8 inches wide, and 26 feet 10 inches high, leaving a narrow passage all round the top of the lower story for the Moazzan, or public caller to prayers. On top of the structure is a huge dome, which is the shrine of the saint and to complement its religious importance, the dome is reputed to be the second largest in the world.

It is built entirely of red brick and shisham wood, which only after centuries have begun to erode and turn black. The exterior has been intricately laden with glazed tile panels, stringcourses and battlements with color palettes ranging from dark blue to white, set against the deep red of the bricks.

A subject of speculation throughout centuries, it has mesmerized not only travellers and historians, but artists and archaeologists who shaped the architectural history of the Sub-Continent.

GHANTA GHAR

The clock tower of Multan, otherwise known by its famous local name, 'Ghanta Ghar' was erected in 1884 during the British Raj to house their officials who needed offices to administer the city.

The building is an architectural masterpiece that took four years to build. The hall and building was named 'Ripon Hall and Ripon Building' after a Viceroy of India at that time whose name was Ripon. And the clock tower was named 'Northbrook Tower' after Northbrook, a former Viceroy of India. The building was completed, inaugurated and offices shifted here in 1888.

More than its material grandeur, it holds bittersweet emotions for the locals as the building was raised on the ruins of the Haveli of Ahmad Khan Sadozai, which was completely obliterated during the siege of Multan. After the partition the main hall was renamed to 'Jinnah Hall' and it was used for office meetings and cultural programs and the general public was also allowed to enter here. However, with the passage of time the limited capacity of the place became insufficient for offices and meetings. To remedy this, all offices were shifted out and since then the place has not had its share of liveliness that it once did.

The idea now is to change this historic building into a museum, a thought, which in the recent past is being realized into reality as progress for bringing this building back into resonance with its grand past, gains momentum as plans for the museum's construction secures traction.

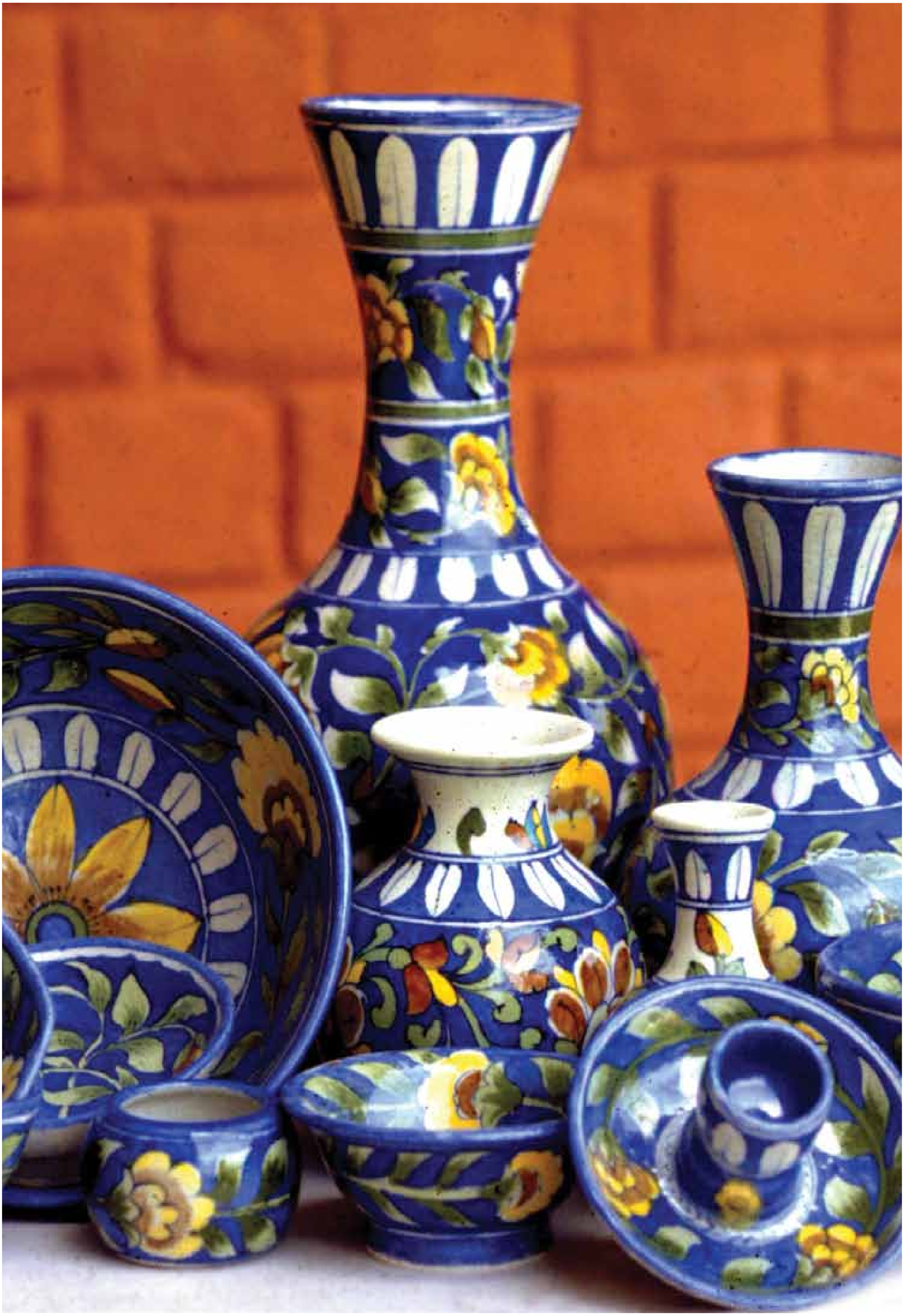


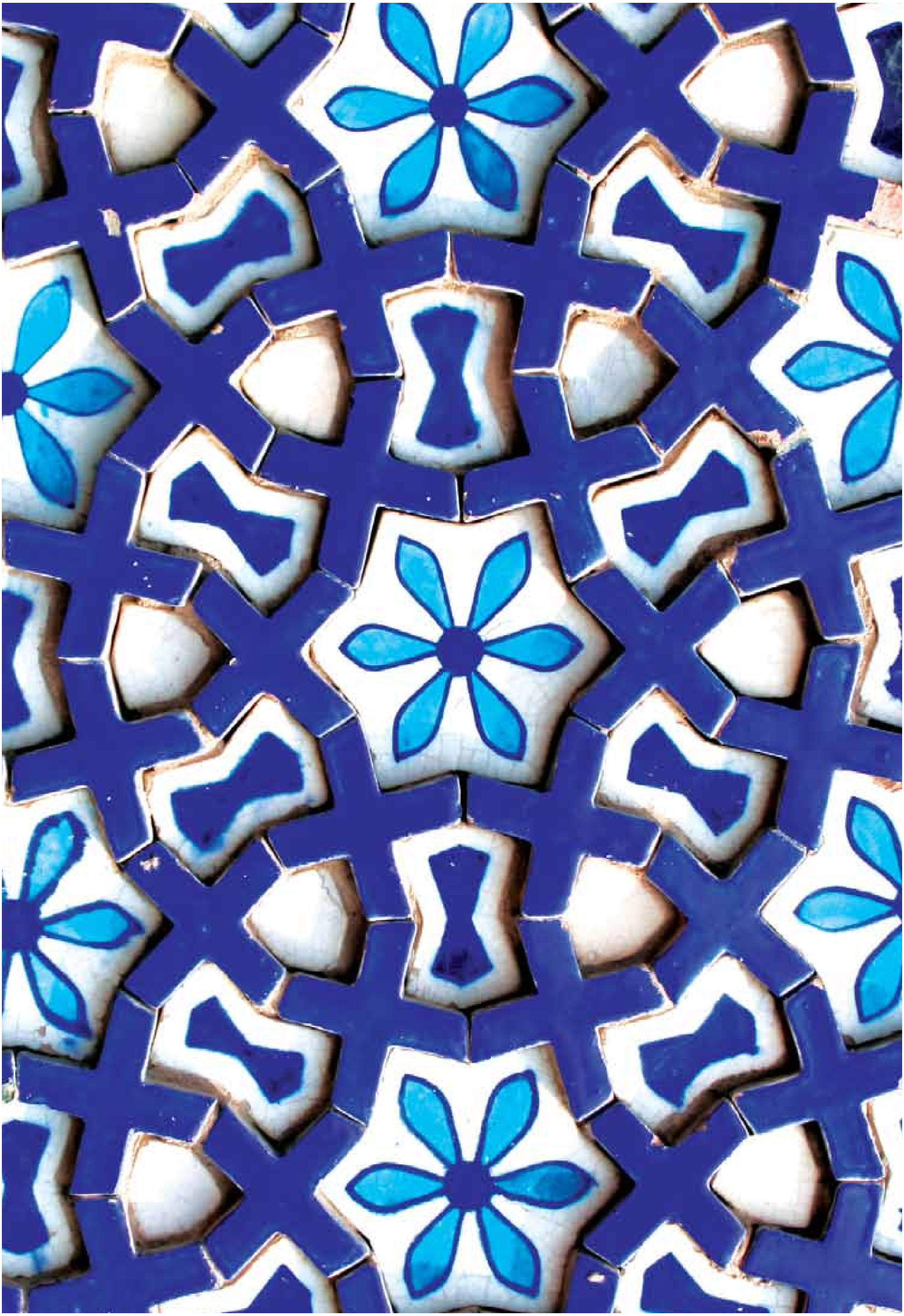
Image taken from www.handicrafts-center.blogspot.com

POTTERY OF MULTAN

Made by the combination of red and white clay, the unique blue pottery of Multan is famous all over for its uniqueness, designs and strength. Ceramic is used in making pottery this is considered as the oldest form of art, but with the passage of time and advancement in technology many innovations and creativity have made in functionality and designs of this art. The combination of color is pre-defined with different attractive designs like green, cobalt blue, in it, white is used as a base color and also on the outer lining of the designs. Sometime other colors can also be used to improve the attractiveness of the design. Blue pottery art is locally known as “kasha work” or “kashikari” and the person doing this is known as “kashikar”.

This art has originated from Turk-o-Persian history. In today’s world this art is specially known as the art of Multan, which is now the center of blue pottery so; it has a wide variety and range of different blue pottery products. There are different uses of blue pottery; they are used in different utility articles. These products consists of earthenware, vases, lamp shades, serving dishes, pitchers, flower pots, soap dishes, dinner sets and some type of trays.

Multani pottery is very easily recognized and especially famous because in other parts of the world this pottery is made from white alone while in Multan they are even made from red clay. Any art of any area shows the history and culture of that region. In Multani pottery the use of the color is related to the historical building of tombs, shrines and different mosques and is the best way to transfer culture from one generation to other.



MULTAN TILLES

The ceramic tiles of Multan gained popularity with the passage of time and are frequently used in shrines, mosques, and other buildings to give it a fascinating look and it is used as a tribute to the origin of this art. The remarkable example of Multani ceramic art is seen in the form of Talpur Tombs, other classic and fine pieces of art created with Multani ceramic art are found in the Shrines of Sachal Sarmast, Shah Abdul Latif Bhittai, Eidgah Multan, Lahore Museum and even some artistic work is displayed in the London Museum to represent the rich ceramic art of Pakistan.

Blue pottery is very famous and a center of attraction for interior designers, therefore it is proudly displayed and used for the interior of important buildings like, President house, Prime Minister Secretariat, Culture Mission of Pakistan and Pakistan embassy. Tourists and admirers of handicrafts like to buy table lamps, vessels, vases, cookie jars, show pieces and souvenirs made with bamboo shoot and kashi work. For the blue pottery or Kashi work special clay is procured from Gujarat, Tharparkar, and Mansehra.

BAB-E-KHYBER

Even today, the Khyber Gate presents a magnificent sight. The towering structure stands at Jamrud and serves as the entrance of the historic Khyber Pass, which was used as a passage to South Asia by kings and invaders since time immemorial. The pass has been witness to the Macedonian armies of Alexander, the tartar warriors of Genghis Khan, the soldiers of the legendary Mahmood of Ghazna, Ahmad Shah Abdali and countless others. The pass represents more than history; it represents the ruthless progression of time. It was to acknowledge the importance of this passage that a gate of gray-brown brick, the Bab-e-Khyber, was constructed in the early 60s. With time, the gate has become a symbol of the NWFP and its tribal belt. The Khyber Pass serves as the passageway from the sub-continent to Afghanistan and Central Asia. It is unique in its geography and rich history. Situated to the west of Peshawar, the pass is located in a beautiful and fertile valley surrounded by an unbroken girdle of mountains. The Peshawar plain lends distance and perspective to it, a tremendous scenic canvas. Unlike the people, the Khyber witnesses extreme climates of biting cold and scorching heat round the year. The 43 year old gate is already exhibiting signs of dilapidation. Cracks in the gate's upper portion and stone bricks are widening. The fading inscriptions on the marble stones on the sidewall are perhaps symbolic of the gate's evanescent grandeur. It is a pity that the gateway to a historic passage suffers today from decay borne of neglect.

MAHABAT KHAN MOSQUE

Mahabat Khan Mosque was named after Nawab Mahabat Khan who served under Emperors Shah Jahan and Aurangzeb who was the grandson of Nawab Dadan Khan (Governor of Lahore). The mosque was built in 1670 in the inspiring aesthetics of the Mughali architecture.

Though this mosque is not as big as other Mughal landmarks in Lahore, Agra or Delhi, yet its stunning floral and geometrical pattern of paintings on the rooftops and minarets rivals the grandeur of them all. The central open courtyard is surrounded by a row of cells all around, the interior of the prayer hall is sheltered beneath three low domes and is colorfully painted.

Image taken from www.humhainpakistan.blogspot.com

ISLAMIA COLLEGE PESHAWAR

Islamia College is a renowned educational institution located in the city of Peshawar. It was founded in October 1913 by regional leader Nawab Sir Sahibzada Abdul Qayyum and then Chief Commissioner of the province Sir George Roos-Keppel in an effort to provide quality education to the region's youth. When the new province of Khyber Pakhtunkhwa (previously N.W.F.P) was formed in 1901 after its separation from the Punjab, there was only one college (Edwardes College) in whole province. This scarcity of quality educational institutions forced local youth to travel to faraway regions of the country (British India) in pursuit of higher education. This same lack of educational opportunities in the region motivated Nawab Sir Sahibzada Abdul Qayyum and Sir George Roos-Keppel to establish an institution that would not only cater to the academic needs of the region but also produce leaders from the region.

Today, the college educates its students in arts, humanities and modern sciences. In 1950 the University of Peshawar was founded as an offshoot of Islamia College Peshawar, with the later being associated to the university as a constituent college. In 2008 the college was given the status of a chartered university.

PESHAWARI THREADED BANGLES

Bangles, or usually known as 'choorian' are jewellery for women, there are different kinds of bangles to accessorize with different clothing giving a total feminine look. Recently a new tradition has been emerging, which is moving from the usual glass made bangles famous from the people of Hyderabad and going towards threaded bangles or hand made bangles, which originate from Peshawar. They are the most 'in-thing' at the moment, going with every outfit, giving clothes and personality a different edge making one look more elegant and most importantly they are not just worn in weddings or functions but can be worn any day.

These bangles are not only available in Peshawar, but you can also find them in various outlets across Pakistan. Colorful, vibrant and durable, these accessories speak volumes of a culture like Peshawar's.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of Alfalah Insurance Company Limited are pleased to submit the 6th Annual Report of your company, together with audited financial statements for the year ended December 31st, 2012.

ECONOMIC OVERVIEW

In 2012, despite enormous challenges on the macro economic and political front Pakistan's economy was able to show a modest improvement in FY12 – a real GDP growth of 3.7 percent during the year, compared to the 3.0 percent in FY11. This growth was more broad-based compared to FY11, as it was evenly distributed across agriculture, industry and the services sector.

Key drivers for this performance were (1) resumption and uptick in Pak-U.S. bilateral relations after the revival of NATO supplies, (2) relatively stable inflationary impact allowing central bank to ease off its monetary policy resulting in reducing the discount rates by 250 basis points, (3) yet another year of strong growth in worker remittances which rose up to US$ 13.2 billion.

Challenges faced during the outgoing year were (1) deteriorating balance of payment, high trade and current account deficits, (2) steep devaluation of the Pak Rupee against the US dollar from PKR 89.95 to PKR 97.20 (3) gas and power shortfall (4) deteriorating law and order situation especially in Sindh and Baluchistan in the back drop of the war on terror.

Despite all these challenges, one positive that has emerged out of the current democratic political setup is that the current coalition government is set to complete its five year term, that ends on 16th March 2013. This is going to be the first time in the country's history that an electoral setup will complete its tenure after Mr. Zulfiqar Ali Bhutto in 1970s. Despite recent hiccups and saber rattling, all political, judicial and military circles have made a commitment to uphold democracy which would go a long way in maintaining investor confidence.

The general feeling in the country is that the upcoming general elections will not only mark a peaceful political transition but also an economic transition which, if successful, will have far reaching positive impact on the economy in years forward. We also believe that the new government would bring fresh hopes for a positive change in the country and would focus more on infusing economic growth, improving transparency and administrative efficiencies.

ALFALAH INSURANCE PERFORMANCE

Year 2012 was a remarkable year for your Company because of two aspects. One was that Company's top line exceeded Rs. 1.00 billion within a short span of six (6) years which was the shortest tenure by any insurance company in Pakistan and second was that our bottom line landed around Rs. 100 million which showed our profitable operations. We have been able to show CAGR of 28% in top line and 32% in bottom line since inception in 2007.

On the business horizon, your Company has written a gross premium of Rs. 1,060.187 million (2011: Rs. 928.020 million) depicting a growth of 14% over last year as the company was able to successfully continue its expansion in South Zone. Increased business written during the year coupled with crystallization of premium written in last year contributed in achieving a higher net premium revenue i.e. 18% as compared to last year.

Although in absolute terms net claims expense increased by Rs. 19.147 million i.e. 8% due to a fire at M/s Wateen Telecom in Feb '12; however, the overall net claim ratio of the Company reduced from 63% to 58%. Management and admin expenses, in line with the budget increased by 32% when compared with last year mainly due to development in south zone.

Despite a massive discount rate reduction of 250 bps in year 2012 by SBP in different phases, investment income of the Company has robustly increased by 30% when compared with last year. This increase in investment income was mainly on account of conservative approach

DIRECTORS' REPORT TO THE SHAREHOLDERS

advised by Board of Directors to invest in tax efficient virtually risk free funds coupled with gain realized on sale of listed securities and improved cash flow position. This upward flight along with improved loss ratio pushed the Company in a greater profitability zone and the Company ended up making a profit before tax of Rs. 108 Million, 43% higher than last year.

SEGMENTS AT GLANCE

Fire constituting 29%, contributed Rs. 310.909 million to gross premium written in comparison to Rs. 320.724 million of last year registering a YoY nominal decrease of 3%. This decrease is owing to a management strategy to retain its highly valued key customer in the highly competitive business environment. The net loss ratio of the year was slightly on a higher side i.e. 48% because of the fire at Wateen telecom on February 2012. Last year the loss ratio was converted into a net recovery of -10% because reversal of flood losses in year 2011 related to year 2010 diluted the impact of loss in that year.

Marine contributed Rs. 66.045 million to gross premium written in comparison to Rs. 50.177 million of last year showing a YoY increase of 32%. However, net loss ratio was decreased from 33% of last year to 17%.

Motor constituting 22%, contributed Rs. 234.954 million to gross premium written in comparison to Rs. 181.923 million of last year showing a YoY increase of 29%. Net loss ratio remained consistent at 55%.

Health contributed Rs. 227.581 million to gross premium written in comparison to Rs. 188.935 million of last year registering a YoY increase of 20%. Net loss ratio remained favorable as it decreased from 88% of last year to 70%.

Miscellaneous contributed Rs. 220.698 million to gross premium written in comparison to Rs. 186.261 million of last year showing YoY increases of 18%. Net loss ratio decreased substantially from 81% of last year to 39%. The management took all necessary steps in negotiating favorable price arrangements and to curb the loss ratio with efficient claims administration and reinsurance arrangements.

Reinsurance is indeed an important segment of any insurance company. Your company has been backed by leading reinsurers and we have developed and enhanced these relationships to the mutual advantage of the reinsurers and the company. Your company followed a policy of optimizing the retention of risk through a carefully designed program of insurance risk management. Your company has also increased capacities for traditional reinsurance arrangements as well as obtained capacity for specialized line.

INSURERS FINANCIAL RATING STRENGTH

PACRA, during its recent review conducted on 27th September 2012, has reaffirmed the IFS rating of your Company at "A" (Single A).

PACRA has stated in its report that the "Company's conservative business strategy, in the form of low risk retention, is expected to continue yielding profitability despite continuing volatile socio-economic environment". It also stated that the "Company's growing investment book is a source of comfort which has been contributing a sizable stream of income to AFIC's bottom line".

APPROPRIATIONS

We are pleased to propose the transfer from/appropriation out of the un-appropriated profit of Rs. 135 milion to the General Reserve for the year 2012.

EARNING PER SHARE

During the year after tax earnings per share was Rs. 3.27 (2011: Rs. 2.31). Detailed working has been reported in Note 24 to the financial statements.

AUDITORS

The present auditors Ernst & Young Ford Rhodes Sidat

DIRECTORS' REPORT TO THE SHAREHOLDERS

Hyder, Chartered Accountants being eligible, offer themselves for appointment. The Board of Directors on the suggestion of the Audit Committee recommended the appointment of Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as statutory auditors till the conclusion of the next AGM.

BOARD OF DIRECTORS MEETINGS

During the year 2012, four (4) meetings of the BOD were held. Attendance of Directors is indicated.

Name of Directors	No. of Meetings Attended
• H.H. Sheikh Hamdan Bin Mubarak Al Nahayan	3
• H.E. Sheikh Saif Bin Mohammed Bin Butti	0
• Mr. Khalid Mana Saeed Al Otaiba	4
• Mr. Atif Aslam Bajwa	4
• Mr. Mohammad Yousuf	2
• Mr. Adeel Bajwa	2
• Mr. Nasar us Samad Qureshi	4

Leave of absence was granted to those Directors who could not attend the Board Meetings.

AUDIT COMMITTEE

As required under the Code of Corporate Governance, the Board of Directors has established an Audit Committee comprising of the following non executive directors:

• Mr. Atif Aslam Bajwa	Chairman
• Mr. Mohammad Yousuf	Member
• Mr. Adeel Bajwa	Member

RELATED PARTY TRANSACTIONS

At each Board meeting the Board of Directors approves company's transactions made with Associated Companies / Related parties. All the transactions executed with related parties are on commercial terms and conditions.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has adopted the statement of ethics and business practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to business and regulations. Statement of ethics and business practices are based on integrity, dignity, culture of excellence and ethical dealing with clients, peers and the public.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

The provisions of the Code of Corporate Governance for insurance companies have been complied with during the year under review which are as follows:

- The financial statements, together with the notes thereon have been drawn up in conformity with the Insurance Ordinance 2000 and rules thereunder and Companies Ordinance 1984. These statements present fairly the company's state of affairs, results of its operations, cash flow and changes in equity.

- Proper books of accounts have been maintained by the company.

- Appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment.

- The international accounting standards as applicable in Pakistan have been consistently followed in preparation of financial statements and any departure therefrom has been adequately disclosed.

- The system of internal control is sound in design and has been continuously monitored by the internal audits. This is a continuous process and any weakness will be removed and its effective implementation shall be ensured.

DIRECTORS' REPORT TO THE SHAREHOLDERS

- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data is separately annexed with the report.
- Outstanding taxes and duties are given in the financial statements.
- The value of investments of provident and gratuity funds on the basis of unaudited accounts as on December 31, 2012 are as follows:

	Rs. in '000'
• Provident Fund	31,589
• Gratuity Fund	17,420

- The statement of pattern of shareholding in the Company as on December 31, 2012 is separately annexed with the report.

STATEMENT OF COMPLIANCE UNDER SECTION 46(6) OF THE INSURANCE ORDINANCE 2000

The directors of Alfalah Insurance Company Limited hereby certify that in their opinion:

a) the annual statutory accounts of the company annexed hereto have been drawn up in accordance with the ordinance and any rules made thereunder;

b) the company has at all times in the period complied with the provisions of the ordinance and the rules made thereunder relating to paid up capital, solvency and reinsurance arrangements; and

c) as at the date of the statement, the company continues to be in compliance with the provisions of the ordinance and the rules made thereunder relating to paid up capital, solvency and reinsurance arrangements.

FUTURE OUTLOOK

The phenomenal strength of Abu Dhabi Group and our strategies make us feel confident to achieve plans for 2013. By applying prudent policies and disciplines in our business operations and using cost effective methods with increased lines from reinsurance, we are confident that the targets set for the year will be achieved. We see year 2013 as an opportunity to increase our market share, however, we are quite aware of the challenges ahead because uncertainty still persists about the political and economic scenario of Pakistan.

As a responsible corporate entity we will continue to conduct our business in a transparent way, working closely with the regulators to ensure compliance. Our aim is to exceed expectation of our shareholders not only during the current year but beyond too.

ACKNOWLEDGEMENT

We thank our sponsor shareholders for their support and guidance. We are equally thankful to our clients and to our reinsurers for their collective contribution. We would also like to place on record our special thanks to the Securities & Exchange Commission of Pakistan for rendering invaluable guidance during the period and to Pakistan Reinsurance Company for their support.

We would also like to express our appreciation to our executives, officers and staff for their hard work, dedication and their will to grow and make this company a leading insurer in Pakistan.

On behalf of the Board,

N. Samad

Nasar us Samad Qureshi
Chief Executive

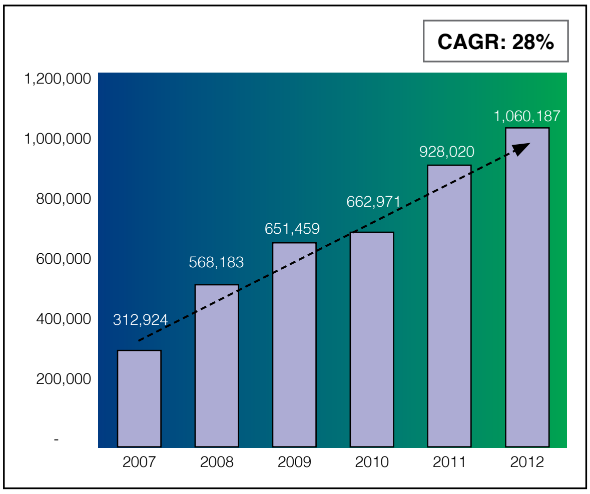
KEY FINANCIAL DATA

Rupee in '000'

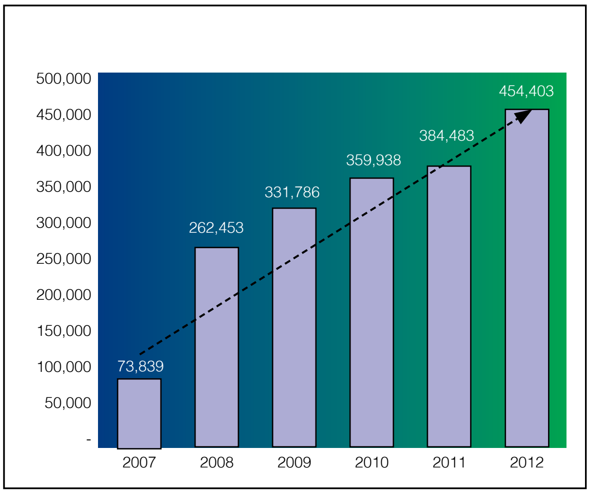
Description	For the Year Ended on December 31st					
	2012	2011	2010	2009	2008	2007
Gross Premium Written	1,060,187	928,020	662,971	651,459	568,183	312,924
Net Premium Revenue	454,403	384,483	359,938	331,786	262,453	73,839
Net Claim Expense	(262,368)	(243,221)	(259,435)	(231,336)	(191,118)	(48,566)
Management Expenses	(186,913)	(134,810)	(108,703)	(94,556)	(65,969)	(41,094)
Net Commission	96,358	71,167	74,750	68,307	59,561	25,826
Underwriting Profit	101,480	81,764	66,550	74,201	64,927	10,005
Investment/Other Income	96,088	72,156	46,177	21,189	3,300	33,080
Admin Expenses	(89,613)	(74,141)	(63,220)	(47,307)	(43,764)	(13,384)
Profit before Tax	107,955	75,634	49,507	48,083	24,463	29,701
Income Tax	(9,864)	(6,396)	(6,858)	(17,387)	(16,913)	(5,016)
Profit after Tax	98,091	69,238	42,649	30,696	7,550	24,685
Paid up Capital	300,000	300,000	250,000	230,000	230,000	230,000
Share Deposit money	1,381	1,381	1,381	1,381	1,381	1,381
General Reserve	15,000	15,000	25,000	25,000	-	-
Un-appropriated Profit	170,309	72,218	42,980	36,431	30,735	23,185
	486,690	388,599	319,361	292,812	262,116	254,566
Earnings per Share	3.27	2.31	1.42	1.23	0.3	0.99
Breakup Value per Share	16.22	12.95	12.77	12.73	11.4	11.07
Net Loss Ratio	-58%	-63%	-72%	-70%	-73%	-66%
Expense Ratio	-26%	-23%	-26%	-22%	-19%	-17%
Underwriting Profit to Net Premium	22%	21%	19%	22%	25%	14%
Return on Equity	22%	20%	14%	11%	3%	10%

FINANCIAL HIGHLIGHTS

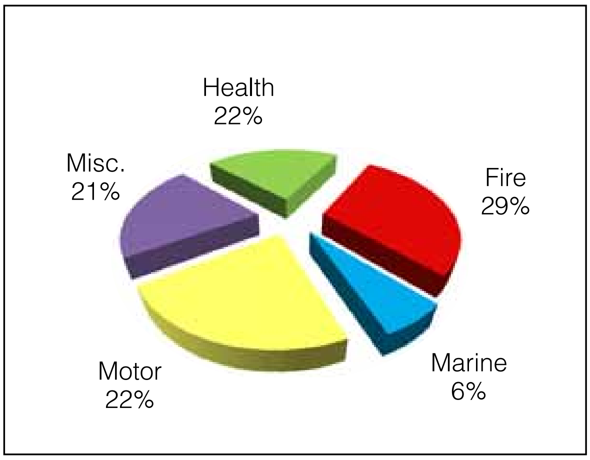
GROSS PREMIUM WRITTEN
(Rupees in Thousand)



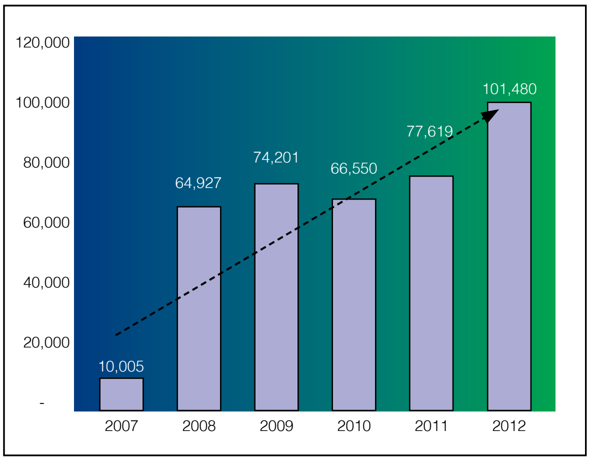
PREMIUM REVENUE
(Rupees in Thousand)



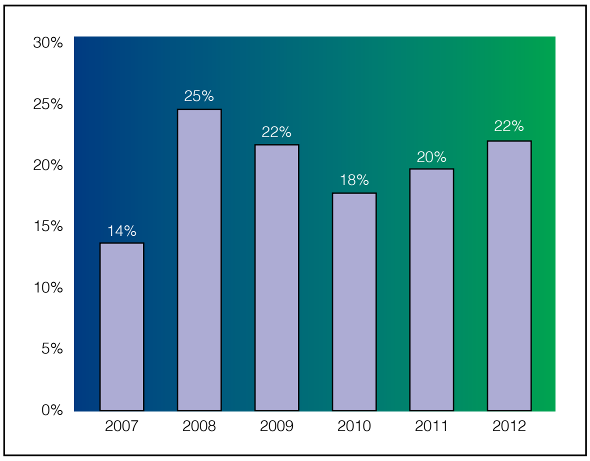
PRODUCT MIX ANALYSIS



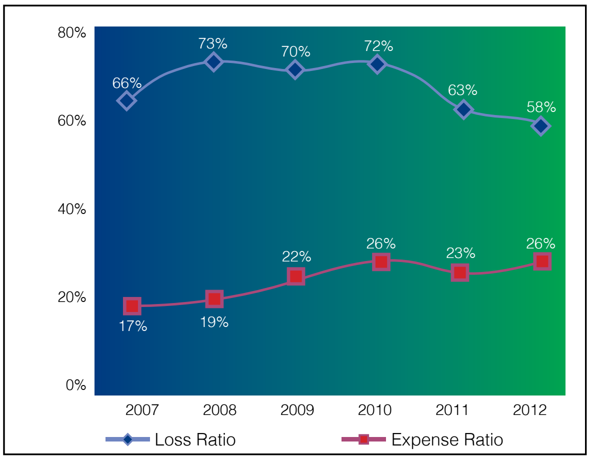
UNDERWRITING RESULTS
(Rupees in Thousand)



UNDERWRITING PROFIT MARGIN

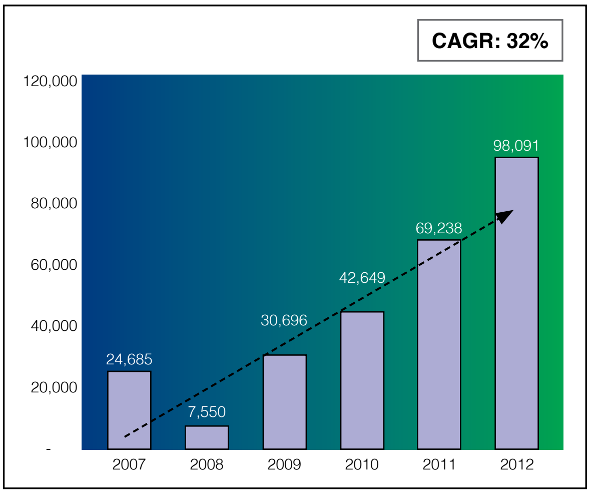


LOSS RATIO AND EXPENSE RATIO

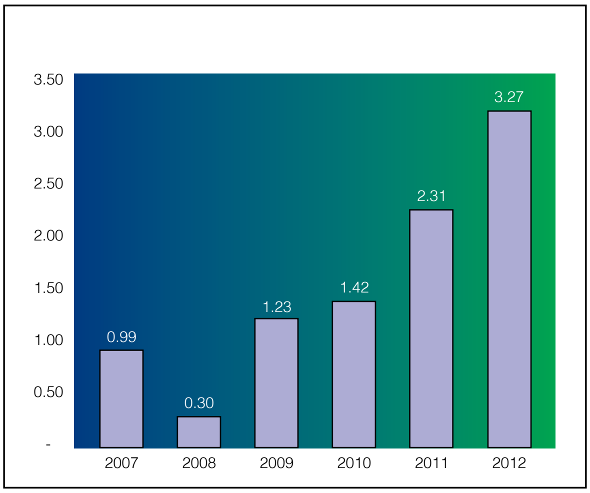


FINANCIAL HIGHLIGHTS

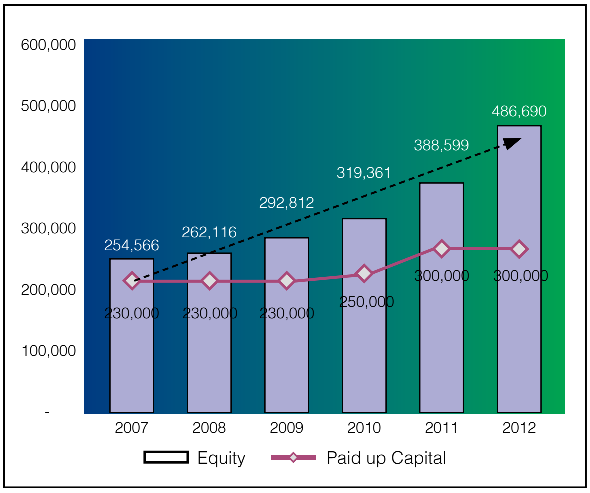
PROFIT AFTER TAX
(Rupees in Thousand)



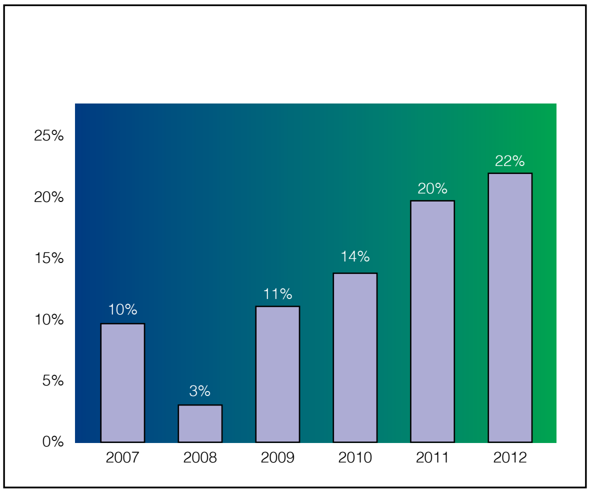
EARNING PER SHARE



SHAREHOLDER EQUITY
(Rupees in Thousand)



RETURN ON EQUITY



PATTERN OF SHAREHOLDING

As at December 31, 2012

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
6	1	1,000	3,917
1	1,001	1,500,000	1,500,000
4	1,500,001	3,000,000	11,998,694
1	3,000,001	7,500,000	7,498,694
1	7,500,001	9,000,000	8,998,695
Total 13			**30,000,000**

CLASSIFICATION OF SHARES CATEGORIES

As at December 31, 2012

Categories of Members	Number 0f Shareholders	Number of Shares Held	Percentage
Individuals	**3**	**13,497,388**	**44.9913%**
H.H. Sheikh Nahayan Mabarak Al Nahayan		7,498,694	24.9956%
H.E. Sheikh Mohammed Bin Butti Hamid Al Hamid		2,999,347	9.9978%
H.E. Dr. Mana Saeed Al Otaiba		2,999,347	9.9978%
Associated Companies	**1**	**8,998,695**	**30.00%**
M/s Bank Alfalah Limited			
Directors and CEO	**7**	**1,503,917**	**5.0131%**
H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan		1,500,000	5%
H.E. Sheikh Saif Bin Mohammed Bin Butti		651	0.0022%
Mr. Khalid Mana Saeed Al Otaiba		651	0.0022%
Mr. Atif Aslam Bajwa		651	0.0022%
Mr. Mohammad Yousuf		651	0.0022%
Mr. Adeel Khalid Bajwa		651	0.0022%
Mr. Nasar Us Samad Qureshi		662	0.0022%
Public sector companies and corporations	**2**	**6,000,000**	**20%**
M/s Al Ain Capital LLC (Formerly M/s Al Bateen Investments)		3,000,000	10%
M/s Electromechanical Co. LLC		3,000,000	10%
Total	**13**	**30,000,000**	**100.00%**

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The directors and employees at all levels of the Company shall adopt this statement of ethics and business practices

1. The interest of the policyholders is absolute. We shall provide the best possible services equivalent to international standard to our clients and shall make arrangements to serve them without any cause of complaint relating to claim settlement and otherwise. Our endeavor is to introduce new and innovative schemes of arrangements for the benefit of clients so that they will be able to get better services at a very economical premium.

2. As the reinsurers provide security to the Company and enable us in meeting with the requirements of the solvency margin, therefore, it shall be our utmost task to ensure that the reinsurers make profit on our business ceded to them to strengthen our business relation. We shall also endeavor to meet with the projected premium and to arrange future reinsurance arrangements on more favorable terms, limits and commission.

3. It is the basic principle of Alfalah Insurance Company Limited to obey the law of the land and comply with its legal system. Accordingly, all directors and employees of the company are expected to familiarize themselves with the laws and regulations governing their individual areas of responsibility and not to transgress them. If in doubt, they are expected to seek advice.

4. The Company's policy is to conduct its business with honesty and integrity and be ethical in its all dealings. Company promotes a working environment that values respect, candor, and fairness. We believe that reputation of the Company is determined by the way each and every one of us acts and conducts himself/herself at all times.

5. Company is committed to the reliability of financial reporting and all business transactions are reflected in the financial statements of the company.

6. We are an equal opportunity employer and believe in provision of safe and healthy working conditions to our employees. We believe that all employees shall
   - act with honesty and openness when representing the organization and when interacting with each other
   - shall avoid conflicts of interest between their private financial activities and conduct of company business and
   - shall ensure the confidentiality and integrity of the information passing through them
   - shall not use Company' information and assets for any personal advantage and gain.

   Every manager and supervisor shall be responsible to see that there is no violation within his/her area of responsibility which proper supervision could have prevented. The manager and supervisor shall still be responsible if he/she delegated particular tasks.

7. Company recognizes its social responsibility and will contribute to community activities as a good corporate citizen.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

for the year ended December 31, 2012

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

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

1. The directors have confirmed that none of them is serving as a director in ten or more listed companies. The company encourages representation of non-executive directors on its Board of Directors.

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

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

4. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

5. 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 and other executive directors, have been taken by the Board.

6. No casual vacancy occurred in the Board during the year.

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

8. The Board has established a system of sound internal control, which is effectively implemented at all levels within the company. The Company includes all the necessary aspects of internal control given in the code.

9. An orientation was arranged for the directors during the tenure to apprise them of their duties & responsibilities.

10. The Board, during the year, has approved the appointment of an Internal Auditor, including his remuneration and terms and conditions of employment, as determined by the CEO. There was no new appointment of CFO or Company Secretary 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.

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

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

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

STATEMENT OF COMPLIANCE
WITH THE CODE OF CORPORATE GOVERNANCE
for the year ended December 31, 2012

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

16. The Board has formed an audit committee comprising of 3 members, all of them are non-executive Directors including the Chairman of the committee.

17. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as per the requirement of the Code. The audit committee has adopted the same terms of reference as defined by the Code and advised to the committee for compliance.

18. The Board has set-up an effective in-house internal audit function with effect from 05 May 2012 prior to this it was outsourced to an audit firm which had satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan. The current audit team is suitably qualified and experienced for this purpose and is fully conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

19. All related parties transactions entered during the year were on arm's length basis and were placed before the Audit Committee and Board of Directors for review and approval respectively.

20. 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.

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

22. The actuary appointed by the company has confirmed that he or his spouse and minor children do not hold shares of the company.

23. The Board ensures that the appointed actuary complied with the requirements set out for him in this code.

24. We confirm that all other material principles contained in the Code have been complied by the Company.

N. Samad

Nasar Us Samad Qureshi
Chief Executive Officer

ERNST & YOUNG

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
Mall View Building, 4-Bank Square
P.O. Box No. 104, Lahore 54000, Pakistan
Tel: +9242 3721 1531-38
Fax: +9242 3721 1530 & 39
www.ey.com

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 (the Statement) contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Alfalah Insurance Company Limited (the Company) to comply with the code issued by the Securities and Exchange Commission of Pakistan applicable to non listed insurance companies.

The responsibility for compliance with the Code 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 reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

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

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

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Lahore 03 MAR 2013

Date:

ERNST & YOUNG

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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Tel: +9242 3721 1531-38
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AUDITOR'S 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. cash flow statement;
v. statement of premiums
vi. statement of claims;
vii. statement of expenses; and
viii. statement of investment income

of Alfalah Insurance Company Limited (the Company) as at 31 December 2012, together with the notes forming part thereof, for the year then ended.

It is the responsibility of the Company's 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. The financial statements of the Company as of 31 December 2011 were audited by another auditor whose report dated 29 March 2012 expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with the International Standards on Auditing as applicable in Pakistan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the management, as well as, evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

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

b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note 2.2 of these financial statements, with which we concur;

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31 December 2012 and of the profit, its cash flow 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) in our opinion, no Zakat was deductible under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountants

Engagement Partner: Farooq Hameed

Lahore 03 MAR 2013

BALANCE SHEET

As at 31 December 2012

	Note	2012	2011
		(Rupees in thousand)	
Share capital and reserves			
Authorized capital			
50,000,000 (2011:30,000,000)			
ordinary shares of Rs 10 each		500,000	300,000
Issued, subscribed and paid up capital			
30,000,000 (2011:30,000,000)			
ordinary shares of Rs 10 each	5	300,000	300,000
Share deposit money		1,381	1,381
General Reserve		15,000	15,000
Unappropriated profit		170,309	72,218
		486,690	388,599
Underwriting provisions			
Provision for outstanding claims [including IBNR]		650,048	367,247
Provision for unearned premium		460,620	419,749
Commission income unearned		50,434	52,236
Total underwriting provisions		1,161,102	839,232
Deferred Liabilities			
Deferred taxation	6	7,362	6,277
Creditors and accruals			
Premium received in advance		5,650	3,938
Amounts due to other insurers/reinsurers		241,593	199,382
Accrued expenses	7	50,492	39,607
Other creditors and accruals	8	40,079	34,565
		337,814	277,492
Other Liabilities			
Deposits and other payables	9	3,390	2,506
TOTAL LIABILITIES		1,509,668	1,125,507
CONTINGENCIES AND COMMITMENTS	10		
TOTAL EQUITY AND LIABILITIES		1,996,358	1,514,106

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

Chairman **Director**

BALANCE SHEET

As at 31 December 2012

	Note	2012	2011
		(Rupees in thousand)	
Cash and bank deposits			
Cash and other equivalents	11	1,328	314
Current and other accounts	12	158,928	77,096
Deposits maturing within 12 months	13	2,000	2,000
		162,256	79,410
Loan - secured considered good			
To employees		2,127	1,565
Investments	14	701,627	637,147
Other assets			
Premiums due but unpaid	15	171,398	137,594
Amounts due from other insurers/reinsurers	16	68,289	53,509
Salvage recoveries accrued		7,545	3,225
Accrued investment income		1,621	2,285
Reinsurance recoveries against outstanding claims		502,884	237,528
Deferred commission expense		22,302	16,306
Prepayments - prepaid reinsurance premium ceded		251,639	246,853
- others		5,729	6,239
Taxation - payments less provision		3,985	10,759
Sundry receivables	17	7,452	5,268
		1,042,844	719,566
Fixed assets			
Tangible	18		
Building on leasehold land		31,706	29,744
Furniture, fixtures and office equipment		24,709	19,807
Motor vehicles		26,210	22,533
		82,625	72,084
Intangible			
Computer software	19	4,879	4,334
TOTAL ASSETS		1,996,358	1,514,106

Director

Principal Officer & Chief Executive

ALFALAH INSURANCE COMPANY

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2012

(Rupees in thousand)

	Note	Fire and property damage	Marine aviation and transport	Motor	Health	Miscellaneous	2012 Total	2011 Total
Revenue account								
Net premium revenue		40,931	11,617	196,495	167,078	38,282	454,403	384,483
Net claims		(19,596)	(1,932)	(108,353)	(117,552)	(14,935)	(262,368)	(243,221)
Management expenses	20	(58,647)	(11,940)	(38,066)	(39,609)	(38,651)	(186,913)	(134,810)
Net commission		41,218	8,608	(10,235)	5,273	51,494	96,358	71,167
Underwriting result		3,906	6,353	39,841	15,190	36,190	101,480	77,619
Investment income							93,166	71,634
Other income	21						2,922	522
General and administration expenses	22						(89,613)	(74,141)
							6,475	(1,985)
Profit before taxation							107,955	75,634
Taxation	23						(9,864)	(6,396)
Profit after taxation							98,091	69,238
Other comprehensive income							-	-
Total comprehensive income for the year							98,091	69,238
Earnings per share - basic and diluted	**24**				Rupees		3.27	2.31
Profit and loss appropriation account								
Balance at the commencement of the year							72,218	42,980
Transfer from general reserve							-	10,000
Bonus shares issued during the year							-	(50,000)
Total comprehensive income for the year							98,091	69,238
Balance of unappropriated profits at the end of the year							170,309	72,218

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

Chairman	Director	Director	Principal Officer & Chief Executive

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Share capital	Share deposit money	General reserve	Unappropriated profit	Total
			(Rupees in thousand)		
Balance as at 1 January 2011	250,000	1,381	25,000	42,980	319,361
Total Comprehensive income for the year	-	-	-	69,238	69,238
Transferred from general reserve	-	-	(10,000)	10,000	-
Bonus shares issued during the year @ 20%	50,000	-	-	(50,000)	-
Balance as at 31 December 2011	300,000	1,381	15,000	72,218	388,599
Total Comprehensive income for the year	-	-	-	98,091	98,091
Balance as at 31 December 2012	300,000	1,381	15,000	170,309	486,690

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

Chairman	Director	Director	Principal Officer & Chief Executive

ALFALAH INSURANCE COMPANY

CASH FLOW STATEMENT

For the year ended 31 December 2012

	2012	2011
	(Rupees in thousand)	
Operating cash flows		
Underwriting activities		
Premiums received	1,027,095	996,187
Reinsurance premiums paid	(544,399)	(434,939)
Commissions received	137,109	122,179
Commissions paid	(40,811)	(29,403)
Claims paid	(594,371)	(439,221)
Management expense paid	(187,595)	(125,642)
Reinsurance recoveries received	349,448	190,275
Net cash inflow from underwriting activities	146,476	279,436
Other operating activities		
Income tax paid	(2,005)	(13,100)
Other operating payments	(63,190)	(40,089)
Other operating receipts	592	426
Loan advanced	(4,434)	(3,195)
Loan repayment received	3,872	2,938
Net cash outflow from other operating activities	(65,165)	(53,020)
Total cash inflow from all operating activities	81,311	226,416
Investment activities		
Profit/return received	12,361	14,034
Dividend received	3,746	820
Sale of investments	717,794	162,149
Purchase of investments	(704,543)	(354,576)
Proceeds from disposal of fixed assets	3,679	138
Fixed capital expenditure	(31,502)	(23,583)
Total cash inflow/ (outflow) from investing activities	1,535	(201,018)
Net cash inflow from all activities	82,846	25,398
Cash at the beginning of the year	79,410	54,012
Cash at the end of the year	162,256	79,410

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

Chairman | **Director** | **Director** | **Principal Officer & Chief Executive**

CASH FLOW STATEMENT

For the year ended 31 December 2012

	Note	2012	2011
		(Rupees in thousand)	
Reconciliation to profit and loss account			
Operating cash flows		81,311	226,416
Depreciation of tangibles		(17,278)	(18,324)
Amortization of intangibles		(1,791)	(2,042)
Increase / (decrease) in assets other than cash		324,504	(69,301)
Increase in liabilities		(384,161)	(139,238)
Un-realised gain on revaluation of held for trading investment		32,157	44,195
Others			
Gain on disposal of investments		45,891	12,111
Gain on disposal of fixed assets		2,332	86
Dividend and other investment income		15,126	15,335
Profit after taxation		98,091	69,238
Definition of cash			
Cash for the purposes of the Cash Flow Statement consists of:			
Cash and other equivalents			
Cash in hand	11	1,222	245
Stamps in hand	11	106	69
		1,328	314
Current and other accounts			
Current accounts	12	73,044	73,187
Saving accounts	12	85,884	3,909
		158,928	77,096
Deposits maturing within 12 months		2,000	2,000
		162,256	79,410

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

Chairman	Director	Director	Principal Officer & Chief Executive

STATEMENT OF PREMIUMS

For the year ended 31 December 2012

Business underwritten inside Pakistan

(Rupees in thousand)

Direct and facultative	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2012	2011
Class										
Fire and property damage	310,909	195,057	186,138	319,828	276,683	162,313	160,099	278,897	40,931	35,233
Marine, aviation and transport	66,045	4,782	5,715	65,112	53,495	-	-	53,495	11,617	9,161
Motor	234,954	95,700	123,063	207,591	11,843	1,629	2,376	11,096	196,495	162,049
Health	227,581	64,744	76,319	216,006	51,002	39,558	41,632	48,928	167,078	135,105
Miscellaneous	220,698	59,466	69,385	210,779	176,676	43,353	47,532	172,497	38,282	42,935
Total	1,060,187	419,749	460,620	1,019,316	569,699	246,853	251,639	564,913	454,403	384,483

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

Chairman | Director | Director | Principal Officer & Chief Executive

STATEMENT OF CLAIMS

For the year ended 31 December 2012

Business underwritten inside Pakistan

(Rupees in thousand)

Direct and facultative	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	Net claims expense	
		Opening	Closing			Opening	Closing		2012	2011
Class										
Fire and property damage	256,052	86,336	329,176	498,892	244,038	75,723	310,981	479,296	19,596	(3,564)
Marine, aviation and transport	18,809	16,101	10,367	13,075	16,819	14,279	8,603	11,143	1,932	3,047
Motor	93,090	48,300	62,624	107,414	943	2,002	120	(939)	108,353	90,118
Health	126,749	35,445	31,469	122,773	5,221	-	-	5,221	117,552	118,725
Miscellaneous	99,671	181,065	216,412	135,018	82,427	145,524	183,180	120,083	14,935	34,895
Total	594,371	367,247	650,048	877,172	349,448	237,528	502,884	614,804	262,368	243,221

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

Chairman **Director** **Director** **Principal Officer & Chief Executive**

ALFALAH INSURANCE COMPANY

STATEMENT OF EXPENSES

For the year ended 31 December 2012

Business underwritten inside Pakistan

(Rupees in thousand)

Direct and facultative	Commissions paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expenses	Other management expenses	Underwriting expense	Commissions from reinsurers	Net underwriting expense 2012	Net underwriting expense 2011
Class									
Fire and property damage	18,168	7,545	9,227	16,486	58,647	75,133	57,704	17,429	12,492
Marine, aviation and transport	10,761	710	931	10,540	11,940	22,480	19,148	3,332	(87)
Motor	11,664	5,194	5,981	10,877	38,066	48,943	642	48,301	34,737
Health	5,578	1,396	4,629	2,345	39,609	41,954	7,618	34,336	26,989
Miscellaneous	247	1,461	1,534	174	38,651	38,825	51,668	(12,843)	(10,488)
Total	46,418	16,306	22,302	40,422	186,913	227,335	136,780	90,555	63,643

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

Chairman

Director

Director

Principal Officer &
Chief Executive

STATEMENT OF INVESTMENT INCOME

For the year ended 31 December 2012

	2012	2011
	(Rupees in thousand)	
Income from trading investments		
Gain on sale of held for trading investments	34,607	4,962
Income from non-trading investments		
Held to maturity		
Return on Government Securities	2,852	3,064
Return on other fixed income securities and deposits	8,528	11,451
	11,380	14,515
Available for sale		
Dividend income	3,746	820
Gain on sale of available for sale investments	11,284	7,149
	15,030	7,969
Un-realised gain on revaluation of held for trading investments	32,157	44,195
Investment expenses	(8)	(7)
Net investment income	93,166	71,634

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

Chairman	Director	Director	Principal Officer & Chief Executive

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

1. LEGAL STATUS AND NATURE OF BUSINESS

Alfalah Insurance Company Limited (the Company) is a general non-life insurance company which was incorporated as an unquoted public limited company in Pakistan on December 21, 2005 under the Companies Ordinance, 1984. The registered office of the Company is situated at 5-Saint Mary Park, Gulberg III, Lahore.

2. BASIS OF PREPARATION

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

2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS EFFECTIVE IN 2012:

The Company has adopted the following amendments to IFRSs which became effective for the current year:

IFRS 7 – Financial Instruments: Disclosures - Enhanced De-recognition Disclosure Requirements (Amendment)

IAS 12 – Income Taxes - Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any effect on the financial statements.

2.3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE:

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

Standard or Interpretation	Effective date (annual periods Beginning on or after)
IFRS 7 – Financial Instruments : Disclosures – (Amendments)	
-Amendments enhancing disclosures about offsetting of financial assets and financial liabilities.	01-Jan-13

Standard or Interpretation	Effective date (annual periods Beginning on or after)
IAS 1 – Presentation of Financial Statements	
– Presentation of items of other comprehensive income	01-Jul-12
IAS 19 – Employee Benefits –(Revised)	01-Jan-13
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01-Jan-14
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	01-Jan-13

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

The Company expects that the adoption of the above revisions, amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application other than the amendments to IAS 19 "Employee Benefits" as described below:

Amendments to IAS 19 range from fundamental changes to simple clarification and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

- The distinction between short term and other long term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

While the Company is currently assessing the full impact of the above amendments which are effective from 01 January 2013 on the financial statements, it is expected that the adoption of the said amendments will result in change in the Company's accounting policy related to recognition of actuarial gains and losses as referred to in note 4.7.2 to the financial statements to recognize actuarial gains and losses in total in other comprehensive income in the period in which they occur. The potential impact of the said changes on the financial position and performance for the year 2013 is not likely to be material.

In addition to the above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after 01 January 2013. The Company expects that such improvements to the standards will not have any material impact on the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	**IASB Effective date (annual periods beginning on or after)**
IFRS 9 – Financial Instruments: Classification and Measurement	01-Jan-15
IFRS 10 – Consolidated Financial Statements	01-Jan-13
IFRS 11 – Joint Arrangements	01-Jan-13
IFRS 12 – Disclosure of Interests in Other Entities	01-Jan-13
IFRS 13 – Fair Value Measurement	01-Jan-13

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment and estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Provision for outstanding claims including incurred but not reported (IBNR) (note 4.2);
b) Premium deficiency reserve (note 4.3);
c) Provision for taxation (note 4.6);
d) Employee retirement benefits (note 4.7);
e) Useful life and residual values of fixed assets (note 4.16);

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.1 INSURANCE CONTRACTS

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

- Fire and property damage
- Marine, aviation and transport
- Motor
- Health
- Miscellaneous

These contracts are normally one year insurance contracts except marine and some contracts of miscellaneous class. Normally all marine insurance contracts are of three months period. In miscellaneous class, some engineering insurance contracts are of more than one year period.

These contracts are provided to all types of customers based on assessment of insurance risk by the Company. Normally personal insurance contracts e.g. vehicle, personal accident, etc. are provided to individual customers, whereas, insurance contracts of fire and property damage, marine, aviation and transport, health and other commercial line products are provided to commercial organizations.

Fire and property damage insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Marine Insurance covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident.

Health insurance provides protection against losses incurred as a result of medical illnesses, surgical operations and accidental injuries.

Other various types of insurance are classified in miscellaneous category which includes mainly engineering, terrorism, personal accident, worker compensation, products of financial institutions, crop etc.

The Company also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward. The insurance risk involved in these contracts is similar to the contracts undertaken by the Company as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts .

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4.2 PROVISION FOR OUTSTANDING CLAIMS INCLUDING INCURRED BUT NOT REPORTED (IBNR)

The Company recognises liability in respect of all claims incurred upto the balance sheet date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. The liability for claims includes amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for IBNR is based on the management's best estimate which takes into account past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date except for the provision of IBNR related to health which is based on actuarial valuation.

Reinsurance recoveries against outstanding claims are recognised on occurrence of the related claim liability. These are recorded as an asset and measured at the amount expected to be received.

4.3 PREMIUM DEFICIENCY RESERVE

The Company maintains a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary 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/income in the profit and loss account for the year.

For this purpose, loss ratios for each class are estimated based on historical claim development except for health which is based on actuarial valuation. Judgment is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. If these ratios are adverse, premium deficiency is determined. The loss ratios for the current and prior year are as follows;

	2012	**2011**
- Fire and property damage	48%	22%
- Marine, aviation and transport	17%	33%
- Motor	55%	56%
- Health	70%	88%
- Miscellaneous	39%	81%

The loss ratio of fire and property damage for year 2011 have been computed after ignoring the effect of one off reversals of flood claims relating to year 2010. Based on an analysis of loss ratios for the expired period of each reportable segment, management considers that the unearned premium reserve for all classes of business as at the year end is adequate to meet the expected future liability after reinsurance claims and other expenses, expected to be incurred after the balance sheet date in respect of policies in those classes of business in force at the balance sheet date. Hence, no reserve for the same has been made in these financial statements.

4.4 PROVISION FOR UNEARNED PREMIUM

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage and is recognised as a liability by the Company on the following basis:

- for marine cargo business, premium written is recognised as provision for unearned premium until the commencement of voyage.

- for other classes premium written is recognised as provision for unearned premium by applying the 1/24th method as specified in the SEC (Insurance) Rules, 2002.

4.5 COMMISSION INCOME UNEARNED

Unearned commission income from the reinsurers represents the portion of commission income relating to the unexpired period of reinsurance coverage and is recognised as a liability. It is calculated in accordance with the pattern of its related prepaid reinsurance premium ceded.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4.6 TAXATION

CURRENT

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

DEFERRED

Deferred tax is accounted for using the liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally 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 is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.7 EMPLOYEE RETIREMENT BENEFITS

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

4.7.1 DEFINED CONTRIBUTION PLAN

The Company has established an approved contributory provident fund for all permanent employees with effect from 01 September 2007. Equal monthly contributions are made by the Company and employees to the fund at the rate 8.33 % of basic salary. Contributions made by the company are recognised as expense.

4.7.2 DEFINED BENEFIT PLAN

The Company has established an approved gratuity fund for all permanent employees with effect from 01 September 2007. Monthly contributions are made to the fund on the basis of actuarial recommendations and in line with the provisions of the Income Tax Ordinance, 2001. The latest actuarial valuation was carried out as at 31 December 2012. The actual return on plan assets during the year was Rs 1.385 million. The actual returns/(loss) on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the Company as reduced by benefits paid during the year.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of this scheme:

- Discount rate	11.5% per annum
- Expected rate of increase in salary level	11.5% per annum
- Expected rate of return on plan assets	10% per annum

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 'Employee benefits'.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.8 AMOUNT DUE TO/FROM OTHER INSURERS/REINSURERS

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4.9 CREDITORS, ACCRUALS AND PROVISIONS

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for 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, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.10 CASH AND CASH EQUIVALENTS

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

4.11 INVESTMENTS

4.11.1 RECOGNITION

All investments are initially recognised at cost, being the fair value of the consideration given and include transaction costs. These are classified into the following categories:

- Held to maturity
- Available for sale
- Held for trading

All 'regular way' purchases and sales of financial assets are accounted for at trade date.

4.11.2 MEASUREMENT

HELD TO MATURITY

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortised cost using the effective yield method.

Any premium paid or discount availed on acquisition of held to maturity investments is deferred and included in the income for the period on a straight-line-basis over the term of the investment.

AVAILABLE FOR SALE

The financial assets including investments in associated undertakings where the Company does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Subsequent to initial recognition at cost, these are stated at the lower of cost or market value (market value being taken as lower if the fall is other than temporary) in accordance with the requirements of the S.R.O. 938 issued by the SECP in December 2002. The Company uses latest stock exchange quotations in an active market to determine the market value of its quoted investments whereas, impairment of unquoted investments is computed by reference to net assets of the investee on the basis of the latest available audited/unaudited financial statements.

Had these investments been measured at fair value as required by IAS 39, the Company's net equity would have been higher by Rs 1.737 million (2011: higher by Rs. 0.539 million)

Gain/(loss) on sale of available for sale investments are recognized in profit and loss account.

HELD FOR TRADING

These financial assets are acquired principally for the purpose of generating profit from short-term fluctuations in price or are part of a portfolio for which there is a recent actual pattern of short-term profit taking and are included in current assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

Subsequent to initial recognition these are re-measured at fair value by reference to quoted market prices with the resulting gain/(loss) being included in net profit/(loss) for the period in which it arises.

4.12 PREMIUMS DUE BUT UNPAID

These are recognised at cost, which is the fair value of the consideration given less provision for doubtful debts, if any.

4.13 REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS

Reinsurance 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.

4.14 DEFERRED COMMISSION EXPENSE

It represents the portion of commission expense relating to the unexpired period of insurance contract and is recognised as an asset. It is calculated in accordance with the pattern of its related unearned premium income.

4.15 PREPAID REINSURANCE PREMIUM CEDED

It represents the portion of reinsurance premium ceded relating to the unexpired period of reinsurance coverage and is recognised as a prepayment. It is calculated in accordance with the pattern of its related unearned premium income.

4.16 FIXED ASSETS

TANGIBLE

These are stated at cost, signifying historical cost, less accumulated depreciation and any identified impairment loss.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its tangible fixed assets as at 31 December 2012 has not required any adjustment.

Depreciation on all fixed assets is charged to profit and loss account on the straight line method so as to write off depreciable amount of an asset over its useful life at the rates stated in note 18. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

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

The Company assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is charged to profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

The gain or loss on disposal or retirement of an asset, represented by the difference between the sale proceeds and the carrying amount of the asset, is recognised as an income or expense.

INTANGIBLE

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised at the rate specified in note 19.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised, while no amortisation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.17 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognised 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 financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include cash and bank deposits, investments, premiums due but unpaid, amounts due from other insurers/reinsurers, accrued investment income, salvage recoveries accrued, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amounts due to other insurers/reinsurers, accrued expenses and sundry creditors. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.18 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

4.19 REVENUE RECOGNITION

PREMIUM INCOME

Premium income under a policy is recognised over the period of insurance from the date of issuance on the following basis :

a) For business other than marine cargo business, evenly over the period of the policy,
b) For marine cargo business, immediately after the commencement of voyage; and

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

ADMINISTRATIVE SURCHARGE

This represents documentation and other charges recovered by the Company from policy holders in respect of polices issued, at a rate of 5% of the premium restricted to a maximum of following limits:

Class	Rupees.
Fire	3,000
Marine	3,000
Motor	3,000
Miscellaneous	5,000
Health	5,000

Premium written includes administrative surcharge amounting to Rs. 14.033 million.

DIVIDEND INCOME AND BONUS SHARES

Dividend income and entitlement of bonus shares are recognised when right to receive such dividend and bonus shares is established.

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

INCOME ON HELD TO MATURITY INVESTMENTS

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

MISCELLANEOUS INCOME

Other revenues are recognised on accrual basis.

4.20 REINSURANCE CEDED

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

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

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

4.21 CLAIMS EXPENSE

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

4.22 COMMISSION

COMMISSION EXPENSE

Commission expense incurred in obtaining and recording insurance policies is deferred and recognised as an asset on the attachment of the related risks. This expense is charged to the profit and loss account based on the pattern of recognition of related premium revenue.

COMMISSION INCOME

Commission income from reinsurers is recognised at the time of issuance of the underlying insurance policy by the Company. This income is deferred and brought to account as revenue in accordance with the pattern of recognition of the reinsurance premium to which it relates. Profit commission, if any, which the Company may be entitled to under the terms of reinsurance, is recognised on accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

4.23 IMPAIRMENT

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognised in the profit and loss account currently.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense currently. During the year, there being no impairment of financial assets, therefore, no provision has been made in the accounts.

4.24 FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognised in the profit and loss account. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

4.25 MANAGEMENT EXPENSES

Expenses of management allocated to the underwriting business represent directly attributable expenses and indirect expenses allocated to the various classes of business on the basis of gross premium written. Expenses not allocable to the underwriting business are charged as administrative expenses.

4.26 SEGMENT REPORTING

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The reported operating segments are also consistent with the internal reporting framework provided to Board of Directors who are responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

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

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

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

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

4.27 SALVAGE RECOVERIES ACCRUED

Salvage recoveries are recognised on estimated bases and are in line with the recognition of related claim expenses.

4.28 ZAKAT

` Zakat deductible compulsorily under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) is accounted for in the year of deduction.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
30,000,000	25,000,000	Ordinary shares of Rs 10 each fully paid in cash	300,000	250,000
-	5,000,000	Ordinary shares of Rs 10 each, issued as fully paid bonus shares	-	50,000
30,000,000	30,000,000		300,000	300,000

8,998,695 (2011: 8,998,695) ordinary shares of the Company are held by Bank Alfalah Limited, an associated undertaking as at 31 December 2012.

6 DEFERRED TAXATION

The liability for deferred taxation comprises of temporary differences relating to accelerated tax depreciation.

7. ACCRUED EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Accrued expenses		31,267	22,072
Bonus payable		19,131	17,471
EOBI payable		94	64
		50,492	39,607

8. OTHER CREDITORS AND ACCRUALS

	Note	2012	2011
Agent commission payable		20,743	15,135
Federal Insurance Fee		871	1,345
Federal Excise Duty		14,207	14,170
Gratuity payable	17.1	-	216
Others		4,258	3,699
		40,079	34,565

9. DEPOSITS AND OTHER PAYABLES

	2012	2011
Retention money	564	116
Cash margin	2,826	2,390
	3,390	2,506

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 31 December 2012

10. CONTINGENCIES AND COMMITMENTS

10.1 CONTINGENCIES

There are no contingencies at the year end (2011: Nil).

10.2 COMMITMENTS

The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2012	2011
	(Rupees in thousand)	
Not later than one year	13,069	7,433
Later than one year and not later than five years	45,337	38,633
Later than five years	10,419	19,409
	68,825	65,475

11. CASH AND OTHER EQUIVALENTS

Cash in hand	1,222	245
Stamps in hand	106	69
	1,328	314

12. CURRENT AND OTHER ACCOUNTS

Current accounts	73,044	73,187
Saving accounts	85,884	3,909
	158,928	77,096

The balance in saving accounts bear mark-up at the rate of 8.5% to11% per annum. (2011: 11% per annum).

13. DEPOSITS MATURING WITHIN 12 MONTHS

This represents Term Deposit Receipts (TDR) with banks and bears mark-up at the rate of 13.5% per annum (2011: 13.5% per annum).

14. INVESTMENTS

	Note	2012	2011
		(Rupees in thousand)	
The investments comprise of the following:			
Held to maturity	14.1	31,683	31,913
Available for sale - quoted	14.2	7,950	29,071
Held for trading	14.3	661,994	576,163
		701,627	637,147

14.1. HELD TO MATURITY

Statutory deposits	14.1.1	32,000	32,000
Unamortized premium / (discount) on investment bonds		(317)	(87)
		31,683	31,913

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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14.1.1. STATUTORY DEPOSITS

	Maturity	Effective Yield %	2012	2011
			(Rupees in thousand)	
Pakistan Investment Bonds	June, 2013	9.45%	24,000	24,000
	August, 2013	12.04%	3,000	3,000
	July, 2015	14.18%	5,000	5,000
			32,000	32,000

This represents Pakistan Investment Bond held with State Bank of Pakistan as statutory deposit. Market value as at 31 December 2012 is Rs 32.2 million (2011: Rs 30.685 million).

14.2 AVAILABLE FOR SALE - QUOTED

2012	2011	Company's name	Face value per share	2012	2011
Number of Shares			(Rupees)	(Rupees in thousand)	
47,500	47,500	Hub Power Company Limited	10	1,650	1,650
86,000	86,000	Kot Addu Power Company Limited	10	4,189	4,189
99,960	1,499,658	Bank Alfalah Limited	10	100	15,503
55,000	-	DG Khan Company	10	2,517	-
-	50,000	Fauji Fertilizer Company Limited	10	-	8,235
6,500	6,500	Nishat Power Limited	10	108	108
				8,564	29,685
Impairment in value of available for sale investments				(614)	(614)
				7,950	29,071
Market value as at 31 December				9,687	29,610

14.3 HELD FOR TRADING

2012	2011	Company's name	Face value per unit	2012	2011
Number of Units			(Rupees)	(Rupees in thousand)	
751,246	1,231,105	MCB Cash Management Optimizer Fund	100	75,328	126,663
-	7,178,525	NAFA Government Securities Liquid Fund	10	-	73,093
157,923	161,376	Alfalah GHP Cash Fund	500	79,070	80,775
142,602	54,821	Atlas Money Market Fund	500	72,021	27,607
348,317	237,807	IGI Money Market Fund	100	35,050	23,943
734,310	698,426	UBL Liquidity Plus Fund	100	73,635	70,177
817,981	289,094	Pakistan Cash Management Fund	50	41,010	14,536
782,788	792,228	Askari Sovereign Cash Fund	100	78,693	79,616
7,587,483	7,952,779	ABL Cash Fund	10	75,973	79,723
665	577	Metro Bank Perpetual Scheme	50	33	30
291,942	-	Faysal Money Market Fund	100	30,048	-
741,976	-	HBL Money Market Fund	100	75,095	-
2,595,036	-	NAFA Money market fund	10	26,038	-
				661,994	576,163

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

15. PREMIUMS DUE BUT UNPAID

	Note	2012	2011
		(Rupees in thousands)	
Unsecured			
- Considered good		171,398	137,594
- Considered doubtful		9,856	8,856
		181,254	146,450
Less: Provision for doubtful receivables	15.1	(9,856)	(8,856)
		171,398	137,594

15.1 PROVISION FOR DOUBTFUL RECEIVABLES

	Note	2012	2011
Balance as at 01 January		8,856	6,000
Provision made during the year	20	1,000	2,856
Balance as at 31 December		9,856	8,856

16. AMOUNTS DUE FROM OTHER INSURERS/REINSURERS

These are unsecured and considered good.

17. SUNDRY RECEIVABLES

	Note	2012	2011
Security deposits		2,185	3,007
Receivable from provident fund		1,203	2,008
Receivable from gratuity fund	17.1	285	-
Insurance claim receivable		1,015	-
Other advances		2,764	253
		7,452	5,268

17.1 GRATUITY PAYABLE / (RECEIVABLE)

The amounts recognised in the balance sheet are as follows:

	Note	2012	2011
Present value of defined benefit obligation	17.1.1	16,789	10,858
Fair value of plan assets	17.1.2	(17,420)	(12,286)
Unrecognised actuarial gain		346	1,644
(Asset) / liability as at 31 December		(285)	216
Net obligation as at 01 January		216	(283)
Charge to profit and loss account	17.1.3	3,373	2,019
Benefit payment on behalf of fund		(738)	-
Company contribution		(3,136)	(1,520)
		(285)	216

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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

	2012	2011
	(Rupees in thousand)	
Present value of defined benefit obligation as at 01 January	10,858	7,559
Service cost	3,516	2,624
Interest cost	1,311	1,058
Benefits paid	(738)	-
Unrecognised actuarial loss/ (gain)	1,842	(383)
Present value of defined benefit obligation as at 31 December	16,789	10,858

17.1.2 The movement in fair value of plan assets is as follows:

	2012	2011
Fair value as at 01 January	12,286	9,966
Expected return on plan assets	1,385	1,502
Company contributions	3,136	1,520
Benefit payment on behalf of fund	738	-
Benefit paid	(738)	-
Unrecognised actuarial gain / (loss)	613	(702)
Fair value as at 31 December	17,420	12,286
Plan assets are comprised as follows:		
Investment in units of mutual funds	862	779
Cash at bank	16,558	11,508
	17,420	12,287

17.1.3 Charge to profit and loss account:

	2012	2011
Current service cost	3,516	2,624
Interest cost	1,311	1,058
Expected return on plan assets	(1,385)	(1,502)
Recognition of actuarial gain	(69)	(161)
Expense for the year	3,373	2,019

The present value of defined benefit obligation, fair value of plan assets and surplus or deficit of gratuity fund is as follows:

	2012	2011	2010	2009	2008
			(Rupees in thousand)		
As at 31 December					
Present value of defined benefit obligation	16,789	10,858	7,559	8,715	4,182
Fair value of plan assets	(17,420)	(12,286)	(9,966)	(5,700)	(1,688)
(Deficit)/Surplus	(631)	(1,428)	(2,407)	3,015	2,494
Experience adjustment on obligation	10.97%	-3.53%	-50.41%	-15.80%	-2.40%
Experience adjustment on plan assets	-3.52%	5.71%	-0.30%	5.86%	-29.80%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

18. TANGIBLE

(Rupees in thousand)

	Cost as at 01 January 2012	Additions	Disposals / Adjustments	Cost as at 31 December 2012	Accumulated depreciation as at 01 January 2012	Depreciation charge for the year	Accumulated Depreciation on Disposal /Adjustments	Accumulated depreciation as at 31 December 2012	Book value as at 31 December 2012	Depreciation rates
Furniture, fixtures and office equipment										
Furniture and fixtures	12,611	3,868	(269)	16,210	4,092	1,529	(165)	5,456	10,754	10%
Office equipment	14,327	4,069	(4,125)	14,271	9,127	2,986	(3,369)	8,744	5,527	20%
Computer equipment	18,115	5,083	(69)	23,129	12,027	2,698	(24)	14,701	8,428	25%
	45,053	13,020	(4,463)	53,610	25,246	7,213	(3,558)	28,901	24,709	
Building on leasehold land	46,390	6,868	(3,023)	50,235	16,646	4,906	(3,023)	18,529	31,706	10%
Motor vehicles	43,471	9,278	(1,637)	51,112	20,938	5,159	(1,195)	24,902	26,210	20%
2012	134,914	29,166	(9,123)	154,957	62,830	17,278	(7,776)	72,332	82,625	

(Rupees in thousand)

	Cost as at 01 January 2011	Additions	Disposals / Adjustments	Cost as at 31 December 2011	Accumulated depreciation as at 01 January 2011	Depreciation charge for the year	Accumulated Depreciation on Disposal / Adjustments	Accumulated depreciation as at 31 December 2011	Book value as at 31 December 2011	Depreciation rates
Furniture, fixtures and office equipment										
Furniture and fixtures	11,506	1,105	-	12,611	2,894	1,198	-	4,092	8,519	10%
Office equipment	13,520	807	-	14,327	6,375	2,752	-	9,127	5,200	20%
Computer equipment	12,575	5,757	(217)	18,115	9,306	2,890	(169)	12,027	6,088	25%
	37,601	7,669	(217)	45,053	18,575	6,840	(169)	25,246	19,807	
Building on leasehold land	43,213	3,177	-	46,390	10,734	5,912	-	16,646	29,744	10%
Motor vehicles	35,226	8,254	(9)	43,471	15,371	5,572	(5)	20,938	22,533	20%
2011	116,040	19,100	(226)	134,914	44,680	18,324	(174)	62,830	72,084	

18.1 The depreceation charge for the year has been charged to the general and administrative expenses as referred to in Note 22.

19. INTANGIBLE

(Rupees in thousand)

	Cost as at 01 January 2012	Additions	Cost as at 31 December 2012	Accumulated amortisation as at 01 January2012	Amortisation charge for the year	Accumulated amortisation as at 31 December 2012	Book value as at 31 December 2012	Amortisation rate
2012								
Software	9,106	2,336	11,442	4,772	1,791	6,563	4,879	25%

(Rupees in thousand)

	Cost as at 01 January 2011	Additions	Cost as at 31 December 2011	Accumulated amortisation as at 01 January 2011	Amortisation charge for the year	Accumulated amortisation as at 31 December 2011	Book value as at 31 December 2011	Amortisation rate
2011								
Software	4,623	4,483	9,106	2,730	2,042	4,772	4,334	25%

19.1 The amortization charge for the year has been charged to the general and administrative expenses as referred to in Note 22.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

20. MANAGEMENT EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Salaries, wages and other benefits		96,038	71,506
Staff retirement benefits	22.2	5,604	3,604
Tracker expenses		29,795	19,468
Rent, rates and taxes		12,106	9,549
Communication and utility expenses		9,764	7,424
Printing and stationery		6,852	4,960
Generator expense		5,342	2,368
Travelling and conveyance		5,404	3,784
Inspection fee		1,761	211
Provision for doubtful debts	15.1	1,000	2,856
Fees and subscription		4,459	2,327
Training and development		820	192
Sundry expenses		7,968	6,561
		186,913	134,810

21. OTHER INCOME

This represents gain/(loss) arising on disposal of fixed assets, liabilities written back and exchange gain/(loss) arising on foreign currency transactions.

22. GENERAL AND ADMINISTRATION EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Salaries, wages and other benefits		26,608	21,615
Staff retirement benefits	22.2	2,193	1,698
Depreciation on tangible assets	18	17,278	18,324
Amortisation of intangible assets	19	1,791	2,042
Vehicles running and maintenance expenses		14,248	10,485
Repair and maintenance		6,806	4,264
Insurance expense		6,727	4,917
Rent expense		4,692	3,864
Legal and professional		6,715	3,000
Advertisement expenses		1,602	2,959
Auditors' remuneration	22.1	953	973
		89,613	74,141

22.1 AUDITORS' REMUNERATION

	2012	2011
Statutory audit fee	450	450
Half yearly review	200	200
Statutory returns	100	100
Certification and sundry services	75	75
Out of pocket expenses	128	148
	953	973

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22.2 STAFF RETIREMENT BENEFITS

Staff retirement benefits comprises of provident fund and gratuity amounting to Rs. 3.373 million and Rs. 4.424 million respectively.

23. TAXATION

	Note	2012	2011
		(Rupees in thousand)	
For the year			
- Current - for the year		8,779	8,000
- Current - prior years		-	233
		8,779	8,233
- Deferred - for the year		1,085	(1,837)
	23.1	9,864	6,396

23.1 TAX CHARGE RECONCILIATION

	2012	2011
A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate		
Accounting profit	107,955	75,634
Tax at the applicable rate of 35% (2011: 35%)	37,784	26,472
Tax effect of amounts that are:		
- Exempt for tax purposes	(27,317)	(19,697)
- Chargeable to tax at different rates	(603)	(425)
Effect of rounding and others	-	46
	(27,920)	(20,076)
Tax expense	9,864	6,396

24. EARNINGS PER SHARE - BASIC AND DILUTED

		2012	2011
Net profit for the year	Rupees in thousand	98,091	69,238
Weighted average number of ordinary shares issued and paid at the end of the year	Number of shares	30,000,000	30,000,000
Earnings per share - basic and diluted	Rupees per share	3.27	2.31

25. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND KEY MANAGEMENT PERSONNEL

The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the Directors, Chief Executive and Key Management Personnel of the Company is as follows:

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	Directors	Chief Executive 2012	Key Management Personnel
		(Rupees in thousand)	
Managerial remuneration	-	12,000	12,720
Contribution to post employment benefits	-	1,200	1,272
Bonus	-	1,600	1,696
Leave fare assistance	-	300	318
	-	15,100	16,006
Number of persons	6	1	4

	Directors	Chief Executive 2011	Key Management Personnel
		(Rupees in thousand)	
Managerial remuneration	-	12,000	9,342
Contribution to post employment benefits	-	1,200	934
Bonus	-	4,000	1,446
Leave fare assistance	-	300	271
	-	17,500	11,993
Number of persons	6	1	4

In addition, the Chief Executive of the Company was also provided with a Company maintained car.

26 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings, other related Companies, directors of the Company and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Remuneration of directors, chief executive and key management personnel is disclosed in note 25. Amounts due to/from and other significant transactions with related parties are as follows:

Transactions during the period

		2012	2011
		(Rupees in thousand)	
Relationship	**Nature of transactions**		
Associated undertakings	Insurance premium	510,693	487,651
	Net premium received	645,597	719,714
	Claims paid	421,083	298,485
	Interest income	7,975	11,164
	Dividend received	2,624	-
	Rent paid	1,597	1,597
	License fees and connection charges	3,464	5,283
Post employment benefit plans	Expense charged	7,797	5,302
Period end balances			
Associated undertakings	Premium receivable	90,980	96,457
	Provision for outstanding claims	501,278	246,493

All transactions with related parties have been carried out on commercial terms and conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

27. SEGMENT REPORTING

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 SEC (Insurance) Rules, 2002. The following table presents information regarding segment assets, liabilities as at 31 December 2012 and 31 December 2011, unallocated capital expenditure and non-cash expenses during the year.

	Fire and property damage		Marine, aviation and transport		Motor		Health		Miscellaneous		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Segment assets	598,086	344,226	26,801	30,975	30,782	21,894	73,199	58,705	287,643	235,990	1,016,511	691,790
Unallocated corporate assets											979,847	822,316
Consolidated total assets											1,996,358	1,514,106
Segment liabilities	692,810	478,130	28,170	28,196	189,058	145,870	153,376	106,953	332,399	276,241	1,395,813	1,035,390
Unallocated corporate liabilities											113,855	90,117
Consolidated total liabilities											1,509,668	1,125,507
Unallocated capital expenditure											31,502	23,583
Unallocated depreciation											19,069	20,366

28. RISK MANAGEMENT

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholder from the events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management system in place.

The Company's risk management function is carried out by the Board of Directors (the Board), with its associated committees. This is supplemented with a clear organsational structure with documented delegated authorities and responsibilities from the Board of Directors to the Chief Executive Officer and senior managers.

The Board of Directors meets regularly to approve any commercial, regulatory and organizational decisions. The Chief Executive Officer under the authority delegated from the Board of Directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirement.

The risk faced by the Company and the way these risks are mitigated by management are summarised below :

a) Financial risk, categorized into ;

- Credit risk - note 28.1.1
- Liquidity risk - note 28.1.2
- Market risk - note 28.1.3

b) Capital adequacy risk - note 28.2

c) Insurance risk - note 28.3

28.1 Financial risk

The Company's activities exposes it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest / mark-up rate risk and price risk).

The Company's principal financial risk instruments are financial investments, receivables arising from insurance and reinsurance contracts, statutory deposits and cash and cash equivalents. The Company does not enter into any derivative transactions.

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The Company's financial risk focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. Financial risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

28.1.1 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 the following :

a) Credit worthiness of counter party ;

b) Sector wise concentration of counter party ; and

c) Aging analysis of counter party .

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

Financial assets	Note	2012	2011
		(Rupees in thousand)	
Bank balances	28.1.1.1	160,928	79,096
Investments	28.1.1.2	669,944	605,234
Premium due but unpaid	28.1.1.3	181,254	146,450
Amount due from other insurers / reinsurers	28.1.1.3	68,289	53,509
Accrued investment income		135	801
Reinsurance recoveries against outstanding claims	28.1.1.4	502,884	237,528
Sundry receivables	28.1.1.5	7,452	5,268
Salvage recoveries accrued	28.1.1.6	7,545	3,225
		1,598,431	1,131,111

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

	Rating Short term	Long term	Rating Agency	2012	2011
				(Rupees in thousand)	
Bank Alfalah Limited	A1+	AA	PACRA	153,415	76,837
HSBC Bank Middle East Limited	P1	A1	MOODY'S	259	259
Habib Bank Limited	A1+	AAA	JCR-VIS	5,254	-
Trust Investment Bank Limited	A3	BBB-	PACRA	2,000	2,000
				160,928	79,096

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28.1.1.2 The credit quality of Company's investments can be assessed with reference to external credit rating which is as follows :

Company/Asset Management Company Name	Rating	Agency	2012	2011
			(Rupees in thousand)	
MCB Asset Management Limited	AA2-	PACRA	75,361	126,693
NBP Fullerton Asset Management Limited	AM2	PACRA	26,038	73,093
Alfalah GHP Investment Management Limited	AM3	PACRA	79,070	80,775
Atlas Asset Management Limited	AM2-	PACRA	72,021	27,607
IGI Funds Limited	AM3+	PACRA	35,050	23,943
UBL Funds Managers Limited	AM2+	JCR-VIS	73,635	70,177
Arif Habib Investments Limited	AM2	PACRA	41,010	14,536
Askari Investment Management Limited	AM3+	PACRA	78,693	79,616
ABL Asset Management Company Limited	AM2-	JCR-VIS	75,973	79,723
Faysal Asset Management Limited	AA3+	JCR-VIS	30,048	-
HBL Asset Management Limited	AA3+	JCR-VIS	75,095	-
Hub Power Company Limited	AA+	PACRA	1,405	1,405
Kot Addu Power Company Limited	AA+	JCR-VIS	3,820	3,820
Bank Alfalah Limited	AA	PACRA	100	15,503
DG Khan Company	N/A		2,517	-
Fauji Fertilizer Company Limited	N/A		-	8,235
Nishat Power Limited	A+	PACRA	108	108
			669,944	605,234

28.1.1.3 The management monitors exposure to credit risk in premium receivable arising from insurance and reinsurance contracts, through regular review of credit exposure and prudent estimates of provision for doubtful receivables. The provision for doubtful receivables amounting to Rs. 9.856 million (2011: Rs. 8.856 million) is shown in note 15.1. The figure shown below are exclusive of any provisions made during the year. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in entities of sound financial standing, covering various industrial sector segments.

Sector wise analysis of premiums due but unpaid and amount due from other insurer / reinsurer is as follows :

	2012	2011
	(Rupees in thousand)	
Financial institutions	148,305	145,779
Telecom sector	13,668	7,511
Foods & beverages	7,981	10,446
Personal Goods	12,376	5,086
Health	2,611	2,305
Textile	18,257	12,348
Miscellaneous	46,345	16,484
	249,543	199,959

The aging analysis of premium due but unpaid and amount due from other insurer / reinsurer can be assessed with the following age analysis :

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	2012	2011
	(Rupees in thousand)	
The age analysis of receivables is as follows:		
Upto 1 year	235,325	191,158
1-2 years	7,771	5,230
2-3 years	2,860	41
Over 3 years	3,587	3,530
	249,543	199,959

28.1.1.4 The credit quality of amount due from other insurers / reinsurers and reinsurance recoveries against outstanding claims can be assessed with reference to external ratings as follows:

	Amount due from other insurers/ reinsurers	Reinsurance recoveries against outstanding claims	Total
	(Rupees in thousand)		
As at 31 December 2012			
A- or above (including PRCL)	68,289	502,884	571,173
As at 31 December 2011			
A- or above (including PRCL)	53,509	237,528	291,037

The credit risk of reinsurance recoveries against outstanding claims can be assessed with the following age analysis, estimated in a manner consistent with the provision for outstanding claims, in accordance with the reinsurance contracts :

The age analysis of reinsurance against outstanding claims is shown below:

	Reinsurance recoveries against outstanding claims	Provision for outstanding claims
	(Rupees in thousand)	
Upto 1 year	438,504	565,717
1-2 years	29,158	42,904
2-3 years	22,497	27,168
Over 3 years	12,725	14,259
	502,884	650,048

28.1.1.5 Sundry receivable includes security deposits, advance to employees and receivable from Provident Fund which does not carry significant credit risk

28.1.1.6 Salvage recoveries accrued does not carry significant credit risk.

28.1.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of adequate funds through committed credit facilities. The Company finances its operations

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through equity and working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

On the balance sheet date, Company has cash & bank deposits and readily marketable securities with insignificant change in value of Rs 162.256 million (2011: Rs 79.410 million) and Rs 661.994 million (2011: Rs 576.163 million) respectively.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

	2012		(Rupees in thousand)	
	Carrying amount	**Contractual cash flows**	**Maturity upto one year**	**Maturity after oneyear**
Provision for outstanding claims	650,048	650,048	650,048	-
Amounts due to other insurers/reinsurers	241,593	241,593	241,593	-
Accrued expenses	50,398	50,398	50,398	-
Other creditors and accruals	25,001	25,001	25,001	-
Deposits and other accounts	3,390	3,390	3,390	-
	970,430	970,430	970,430	-

	2011		(Rupees in thousand)	
	Carrying amount	**Contractual cash flows**	**Maturity upto one year**	**Maturity after oneyear**
Provision for outstanding claims	367,247	367,247	367,247	-
Amounts due to other insurers/reinsurers	199,382	199,382	199,382	-
Accrued expenses	39,543	39,543	39,543	-
Other creditors and accruals	19,050	19,050	19,050	-
Deposits and other accounts	2,506	2,506	2,506	-
	627,728	627,728	627,728	-

28.1.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of change in market prices such as interest rates, foreign exchange rates and equity prices.

The Company is exposed to market risk with respect to its bank balances deposits and investments.

The Company limits market risk by maintaining a diversified portfolio of money market and equity market and by continuous monitoring of developments in respective markets. The company has formulated a liquidity-risk based investment policy approved by the Board of Directors which contains various guidelines for investment of surplus funds in money market and equity market.

a) Interest rate risk

Interest rate risk is the risk that value of a financial instrument or future cash flows of a financial instrument will fluctuate due to changes in the market interest rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instrument exposes the Company to fair value interest risk.

Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature or re-price in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted.

At the balance sheet date, the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

	2012 Effective Interest rate %	Carrying amounts Maturity upto one year		Carrying amounts Maturity after one year (Rupees in thousand)	
		2012	2011	2012	2011
Financial assets					
Bank balances	8.5% to 13.50%	87,884	5,909	-	-
Investments					
Money market funds	9.47% to 13.36%	661,994	576,163	-	-
PIB's	9.45% to 14.18%	26,930	-	4,753	31,913

Sensitivity analysis

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate will not effect fair value of any financial instrument. For cash flow sensitivity analysis of variable rate instruments a hypothetical change of 100 basis points in interest rates at the reporting date would have decreased/(increased) profit for the year by the amounts shown below.

It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all other variables remain constant.

	(Rupees in thousand) Increase	Decrease
Impact on Profit and loss	by 100 bps	
As at 31 December 2012		
Cash flow sensitivity-variable rate financial assets	7,794	(7,794)
As at 31 December 2011		
Cash flow sensitivity-variable rate financial assets	5,432	(5,432)

b) **Price risk**

Price risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest/mark-up rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instruments traded in the market. Company is exposed to price risk since it has investments amounting to Rs 669.944 million (2011: Rs 605.234 million) at the balance sheet date. However the company has no significant concentration of price risk.

The carrying amount of investments subject to price risk are based on quoted market prices as of the balance sheet date except for available for sale equity instruments which are stated at lower of cost or market value (market value being taken as lower if fall is other than temporary) in accordance with the requirements of the S.R.O. 938 issued by the SECP, in December 2002.

The Company's strategy is to hold its strategic equity investments for long period of time. Thus, Company's management is not concerned with short term price fluctuations with respect to its strategic investments provided that the underlying business, economic and management characteristics of the investee remain favorable.

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Sensitivity analysis

The table below summarizes Company's equity price risk as of 31 December 2012 and 2011 and shows the effects of a hypothetical 10% increase and a 10% decrease in market prices as at the year end. The selected hypothetical change does not reflect what could be considered to be the best or worst case scenarios.

Had all equity investments been measured at fair values as required by IAS 39 "Financial Instruments: Recognition and Measurement", the impact of hypothetical change would be as follows:

(Rupees in thousand)

	Fair value	Hypothetical price change	Estimated fair value after hypothetical changes in price	Hypothetical increase/(decrease) in equity	Hypothetical increase/(decrease) in profit before tax
31 Dec 2012	671,681	**10% increase**	738,849	67,168	67,168
		10% decrease	604,513	(67,168)	(67,168)
31 Dec 2011	605,773	**10% increase**	666,350	60,577	60,577
		10% decrease	545,196	(60,577)	(60,577)

c) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. The Company's exposure to exchange rate fluctuation risk is insignificant as it holds liabilities amounting to US $ 368,142.43 as at 31 December 2012 (2011: US $ 20,000).

28.2 Capital adequacy risk

The Company’s objective when managing capital is to safeguard 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 in 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 minimum paid up capital requirements as required by SECP.

28.3 Insurance risk

The Company’s insurance activities are primarily concerned with the pricing, acceptance and management of risks from its customers. In accepting risks the Company is committing to the payment of claims and therefore these risks must be understood and controlled. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the Company’s success. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The company is facing three kinds of risk in its insurance activities, namely ;

- Premium Risk -note 28.3.1
- Claim Risk -note 28.3.2
- Reinsurance Risk -note 28.3.3

28.3.1 Premium Risk

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Pricing is generally based upon risk quality, historical claims frequencies, claims averages, adjusted for inflation and imposition of deductibles. Risk inspections surveys are also conducted before acceptance of larger risks. Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria. For example, The Company does not offer health insurance to walk-in individual customers. Health insurance is generally offered to corporate customers with a large population to be covered under the policy.

The Company manages the insurance risk arising from the geographical concentration of risk with the help of various MIS reports generated from the IT system. For this purpose all critical underwriting information including address lookups and geocoding is punched into the IT system. For example, for catastrophic aggregates, the IT system assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardizing Target Accumulations) codes with reference to the accumulation of sum insured in force at any particular location against natural perils. For Marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea/air/inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are fed into the IT system.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk.

The following table demonstrates the class wise concentration of risk on the basis of sum insured :

	Gross sum insured		**Net sum insured**	
	2012	**2011**	**2012**	**2011**
Fire	71%	74%	46%	44%
Marine	15%	14%	16%	19%
Motor	2%	2%	13%	13%
Health	7%	6%	21%	18%
Miscellaneous	5%	4%	4%	6%
	100%	100%	100%	100%

The following table demonstrates the class wise concentration of risk on the basis of premium :

	Gross premium written		**Net premium written**	
	2012	**2011**	**2012**	**2011**
Fire	30%	34%	7%	11%
Marine	6%	6%	3%	3%
Motor	21%	20%	45%	42%
Health	22%	20%	36%	34%
Miscellaneous	21%	20%	9%	10%
	100%	100%	100%	100%

28.3.2 Claim Risk

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and can be characterised under a number of specific headings, such as;

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• Uncertainty as to whether an event has occurred which would give rise to an insured loss.
• Uncertainty as to the extent of policy coverage and limits applicable.
• Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.
• Uncertainty over the timing of a settlement to a policyholder for a loss suffered.

Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these uncertainties and in case of any change in estimation due to further development on uncertainty or change on assumptions, Company account for that change immediately.

Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. It should be emphasised that corroborative evidence obtained from as wide a range of sources as possible also contribute to form the overall estimate. Large claims impacting each relevant business class are generally assessed separately, being measured at the face value of the surveyor's estimates.

Company has reasonably accounted for claims that have occurred by the end of the reporting period but remain unsettled and for those that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured. The Company's policy for accounting of its claims has been disclosed in note 4.2 to the financial statements.

Sensitivity analysis

The risks associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company makes various assumptions and techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The Company considers that the liability for insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

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

(Rupees in thousand)

	Net impact of increase / decrease in average claims by 10% on			
	Underwriting result		**Shareholders' Equity**	
	2012	**2011**	**2012**	**2011**
Fire	1,960	(356)	1,274	(231)
Marine	193	305	125	198
Motor	10,835	9,012	7,043	5,858
Health	11,755	11,873	7,641	7,717
Miscellaneous	1,494	3,490	971	2,269
	26,237	24,324	17,054	15,811

Claims development tables

The following table shows the development of fire and miscellaneous claims over a period of time. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments. For other classes of business the uncertainty about the amount and timings of claims payment is usually resolved within a year. Further, claims with significant uncertainties are not outstanding as at 31 December 2012.

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For the year ended 31 December 2012

(Rupees in thousand)

	Accident year						
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**Total**
Estimate of ultimate claims cost:							
At end of accident year	113,389	139,061	202,514	516,129	203,636	736,572	1,911,301
One year later	87,887	123,462	160,344	399,828	147,542	-	919,063
Two years later	83,574	131,215	148,697	370,859	-	-	734,345
Three years later	84,612	129,462	145,420	-	-	-	359,494
Four years later	83,615	119,932	-	-	-	-	203,547
Five years later	78,823	-	-	-	-	-	78,823
Estimate of cumulative claims	78,823	119,932	145,420	370,859	147,542	736,572	1,599,148
Cumulative payments to date	(75,480)	(110,664)	(139,767)	(337,830)	(120,269)	(269,550)	(1,053,560)
Liability recognised	3,343	9,268	5,653	33,029	27,273	467,022	545,588

The following table demonstrates the class wise concentration of risk on the basis of claims :

	Gross claim expense		Net claim expense	
	2012	**2011**	**2012**	**2011**
Fire	57%	17%	7%	3%
Marine	2%	5%	1%	1%
Motor	12%	23%	41%	35%
Health	14%	29%	45%	47%
Miscellaneous	15%	26%	6%	14%
	100%	100%	100%	100%

28.3.3 Reinsurance risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line. The Company also arranges the local and foreign facultative reinsurance as part of its risk management strategy.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. Company's strategy is to seek reinsurers with the best combination of financial strength, price and capacity. In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with SECP on an annual basis.

29. POST BALANCE SHEET EVENT

The Board of Directors in their meeting held on March 03, 2013 have proposed a movement from unappropriated profit to general reserve of Rs. 135 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

30 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 03 , 2013 by the Board of Directors of the Company.

31 CORRESPONDING FIGURES

The corresponding figures have been rearranged, wherever necessary, for better presentation. However, no significant reclassification has been made during the period, except for the following:

	From	To	(Rupees in thousand) 2011
Gratuity payable	Deferred liabilities	Other creditors and accruals	216
Sundry payable	Sundry creditors	Other creditors and accruals	34,349
Retention Money and Cash Margin	Sundry creditors	Deposit and other accounts	2,506
Other management expenses	General and administrative expenses	Management Expenses	3,554
Salvage recoveries accrued	Provision for outstanding claims [including IBNR]	Salvage recoveries accrued	3,225

32 GENERAL

Figures have been rounded off to the nearest thousand rupees unless otherwise specified.

Chairman

Director

Director

Principal Officer & Chief Executive

NOTICE OF 7th ANNUAL GENERAL MEETING

Notice is hereby given that 7th Annual General Meeting of the Shareholders of Alfalah Insurance Company Limited (the "Company") will be held on April 15, 2013 at 11:00 a.m. at the registered office of the Company located at 5 – Saint Mary Park, Gulberg, Lahore to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 6th Annual General Meeting held on April 30, 2012.

2. To receive, consider and adopt the Annual Audited Financial Statements of the Company together with the directors' and auditors' report thereon for the year ended Dec 31, 2012.

3. To appoint auditors for the year ending December 31, 2013 and to fix their remuneration. The retiring auditors being eligible also offer themselves for re-appointment.

SPECIAL BUSINESS

4. To consider and, if though fit, pass the following Special Resolution with or without modification(s):-

   "RESOLVED THAT pursuant to the requirements of Section 208 of the Companies Ordinance, 1984 Alfalah Insurance Company Limited ("the Company") be and is hereby authorized to make investment of Rs.30 million (Rupees thirty million only) in the shares of Bank Alfalah Limited, an Associated Company."

   "FURTHER RESOLVED THAT the Chief Executive and Company Secretary of the Company be and are hereby jointly empowered and authorized to undertake the decision of said investment of shares as and when deemed appropriate and necessary in the best interest of the Company and its shareholders."

   "FURTHER RESOLVED THAT Company Secretary of the Company be and is hereby authorized to take any and all actions as deemed necessary for fulfilling the legal, corporate and procedural formalities and file all necessary documents / returns as he deems necessary in this regards and the matters ancillary thereto."

5. To transact any other business with the permission of the Chair.

   A Statement under Section 160(1) (b) of the Companies Ordinance, 1984, along with the information required under Clause (a) of sub-regulation (1) of Regulation 3 of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012 is annexed to the notice of the meeting send to the shareholders.

Date: March 22, 2013
Lahore

By order of the Board
Adnan Waheed
Company Secretary

NOTICE OF 7th ANNUAL GENERAL MEETING

NOTES

1) The Share Transfer Books of the Company will be closed from April 08, 2013 to April 17, 2013 both days inclusive.

2) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as a proxy to attend and vote instead of him/her.

3) Every proxy shall be appointed in writing under the hand of the appointer or by an agent duly authorized under a Power of Attorney or if such appointer is a company or corporation under the Common Seal of the company or corporation or the hand of its Attorney who may be the appointer.

4) The instrument of proxy in order to be effective must reach the Company's registered address at 5-Saint Mary Park, Gulberg III, Lahore not less than 48 hours before the time for holding of the Meeting.

5) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

6) The signature on the instrument of proxy must conform to the specimen signature recorded with the Company.

7) The proxy shall produce his/her original NIC or original passport at the time of the Meeting.

8) Shareholders are requested to notify change in their address, if any, to the Company Secretary.

EXPLANATORY STATEMENT REQUIRED UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

1. This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on April 15, 2013.

2. Status of previous approvals for investments in associated company;

   As required under the clause 4 (2) of the SRO No. 27(1)/2012 dated January 16, 2012, the status of the investment in associated company against approval obtained by the Company in Annual General Meeting held on March 31, 2008 is as under:

   Bank Alfalah Limited
   Approval was given by the shareholders in respect of investment of Rs. 50 million in the ordinary shares, against which a sum of Rs. 29.130 million was invested in prior years and no further investment was made during the year. The Company currently holds investment of Rs. 0.10 million and will consider further investment at a suitable time on availability of shares at a favorable price and after taking into consideration the latest financial position of the investee Company.

   Material changes in financial statements of this company since date of the resolution passed for approval in investment are as follows:

	2008	2009	2010	2011	2012
	------------------Rupees-----------------				
Book value per share excluding revaluation of shares	18.27	14.65	14.62	16.93	19.04
Basic earnings per shares	1.41	0.71	0.72	2.60	3.38

3. The information required under Companies (Investment in Associated Companies or Associated Undertakings) Regulation, 2012 is as under;

Sr. No	Requirement	Information about the investee undertaking
(i)	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established.	Bank Alfalah Limited being associated on the basis of holding 30% share of total equity of Alfalah Insurance Company and common directorship.
(ii)	Purpose, benefits and period of investment.	To enable the company to benefit from the dividend income and prospective capital gain and consequently to its shareholders. It is medium term equity investment amounting to Rs 30 million, which will be made from time to time.
(iii)	Maximum amount of investment.	Investment upto Rs 30 million in shares of the investee company.
(iv)	Maximum price at which securities will be acquired.	Market value at the date of purchase of ordinary shares.
(v)	Maximum number of securities to be acquired.	Equivalent to the amount of investment.
(vi)	Number of securities and percentage thereof held before and after the proposed investment.	99,960 shares (0.0007%) held to date i.e. before proposed investment. Number of Shares and percentage after proposed investment will depend on the prevailing prices at the time of actual acquisition of shares which could vary with the market price at which shares are purchased in future.
(vii)	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	Average market price Rs 17.67.
(viii)	In case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1).	Not applicable as Bank Alfalah Limited is listed company.
(ix)	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements.	The breakup value of shares of Bank Alfalah Limited as at December 31, 2012 was Rs 19.04 per share.
(x)	Earnings per share of the associated company or associated undertaking for the last three years.	2012: Rs 3.38 per share. 2011: Rs 2.60 per share. 2010: Rs 0.72 per share.

(xi)	Sources of fund from which securities will be acquired.	Investment will be made out of the company's total available funds.
(xii)	Where the securities are intended to be acquired using borrowed funds,- (I) justification for investment through borrowings; and (II) detail of guarantees and assets pledged for obtaining such funds.	Not applicable.
(xiii)	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment.	Not applicable.
(xiv)	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration.	H.H. Sheikh Hamdan Bin Mubarak Al Nahayan, Mr. Khalid Mana Saeed Al Otaiba, and Mr. Atif Bajwa Directors of the Company are also directors of Bank Alfalah Limited. They are interested in this business to the extent of their investment in this company. The interest of the other directors in the same as that of the shareholders and the Company.
(xv)	Any other important details necessary for the members to understand the transaction.	None.
(xvi)	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely,- (I) description of the project and its history since conceptualization; (II) starting and expected dated of completion of work; (III) time by which such project shall become commercially operational; and (IV) expected time by which the project shall start paying return on investment.	Not applicable.

NOTES

FORM OF PROXY

The Company Secretary
Alfalah Insurance Company Limited
5-Saint Mary Park, Gulberg III,
Lahore

"I/We____________________being a member of ALFALAH INSURANCE COMPANY LIMITED hereby appoint Mr./Ms. ____________________ of ____________________or failing him Mr. / Ms. ____________________ of ____________________as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of ALFALAH INSURANCE COMPANY LIMITED to be held on April 15, 2013 at 11:00 a.m. at the registered office of the Company, 5-Saint Mary Park, Gulberg III, Lahore and at any adjournment thereof."

Signed this __________day of__________2013.

Signature: ____________________

Name: ____________________

Holder of __________Ordinary Shares

WITNESSES:

1 Signature: ____________________

Name: ____________________

Address: ____________________

CNIC/PP No: ____________________

2 Signature: ____________________

Name: ____________________

Address: ____________________

CNIC/PP No: ____________________

THE FASTEST GROWING INSURANCE COMPANY IN THE COUNTRY

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