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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 Qureshi
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 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

Auditors
M/s A.F. Ferguson & Co.
Chartered Accountants

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

Head Office
5-Saint Mary Park,
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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.

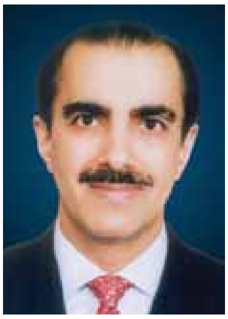
His Highness Sheikh Nahayan Mabarak Al Nahayan
Chairman Abu Dhabi Group

BOARD OF DIRECTORS

His Highness
Sheikh Hamdan Bin Mubarak Al Nahayan
Chairman

His Excellency
Sheikh Saif Bin
Mohammed Bin Butti
Director

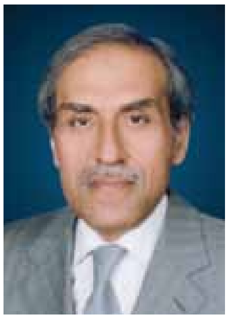
Mr. Khalid Mana
Saeed Al Otaiba
Director



Mr. Atif Bajwa
Director

Mr. Mohammad Yousuf
Director

Mr. Adeel Bajwa
Director



Mr. Nasar us Samad Qureshi
MD & CEO

THE CITY OF LIGHTS
MAI KOLACHEE NOW MY KARACHI

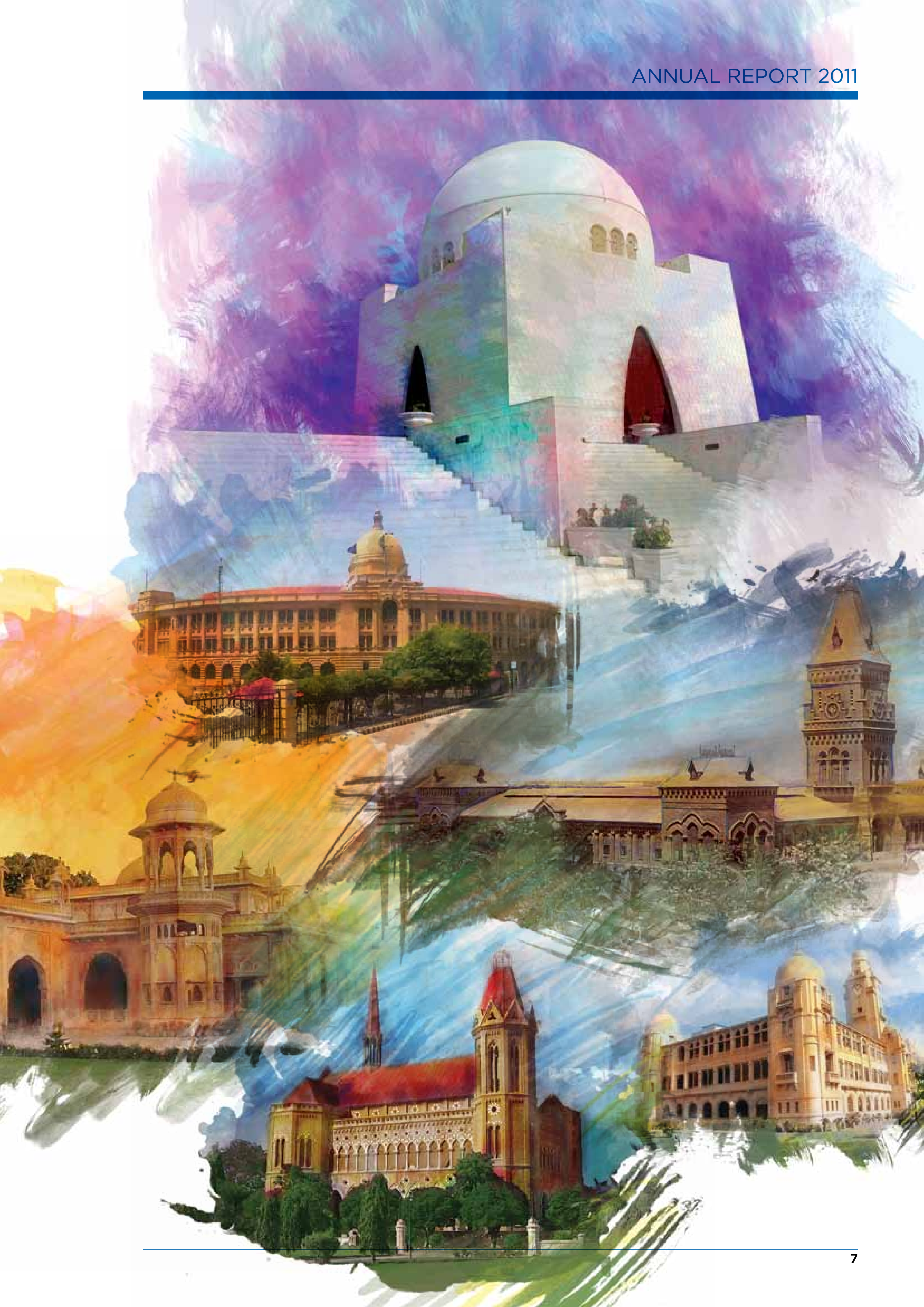
In light of our accomplishments for the year 2011, we at Alfalah Insurance Company, along with the annual financial reporting, bring to you a glorious glimpse into the great landmarks of Karachi; the heart of Pakistan, or as many call it, Mini-Pakistan. The city in which the largest number of our branches are also located.

In 2011 Alfalah Insurance acquired two 'landmark' achievements... becoming the fastest growing insurance company of Pakistan and being upgraded from 'A- with positive outlook' to 'A' by PACRA, which is the highest IFS rating achieved by any non-life insurance company from PACRA in a record time of only five years from incorporation. This inspired us for the concept of 'Landmarks of Karachi'. These structures, with their breath taking grandeur and overwhelming aura are eponymous with an era of pomp and immense genius. Withstanding the rigid tests of time, these landmarks have transitioned into historical heritages and today stand proud as a testimony to a grand past.

Images of some of the landmarks of the city that exist till today are printed here for your intellectual and aesthetic pursuit and painstakingly repainted through an artists' impression. It was a difficult task to choose only 12 from the many great structures in Karachi, but the ones that took our fancy are here to take you through a tour of the history of the city. Ranging from the corridors of the Karachi Gymkhana, one of the oldest clubs of the city to the Port Trust Building, one of the earliest trading houses of Pakistan. We have also featured the Mazaar-e-Quaid, not classified as a 'heritage' landmark but one that is now almost a symbolic icon of Karachi, and of-course, home to the father of the nation's resting place.

In this report, we aspire to state in concise words and short space a small history of the glory of the landmarks of Karachi, the city in which Alfalah Insurance is firmly rooted. It is our further endeavor to provide you with a one-stop solution for all your insurance requirements with a world-class standard of security and service, giving you complete peace of mind in all the cities of Pakistan wherever we are present.

NB: We humbly state that this is not a research document. If any reader can find actual or better images and history of these landmarks, please contact us for our future records.



KARACHI GYMKHANA

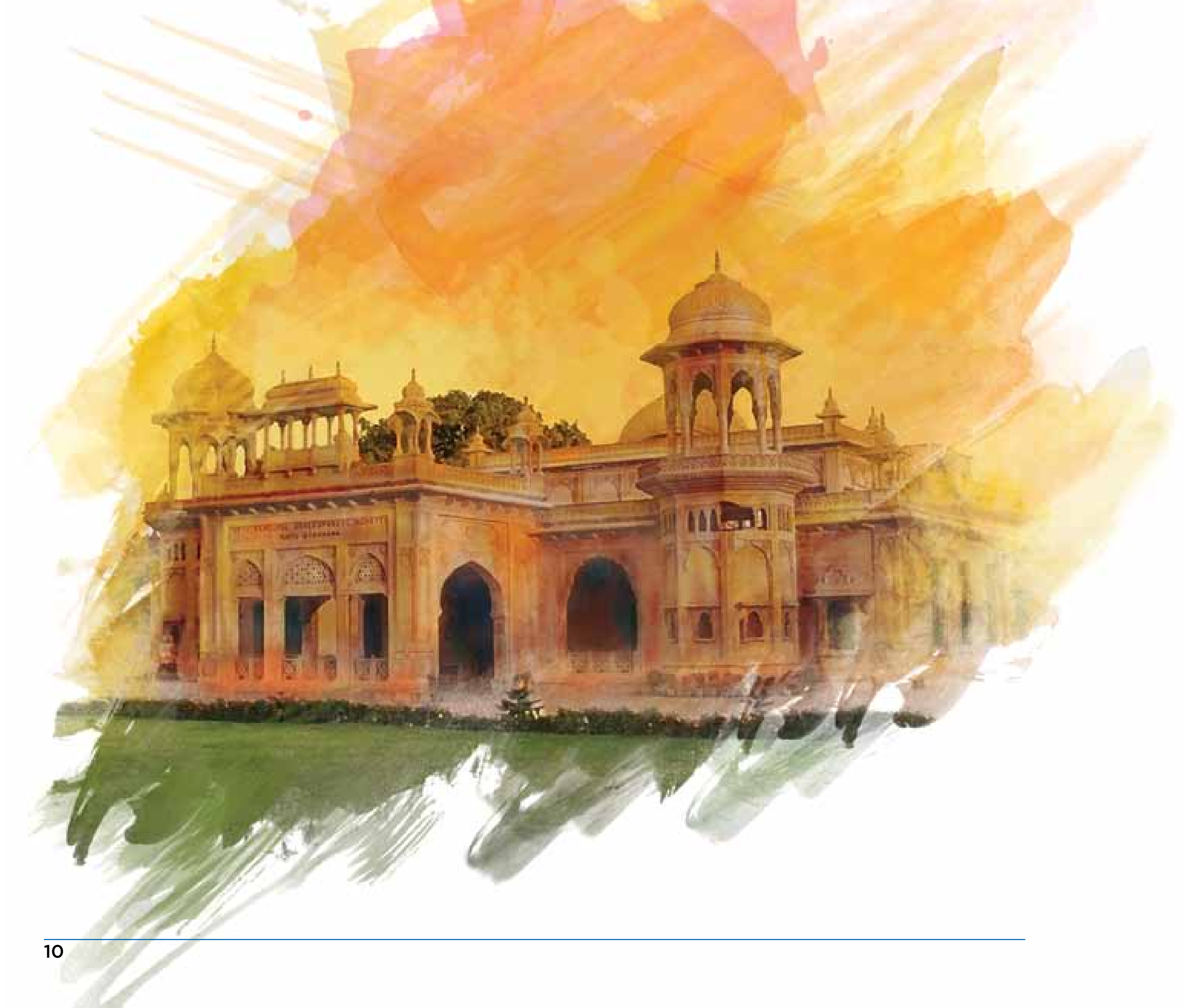
Karachi Gymkhana also known as KG Club, is a premier gymkhana (sports club) and one of the oldest clubs in the city of Karachi. It is located on Club Road. It is one of the largest in Asia in terms of membership and sports facilities with over 9000 members enrolled in it. The Mock Tudor or Tudorbethan classical architectural style was introduced in the Karachi Gymkhana with emphasis on the simple, rustic and the less impressive aspects of Tudor architecture, imitating in this way medieval cottages or country houses as the club still appears today. Though the style follows these more modest characteristics, items such as steeply pitched roofs, half-timbering often infilled with herringbone brickwork, tall mullioned windows, high chimneys, jettied (overhanging) first floors above pillared porches, dormer windows supported by consoles, and even at places thatched roofs, give the club, it's unique, 'home' feeling. At present, the club has a main building with a restaurant, snooker room, cafe and prayer room. There is a separate sports building and a cricket ground. There are tennis and squash courts as well. There are three types of swimming pools. One is the main pool for experienced swimmers, and there is one for learners. There is also one for younger children and toddlers. The Karachi Gymkhana cricket ground has been home to many famous matches and has been maintained well to look as grand as it was in by gone years.

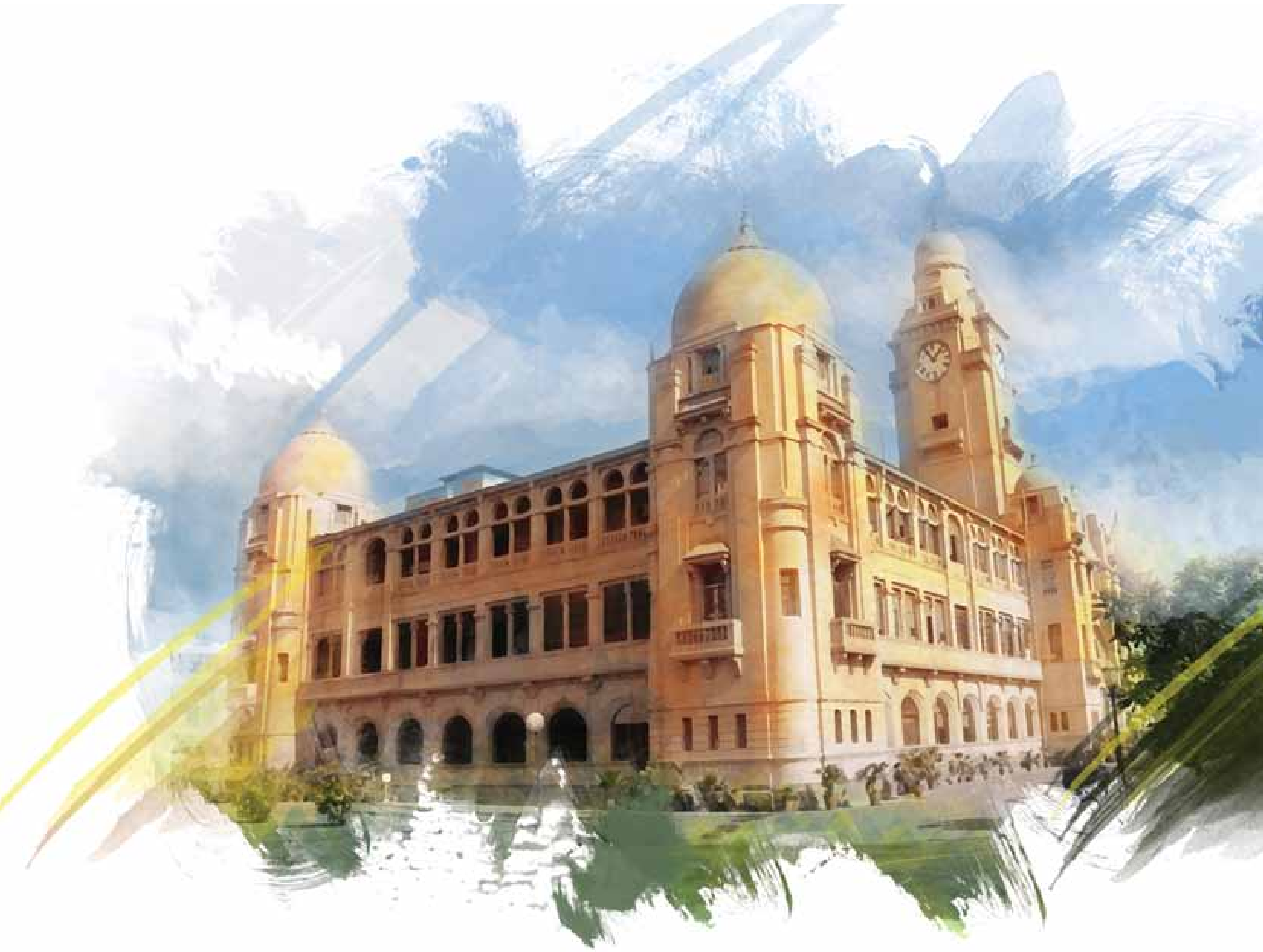
EMPRESS MARKET

The famed Empress Market's origins can be traced back to the British Raj era, when it was constructed. Built to honor Queen Victoria, the then Empress of India, it was named after her. The glorious structure was erected in traditional British style. The market was designed and built meticulously to last over 100 years and more. One of only seven markets back then, it is situated in the heart of the city and houses some 280 shops. Empress Market is always teeming with bustling shoppers, where commodities ranging from fruits and meats to stationary items and textile material is easily available, it is one of the busiest places in Karachi, serving everything to everyone till today.

HINDU GYMKHANA

Hindu Gymkhana was the first public building in Karachi to boldly adopt the Mughal Revival style. The building, established in 1925, is located at Sarwar Shaheed Road in Karachi. The building is designed by the first-known Muslim architect Agha Ahmed Hussain. The plan and massing was based on the tomb of Itamad-ud-Daulah (1628) in Agra. The building is small in size and consists primarily of a hall and some smaller rooms used for administrative purposes. Stone for the 2-foot-thick walls was acquired in Bijapur. The roof line is defined by delicate massing of cupolas and balustrades directly influenced by Akbar's Fatehpur Sikri. The octagonal corner towers framing the projecting central jharoka are capped with chattris. Smaller chattris highlight the corners of the projecting porch that carry the drooping bangladar roof used in Emperor Akbar's period. The projecting chajjas are supported by ornamental brackets. The cupolas of the chattris are reinforced concrete and the walls are dressed in Gizri stone. Some of the carved elements are of Jodhpur stone. The building's condition has deteriorated over the years, and it was going to be demolished in 1984. This was prevented by an intervention by the Heritage Foundation of Pakistan. Hindu Gymkhana now houses the National Academy of Performing Arts.



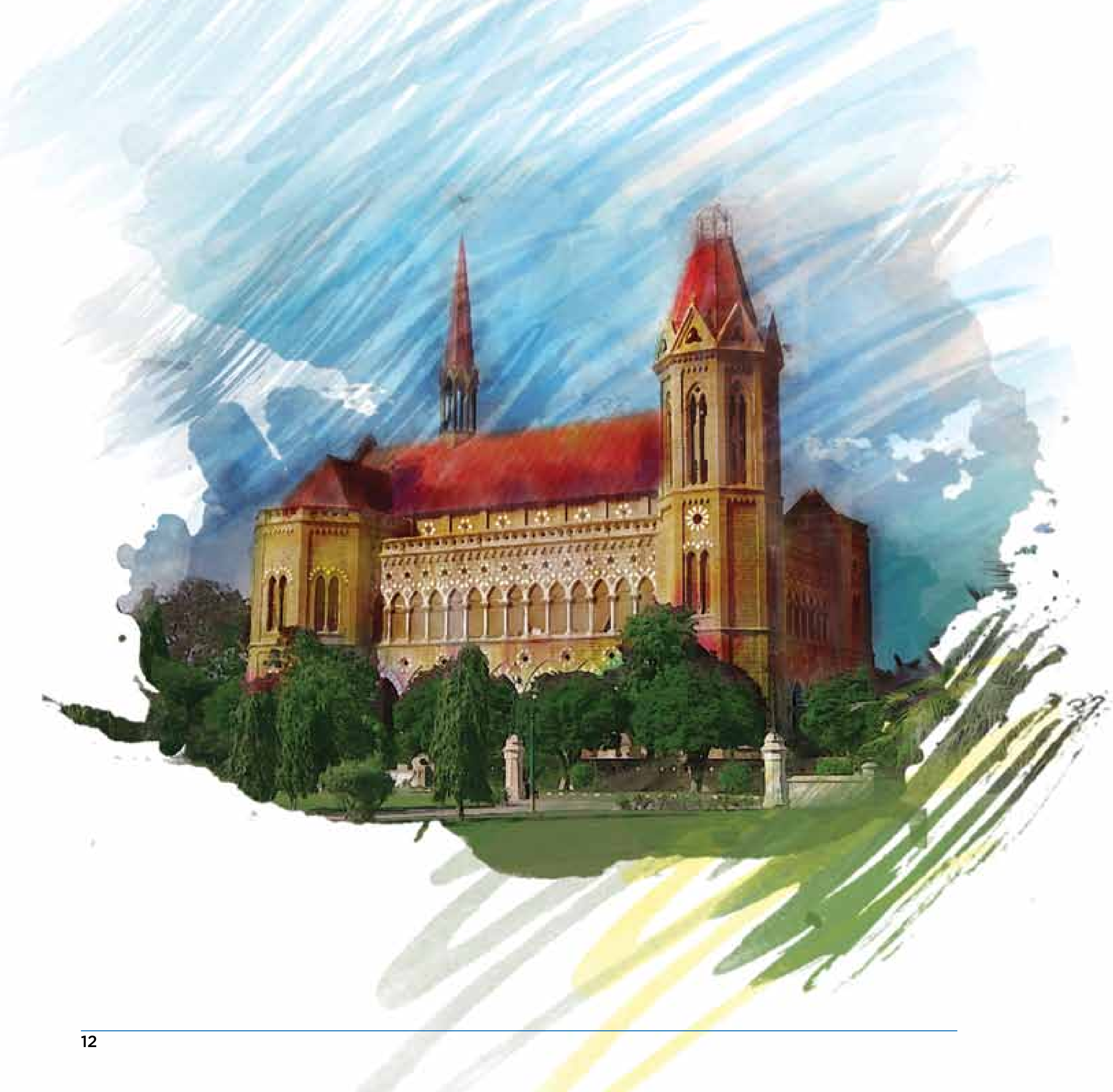


KMC BUILDING

Karachi Municipal Corporation (KMC) Building is one of the many historic buildings located on M. A. Jinnah road and has achieved an iconic status as one of the landmark structures of Karachi. The foundation stone for the KMC Building was laid in 1927, construction was completed in 1930 followed by the inauguration in 1932. The Building went through a massive renovation project which included repairing of the Clock tower on its 75th anniversary in 2007. This grand edifice today houses the various departments and offices of the Municipal Corporation of Karachi. One cannot help but admire the building for what it is on the outside - a surviving relic of yesteryears. Even today, the large and properly functioning clock on the highest center tower is an eye-catching treat.

FRERE HALL

Frere Hall is one of the few well-preserved buildings from the days of the British Raj and was used as a Town Hall during the Raj, one that still exists in Karachi. It was built in honour of Sir Henry Bartle Edward Frere (1815–1884), who was known for promoting economic development in Karachi. Frere Hall is open to the public and on Sundays there is a book bazaar in the courtyards where it is possible to purchase some old out of print books amongst others. For the rest of the week it is possible to visit the Sadequain gallery, home to the famous Sadequain mural "Arz-o-Samawat." (Heaven and Earth). The hall is built in Venetian Gothic style with yellowish limestone and red and grey sandstones from Jungshahi.



MOHATTA PALACE

Shivratan Chandraratan Mohatta built the Mohatta Palace, one of Karachi's most prestigious structures. The edifice is built in tradition of the breathtaking stone palaces of Rajasthan, using pink Jodhpur stone in combination with the local yellow stone from Gizri.

Carved fastidiously with intricate and detailed styles, its beauty made it an ideal place to stay for the greats of the bygones, from lodging royals to dignitaries to the Jinnahs, the palace has always been surrounded by a distinctive air of elegance and poise.

Although at one point in its long run it had been shut down, it has, not too long ago, opened its gate to the proud citizens of Karachi, in the form of a museum hosting diverse and unsurpassable exhibitions on a regular basis.

KARACHI PORT TRUST

The Port Trust building was designed by George Wittet who was the consulting architect of Bombay (now Mumbai). At the time of its construction (1915-16) it was considered, along with the Science College Bombay, the most important building in the subcontinent. Wittet was also the architect of the Prince of Wales Museum or the Gateway of India (1908). While those pieces were of the Anglo-Mughal variety, Wittet made the Port Trust workplace with a 'rusticated arcaded ground floor and repetitive window bays on the upper storeys.' It is said the building was designed in 'Renaissance' style but some features representing Georgian architecture could also be witnessed in the making of the ground floor. It's interesting to know that during the First World War the Port Trust offices were converted into a 500-bed hospital. As far as its significance goes, it is built in a semi-circular fashion, because at the time of its construction, classical grandeur was being reenacted here, and semi-circular designs were a part of it.

The vastness of the KPT building is awe-inspiring. So too is its architecture, particularly when viewed as an overhead shot from the road network that crisscrosses the area. It's a new, forward-looking Karachi. But the harbour is as old as time. And the combination of a well-protected past and a well-thought-out future is always worth cherishing.

ST. PATRICK'S CATHEDRAL

St. Patrick's Cathedral is situated on Shahrah-e-Iraq, located near the Empress Market in Karachi. In 1978 the cathedral celebrated its centenary. The Pakistan Post Office issued special stamps on the occasion. In November 1991 the cathedral was visited by Mother Teresa of Calcutta. The cathedral's grounds are adorned with a marble Monument to Christ the King, which was constructed in 1931 to commemorate the memory of the Jesuit Mission in Sindh. In 2003, the cathedral was declared as a protected monument because of its outstanding architectural beauty under the Sindh Cultural Heritage Protection Act.

SIND CLUB

Although the province of Sindh is now spelled Sindh, the Sind Club still uses the old spelling given by its founders. It has an interesting history attached to its design; a competition was held to select the best design for the club. Richard Burton had warned against the use of Gothic architecture for the club building. Having seen Frere Hall he had said: "the Veneto-Gothic, so fit for Venice, so unfit for Karachi. It is to be hoped that the new club will not adopt Veneto-Gothic." Since limited funds were available for the new club building, a design prepared by a committee member, Le Mesurier, was chosen. When completed, Le Mesurier's building was considered a "princely residence". The first of the Sind Club buildings, which now houses the ladies bar and the dining room, was designed in a southern Italian style. The building suits comfortably in its spacious grounds, its facade employing simple arcading which is composed of semi-circular openings on the ground and first floors, and terminates in pitched roofs.

The other blocks, which were constructed later, generally follow the Indo-Italianate style of the original structure. The club buildings are provided with a generous back set from the road, creating a feeling of exclusiveness and inaccessibility, even though the architectural style is informal and does not rely on pediments and porticoes for effect.

Today, the Sind Club is a prominent architectural establishment fashioned in a perfectionist's persona for the elite man, the only worthy contenders for membership back then. Regardless of its simplicity on the facade, the inside architecture took strides toward elegance, so it was appropriately deemed as a princely residence.

NATIONAL MUSEUM

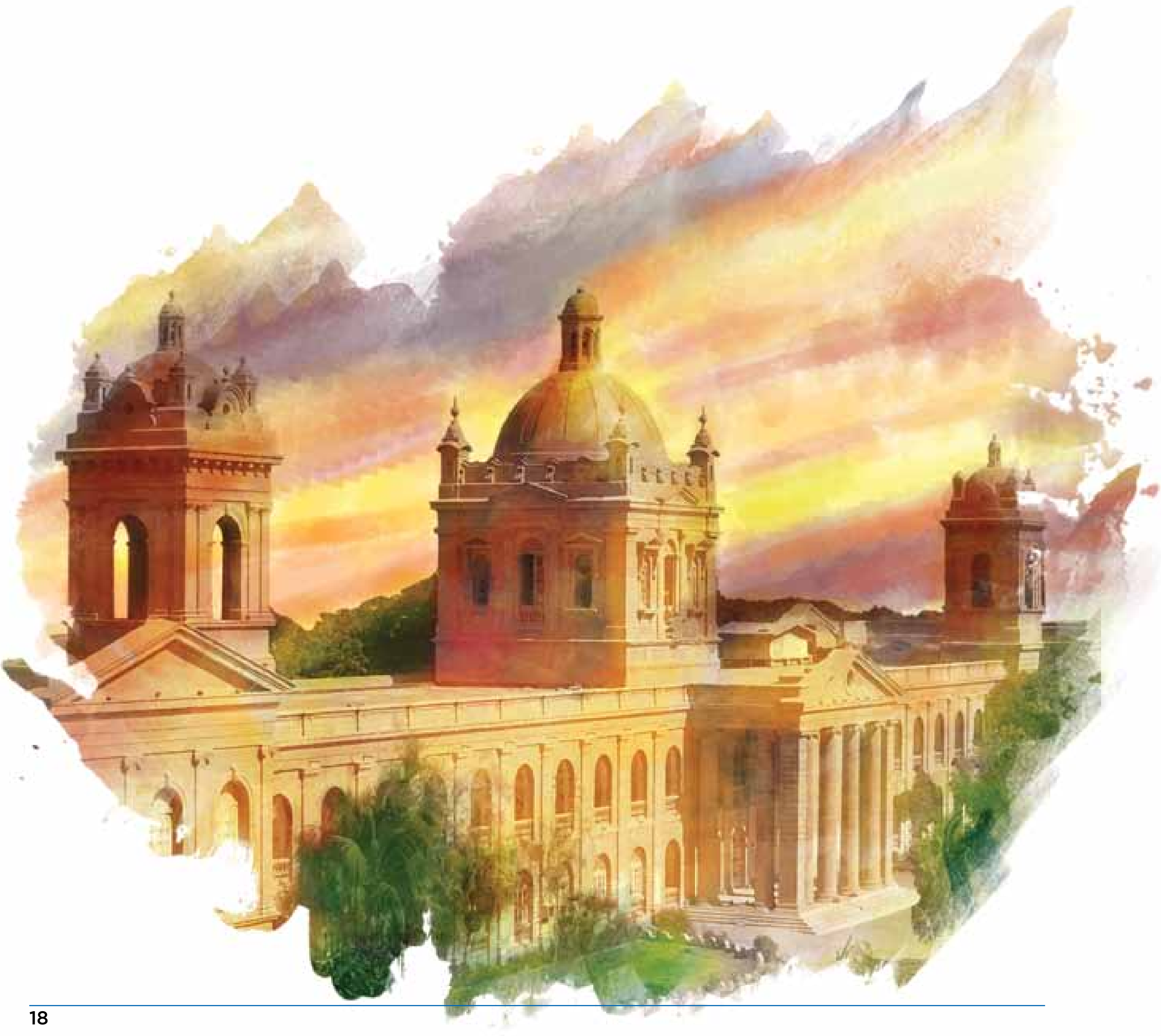
Built in the 1950's, the National Museum of Pakistan is located in the heart of Karachi. The basic objective of establishing National Museum was to collect, preserve, study, and exhibit records of the cultural history of Pakistan and to promote a learned insight into the personality of its people.

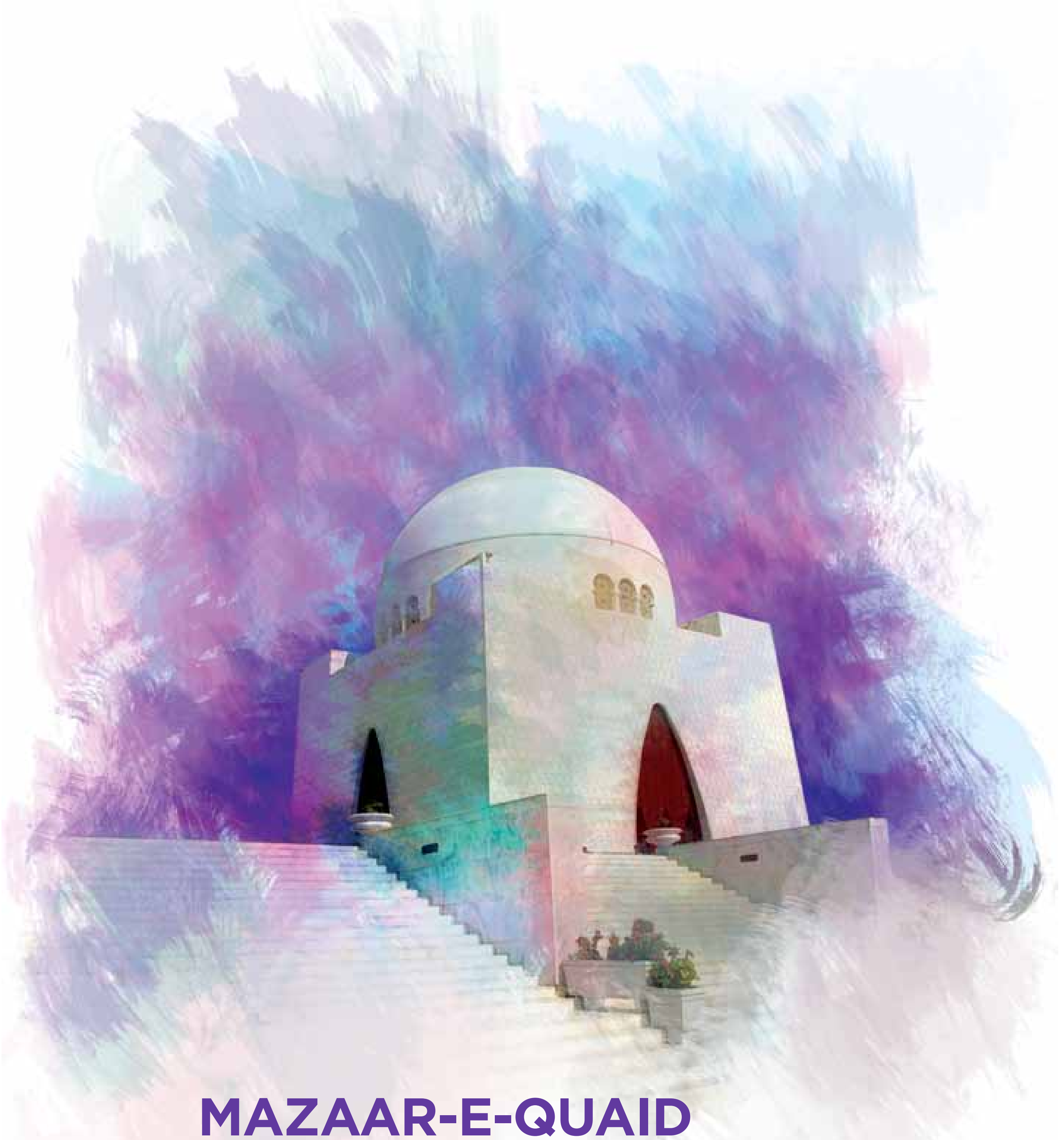
There are a total of 11 Galleries in the Museum including an exquisite Quran Gallery, with more than 300 copies of the Quran (all are exactly the same), out of which around 52 rare manuscripts are on display. The Museum also contains an important collection of items relating to Pakistan's Cultural heritage. Some other galleries display Indus Civilization artifacts, Gandhara Civilization Sculptures, Islamic Art, Miniature Paintings, Ancient Coins and Manuscripts documenting Pakistan's political history. There is also an interesting Ethnological Gallery with life size statues of different ethnicities living in the four provinces of Pakistan.

The Museum has a collection of 58,000 old coins (some dating from 74 Al-Hijra), and hundreds of well preserved sculptures. Some 70,000 publications, books and other reading material of the Archeology and Museums Department were also shifted to the National Museum so that general public can see them.

D.J. SCIENCE COLLEGE

Designed by James Strachan and considered this architect's greatest achievement, the college was built between 1887 and 1893. Named after the Sindhi philanthropist Dayaram Jethmal, whose two family members contributed towards its cost, the building was constructed in the neoclassical, or 'Italian architectural style'. A considerable amount of money was spent on the interior of the college; the floors comprised mosaic tiles imported from Belgium and the eight-foot wide main staircase was fitted with ornamental cast-iron work from McFarlane & Company of Glasgow.





MAZAAR-E-QUAID

The Mazaar-e-Quaid, also known as the Quaid-e-Azam Mausoleum is an iconic symbol of Karachi throughout the world. The mausoleum was completed in the 1960's, and is situated in the heart of the city. It is the final resting place and mausoleum of Quaid-e-Azam Mohammad Ali Jinnah, founder of Pakistan. It is made of white marble with curved Moorish arches and copper grills reset on an elevated 54 square meters platform. The mausoleum is placed in a 53 hectare park and the size of the building is 75x75m on ground and 43m high, built on a 4m high platform. In each wall is placed an entrance. 15 successive fountains lead to the platform from one side while the other three sides have terraced avenues to the gates. The cool inner sanctum reflects the green of a four-tiered crystal chandelier gifted by the people of China. Around the mausoleum there is a park fitted with strong beamed spot-lights which at night project light on the white mausoleum.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of Alfalah Insurance Company Limited are pleased to submit the 5th Annual Report of your company, together with audited financial statements for the year ended December 31, 2011.

Economic Overview

2011 has turned out to be an interesting year following the challenges the nation faced in the aftermath of unprecedented floods of 2010. Contrary to many projections, the country has proven its resilience once again by not only rehabilitating most of the internally displaced people with dignity but also by harvesting bumper crops in every sector.

Several incidents in the security environment strained Pak-US ties and have shaped our internal politics and international relations. However, the fact remains that both countries appreciate the need for co-operation at this important time when the war on terror is entering a decisive phase in Afghanistan.

New general elections are around the corner sometime in 2012 and political temperature would keep rising till elections. Despite recent hiccups and saber rattling, both political and military circles have made a commitment to uphold democracy – this would go a long way in maintaining investor confidence.

On the business front, we saw continuous ups and downs. The manufacturing sector continued to be buffeted by energy shocks. GDP growth clocked in at 2.4% in FY11 and is projected to rise to 3.4% in FY12. Further, in the last quarter of the year, due to improved law and order situation and decrease in discount rates by 150 bps, some economic growth was witnessed.

Although much below its potential, the performance signifies the enormous resilience in the economy as it was tested several times by one crisis after another. However, with some reprieve and continuing effort, there is reason to believe that the country will revert to its potential growth trajectory.

Alfalah Insurance Performance

Despite difficult economic conditions, year 2011 was a year of remarkable achievement for your Company in terms of both business development and profitability. In terms of business development, your Company has written gross premium of Rs. 928.020 million (2010: Rs. 662.971 million) depicting a growth of 40% over last year as the company was able to successfully expand its presence in the South Zone and also introduced new products in the market such as International Private Medical Insurance. However, in view of high concentration of business underwritten in last quarter, net premium revenue has increased by 7%.

In terms of profitability, your Company posted an after tax profit of Rs. 69.238 million (2010: Rs. 42.649 million) registering a growth of 62% over last year. This growth was mainly contributed by two factors, claims reduction and investment income.

Overall claim ratio of the Company was reduced from 72% to 63% translated into an absolute reduction of Rs. 16.214 million. This reduction was mainly due to lower than expected settlement of flood losses reported in 2010.

Investment income of the Company was increased from Rs. 45.965 million to Rs. 71.634 million depicting a 56% growth over last year. This increase in investment income was partially due to realization of the profit of Rs. 7.149 on maturity of investment in Principle Protected Funds and partially was on account of conservative approach advised by Board of Directors to invest in tax efficient virtually risk free government securities coupled with rise in interest rate and improved cash flow position.

In absolute terms, the Company has marked its management and admin expenses on a higher note in comparison to last year, however, in percentage term the expense ratio remained favorable which was 22.5% as compared to 25.9% of last year.

Segments at a Glance

Fire contributed Rs. 320.724 million to gross premium written in comparison to Rs. 193.374 million of last year showing a YoY increase of 66%. Due to improvement in reserves for flood 2010 losses, net claim expense was converted to net recovery. The net loss ratio of the year was 22% in comparison to 75% of last year.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Marine contributed Rs. 50.177 million to gross premium written in comparison to Rs. 32.121 million of last year showing a YoY increase of 56%. Net loss ratio was increased from 24% of last year to 33%.

Motor contributed Rs. 181.923 million to gross premium written in comparison to Rs. 151.253 million of last year showing a YoY increase of 20%. Net loss ratio was decreased from 59% of last year to 56%.

Health contributed Rs. 188.935 million to gross premium written in comparison to Rs. 121.488 million of last year showing a YoY increase of 56%. Net loss ratio was increased from 77% of last year to 88%. The management being aware of increased loss ratio is taking all necessary steps to negotiate favorable price arrangements and curb the increasing loss ratio with efficient claims administration.

Miscellaneous contributed Rs. 186.261 million to gross premium written in comparison to Rs. 164.735 million of last year showing YoY increase of 13%. Net loss ratio was increased from 80% of last year to 81%.

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 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

We are pleased to apprise that The Pakistan Credit Rating Agency Limited (PACRA) has upgraded the IFS rating of your Company from previous "A- with positive outlook" to "A" after completing the rating update process on August 26, 2011. This is the highest IFS rating assigned to any insurance company in record time of five years from establishment operations.

This upgraded rating denotes "strong capacity to meet policyholder and contract obligations. At the same time, risk factors are considered moderate, and the impact of adverse business and economic factors is expected to be small".

PACRA has stated that AFIC's upgraded rating reflects "sustained improvement in underwriting results supplemented by stable income from a prudently developed investment book and strong backing by Abu Dhabi Group".

Appropriations

No appropriation was recommended by the Board of Directors.

Earning Per Share

During the year after tax earning per share was Rs. 2.31 (2010: Rs. 1.42). Detailed working has been reported in Note 25 of the financial statements.

Auditors

The Audit Committee and Board of Directors in their respective meetings have suggested Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as external auditors of the company for the year ending December 31, 2012.

Board of Directors Meetings

The Directors of your Company were elected at the Extraordinary General Meeting held on August 16, 2010 for a term of three years expiring on August 15, 2013.

During the year 2011, Five (5) meetings of the BOD were held and attended by each of the directors as follows:

Name of Directors	No. of Meetings Attended
H.H. Sheikh Hamdan Bin Mubarak Al Nahayan	5
H.E. Sheikh Saif Bin Mohammed Bin Butti	0
Mr. Khalid Mana Saeed Al Otaiba	5
Mr. Atif Aslam Bajwa	3
Mr. Mohammad Yousuf	5
Mr. Adeel Bajwa	4
Mr. Nasar us Samad Qureshi	5

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

DIRECTORS' REPORT TO THE SHAREHOLDERS

Mr. Parvez A Shahid and Mr. Tanweer Ahmed Khan resigned on March 1, 2011 and Mr. Atif Aslam Bajwa and Mr. Adeel Bajwa were appointed on March 30, 2011 to fill up the casual vacancy by the Board of Directors.

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

In line with changes in Board of Directors, Mr. Atif Aslam Bajwa and Mr. Adeel Bajwa were appointed as Chairman and Member of Audit Committee respectively by the Board of Directors in place of Mr. Parvez A Shahid and Mr. Tanweer Ahmed Khan.

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.

- 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 including accrued income of provident and gratuity funds on the basis of unaudited accounts as on December 31, 2011 is as follows:

	Rs in '000'
- Provident Fund	23,155
- Gratuity Fund	12,286

- The statement of pattern of shareholding in the Company as on December 31, 2011 is separately annexed with the report.

DIRECTORS' REPORT TO THE SHAREHOLDERS

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 2012. 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 2012 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,

Nasar us Samad Qureshi
Chief Executive

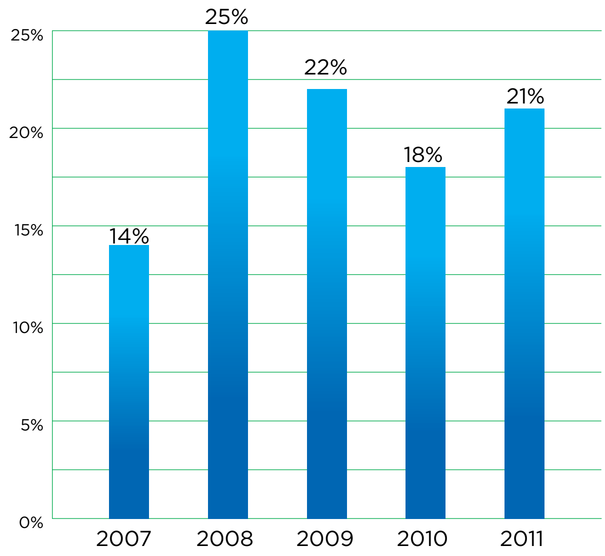
KEY FINANCIAL DATA

Rupees in '000'

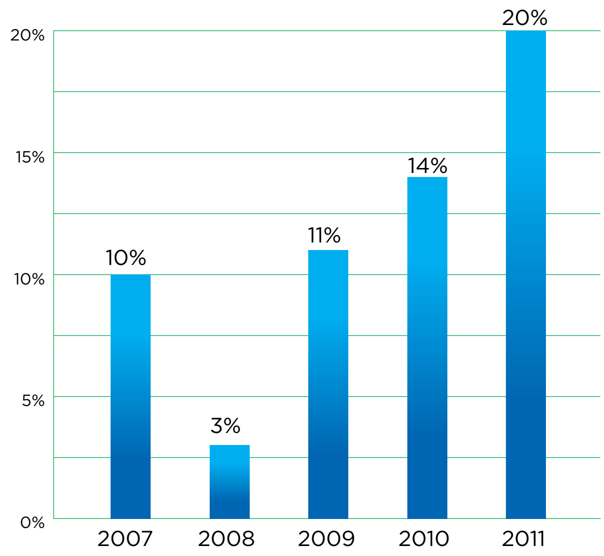
Description	For the year ended December 31, 2011				
	2011	2010	2009	2008	2007
Gross Premium Written	928,020	662,971	651,459	568,183	312,924
Net Premium Revenue	384,483	359,938	331,786	262,453	73,839
Net Claim Expense	(243,221)	(259,435)	(231,336)	(191,118)	(48,566)
Management Expenses	(131,256)	(108,703)	(94,556)	(65,969)	(41,094)
Net Commission	71,167	74,750	68,307	59,561	25,826
Underwriting Profit	81,764	66,550	74,201	64,927	10,005
Investment/Other Income	72,156	46,177	21,189	3,300	33,080
Admin Expenses	(77,695)	(63,220)	(47,307)	(43,764)	(13,384)
Profit before Tax	75,634	49,507	48,083	24,463	29,701
Income Tax	(6,396)	(6,858)	(17,387)	(16,913)	(5,016)
Profit after Tax	69,238	42,649	30,696	7,550	24,685
Paid up Capital	300,000	250,000	230,000	230,000	230,000
Share Deposit Money	1,381	1,381	1,381	1,381	1,381
General Reserve	15,000	25,000	25,000	-	-
Un-appropriated Profit	72,218	42,980	36,431	30,735	23,185
	388,599	319,361	292,812	262,116	254,566
Earnings per Share	2.31	1.42	1.23	0.30	0.99
Breakup Value per Share	12.95	12.77	12.73	11.40	11.07
Net Loss Ratio	-63%	-72%	-70%	-73%	-66%
Expense Ratio	-23%	-26%	-22%	-19%	-17%
Underwriting Profit to Net Premium	21%	19%	22%	25%	14%
Return on Equity	20%	14%	11%	3%	10%

FINANCIAL HIGHLIGHTS

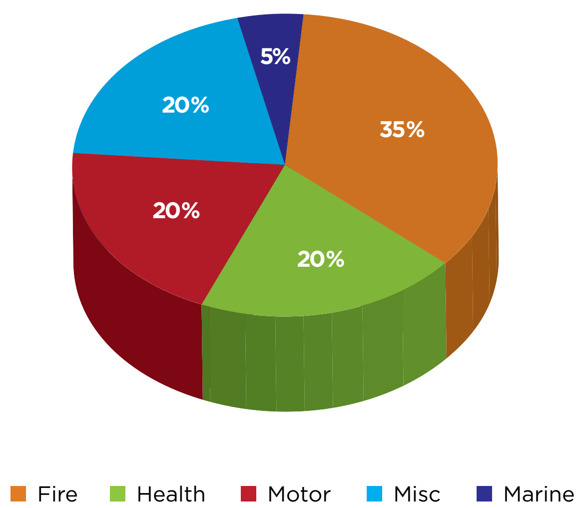
UNDERWRITING PROFIT TO NET PREMIUM REVENUE



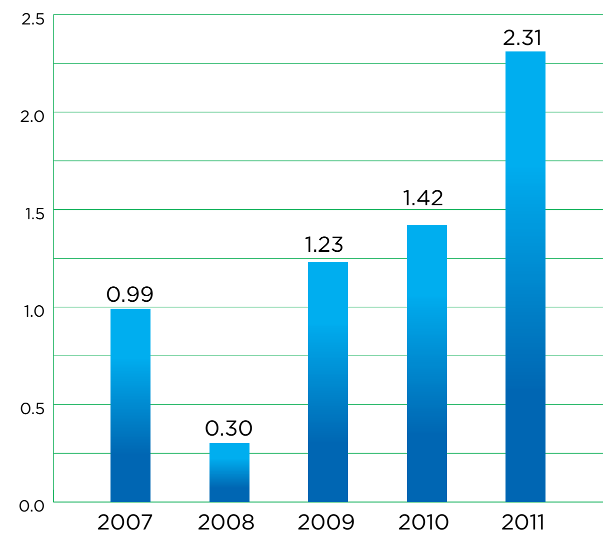
RETURN ON EQUITY



GROSS PREMIUM WRITTEN CLASSWISE

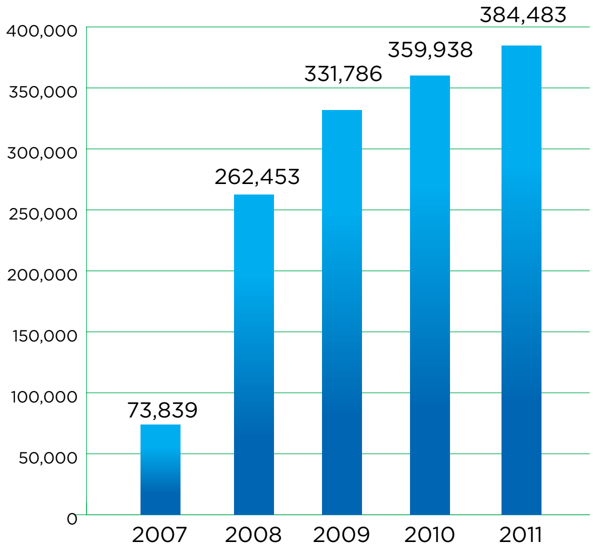


EARNING PER SHARE

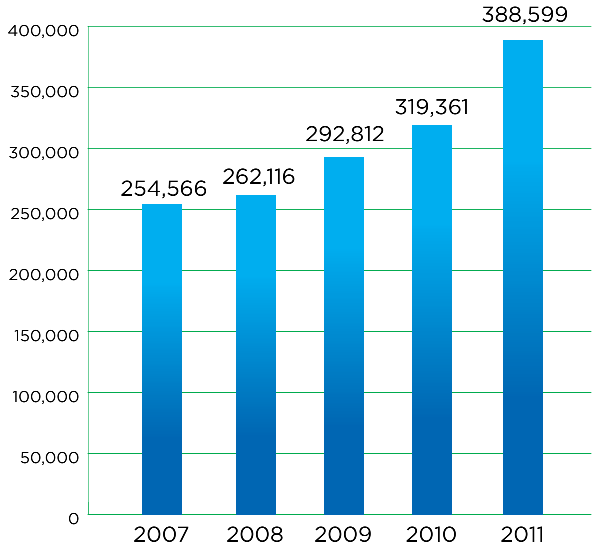


FINANCIAL HIGHLIGHTS

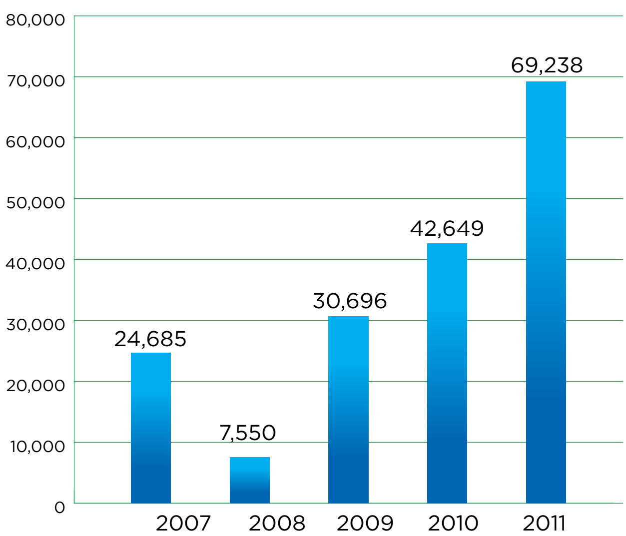
NET PREMIUM REVENUE
(Rupees in Thousand)



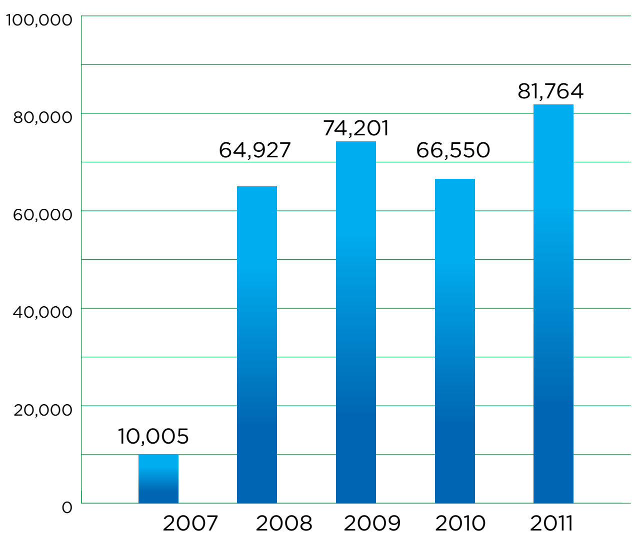
SHAREHOLDERS EQUITY
(Rupees in Thousand)



PROFIT AFTER TAX
(Rupees in Thousand)



UNDERWRITING RESULTS
(Rupees in Thousand)



PATTERN OF SHARE HOLDING

As at December 31, 2011

No. of Shareholders	Shareholding		Total Shares Held
	From	To	
6	1	1,000	3,917
2	1,001	2,500,000	3,299,347
4	2,500,001	3,000,000	11,998,694
1	3,000,001	6,000,000	5,699,347
1	6,000,001	9,000,000	8,998,695
Total 14			30,000,000

Classification of Shares Categories as at December 31, 2011

Categories of Members	Number	Shares Held	Percentage
Individuals	11	15,001,305	50.00%
Associated Companies	1	8,998,695	30.00%
Joint Stock Companies	2	6,000,000	20.00%
Total	14	30,000,000	100.00%

STATEMENT OF ETHICS AND BUSINESS PRACTICES

1. The interest of the policyholders is absolute. We shall provide the best possible services equivalent to international standards 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 very economical premium.

2. As the reinsurers provide security to the Company and enable us in meeting with the requirements of 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 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, every director and employee of the company shall obey the law. Any director and employee guilty of violation will be liable to disciplinary consequences because of the violation of his/her duties.

4. Board members and staff of Alfalah Insurance Company Limited act with honesty and openness as representatives of the organization and in their interactions with one another. Alfalah Insurance Company Limited promotes a working environment that values respect, candor, and fairness.

5. Employees must avoid conflicts of interest between their private financial activities and conduct of company business.

6. All business transactions on behalf of Alfalah Insurance Company Limited must be reflected accordingly in the financial statements of the company.

7. The image and reputation of Alfalah Insurance Company Limited is determined by the way each and every one of us acts and conducts himself/herself at all times.

8. We are an equal opportunity employer. Our employees are entitled to a safe and healthy workplace.

9. Every manager and supervisor shall be responsible to see that there is no violation of laws 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.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

for the year ended December 31, 2011

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 independent non-executive directors on its Board of Directors. At present, the board includes six non-executive directors out of seven.

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. The casual vacancy caused by the resignation of Mr. Parvez A. Shahid and Mr. Tanweer Ahmed Khan on March 1, 2011 were filled up by Mr. Atif Bajwa and Mr. Adeel Bajwa on March 30, 2011 as directors of the Company.

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 controls given in the code.

9. An orientation was arranged for the directors during the year to apprise them of their duties & responsibilities and to keep them informed on new laws, rules and regulations and amendments thereof.

10. There was no new appointment of CFO, Company Secretary or Internal Auditor 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.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

for the year ended December 31, 2011

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

15. The Board has formed an underwriting, a claim settlement & a reinsurance committee.

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 Company has acquired the services of internal audit from an audit firm which has confirmed satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan. The internal audit firm is manned by experienced and qualified personnel. The audit team 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 these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors along with pricing method.

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

Nasar us Samad Qureshi
Chief Executive

pwc

A. F. FERGUSON & CO.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Alfalah Insurance Company Limited to comply with the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan applicable to non listed insurance companies.

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

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

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

Chartered Accountants

afferguson & co

Lahore,
Name of engagement partner: Shahzad Hussain

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O.Box 39, Lahore-54660; Pakistan.
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92 (51) 2273 457-60; Fax: +92 (51) 227 7924
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93 (779) 315 320

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A. F. FERGUSON & CO.

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed financial statements comprising of:

(I) balance sheet;
(II) profit and loss account;
(III) statement of changes in equity;
(IV) 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 as at December 31, 2011, together with the notes forming part thereof, for the year ended December 31, 2011.

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

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

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A. F. FERGUSON & CO.

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 resulted on initial application of standards, amendments or an interpretations to the existing standards as stated in note 2.2.1 to the annexed financial statements with which we concur;

(c) the financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at December 31, 2011 and of the profit, its cash flows and changes in equity for the year ended December, 31, 2011, in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

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

Chartered Accountants

Lahore,

Name of engagement partner: Shahzad Hussain.

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BALANCE SHEET

As at December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
Share capital and reserves			
Authorised capital			
30,000,000 (2010: 30,000,000)			
ordinary shares of Rs 10 each		300,000	300,000
Issued, subscribed and paid up capital			
30,000,000 (2010: 25,000,000)			
ordinary shares of Rs 10 each	5	300,000	250,000
Share deposit money		1,381	1,381
General Reserve		15,000	25,000
Accumulated profit		72,218	42,980
		388,599	319,361
Underwriting provisions			
Provision for outstanding claims [including IBNR]		364,022	497,276
Provision for unearned premium		419,749	266,686
Commission income unearned		52,236	35,473
Total underwriting provisions		836,007	799,435
Deferred Liabilities			
Deferred taxation	6	6,277	8,113
Staff retirement benefits	7	216	-
Creditors and accruals			
Premium received in advance		3,938	2,716
Amounts due to other insurers / reinsurers		199,382	120,857
Accrued expenses	8	39,607	23,330
		242,927	146,903
Other Liabilities			
Sundry creditors	9	36,855	28,593
TOTAL LIABILITIES		1,122,282	983,044
CONTINGENCIES AND COMMITMENTS	10		
TOTAL EQUITY AND LIABILITIES		1,510,881	1,302,405

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

Director

Director

BALANCE SHEET
As at December 31, 2011

	Note	2011	2010
		(Rupees in thousand)	
Cash and bank deposits			
Cash and other equivalents	11	314	211
Current and other accounts	12	77,096	51,801
Deposits maturing within twelve months	13	2,000	2,000
		79,410	54,012
Loan - Secured Considered good			
To Employees		1,565	1,308
Investments	14	637,147	388,414
Staff retirement benefits	7	-	283
Other assets			
Premiums due but unpaid	16	137,594	223,857
Amounts due from other insurers / reinsurers	17	53,509	31,063
Accrued investment income		2,285	1,804
Reinsurance recoveries against outstanding claims		237,528	365,054
Deferred commission expense		16,306	9,798
Prepayments - prepaid reinsurance premium ceded		246,853	133,994
- others		6,239	9,426
Taxation - payments less provision		10,759	5,891
Sundry receivables	18	5,268	4,248
		716,341	785,135
Fixed assets			
Tangible	19		
Building on leasehold land		29,744	32,479
Furniture, fixtures and office equipment		19,807	19,026
Motor vehicles		22,533	19,855
		72,084	71,360
Intangibles			
Computer software	20	4,334	1,893
TOTAL ASSETS		1,510,881	1,302,405

Chairman

Principal Officer &
Chief Executive

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2011

(Rupees in thousand)

	Note	Fire and property damage	Marine, aviation and transport	Motor	Health	Miscellaneous	2011 Total	2010 Total
Revenue account								
Net premium revenue		33,704	7,542	155,253	135,051	41,719	373,269	350,838
Administrative surcharge recovered		1,529	1,619	6,796	54	1,216	11,214	9,100
Total premium revenue		35,233	9,161	162,049	135,105	42,935	384,483	359,938
Net claims		3,564	(3,047)	(90,118)	(118,725)	(34,895)	(243,221)	(259,435)
Management expenses	21	(45,361)	(7,097)	(25,731)	(26,723)	(26,344)	(131,256)	(109,263)
Net commission		34,098	7,376	(8,310)	458	37,545	71,167	74,750
Underwriting result		27,534	6,393	37,890	(9,885)	19,241	81,173	65,990
Investment income							71,634	45,965
Other Income	22						522	212
General and administration expenses	23						(77,695)	(62,660)
							(5,539)	(16,483)
Profit before taxation							75,634	49,507
Taxation	24						(6,396)	(6,858)
Profit after taxation							69,238	42,649
Other comprehensive income							-	-
Total comprehensive income for the year							69,238	42,649
Profit and loss appropriation account								
Balance at the commencement of the year							42,980	36,431
Transferred from general reserve							10,000	-
Final dividend for 2009 @ 7%							-	(16,100)
Bonus shares issued during the year							(50,000)	(20,000)
Total comprehensive income for the year							69,238	42,649
Balance at the end of the year							72,218	42,980
Earnings per share - Rupees	25						2.31	1.42

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

Director | Director | Chairman | Principal Officer & Chief Executive

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2011

	Share capital	Share deposit money	General Reserve	Accumulated profit/(loss)	Total
			(Rupees in thousand)		
Balance as at December 31, 2009	230,000	1,381	25,000	36,431	292,812
Total comprehensive income for the year	-	-	-	42,649	42,649
Dividend declared for the year 2009 @ 7%	-	-	-	(16,100)	(16,100)
Issue of bonus shares for the year 2009 @ 8.7%	20,000	-	-	(20,000)	-
Balance as at December 31, 2010	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	-
Issue of bonus shares for the year 2010 @ 20%	50,000	-	-	(50,000)	-
Balance as at December 31, 2011	300,000	1,381	15,000	72,218	388,599

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

Director | Director | Chairman | Principal Officer & Chief Executive

CASH FLOW STATEMENT

For the year ended December 31, 2011

	2011	2010
	(Rupees in thousand)	
Operating cash flows		
Underwriting activities		
Premiums received	984,973	661,296
Reinsurance premiums paid	(434,939)	(338,550)
Commissions received	122,179	89,402
Commissions paid	(29,403)	(12,350)
Claims paid	(439,221)	(383,622)
Management expenses paid	(125,642)	(108,442)
Reinsurance recoveries received	190,275	176,444
Net cash inflow from underwriting activities	268,222	84,178
Other operating activities		
Income tax paid	(13,100)	(21,393)
Other operating payments	(40,089)	(29,552)
Other operating receipts	11,640	9,310
Loan advanced	(3,195)	(2,821)
Loan repayment received	2,938	1,950
Dividend paid	-	(16,100)
Net cash outflow from other operating activities	(41,806)	(58,606)
Total cash inflow from all operating activities	226,416	25,572
Investment activities		
Profit / return received	14,034	15,093
Dividend received	820	3,009
Sale of investments	162,149	252,980
Purchase of investments	(354,576)	(433,266)
Proceeds from disposal of fixed assets	138	33
Fixed capital expenditure	(23,583)	(3,027)
Total cash outflow from investing activities	(201,018)	(165,178)
Total cash flows from financing activities	-	-
Net cash inflow / (outflow) from all activities	25,398	(139,606)
Cash at the beginning of the period	54,012	193,618
Cash at the end of the period	79,410	54,012

Director Director Chairman Principal Officer & Chief Executive

CASH FLOW STATEMENT

For the year ended December 31, 2011

	2011	2010
	(Rupees in thousand)	
Reconciliation to profit and loss account		
Operating cash flows	226,416	25,572
Depreciation of tangibles	(18,324)	(17,093)
Amortization of intangibles	(2,042)	(1,072)
Amortization of deferred cost	-	(260)
Increase in assets other than cash	(69,301)	242,063
Increase in liabilities	(139,238)	(268,632)
Gain / (diminution) in value of held for trading investment	44,195	15,438
Others		
Gain / (loss) on disposal of investments	12,111	12,077
Dividend and other investment income	15,335	18,454
Gain on disposal of fixed assets	86	2
Dividend Paid	-	16,100
Profit after taxation	69,238	42,649
Definition of cash		
Cash for the purposes of the statement of cash flows consists of:		
Cash and other equivalents		
- Cash in hand	245	191
- Policy Stamps in hand	69	20
	314	211
Current and other accounts		
- Current accounts	73,187	12,752
- Saving accounts	3,909	39,049
	77,096	51,801
Deposits maturing within twelve months	2,000	2,000
	79,410	54,012

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

Director | Director | Chairman | Principal Officer & Chief Executive

STATEMENT OF PREMIUMS

For the year ended December 31, 2011

Business underwritten inside Pakistan (Rupees in thousand)

Direct and facultative	Premiums written	Unearned premium reserve Opening	Unearned premium reserve Closing	Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded Opening	Prepaid reinsurance premium ceded Closing	Reinsurance expense	Net premium revenue 2011	Net premium revenue 2010
Class										
Fire and property damage	320,724	116,113	195,057	241,780	277,096	93,293	162,313	208,076	33,704	25,960
Marine, aviation and transport	50,177	2,890	4,782	48,285	40,743	-	-	40,743	7,542	6,436
Motor	181,923	78,044	95,700	164,267	9,730	913	1,629	9,014	155,253	139,695
Health	188,935	16,728	64,744	140,919	45,210	216	39,558	5,868	135,051	116,847
Miscellaneous	186,261	52,911	59,466	179,706	141,768	39,572	43,353	137,987	41,719	61,900
	928,020	266,686	419,749	774,957	514,547	133,994	246,853	401,688	373,269	350,838

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

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

STATEMENT OF CLAIMS

For the year ended December 31, 2011

Business underwritten inside Pakistan (Rupees in thousand)

Direct and facultative	Claims paid	Outstanding claims Opening	Outstanding claims Closing	Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims Opening	Reinsurance and other recoveries in respect of outstanding claims Closing	Reinsurance and other recoveries revenue	Net claims expense 2011	Net claims expense 2010
Class										
Fire and property damage	157,035	278,804	86,233	(35,536)	135,171	242,866	75,723	(31,972)	(3,564)	32,040
Marine, aviation and transport	16,047	11,178	16,088	20,957	12,734	9,102	14,279	17,911	3,047	1,852
Motor	94,476	46,453	45,326	93,349	1,250	21	2,002	3,231	90,118	86,111
Health	105,045	21,766	35,445	118,724	-	-	-	-	118,725	89,516
Miscellaneous	66,618	139,075	180,930	108,473	41,120	113,065	145,524	73,579	34,895	49,916
Total	439,221	497,276	364,022	305,967	190,275	365,054	237,528	62,749	243,221	259,435

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

Director Director Chairman Principal Officer & Chief Executive

STATEMENT OF EXPENSES

For the year ended December 31, 2011

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 expenses 2011	Net underwriting expenses 2010
Class									
Fire and property damage	15,309	4,282	7,545	12,046	45,361	57,407	46,144	11,263	1,097
Marine, aviation and transport	7,454	454	710	7,198	7,097	14,295	14,574	(279)	(3,462)
Motor	10,050	4,142	5,194	8,998	25,731	34,729	688	34,041	31,978
Health	1,741	98	1,396	443	26,723	27,166	901	26,265	20,066
Miscellaneous	2,560	822	1,461	1,921	26,344	28,265	39,466	(11,201)	(15,165)
Total	37,114	9,798	16,306	30,606	131,256	161,862	101,773	60,089	34,514

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

Director | Director | Chairman | Principal Officer & Chief Executive

STATEMENT OF INVESTMENT INCOME

For the year ended December 31, 2011

	2011	2010
	(Rupees in thousand)	
Income from trading investments		
Gain on sale of held for trading investments	4,962	388
Dividend income	-	21
	4,962	409
Income from non-trading investments		
Return on government securities	3,064	2,467
Return on other fixed income securities and deposits	11,451	13,391
	14,515	15,858
Available for sale		
Dividend income	820	2,575
Gain on sale of available for sale investments	7,149	11,688
	7,969	14,263
Gain in value of held for trading investments	44,195	15,438
Investment related expenses	(7)	(3)
Net investment income	71,634	45,965

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

Director　　Director　　Chairman　　Principal Officer & Chief Executive

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

1. Legal status and nature of business

Alfalah Insurance Company Limited 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 comprise of 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, the SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002, the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretations and amendments to published approved accounting standards

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

2.2.1 Standards, amendments to published standards and interpretations that are effective in 2011 and are relevant to the Company

IAS 1 (amendments) is effective for periods beginning on or after January 1, 2011, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The application of the amendment will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

- IAS 24 (revised), 'Related party disclosures', is effective for periods beginning on or after January 1, 2011. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of the amendment will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

2.2.2 Standards, amendments to published standards and interpretations that are effective in 2011 and are not relevant to the Company

- IFRIC 14 (Amendment); 'Prepayments of a Minimum Funding Requirement' is effective for periods beginning on or after January 1, 2011. The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The application of this amendment is not expected to have any impact on the Company's financial statements.

- IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments' is effective for periods beginning on or after January 1, 2011. This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The application of this amendment is not expected to have any impact on the Company's financial statements.

There are a number of minor amendments in other IFRS and IAS which are part of annual improvement project published in April 2009 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and therefore have not been analyzed in detail.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

2.2.3 Standards, amendments and interpretations to existing standards that are not yet effective and are relevant to the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2012 or later periods, and are relevant to the Company.

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

- IAS 1, 'Financial statement presentation' on other comprehensive income (OCI) (Amendment) issued on June 2011, is effective for periods beginning on or after January 1, 2013. This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements. The amendment was developed jointly with the FASB, which has removed the option in US GAAP to present OCI in the statement of changes in equity.

- IAS 19, (revised 2011), 'Employee benefits' (Amendment), issued on June 2011, is effective for periods beginning on or after January 1, 2013. This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The changes will affect most entities that apply IAS 19. They could significantly change a number of performance indicators and might also significantly increase the volume of disclosures.

2.2.4 Standards, amendments and interpretations to existing standards that are not yet effective and are not relevant to the Company

- IFRS 1, 'First time adoption' on hyperinflation and fixed dates (Amendment) issued on December 2010, is effective for periods beginning on or after January 1, 2012. These amendments are based on two exposure drafts. The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. It is not expected to have any material impact on the Company's financial statements.

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued on October 08, 2010, is effective for periods beginning on or after January 1, 2012. The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. It is not expected to have any material impact on the Company's financial statements.

- IFRS 10, 'Consolidated financial statements' issued in May 2011, is effective for periods beginning on or after January 1, 2013. This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. It is not expected to have any material impact on the Company's financial statements.

- IFRS 11, 'Joint arrangements' issued in May 2011, is effective for periods beginning on or after January 1, 2013. This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. It is not expected to have any material impact on the Company's financial statements.

- IFRS 13, 'Fair value measurement' issued on May 2011, is effective for periods beginning on or after January 1, 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. It is not expected to have any material impact on the Company's financial statements.

- IAS 12,'Income taxes' on deferred tax (Amendment) issued on December 2010, is effective for periods beginning on or after January 1, 2013. Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn. It is not expected to have any material impact on the Company's financial statements.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

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. 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;

	2011	2010
- Fire and property damage	22%	46%
- Marine, aviation and transport	33%	24%
- Motor	56%	59%
- Health	88%	77%
- Miscellaneous	81%	63%

The loss ratio have been computed after ignoring the effect of one off reversals of flood claims which were booked during the 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally 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 September 1, 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 September 1, 2007. Monthly contributions are made to these funds on the basis of actuarial recommendation at the rate of 8.33 percent per annum of basic salaries. The latest actuarial valuation was carried out as at December 31, 2011. The actual return on plan assets during the year was Rs. 1.502 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 12.5 percent per annum;
- Expected rate of increase in salary level 12.5 percent per annum; and
- Expected rate of return on plan assets 10 percent 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.

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. 0.539 million (2010: higher by Rs. 6.048 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.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

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 December 31, 2011 has not required any adjustment as its impact is considered insignificant.

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 19. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The Company revised the estimated useful life of one of the leasehold land situated in Karachi from 80 months to 13 months effective January 1, 2011. The net effect of the change in financial year was an increase in depreciation expense of the Company by Rs. 1.56 million.

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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

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 20.

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, 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 Rs. 2,000 per policy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

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 December 31, 2011

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 revenue. 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 Zakat

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

5. Issued subscribed and paid up capital

2011	2010		2011	2010
(Number of Shares)			(Rupees in thousand)	
25,000,000	23,000,000	Ordinary shares of Rs 10 each fully paid in cash	250,000	230,000
		Ordinary shares of Rs 10 each, issued as fully paid bonus shares	-	-
5,000,000	2,000,000	- Issued during the year	50,000	20,000
30,000,000	25,000,000		300,000	250,000

8,998,695 (2010: 7,498,913) ordinary shares of the Company are held by Bank Alfalah Limited, an associated undertaking as at December 31, 2011

6. Deferred taxation

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

	Note	2011	2010
		(Rupees in thousand)	
7. Staff retirement benefits - Gratuity			
The amounts recognised in the balance sheet are as follows:			
Present value of defined benefit obligation	7.1	10,858	7,559
Fair value of plan assets	7.2	(12,286)	(9,966)
Unrecognised actuarial loss / (gain)		1,644	2,124
Liability / (assets) as at December 31		216	(283)
Net obligation as at January 01		(283)	1,442
Charge to profit and loss account	7.3	2,019	1,714
Company contribution		(1,520)	(3,439)
		216	(283)
7.1 The movement in the present value of defined benefit obligation is as follows:			
Present value of defined benefit obligation as at January 01		7,559	8,715
Service cost		2,624	3,136
Interest cost		1,058	1,220
Curtailment gain		-	(1,701)
Unrecognised actuarial gain		(383)	(3,811)
Present value of defined benefit obligation as at December 31		10,858	7,559

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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		2011	2010
		(Rupees in thousand)	
7.2	**The movement in fair value of plan assets is as follows:**		
	Fair value as at January 01	9,966	5,700
	Expected return on plan assets	1,502	798
	Company contributions	1,520	3,439
	Unrecognised actuarial (loss) / gain	(702)	29
	Fair value as at December 31	12,286	9,966
	Plan assets are comprised as follows:		
	Investment in units of mutual funds	779	853
	Cash at bank	11,508	2,937
	Term finance certificate	-	6,176
		12,287	9,966
7.3	**Charge to profit and loss account:**		
	Current service cost	2,624	3,136
	Interest cost	1,058	1,220
	Expected return on plan assets	(1,502)	(798)
	Recognition of actuarial gain	(161)	(143)
	Curtailment gain	-	(1,701)
	Expense for the year	2,019	1,714

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

		2011	2010
		(Rupees in thousand)	
	As at December 31		
	Present value of defined benefit obligation	10,858	7,559
	Fair value of plan assets	(12,286)	(9,966)
	Gain/(loss)	(1,428)	(2,407)
	Experience adjustment on obligation	-3.53%	-50.41%
	Experience adjustment on plan assets	5.71%	-0.30%
8.	**Accrued expenses**		
	Accrued expenses	28,516	15,610
	Bonus payable	11,027	7,666
	EOBI payable	64	54
		39,607	23,330

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

		Note	2011	2010
			(Rupees in thousand)	
9.	**Sundry creditors**			
	Agent commission payable		15,135	7,928
	Federal insurance fee		1,345	904
	Federal excise duty		14,170	14,580
	Retention money		116	166
	Cash margin		2,390	1,518
	Workers' welfare fund	9.1	-	1,010
	Others		3,699	2,487
			36,855	28,593

		Note	2011	2010
			(Rupees in thousand)	
9.1	**Workers' welfare fund**			
	Opening balance		1,010	1,083
	Provision for the year	23	-	1,028
	Payment/Adjustment		(1,010)	(1,101)
	Closing balance		-	1,010

10. Contingencies and Commitments

10.1 Contingencies- 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:

		2011	2010
		(Rupees in thousand)	
	Not later than one year	7,433	5,603
	Later than one year and not later than five years	38,633	43,653
	Later than five years	19,409	3,016
		65,475	52,272
11.	**Cash and other equivalents**		
	Cash in hand	245	191
	Stamps in hand	69	20
		314	211
12.	**Current and other accounts**		
	Current accounts	73,187	12,752
	Saving accounts	3,909	39,049
		77,096	51,801

The balance in saving accounts bears mark-up at the rate of 11% per annum. (2010: 11% per annum).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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13. Deposits maturing within twelve months

This represents Term Deposit Receipts (TDR) with banks and bears mark-up 0f 13.5% per annum. (2010: 13.5% per annum).

	Note	2011	2010
		(Rupees in thousand)	
14. Investments			
The investments comprise of the following:			
Held to maturity	14.1	31,913	27,013
Available for sale - quoted	14.2	29,071	34,396
Held for trading	14.3	576,163	327,005
		637,147	388,414

14.1 Held to maturity

Statutory deposits	14.1.1	32,000	27,000
Unamortized (discount) / premium on investment bonds		(87)	13
		31,913	27,013

14.1.1 Statutory deposits

	Maturity	Effective Yield (%)	2011	2010
			(Rupees in thousand)	
Pakistan Investment Bonds	June, 2013	9.04%	24,000	24,000
	August, 2013	11.05%	3,000	3,000
	July, 2015	12.22%	5,000	-
			32,000	27,000

This represents Pakistan Investment Bond having held with State Bank of Pakistan as statutory deposit. Market value as at December 31, 2011 is Rs. 30.685 million (2010: Rs. 24.294 million).

14.2 Available for sale - quoted

(Number of Shares) 2011	(Number of Shares) 2010	Company's name	Face value per share (Rupees)	2011	2010
				(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
1,499,658	400,000	Bank Alfalah Limited	10	15,503	4,171
-	469,363	Alfalah GHP Principle Protected Fund I	50	-	20,000
-	102,509	Alfalah GHP Principle Protected Fund II	50	-	5,000
50,000	-	Fauji Fertilizer Company Limited	10	8,235	-
6,500	-	Nishat Power Limited	10	108	-
				29,685	35,010
Impairment in value of available for sale investments				(614)	(614)
				29,071	34,396
Market value as at December 31				29,610	40,444

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

14.3 Held for trading

(Number of units) 2011	(Number of units) 2010	Company's name	Face value per share (Rupees)	2011 (Rupees in thousand)	2010 (Rupees in thousand)
1,231,105	807,399	MCB Cash Management Optimizer Fund	100	126,663	82,522
7,178,525	6,322,973	NAFA Government Securities Liquid Fund	10	73,093	65,199
161,376	40,328	Alfalah GHP Cash Fund	500	80,775	20,210
54,821	20,804	Atlas Money Market Fund	500	27,607	10,724
237,807	211,667	IGI Money Market Fund	100	23,943	21,297
698,426	624,249	UBL Liquidity Plus Fund	100	70,177	62,548
289,094	1,281,802	Pakistan Cash Management Fund	50	14,536	64,505
792,228	-	Askari Sovereign Cash Fund	100	79,616	-
7,952,779	-	ABL Cash Fund	10	79,723	-
577	-	Metro Bank Perpetual Scheme	50	30	-
				576,163	327,005

	Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)
15. Preliminary and deferred cost			
Cost		-	261
Less: Amortisation for the year	23	-	261
		-	-
16. Premiums due but unpaid			
Unsecured			
- Considered good		137,594	223,857
- Considered doubtful		8,856	6,000
		146,450	229,857
Less: Provision for doubtful receivables	16.1	(8,856)	(6,000)
		137,594	223,857
16.1 Provision for doubtful receivables			
Balance as at January 1		6,000	4,000
Provision made during the year	21	2,856	2,000
Balance as at December 31		8,856	6,000

17. Amounts due from other insurers / reinsurers

These are unsecured and considered good.

18. Sundry receivables

	2011	2010
Security deposits	3,007	2,452
Receivable from provident fund	2,008	1,423
Other advances	253	373
	5,268	4,248

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19. Fixed assets

Tangible

(Rupees in thousand)

	Cost as at January 01, 2011	Additions	Disposals / Adjustments	Cost as at December 31, 2011	Accumulated depreciation as at January 01, 2011	Depreciation charge for the year	Accumulated Depreciation on Disposal / Adjustments	Accumulated depreciation as at December 31, 2011	Book value as at December 31, 2011	Depreciation rates
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	

(Rupees in thousand)

	Cost as at January 01, 2010	Additions	Disposals / Adjustments	Cost as at December 31, 2010	Accumulated depreciation as at January 01, 2010	Depreciation charge for the year	Accumulated Depreciation on Disposal / Adjustments	Accumulated depreciation as at December 31, 2010	Book value as at December 31, 2010	Depreciation rates
Furniture and fixtures	5,190	127	6,189	11,506	976	1,144	774	2,894	8,612	10%
Office equipment	7,523	261	5,736	13,520	2,251	3,407	717	6,375	7,145	20%
Computer equipment	12,102	473	-	12,575	6,346	2,960	-	9,306	3,269	25%
	24,815	861	11,925	37,601	9,573	7,511	1,491	18,575	19,026	
Building on leasehold land	55,138	-	(11,925)	43,213	7,904	4,321	(1,491)	10,734	32,479	10%
Motor vehicles	33,439	1,826	(39)	35,226	10,114	5,261	(4)	15,371	19,855	20%
2010	113,392	2,687	(39)	116,040	27,591	17,093	(4)	44,680	71,360	

19.1 The depreciation charge for the year has been charged to the general and administrative expenses as referred to in note 23.

20. Intangibles

Intangible

(Rupees in thousand)

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

	Cost as at January 01, 2010	Additions	Cost as at December 31, 2010	Accumulated amortisation as at January 01, 2010	Amortisation charge for the year	Accumulated amortisation as at December 31, 2010	Book value as at December 31, 2010	Amortisation rate
2010								
Software	4,283	340	4,623	1,658	1,072	2,730	1,893	25%

20.1 The amortisation charge for the year has been charged to the general and administrative expenses as referred to in note 23.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

		Note	2011	2010
			(Rupees in thousand)	
21.	**Management Expenses**			
	Salaries, wages and other benefits		75,110	58,568
	Tracker expenses		19,468	20,507
	Rent, rates and taxes		9,549	9,373
	Communication and utility expenses		7,424	6,438
	Printing and stationery		4,960	5,109
	Travelling and Conveyance		3,784	2,967
	Provision for doubtful debts	16.1	2,856	2,000
	Fees and subscription		2,327	1,789
	Security expenses		568	556
	Sundry expenses		5,210	1,956
			131,256	109,263

22. Other income

This represents liabilities written back and exchange gain/(loss) arising on foreign currency transactions.

		Note	2011	2010
			(Rupees in thousand)	
23.	**General and administrative expenses**			
	Salaries, wages and other benefits		23,313	15,256
	Depreciation on tangible assets	19	18,324	17,093
	Amortisation of intangible assets	20	2,042	1,072
	Motor car expenses		10,485	7,887
	Equipment repair and maintenance		2,692	1,186
	Office repair and maintenance		1,572	1,307
	Insurance expense		4,917	2,924
	Rent expense		3,864	3,765
	Legal and professional		3,000	1,824
	Advertisement expenses		2,959	3,024
	Auditors' remuneration	23.1	973	979
	Sundry expenses		3,554	3,254
	Amortisation of deferred cost	15	-	261
	Workers' welfare fund	9.1	-	1,028
	Sundry receivable written off		-	1,800
			77,695	62,660
23.1	**Auditors' remuneration**			
	Statutory audit fee		450	450
	Half yearly review		200	200
	Statutory returns		100	100
	Certification and sundry services		75	75
	Out of pocket expenses		148	154
			973	979

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		Note	2011	2010
			(Rupees in thousand)	
24.	**Taxation**			
	Current			
	- For the year		8,000	10,000
	- Prior		233	241
			8,233	10,241
	- Deferred		(1,837)	(3,383)
		24.1	6,396	6,858
24.1	**Tax Charge Reconciliation**			
	A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate			
	Accounting profit		75,634	49,507
	Tax at the applicable rate of 35% (2010: 35%)		26,472	17,327
	Tax effect of amounts that are:			
	- Exempt for tax purposes		(19,697)	(9,630)
	- Effect of prior year tax		-	-
	- Chargeable to tax at different rates		(232)	(649)
	Effect of rounding and others		46	(190)
			(19,883)	(10,469)
	Tax expense		6,589	6,858

			2011	2010
25.	**Earnings per share**			
25.1	**Basic earnings per share**			
	Net profit for the year	Rupees in thousand	69,238	42,649
	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	Rupees per share	2.31	1.42

25.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at December 31, 2011 and December 31, 2010 which would have any effect on the earnings per share if the option to convert is exercised.

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26. Remuneration of Chief Executive and Directors

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

	Chief Executive		Directors	
	2011	2010	2011	2010
	(Rupees in thousand)		(Rupees in thousand)	
Managerial remuneration	12,000	7,500	-	-
Contribution to post employment benefits	1,200	754	-	-
Bonus	4,000	938	-	-
	17,200	9,192	-	-
Number of persons	1	1	6	6

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

27. 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 is disclosed in note 26. Amounts due to/from and other significant transactions with related parties are as follows:

	2011	2010
	(Rupees in thousand)	
Insurance premium	487,651	409,500
Net premium received	719,714	512,818
Claims paid	298,485	209,828
Interest income	11,164	13,108
Expense charged in respect of retirement benefit plans	5,302	4,307
License fees and connection charges	5,283	983
	1,527,599	1,150,544
Premium receivable	96,457	197,112

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

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28. Segment Reporting

The Company has five primary business segments for reporting purposes namely fire, marine, motor, health and miscellaneous.

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

	Fire		Marine		Motor		Health		Miscellaneous		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Segment revenue	33,704	25,960	7,542	6,436	155,253	139,695	135,051	61,900	41,719	116,847	373,269	350,838
Other information												
Segment assets	344,226	475,894	30,975	16,089	21,894	26,915	58,705	26,000	235,990	216,625	691,790	761,523
Unallocated corporate assets											819,091	540,882
Consolidated total assets											1,510,881	1,302,405
Segment liabilities	478,130	490,808	28,196	18,892	145,870	126,001	106,953	38,541	276,241	246,087	1,035,390	920,329
Unallocated corporate liabilities											475,491	382,076
Consolidated total liabilities											1,510,881	1,302,405
Unallocated capital expenditure											23,583	3,027
Unallocated depreciation											20,366	18,425

29. 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, with its associated committees. This is supplemented with a clear organizational 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 29.1.1;
- Liquidity risk - note 29.1.2;
- Market risk - note 29.1.3;

b) Capital adequacy risk - note 29.2

c) Insurance risk - note 29.3

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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29.1 Financial risk

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

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.

29.1.1 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 ;
c) Aging analysis of counter party ;

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

Financial Assets	Note	2011	2010
		(Rupees in thousand)	
Bank balances	29.1.1.1	79,096	53,801
Investments	29.1.1.2	576,163	352,005
Premium due but unpaid	29.1.1.3	137,594	223,857
Amount due from other insurers / reinsurers	29.1.1.3	53,509	31,063
Accrued investment income		801	575
Reinsurance recoveries against outstanding claims	29.1.1.4	237,528	365,054
Sundry receivables	29.1.1.5	5,268	4,248
		1,089,959	1,030,603

29.1.1.1 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	2011	2010
				(Rupees in thousand)	
Bank Alfalah Limited	A1+	AA	PACRA	76,837	51,541
HSBC Bank Middle East Limited	P1	AA2	MOODY'S	259	260
Trust Investment Bank Limited	A3	BBB	PACRA	2,000	2,000
				79,096	53,801

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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29.1.1.2 The credit quality of Company's investments can be assessed with reference to external credit rating of the respective Asset Management Company's (AMC's), which is as follows :

Asset Management Company Name	AMC's Rating	Rating Agency	2011	2010
			(Rupees in thousand)	
MCB Asset Management Limited	AM2-	PACRA	126,693	82,522
NBP Fullerton Asset Management Limited	AM2-	PACRA	73,093	65,199
Alfalah GHP Investment Management Limited	AM3	PACRA	80,775	45,210
Atlas Asset Management Limited	AM3-	PACRA	27,607	10,724
IGI Funds Limited	AM2-	JCR-VIS	23,943	21,297
UBL Funds Managers Limited	AM2	JCR-VIS	70,177	62,548
Arif Habib Investments Limited	AM2	PACRA	14,536	64,505
Askari Investment Management Limited	AM3+	PACRA	79,616	-
ABL Asset Management Company Limited	AM2-	JCR-VIS	79,723	-
			576,163	352,005

29.1.1.3 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 movement in the provision for doubtful debt account is shown in note 16.1. 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:

	2011	2010
	(Rupees in thousand)	
Financial institutions	145,779	145,621
Telecom sector	7,511	89,933
Foods & beverages	10,446	7,403
Personal Goods	5,086	2,424
Health	2,305	1,704
Textile	12,348	-
Miscellaneous	16,484	13,835
	199,959	260,920

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

	2011	2010
	(Rupees in thousand)	
The age analysis of receivables is as follows:		
Upto 1 year	191,158	247,666
1-2 years	5,230	5,155
2-3 years	41	1,975
Over 3 years	3,530	124
	199,959	254,920

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended December 31, 2011

29.1.1.4 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
As at 31 December 2011			
A- or above (including PRCL)	53,509	237,528	291,037
As at 31 December 2010			
A- or above (including PRCL)	31,063	365,054	396,117

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:

	Reinsurance Recoveries against outstanding claims	Provision for outstanding claims
	(Rupees in thousand)	
The age analysis of reinsurance against outstanding claims as follows:		
Upto 1 year	127,232	230,781
1-2 years	79,579	96,109
2-3 years	5,029	8,205
Over 3 years	25,688	28,927
	237,528	364,022

29.1.1.5 Sundry receivable includes security deposits and receivable from Provident Fund which does not carry significant credit risk.

29.1.2 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 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. 79.410 million (2010: Rs. 54.012 million) and Rs. 576.163 million (2010: Rs. 327.005 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

2011 (Rupees in thousand)

	Carrying amount	Contractual cash flows	Maturity upto one year	Maturity after one year
Provision for outstanding claims	364,022	364,022	364,022	-
Staff retirement benefits	216	216	216	-
Amounts due to other insurers/reinsurers	199,382	199,382	199,382	-
Accrued expenses	39,543	39,543	39,543	-
Sundry creditors	21,340	21,340	21,340	-
	624,503	624,503	624,503	-

2010 (Rupees in thousand)

	Carrying amount	Contractual cash flows	Maturity upto one year	Maturity after one year
Provision for outstanding claims	497,276	497,276	497,276	-
Amounts due to other insurers/reinsurers	120,857	120,857	120,857	-
Accrued expenses	23,276	23,276	23,276	-
Sundry creditors	12,099	12,099	12,099	-
	653,508	653,508	653,508	-

29.1.3 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 and equity market and by continuous monitoring of development 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 the value of a financial instrument or future cash flows of a financial instrument will fluctuate due to change 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:

	2011 Effective Interest rate %	2011 Carrying amounts Maturity upto one year (Rupees in '000')	2010 Carrying amounts Maturity upto one year (Rupees in '000')	2011 Carrying amounts Maturity after one year (Rupees in '000')	2010 Carrying amounts Maturity after one year (Rupees in '000')
Financial assets					
Bank balances	11% to 13.5%	5,909	41,049	-	-
Investments					
Money market Funds	11.70% to 12.09%	576,163	327,005		
PIB's	9.04% to 12.22%	-	-	31,913	27,013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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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.

	Impact on Profit and Loss	
	Increase	Decrease
	by 100 bps (Rupees in thousand)	
As at 31 December 2011		
Cash flow sensitivity-variable rate financial assets	5,432	(5,432)
As at 31 December 2010		
Cash flow sensitivity-variable rate financial assets	3,557	(3,557)

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. 29.071 million (2010: Rs. 34.396 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.

Sensitivity analysis

The table below summarizes Company's equity price risk as of 31 December 2011 and 2010 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:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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(Rupees in '000)

	Fair value	Hypothetical price change	Estimated fair value after hypothetical change in prices	Hypothetical increase/ (decrease) in shareholders' equity	Hypothetical increase / (decrease) in profit before tax
31 Dec 2011	605,773	10% increase	666,350	60,577	60,577
		10% decrease	545,196	(60,577)	(60,577)
31 Dec 2010	367,449	10% increase	404,194	36,745	36,745
		10% decrease	330,704	(36,745)	(36,745)

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 $ 20,000 as at December 31, 2011.

29.2 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 Securities and Exchange Commission of Pakistan.

29.3 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 29.3.1
- Claim Risk -note 29.3.2
- Reinsurance Risk -note 29.3.3

29.3.1 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.

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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	
	2011	2010	2011	2010
Fire	74%	73%	44%	43%
Marine	14%	16%	19%	17%
Motor	2%	2%	13%	13%
Health	6%	4%	18%	22%
Miscellaneous	4%	5%	6%	5%
	100%	100%	100%	100%

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

	Gross premium written		Net premium written	
	2011	2010	2011	2010
Fire	35%	29%	11%	9%
Marine	5%	5%	2%	0%
Motor	20%	23%	42%	45%
Health	20%	18%	35%	37%
Miscellaneous	20%	25%	10%	9%
	100%	100%	100%	100%

29.3.2 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;

- 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.

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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.

	Net impact of increase / decrease in average claim by 10% on			
	Underwriting result		Shareholders' Equity	
	2011	2010	2011	2010
	(Rupees in thousand)			
Fire	(356)	3,204	(231)	2,083
Marine	305	185	198	120
Motor	9,012	8,611	5,858	5,597
Health	11,873	8,952	7,717	5,819
Miscellaneous	3,490	4,992	2,269	3,245
	24,324	25,944	15,811	16,864

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 2011.

(Rupees in thousand)

Accident year	2007	2008	2009	2010	2011	Total
Estimate of ultimate claims cost:						
At end of accident year	113,389	139,061	202,514	516,129	203,636	1,174,729
One year later	87,887	123,462	160,344	399,828	-	771,521
Two years later	83,574	131,215	148,697	-	-	363,486
Three years later	84,612	129,462	-	-	-	214,074
Four years later	83,615	-	-	-	-	83,615
Estimate of cumulative claims	83,615	129,462	148,697	399,828	203,636	965,238
Cumulative payments to date	(75,473)	(109,349)	(138,624)	(303,754)	(70,875)	(698,075)
Liability recognised	8,142	20,113	10,073	96,074	132,761	267,163

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

	Gross claim expense		Net claim expense	
	2011	2010	2011	2010
Fire	17%	45%	3%	8%
Marine	5%	2%	1%	1%
Motor	23%	15%	35%	35%
Health	29%	16%	47%	36%
Miscellaneous	26%	22%	14%	20%
	100%	100%	100%	100%

29.3.3 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.

30. Post Balance Sheet Event

The Board of Directors in their meeting held on March 29, 2012 have proposed a movement from general reserve to unappropriated profit of Rs. Nil million.

31. Date of authorization for issue

These financial statements were authorized for issue on March 29, 2012 by the Board of Directors of the Company.

32. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison. However, no significant re-arrangements have been made during the year except for the Following:

	(Rupees)
"Salaries, wages and other benefits" relating to administrative staff, previously classified in " Management expenses", are now reclassified to " Administrative expenses".	7,124,196

33. General

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

Director | Director | Chairman | Principal Officer & Chief Executive

NOTICE OF 6th ANNUAL GENERAL MEETING

Notice is hereby given that 6th Annual General Meeting of the Shareholders of Alfalah Insurance Company Limited (the "Company") will be held on Monday, April 30, 2012 at 9:30 a.m. at the registered office of the Company located at 5 – Saint Mary Park, Gulberg III, Lahore to transact the following business:

Ordinary Business

1. To confirm the minutes of the 6th Annual General Meeting held on April 28, 2011 at Lahore.

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 December 31, 2011.

3. To appoint auditors for the year 2012 and to fix their remuneration.

Special Business

4. To consider and, if thought fit, to pass following Special Resolution as required under Article 23 of Articles of Association of the Company with or without modification(s):

"RESOLVED THAT the proposed increase in the authorized share capital of the Company from Rs. 300 million divided into 30 million ordinary shares of Rs. 10 each to Rs. 500 million divided into 50 million ordinary shares of Rs. 10 each be and is hereby considered and approved. Such new shares shall rank pari-passu in all respects with the existing ordinary shares in the capital of the Company,

"FURTHER RESOLVED that the necessary alteration in the Memorandum of Association of the Company be and is hereby considered and approved for substituting the existing Article V of the following new article V namely:

"V. The Authorized Share capital of the Company is Rs. 500,000,000 divided into 50,000,000 shares of Rs. 10 each, with rights, privileges and conditions attaching thereto as are provided by the regulations of the Company for the time being with power to increase and reduce the Capital of the Company in such manner as may for the time being be provided by the regulations of the Company"

"FURTHER RESOLVED that the necessary alteration in the Articles of Association of the Company be and is hereby considered and approved for substituting the existing article IV with the following new IV namely:

"IV. The Authorized Share Capital of the Company is Rs. 500,000,000 divided into 50,000,000 shares of Rs. 10 each, The minimum subscribed capital of the company shall be Rs. 300 Million (Rupees Three Hundred Million). The Company may in its general meeting increase, reduce, consolidate, divide and sub divide, cancel, or otherwise vary the rights of its shares or reorganize its share capital under the law for the time being in force."

"FURTHER RESOLVED that the Company Secretary be and is hereby authorized to do all acts, deeds and things, take any and all necessary steps to fulfill the legal, corporate and procedural formalities and file all necessary documents/returns as he deems necessary, expedient and desirable to give effect to the above resolution."

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

Attached to this notice of meeting being sent to members is a statement under section 160 (1)(b) of Companies Ordinance 1984, setting forth:

(a) All material facts concerning the resolutions contained in item No. 4 of the notice which will be considered for adoption at the Meeting.

(b) Status of approval for investments in associated companies.

By order of the Board
Adnan Waheed
Company Secretary

Date: 4th April, 2012
Lahore

NOTICE OF 6th ANNUAL GENERAL MEETING

Notes

1. The Share Transfer Books of the Company will be closed from April 20, 2012 to April 30, 2012 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 30, 2012.

2. **Item 4 regarding increase in authorized capital:**

   The Company presently has an authorized share capital of Rs. 300 million divided into 30 million ordinary shares of Rs. 10 each as being fully subscribed and paid up.

   In order to facilitate future increases in the paid up capital, the authorized share capital of the Company should be raised from Rs. 300 million to 500 million divided into 50 million ordinary shares of Rs. 10 each by the creation of a further 20 million ordinary shares of Rs. 10 each. Board of Directors in its meeting held on March 29, 2012 has already considered and recommended the increase of authorized share capital from Rs. 300 million to Rs. 500 million.

3. **Status of approval for investments in associated companies:**

   As required under the SRO 865(1)2000 dated 6 December 2000, the position of investment in associated companies against approval is as under:

   Investment in Share of Bank Alfalah Limited

   Against the unutilized approval of Rs. 32.202 million as on December 31, 2010, your Company has further purchased 1,099,658 shares amounting to Rs. 11.332 million during the year 2011. Bank Alfalah has declared profit after tax of Rs. 3,503.130 million (2010: 968.452 million), translating into EPS of Rs. 2.60 (2010: 0.72) in its financial statements for the year ended December 31, 2011. Bank Alfalah has also announced a dividend of 17.5% for the year 2011. Your company will make further investment in shares of Bank Alfalah Limited at an appropriate time.

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 ______________________ who is also a member of the Company 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 Monday, April 30, 2012 at 9:30 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 _______________ 2012.

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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