1. STATUS AND NATURE OF BUSINESS

1.1 Pakistan Reinsurance Company Limited (the Company) was incorporated on 30th March 2000 under the Companies Ordinance, 1984. The object of the Company is the development of insurance and reinsurance business in Pakistan and to carry on reinsurance business. The registered office of the company is located at PRC Towers, 32-A, Lalazar Drive, Maulvi Tamizuddin Khan Road, Karachi. Its shares are quoted on Karachi and Lahore Stock Exchanges.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared as per the format for financial statements issued by the Securities and Exchange Commission of Pakistan under Securities and Exchange Commission (Insurance) Rules, 2002 promulgated vide S.R.O 938(1) 2002 dated 12th December 2002.

2.2 Statement of Compliance

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

2.3 Basis of measurement

These financial statements have been prepared under the historical cost.

The preparation of financial statements in conformity with the requirements of approved accounting standards as applicable in Pakistan requires management to make judgements / estimates and associated assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The judgements / estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the estimate about carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ from these estimates. The estimate and underlying assumptions are reviewed on periodic basis. Revisions to accounting estimates are recognized in the period in which the revision has been made.

Significant areas requiring the management to use estimates in these financial statements relates to provision for outstanding claims including IBNR, impairment of assets, premium deficiency reserves, provision for income taxes, recoveries from reinsurers, staff retirement benefits and provision against premium due but unpaid.

2.4 Investments

2.4.1 Recognition

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

- Held to maturity.
- Available for sale

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

2.4.2 Measurement

(a) Held to maturity

Investments with fixed maturity and fixed income investments, where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

Subsequent to initial recognition at cost, these investments are measured at amortized cost, less provision for impairment in value, if any. Amortized cost is calculated taking into account any discount or premium on acquisition by using effective interest rate method.

(b) Available for sale - marketable securities

Investments which are intended to be held for an undefined period to time but may be sold in response to the need for liquidity or changes in interest rates are classified as available for sale and are stated at cost or market value which ever is lower.

2.5 Investment properties

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the company comprises of floor space in PRC Towers reserve for letting out on rentable basis. This is valued using the cost model i.e. at cost less accumulated depreciation and impairment loss, if any.

Depreciation is charged over the useful life of the asset on a systematic basis to income appling the reducing balance method at the rates specified in note 19 to the financial statements.

2.6 Underwriting provisions

2.6.1 Provision for outstanding claims

A liability is recognised for outstanding claims incurred upto the balance sheet date and is considered to be incurred at the time of incident giving rise to the claim. Claims paid / payable is based on prescribed statutory returns submitted by the ceding companies. Outstanding claims reserve and claims incurred but not reported (IBNR) to the Company upto the balance sheet date are recorded on the basis of actuarial valuation, results of which have been recognised in the financial statements.

The above liability is measured at undiscounted value and includes expected settlement costs.

2.6.2 Claim recoveries

Claim recoveries receivable from the reinsurers are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised and are measured at the amounts expected to be received. Claims are reported net off reinsurance in the revenue account.

2.6.3 Provision for unearned premium

Provision for unearned / prepaid premium is made in the Revenue Account on the basis of 1/24 method as per Regulation 8 of Securities and Exchange Commission of Pakistan (Insurance) Rules, 2002, this provision is calculated by an actuary.

2.6.4 Premium deficiency reserve

Where the unearned premium liability for any class of business is not adequate to meet the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other underwriting expenses, expected to be incurred after the balance sheet date in respect of policies in that class of business in force at balance sheet date, a premium deficiency reserve is recognised as a liability to meet the deficit.

The movement in the premium deficiency reserve is recorded as an expense and is a part of revenue account.

2.6.5 Prepaid reinsurance ceded

Reinsurance premium is recognised as an expense evenly over the period of the underlying policies. The portion of reinsurance premium not yet recognised as expense is recognised as prepayment.

2.6.6 Provision for unearned commission income

Commission income receivable is taken to revenue account in accordance with the pattern of recognition of the reinsurance premium to which they relate.

2.7 Staff retirement benefits

Defined benefit plans

The company operates following defined benefit plans for its employees:

– Approved gratuity fund.

– Approved pension fund.

– Post retirement medical benefits.

The Company operates defined benefit approved gratuity and pension funds for officers/employees who are entitled/have opted for either of the above funds. The Company also operates defined medical benefits, and recognizes liability for post retirement medical facilities to its eligible employees in accordance with requirements of IAS - 19 (Revised).

2.8 Compensated absences

Officers

The Company accounts for all accumulated compensated absences when the employees render service that increases their entitlement to future compensated absences based on actuarial valuation.

Staff

Staff have the option to encash absences of 30 days each year based on basic salary. The staff also have the option of one year's absences on full pay in respect of LPR. In case staff wish to encash his/her LPR such encashment of leaves upto the maximum of 6 months will be allowed, at the rate of 1.8 of basic salary or on the basis of basic plus house rent allowance.

2.9 Provident Fund

The Company operates defined contributory approved general and contributory provident funds (the funds) for all its eligible employees. The funds are administered by the trustees.

2.10 Taxation

Current taxation

Provision for current taxation is based on taxable income at current rates of taxation after taking into account tax credits and rebates available, if any.

Deferred taxation

Deferred tax is recognised using the balance sheet liability method for all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is recognised based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.11 Fixed assets

Owned assets

Fixed assets except leasehold lands (other than land of PRC House and PRC Building, which has not been bifurcated) are stated at cost less accumulated depreciation calculated on written down values and accumulated impairment loss thereon. Leasehold land is stated at cost.

Depreciation is charged to income applying the reducing balance method. The rates of depreciation are stated in note 26 to the financial statements.

Depreciation on additions during the financial year is charged from the month in which asset is put to use whereas no depreciation is charged from the month the asset is disposed off. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The carrying amount of fixed assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts, and where carrying values exceed their estimated recoverable amount, assets are written down to their recoverable amount.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and assets so replaced, if any, are retired.

Gain and losses on disposal of fixed assets, if any, are included in current income.

Leases

Leased assets in terms of which the Company assumed substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at amount equal to the lower of its fair value and the present value of minimum lease payments at the inception of lease, less accumulated depreciation and impairment losses, if any.

The company account for lease obligation by recording the assets and the corresponding liability there against determined on the basis discounted value of minimum lease payments. Financial charges are recognized in the profit and loss account using the effective mark-up rate method.

2.12 Revenue recognition

Premium

Premium received / receivable under a policy are recognised evenly over the period of underlying policies or in accordance with the pattern of reinsurance service provided. Where the pattern of incidence of risk varies over the period of the policy, the premium is recognised as an income in accordance with the pattern of incidence of risk.

Revenue from premium is based on prescribed statutory returns submitted by the ceding companies. Premiums are taken to income, after (i) deducting reinsurance and (ii) adjusted for reserve for unexpired risk as described in note 2.6.3.

Premium recognition in case of coinsurance or pool arrangements is restricted to the Company's share only.

Commission

Commission and profit commission receivable from reinsurers are deferred and brought to account as revenue in accordance with the pattern of recognition of the reinsurance premiums to which they relate.

Investments

Gain / loss on sale of investments is taken to the profit and loss account in the year of sale.

Profit / interest income from securities, bond and debentures are recognised on effective interest rate basis.

Dividend income is recognised when right to receive such dividend is established.

Rental income

Rentals of PRC Towers are recognized as income on time proportion basis.

2.13 Reinsurance expense

Premium reinsured to reinsurers is recognised as a liability on attachment of the underlying policies reinsured or on inception of the reinsured contract incase of proportional and non-proportional basis respectively.

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

2.14 Acquisition cost

Commission expense incurred in obtaining and recording policies of reinsurance are deferred and recognised as assets. These deferred commission are amortised systematically over the reporting period over which the related premium revenue is recognised.

2.15 Provision for bad and doubtful debts

General provisions, as considered adequate by management, are made to cover doubtful debts.

2.16 Expense of management

Expenses of management allocated to the underwriting business represent directly attributable expenses and indirect expenses allocated on the basis of net premium income under individual businesses.

2.17 Foreign currency transactions

Transactions in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees using year end spot foreign exchange rates. Non monitory assets and liabilities are translated into Pak Rupees using exchange rates prevalent on transaction date. Exchange differences on foreign currency translations are included in income currently. The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

2.18 Impairment

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

2.19 Cash and cash equivalent

Cash and cash equivalent comprises (a) cash on deposit accounts with banks, (b) cash (and cheques) in hand, in transit and at banks on current accounts and (c) stamps in hand.

2.20 Off setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.21 Segment reporting

(a) Primary segments

The Company's operating business are organized and managed separately according to the nature of services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

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

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

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

Miscellaneous insurance provide cover against burglary, loss of cash in safe and cash in transit, personal accident money.

(b) Secondary segments

Revenues are attributed to geographical segments based on the location of the assets producing the revenues.

The company generally accounts for intersegment sales and transfers, if any, as if the sales or transfers were made to third parties at current market prices.

	2005 Rupees	2004 Rupees

3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL

	2005 Rupees	2004 Rupees
100,000,000 Ordinary Shares of Rs.10 each	**1,000,000,000**	1,000,000,000
8 Ordinary shares of Rs. 10 each fully paid in cash (2004: 8 Ordinary shares of Rs. 10 each)	**80**	80
5,000,000 Ordinary shares of Rs. 10 each issued for consideration other than cash (2004: 5,000,000 ordinary shares of Rs. 10 each)	**50,000,000**	50,000,000
40,000,064 (2004: 40,000,064) Ordinary shares of Rs. 10 each issued as fully paid bonus shares	**400,000,640**	400,000,640
	450,000,720	450,000,720

4. EXCEPTIONAL LOSSES RESERVE

The reserve for exceptional losses represent amount set aside in prior years admissible previously under the Income Tax Act of 1922. After the introduction of repealed Income Tax Ordinance, 1979, which did not permit the said deduction, theCompany has been setting aside amounts to exception loss reserve through profit and loss appropriation account. The balance held in this account is accordingly treated as revenue reserve by the Company.

5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

5.1 This represents vehicles leased from First Grindlays Modarba. Minimum lease payments have been discounted using interest rate 7.5% per annum.

5.2 The amount of future payments for the finance leases and the periods in which these payments will become due are as follows:

	2005	2004
31 December 2004	–	–
31 December 2005	–	2,202,144
31 December 2006	**1,284,584**	1,284,584
	1,284,584	3,486,728
Less: Financial charges not due	**(31,523)**	(208,707)
	1,253,061	3,278,021
Less: Current portion shown under creditors and accruals	**(1,253,061)**	(2,024,960)
	–	1,253,061

	Mark up	Principle	Total
Payable within one year	31,523	1,253,061	1,284,584
Payable within one to five years	–	–	–
	31,523	1,253,061	1,284,584

	2005 Rupees	2004 Rupees

6. PROVISION FOR OUTSTANDING CLAIMS

Fire	**88,459,384**	324,518,000
Marine	**100,724,538**	139,430,000
Miscellaneous	**328,829,054**	402,940,000
	518,012,976	866,888,000

Represents estimated liabilities in respect of outstanding claims intimated by the ceding companies to the Company at the end of the year. Out of the same, estimated recoveries are deducted to arrive at the net amount of such liabilities which would fall on the Company (net account). The Company, generally computes such liabilities on the basis of various forms received from the ceding company including forms "H", "HH" and "HHH" (Annual statement of Estimated Liability for Outstanding Losses). In case where no information is received from the ceding companies, the estimated liability is recorded on the basis of actuarial valuation for the concerned class of business. At the end of the next accounting period / year, the reserve brought forward is reversed and a new reserve is created for the estimated liability in respect of the outstanding claims.

In the year 2002 an amount of Rs.4.952 million representing brought forward claims from previous years which relate to Bangladesh (former East Pakistan) has been excluded from reserve for outstanding claims on Balance Sheet and has been taken alongwith other liabilities of Rs. 809,000 to net off Assets in Bangladesh of Rs. 15,974,000 (refer note 27).

	2005	2004
Fire	**2,382,000**	2,382,000
Marine	**1,470,000**	1,470,000
Miscellaneous	**1,100,000**	1,100,000
	4,952,000	4,952,000

7. PROVISION FOR UNEARNED PREMIUM

Fire	**779,194,529**	857,300,000
Marine	**91,131,280**	160,500,000
Miscellaneous	**1,244,430,335**	1,820,690,000
	2,114,756,144	2,838,490,000

7.1 This includes premium for deficiency reserve amounted to Rs. Nil (2004: Rs.39.2 million) based on the actuarial valuation.

8. COMMISSION INCOME UNEARNED

Fire	**17,320,398**	27,965,297
Marine	**4,377,618**	4,170,248
Miscellaneous	**36,699,151**	36,004,352
	58,397,167	68,139,897

	Note	2005 Rupees	2004 Rupees

9. EMPLOYEE BENEFITS

Defined benefit obligations

	Note	2005 Rupees	2004 Rupees
– Pension			
Officers		**57,281,000**	58,810,121
Employees		**5,277,177**	295,176
– Post retirement medical benefits		**44,442,000**	37,712,000
Compensated absences		**25,515,000**	21,903,000
	35	**132,515,177**	118,720,297

10. LONG TERM DEPOSITS

This represents deposits received from tenants in connection with letting of PRC Towers.

11. AMOUNT DUE TO OTHER PERSONS AND BODIES CARRYING ON INSURANCE BUSINESS

	2005 Rupees	2004 Rupees
Amount due to other persons and bodies carrying on insurance business	**334,700,662**	**847,879,124**

11.1 This includes Rs. 4,000,878 (2004: Rs. 495,433) due to related parties.

12. DEPOSITS RETAINED / RECEIVED FROM OTHER COMPANIES

	2005 Rupees	2004 Rupees
Premium reserve withheld	**1,730,500**	16,673,703
Losses reserve withheld	**25,546,980**	25,516,041
Cash losses received from retrocessionaire	**7,104,452**	15,892,282
	34,381,932	58,082,026

This represents company's retention of deposits withheld against the total amount retroceded to other companies.

13. CURRENT MATURITY OF LEASE LIABILITY

	2005 Rupees	2004 Rupees
Current maturity of liabilities against assets subject to finance lease	**1,253,061**	2,024,960

14. OTHER CREDITORS AND ACCRUALS

	2005 Rupees	2004 Rupees
Bonus payable	**6,556,478**	**5,878,264**
Provision for litigation	**16,075,253**	**16,075,253**
Accrued expenses	**5,913,564**	**4,206,834**
Others	**1,314,415**	**4,231,039**
	29,859,710	**30,391,390**

15. CONTINGENCIES

15.1 The Company is in process of reconciling balances of amount due to and due from other persons and bodies carrying on insurance business and have identified reconciling items of Rs. 85 million (2004: Rs.405 million) as at 31 December 2005, which have not yet been agreed and settled with these insurance companies. Further, the Company is in process of getting confirmation and reconciling balances with various other insurance companies. Consequently, the impact of possible adjustments on these balances and Revenue Account could not be quantified.

15.2 The Company has reversed certain claims lodged by insurance companies estimated at Rs.98.4 million in the previous year due to the reason that appropriate documentation for substantiating these claims was not provided by the ceding companies.

There is a possibility that the company may become liable to pay this amount in case if ceding companies ultimately manage to provide the relevant supporting documents. However, these include a claim of Rs.6.36 million against which the Company had also made a counter claim of Rs. 20.72 million.

15.3 Various ex-employees of the Company have lodged claims against the Company and / or ex-Chairman for their reinstatements and / or for damages amounting to Rs.1.02(2004: Rs.1.02) billion. In certain cases, the Company and / or Ex-Chairman has also made counter claims against ex-employees for damages. However, the liability that may arise in these cases cannot be determined at this stage as these claims are pending in the Honourable High Court. Pending the ultimate outcome of the decision, no provision has been made in this respect in these financial statements. Due to this limitation, the amount of liability that may arise would be ultimately decided after the judgment of court is received. The legal advisor of the Company has recommended to maintain a reserve of Rs. 10 million against any potential loss to the Company. However, no provision is made in this respect as management is confident that no material liability will arise in this respect.

15.4 The Company has certain disputes with National Construction Company Limited (NCC) and other consultant / contractors, over the certification of final bills and breach of contract in relation to the construction of PRC Tower respectively.

NCC has filed a counter claim of Rs.133.6 million against the company for financial loss and loss of goodwill against the original claim filed by the Company against NCC amounting to Rs.105.9 million for breach of contract for the construction of PRC Towers. In relation to the dispute with the consultants / contractors the total work as certified by company's consultants amounted to Rs. 200.76 million against the total contract price of Rs. 208.94 million and the asset capitalised amounted to Rs. 191.92 million only and other consultant / contractors, over the certification of final bills and breach of contract in relation to the construction of PRC Towers respectively.

The Company has not made any provision against these claims, as it does not anticipate any liability in respect of these claims.

15.5 **Case related to Export Credits Guarantee Scheme**

Decrees have been awarded against the Company in three cases amounting to Rs. 35.02 million, pertaining to the export credit guarantees issued by Export Credit Guarantee Scheme (ECGS). The management is of the view that the said matter relates to ECGS and the Company has no responsibility for any liability in this respect. It further, contends that no liability will arise for the ECGS from such cases. The Scheme has been abolished by the Federal Government and also the accounts relevant to the Scheme have been transferred by the Company. Due to continuous follow up of the above issue by the Company the GOP (Finance Division) in their letter number F.3(10)/CF-III/2001-278 dated 13 March 2006 have stated that they are awaiting the result of High Court in this regard and will take further action, if necessary.

	Note	2005 Rupees	2004 Rupees
16. CASH AND BANK BALANCES			
Cash and other equivalents			
– Cash in hand		**34,351**	59,374
– Cheques in hand		**–**	23,855
		34,351	83,229
Current and other accounts			
– Current account		**21,606,843**	30,858,476
– Deposit account		**248,047,427**	282,152,477
		269,654,270	313,010,953
Deposits maturing within 12 months		**1,700,000**	1,700,000
		271,388,621	314,794,182
17. LOANS - considered good			
Loan to employees		**30,974,288**	29,895,694
Others		**3,926,249**	5,145,366
	17.1	**34,900,537**	35,041,060
17.1 Maturity of loans			
Receivable within one year		**3,339,729**	4,818,270
Receivable after one year		**31,566,123**	30,228,105
		34,905,852	35,046,375
Provision against impaired loan		**(5,315)**	(5,315)
		34,900,537	35,041,060
17.2 Age analysis of long term loans:			
For period upto three years		**14,612,883**	15,454,642
For periods more than three years		**20,287,654**	19,586,418
		34,900,537	35,041,060

17.3 Above loans represent markup free loans to the employees and are secured against retirement benefits of respective employees including, where applicable, the assets for which the loan has been given. These loans are recoverable within 50 to 180 equal monthly installments.

	Note	2005 Rupees	2004 Rupees
18. INVESTMENTS			
Available for Sale			
Ordinary shares - listed	18.1	**470,175,260**	443,193,724
Ordinary shares - un-listed	18.2	**5,182,615**	5,716,784
National Investment Trust Units	18.3	**645,090,617**	645,090,617
		1,120,448,492	1,094,001,125
Held to maturity			
Defence Saving Certificates	18.4	**271,084,582**	232,698,890
Pakistan Investment Bonds	18.5	**890,732,518**	904,603,109
Regular Income Certificates	18.6	**–**	40,750,000
Treasury Bills (3 Months)	18.7	**590,374,186**	447,890,828
		1,752,191,286	1,625,942,827
		2,872,639,778	2,719,943,952

As mentioned in note 2.4.2 to these financial statements, available for sale investments are stated at lower of cost or market value (market value being taken as lower if the reduction is other then temporary). However International Accounting Standard 39 dealing with the recognition and measurements of financial instruments requires that these instruments should be measured at fair value. Accordingly, had these investments been measured at fair value , their carrying value as on 31 December 2005 would have been higher by Rs.5,456 million, and the net equity would have been higher by Rs.5,456 million.

		2005 Rupees	2004 Rupees
18.1 Investment in Listed Companies			
Cost of investment in listed companies	18.1.1	**477,763,897**	446,249,797
Less: Provision for diminution in value			
Balance brought forward from last year		**3,056,073**	6,937,277
Provision / (Reversal) made during the year		**4,532,564**	(3,881,204)
		7,588,637	3,056,073
		470,175,260	443,193,724

18.1.1 Book values and market values of investment in listed companies are:

Name of Company	**31 December 2005** Number of shares / certificates	**Book value**	**Market value**
Close-End-Mutual Funds			
BSJS Balanced Fund	346,204	2,978,100	4,673,754
PICIC Growth Fund	20,250,000	202,500,000	1,004,400,000
	20,596,204	205,478,100	1,009,073,754
Investment Banks/COS/Securities			
Pakistan Industrial Credit and Investment Corporation(PICIC)	13,186,860	92,074,149	854,508,528
Commercial Banks			
Muslim Commercial Bank Limited	142,158	978,848	23,854,112
Allied Bank Limited	75,812	529,820	6,557,738
United Bank Limited	435	4,350	47,741
National Bank of Pakistan	2,943,806	6,595,817	587,142,107
	3,162,211	8,108,835	617,601,698
Insurance			
Adamjee Insurance Co. Limited	330,113	10,000	45,225,481
Asia Insurance Co. Limited	25,000	250,000	500,000
Central Insurance Co. Limited	254,241	50,000	36,839,521
Crescent Star Insurance Co. Limited	399,995	2,933,155	5,439,932
Habib Insurance Co. Limited	480,619	256,786	28,909,233
Pakistan Guarantee Insurance Co. Limited	22,029	173,000	66,087
Sterling Insurance Co. Limited	23,250	232,500	162,750
Union Insurance Co. of Pakistan Limited	55,125	500,000	1,984,500
United Insurance Co. of Pakistan Limited	197,201	455,000	3,460,877
	1,787,573	4,860,441	122,588,381

Name of Company	31 December 2005 Number of shares / certificates	Book value	Market value
Textile Composite			
Dawood Lawrencepur	1,796	35,338	127,875
Gul Ahmed Textile Limited	9,114	88,770	501,726
Hussain Industries Limited	15,820	192,017	468,272
Towellers Limited	315,790	6,000,010	9,126,331
Usman Textile Limited	300	3,888	1,800
	342,820	6,320,023	10,226,004
Textile spinning			
Regent Textile Limited	5,000	50,000	90,000
Textile Weaving			
Nakshbandi Industries Limited	331	2,445	5,544
Jute			
Amin Fabrics	45,738	150,000	274,428
Crescent Jute Product	157,314	1,250,055	471,942
	203,052	1,400,055	746,370
Sugar and Allied Industries			
Bawany Sugar Mills Limited	55,174	99,500	482,772
Crescent Sugar Mills Limited	258,208	1,720,486	4,905,952
Fecto Sugar Mills Limited	1,182	8,109	21,571
Kohinoor Sugar Mills Limited	37,045	379,563	1,185,440
Mirpur Khas Sugar Mills Limited	7,216	19,900	263,384
Noor Sugar Mills Limited	57,246	1,244,920	3,978,597
Pangrio Sugar Mills Limited	100,000	1,337,000	335,000
Shahtaj Sugar Mills Limited	2,217	16,607	195,096
Sind Abadgar Sugar Mills Limited	98,500	1,276,150	1,713,900
	616,788	6,102,235	13,081,712
Cement			
Gharibwal Cement Industries Limited	53,337	109,891	762,719
Javedan Cement Limited	14,666	133,330	766,298
Mustehkam Cement Limited	2,400	19,364	367,200
Zeal Pak Cement Limited	39,130	1,360,268	395,213
	109,533	1,622,853	2,291,430
Tobacco			
Pakistan Tobacco Company Limited	70,140	234,210	4,836,153
Lakson Tobacco Company Limited	17,672	36,893	5,814,088
	87,812	271,103	10,650,241
Refinery			
National Refinery Limited	339,320	6,275,195	122,749,010
Power Generation & Distribution			
Karachi Electric Supply Corporation Limited	1,623,450	3,635,645	12,500,565
Hubpower Company Limited	400,000	5,361,380	9,600,000
	2,023,450	8,997,025	22,100,565

Name of Company		31 December 2005 Number of shares / certificates	Book value	Market value
Oil & Gas Marketing Cos.				
Haroon Oil Mills Limited		5,000	49,750	400,000
Pakistan State Oil Company Limited		69,974	27,640	29,168,662
Sui Sourthern Gas Company Limited		9,671,792	36,461,488	258,720,436
Sui Northern Gas Pipelines Limited	18.8	6,846,285	17,110,611	465,547,380
		16,593,051	53,649,489	753,836,478
Engineering				
Metropolitan Steel Limited		3,492	32,370	65,125
Pakistan Engineering Company Limited		43,776	364,738	4,202,496
Dadex Eternit Limited		533	995	39,175
Huffaz Seamless Pipe		55,800	558,000	4,238,010
		103,601	956,103	8,544,806
Automobile Assembler				
Pak Suzuki Motor Company Limited		756	14,780	157,248
Ghandhara Industries (National Motors)		43,431	342,683	2,475,567
		44,187	357,463	2,632,815
Automobile Parts & Accessories				
Dewan Automotive Engineering		58,333	334,000	860,412
Transport				
Pakistan International Airlines Corporation "A"		2,497,778	9,875,646	30,722,669
Technology & Communication				
Pakistan Telecommunication Company Limited		400,000	5,308,675	26,160,000
Pharmaceuticals				
Glaxo Smithline Beecham Co.		3,990	12,997	743,140
Chemicals				
ICI Pakistan Limited		864,276	8,642,760	121,430,778
Sardar Chemical Limited		500	10,000	2,950
Pakistan PTA Limited		2,357,118	23,571,180	18,974,800
		3,221,894	32,223,940	140,408,528
Paper and Board				
Crescent Board Limited		98,747	926,675	1,688,574
Packages Limited		680,511	31,824,395	137,463,222
Security Papers Limited		490,615	279,000	61,228,752
		1,269,873	33,030,070	200,380,548
Food & Personal Care Products				
Unilever Pakistan		487	3,520	864,425
Vanaspati & Allied Industries				
Kohinoor Oil Mills Limited		8,800	95,748	–
Universal Oil Mills Limited		30,000	300,000	240,000
		38,800	395,748	240,000
Miscellaneous				
Hashmi Can Company Limited		5,250	53,787	52,500
	Rupees	66,698,198	477,763,897	3,951,159,558

	2005 Rupees	2004 Rupees
18.2 Investment in unlisted companies		
Cost of investment in unlisted companies	**7,428,755**	7,961,354
Less: Provision for diminution in value		
Balance brought forward from last year	**2,244,570**	2,238,100
Provision made during the year	**1,570**	6,470
	2,246,140	2,244,570
	5,182,615	5,716,784

18.2.1 Ordinary shares/certificate of Rs.10 each unless stated otherwise:

Name of Company		31 December 2005 Number of shares / certificates	31 December 2005 Book value
Banks			
Industrial Development Bank of Pakistan (Break-up value is Rs.(16,648) per share based on Financial Statement for the year ended 30 June 2005) Chairman/Managing Director: Mr. Naeem Iqbal		6,213	618,227
The State Bank of Pakistan (Break-up value is Rs.86,271.42 per share based on Financial Statement for the year ended 30 June 2005) Governor: Dr. Ishrat Hussain		4,900	517,615
Development Financial Institutions			
National Investment Trust Limited (Break-up value is Rs.3,931.29 per share based on Financial Statement for the year ended 30 June 2005) Managing Director & Chairman: Mr. Tariq Iqbal Khan		52,800	100,000
Investment Corporation of Pakistan (Break-up value is Rs.1,154.67 per share based on accounts for the year ended 30 June 2005) Managing Director: Mr. Abdul Latif Uqaili		50,000	4,565,000
Insurance			
Indus Assurance		25,000	250,000
Cotton and Textile			
Afsar Textile		1,000	9,950
Kohinoor Cotton		22,397	219,802
Synthetic and Rayon			
Ravi Rayon Limited		24,800	254,078
Valika Art Fabric		300	1,570
Chemical			
Synthetic Chemical		20,000	200,000
Vanaspati and Allied			
Burma Oil		861	6,470
Burma Soap		64	640
Miscellaneous			
Arag Industries		133,333	685,403
	18.2.2	227,755	1,627,913
		341,668	7,428,755

18.2.2 Since the financial statements of the above entities are not available, therefore, the breakup value and the name of the chief executive can not be ascertained.

18.3 The Company holds 51,248,705 NIT units (2004: 51,248,705 units).The cost ranges from Rs. 6.80 to Rs. 14.00 per unit. The units repurchase price as at 31 December 2005 was Rs. 51.15 per unit.

18.4 Defence Saving Certificates

	Tenure	Maturity date	Effective interest rate	Carrying value 2005 Rupees	Carrying value 2004 Rupees
Defence Saving Certificates	10 Years	9 September 2009 to 16 March 2010	15.01% to 15.97%	**271,084,582**	232,698,890

18.5 Pakistan Investment Bonds

Tenure	Maturity date	Profit Repayment frequency	Coupon rate		
5 to 10 years	31 December, 2007 to 24 September 2014	Semi-annually	2.38% to 3.90%	**890,732,518**	904,603,109

18.6 Regular Income Certificates

	Profit Repayment frequency	Maturity date	Profit rate		
Regular Income Certificates	Monthly	4 January 2005 to 2 February 2005	14%	–	40,750,000

18.7 Treasury bills

	Tenure	Maturity date	Face value Rs.	Cost Rs.		
Treasury bills	3 Month	March 15, 2006	600,000,000	589,073,400	**590,374,186**	44,890,828

18.8 Frozen Shares

This represents 6,846,285 ordinary shares of Sui Northern Gas Pipelines Limited which are frozen on the basis of Government of Pakistan (GoP) directives F.10(6&14)EN-94/2005 dated 13 April 2005, as the same form part of the strategic shareholding under the control of the GoP. As the result, the Company is restricted from selling, transferring, encumbering or otherwise disposing of or dealing with any interest in the said shares, including any future bonus/right shares in respect thereof.

19. INVESTMENT PROPERTIES

	COST			DEPRECIATION				
	As at 01 January 2005	Addition / (Disposal)	As at 31 December 2005	As at 01 January 2005	For the year / (disposal)	As at 31 December 2005	Book value	Rate %
Lease hold land	572,406	–	572,406	–	–	–	572,406	–
Building	89,151,323	–	89,151,323	35,010,196	2,707,056	37,717,252	51,434,071	5
Electrical installation	18,995,068	–	18,995,068	16,937,397	411,533	17,348,930	1,646,138	20
Air conditioning	26,556,830	–	26,556,830	23,627,509	585,863	24,213,372	2,343,458	20
Lift	21,085,825	–	21,085,825	18,803,208	456,522	19,259,730	1,826,095	20
2005 Rupees	**156,361,452**	**–**	**156,361,452**	**94,378,310**	**4,160,975**	**98,539,285**	**57,822,167**	
2004 Rupees	156,361,452	–	156,361,452	89,711,375	4,666,935	94,378,310	61,983,142	

19.1 Buildings including related lease hold lands are held by the Company for both own use purposes and as investment properties. The carrying value of these buildings and lease hold lands have been allocated between the investment properties and assets held for own use on the basis of floor space occupied for respective purposes.

19.2 The market value of the investment properties is Rs. 557.740 million, as per valuation carried out by an independent valuer in 2004.

		2005	2004
		Rupees	Rupees

20. AMOUNT DUE FROM OTHER PERSONS AND BODIES CARRYING ON INSURANCE BUSINESS

	Note	**2005 Rupees**	2004 Rupees
Amount due from other persons and bodies carrying on insurance business	20.1	**727,336,757**	1,312,694,766
Provision for bad and doubtful balances		**(266,000,000)**	(143,000,000)
		461,336,757	1,169,694,766

20.1 This includes Rs. 40,583,915 (2004: Rs. 64,112,739) due from related parties.

21. DEPOSITS HELD BY CEDING COMPANIES

	2005 Rupees	2004 Rupees
Premium reserve withheld by ceding companies	**33,515,690**	18,817,797
Losses reserve withheld by ceding companies	67,880,892	96,328,773
Cash Losses paid to ceding companies	**(253,411)**	–
Provision for bad and doubtful deposits	**(17,000,000)**	(17,000,000)
	84,143,171	98,146,570

21.1 This represents the retention of deposits by the ceding companies from the total amount ceded by them to the Company.

22. ACCRUED INVESTMENT INCOME

	2005 Rupees	2004 Rupees
Dividend receivable	**3,046,730**	19,281,815
Interest accrued	**7,150,281**	1,663,802
Accrued rental income	**16,294,724**	11,084,329
	26,491,735	32,029,946

23. OTHER RECEIVABLES

	Note	**2005 Rupees**	2004 Rupees
Gratuity	35	**90,038,000**	79,802,667
Export Credit Guarantee Schemes	23.1	**56,964,435**	56,995,835
N.C.S. Cell		**5,837,101**	5,837,101
W.R.I. Karachi.		**13,884,517**	13,680,517
W.R.I. Lahore		**9,755,225**	9,110,223
ECO Centre		**69,371**	4,272
P.R.C. (W.R.I.) Karachi		**511,243**	511,243
ECO Reinsurance Pool		**16,215,892**	24,150,475
Unclaimed Dividend		–	2,843,147
Others		**310,070**	–
Government Provident Fund Payable		**52,138**	–
Employees General Provident Fund		**1,723,069**	–
Employees Welfare Fund		**86,695**	–
		195,447,756	192,935,480
Provision for doubtful debts		**(4,976,336)**	(4,976,336)
		190,471,420	187,959,144

23.1 This represents the total amount of income tax deposit by the Company since the year 1984-85 to the year 2001-02 in respect of Export Credits Guarantee Scheme managed by the Company on behalf of the Government. The income of the respective years under the Scheme was transferred to the Government. The income tax department, however, taxed ECGS income by clubbing it with the Company's income. The Company's appeal in this respect is currently pending for regular hearing in the High Court of Sindh, Karachi. This amount was previously classified as advance tax has been transferred as amount receivable from the Ministry of Finance, Government of Pakistan. During the year, the Company has accordingly approached the concerned Ministry for payment of the said amount, which is awaiting the result of High Court Decision.

24. PREPAID REINSURANCE CEDED

	2005 Rupees	2004 Rupees
Facultative business		
– Fire	**180,722,443**	203,770,415
– Marine Hull	**24,479,795**	26,985,841
– Accident	**7,323,368**	63,444
– Aviation	**615,110,179**	705,894,465
– Engineering	**330,403,933**	305,239,433
	1,158,039,718	1,241,953,598
Treaty	**132,384,614**	147,516,402
	1,290,424,332	1,389,470,000

25. TAXATION

Tax provision for current year of Rs.231 million (2004: Rs.65.3 million) has been made on the basis of taxable income under the Income Tax Ordinance, 2001, at the rates specified in the said Ordinance. Income tax assessments of the Company (formerly Pakistan Insurance Corporation) have been finalized upto and including assessment year 2001-2002 (Income year ended 31 December 2000).

The department had made add backs relating to assessment years 1984-85 to 2001-02 on account of ECGS income in the Company's income. In case of assessment years 1995-96 to 2001-02 the difference in rate of unexpired risk and excess perquisites have been added back in assessment years 1995-96 to 2001-02. The Company is in second and third appeals on the above issues which are pending at ITAT / High Court level, respectively.

In case of ECGS, ITAT decided appeals against the Company in assessment years 1984-85 to 1994-95 and appeals for assessment years 1995-96 to 2001-02 are pending finalisation.

The Company's appeals on account of unexpired risk in assessment years 1995-96 to 2001-02 are pending with the Appellate Tribunal and in case of assessment years 1988-89 to 1995-96 appeal is at High Court level. The Company's appeal is also pending in High Court in respect of applicability of Section 80 D. Similarly the Company's appeal against the disallowances on account of excess perquisites are also pending in respect of assessment year 1995-96 to 2001-2002 with the Appellate Authority.

The Company has made adequate provision against various disallowances made by tax authorities.

25.1 Profit before tax

	2005	2004
Current	**231,008,814**	65,306,312
Deferred	**(43,050,001)**	–
Rupees	**187,958,813**	65,306,312

25.1.1 Deferred tax

The deferred tax asset arises on provision for doubtful debts.

25.2 Relationship between tax expenses and accounting profit

	2005	2004
Profit before tax	**782,386,276**	390,842,058
Tax at the applicable rate of 35%	**273,835,197**	136,794,720
Tax effect of expenses that are not deductible for tax purposes	**6,161,053**	9,006,011
Tax effect of expenses that are deductible for tax purposes	**(856,261)**	(2,455,084)
Tax effect of dividend income taxed at lower rate	**(89,436,280)**	(78,039,335)
Tax effect of property income being taxed separately	**(1,744,896)**	–
Charge for the current year	**187,958,813**	65,306,312

26. FIXED ASSETS

Particulars	COST				DEPRECIATION					
	As at 01 January 2005	Addition / (Transfer)	Disposal	As at 31 December 2005	As at 01 January 2005	For the Year	Disposal	As at 31 December 2005	Book Value 31 Dec. 2005	Rate %
PRC Building - Karachi	150,302	–	–	150,302	21,436	6,443	–	27,879	122,423	5
PRC House - Karachi	2,693,186	–	–	2,693,186	384,115	115,454	–	499,569	2,193,617	5
Lift	146	–	–	146	–	–	–	–	146	20
	2,843,634	–	–	2,843,634	405,551	121,897	–	527,448	2,316,186	
PRC Towers										
Leasehold land	223,622	–	–	223,622	–	–	–	–	223,622	–
Building	34,828,850	–	–	34,828,850	13,640,886	1,059,398	–	14,700,284	20,128,566	5
Electrical installation	7,420,825	–	–	7,420,825	6,616,952	160,775	–	6,777,727	643,098	20
Air conditioning plant	10,374,988	4,500	–	10,379,488	9,230,586	229,180	–	9,459,766	919,722	20
Lift	8,237,624	–	–	8,237,624	7,345,871	178,351	–	7,524,222	713,402	20
	61,085,909	4,500	–	61,090,409	36,834,295	1,627,704	–	38,461,999	22,628,410	
Furniture and fixture	9,153,126	309,380	–	9,462,506	8,456,941	86,972	–	8,543,913	918,593	10
Office equipment	1,306,941	147,910	–	1,454,851	313,538	162,046	–	475,584	979,267	15
	10,460,067	457,290	–	10,917,357	8,770,479	249,018	–	9,019,497	1,897,860	
Vehicles	2,913,012	–	–	2,913,012	2,602,898	62,023	–	2,664,921	248,091	20
Books	36,774	24,579		61,353	6,036	4,753		10,789	50,564	10
Computers	1,438,793	283,500	–	1,722,293	513,232	234,389	–	747,621	974,672	20
	4,388,579	308,079	–	4,696,658	3,122,166	301,165	–	3,423,331	1,273,327	
Leased vehicle	5,936,400	–	–	5,936,400	2,137,104	759,859	–	2,896,963	3,039,437	20
2005 Rupees	**84,714,589**	**769,869**	**–**	**85,484,458**	**51,269,595**	**3,059,643**	**–**	**54,329,238**	**31,155,220**	
2004 Rupees	82,864,733	1,849,856	–	84,714,589	47,801,302	3,468,293	–	51,269,595	33,444,994	

Change in accounting estimate

Upto the previous year, full year's depreciation was charged on assets capitalized during the financial year whereas no depreciation was charged on assets disposed off during the financial year. Effective from the current year, the Company changed its accounting estimate for the recognition of depreciation on assets capitalised during the financial year and depreciation is now being recognised on proportionate basis as stated in note 2.11 to the financial statements. This change has been made to comply with the requirements of International Accounting Standard 16," Property, Plant and Equipment".

Had the change in accounting estimate not been made, the profit for the year would have been lower by Rs. 31,538, correspondingly, the operating assets and equity as at 31 December 2005 would have been lower by the same amount.

27. ASSETS RELATING TO BANGLADESH (FORMER EAST PAKISTAN)

Assets relating to Bangladesh comprise of fixed assets and investments and are as follows:

	2005 Rupees	2004 Rupees
Fixed Assets		
– Land and building	**8,608,000**	8,608,000
– Furniture and fixtures	**4,000**	4,000
	8,612,000	8,612,000
Investments		
– Stock and shares	**7,112,000**	7,112,000
– Debentures	**250,000**	250,000
	7,362,000	7,362,000
	15,974,000	15,974,000
Less: Liabilities for outstanding claims (refer note 6)	**4,952,000**	4,952,000
Other liabilities	**809,000**	809,000
	5,761,000	5,761,000
	10,213,000	10,213,000
Less: Provision for loss on net assets in Bangladesh	**10,213,000**	10,213,000
	–	–

27.1 The realisability of these assets is not presently determinable and hence provision for the loss that may arise has been made in these financial statements after netting of liability for outstanding claims mentioned in note 6.

28. MANAGEMENT EXPENSES

		2005 Rupees	2004 Rupees
Salaries wages and benefits		**111,909,395**	91,774,588
Retirement benefits			
– Pension			
– Officer	35.1	**(1,529,000)**	6,132,000
– Staff	35.1	**4,982,000**	8,597,000
– Medical	35.1	**8,326,000**	6,126,000
– Gratuity	35.1	**(10,235,000)**	(14,405,000)
– Compensated absences	35.1	**4,680,000**	1,925,000
Traveling and conveyance		**7,722,541**	6,324,236
Entertainment expenses		**3,666,004**	2,494,958
Subscription and membership		**350,296**	256,875
Legal and professional		**601,315**	2,501,257
Telephone and electricity		**15,229,313**	12,021,517
Printing and stationery		**3,368,226**	2,858,721
Repairs and renewal		**1,052,240**	861,588
Others		**29,549,844**	16,224,361
Expense allocated to rental income		**(6,309,206)**	(7,053,577)
Expense allocated to investment income		**(2,739,902)**	(2,613,658)
		170,624,066	134,025,866

		2005 Rupees	2004 Rupees
29. RENTAL INCOME - Net			
Rental income		**32,856,783**	34,245,606
Staff salaries and other expenses in respect of building project department		**(6,309,206)**	(7,053,577)
		26,547,577	27,192,029

The rental income represents income from letting out of PRC Towers.

		2005 Rupees	2004 Rupees
30. OTHER INCOME			
Profit receipt on deposit		**52,809**	2,559,108
Interest on loans		**16,647**	–
Management fee - ECO Reinsurance Pool		**7,553,225**	4,100,000
Liability Written back		**2,244,537**	–
		9,867,218	6,659,108
31. GENERAL AND ADMINISTRATION EXPENSES			
Depreciation	19 & 26	**7,220,618**	8,135,228
Preliminary expenses amortized		–	1,192,944
Directors fee		**1,107,607**	1,379,768
Auditors' remuneration	31.1	**435,600**	470,000
Advertisement and publicity		**1,204,942**	898,600
Training and research		**362,440**	216,010
Markup / Interest		**177,204**	323,061
Donation		**10,000,000**	–
Others		**7,213,917**	7,109,727
		27,722,328	19,725,338
31.1 Auditors' remuneration			
Audit fee		**396,000**	360,000
Out of pocket expenses		**39,600**	36,000
Tax related service and other certification		–	74,000
		435,600	470,000
32. EARNINGS PER SHARE - Basic and diluted			
Profit after tax for the year		**594,427,463**	325,535,746
Weighted average number of ordinary shares	Number	**45,000,072**	45,000,072
Earning per share – Basic and Diluted		**13.21**	7.23

33. FINANCIAL RISK MANAGEMENT

33.1 Reinsurance Risk

The Company in the normal course of business, undertakes reinsurance business and controls its exposure to potential losses from large risk, by retrocession to various companies. Its significant portion of reinsurance and retrocession is effected under treaty pact and excess of loss contracts.

The Company further evaluates the financial condition of ceding companies as well as it reinsures to minimize its exposures to significant losses from reinsurance insolvencies.

The Company continues to be remain under obligation of the ceding companies during the validity of the contract and as a result it remains liable for the portion of outstanding claims reinsured to the extent that reinsurer fails to meet the obligation under their agreements.

33.2 Credit risk and concentration of credit risk exposure

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs. 3,958 million, the financial assets which are subject to credit risk amounted to Rs. 271 million. The Company considers itself as not being exposed to major concentration of credit risk.

The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits the Company's exposure to credit risk through monitoring of client's credit exposure, review and conservative estimates of provisions for doubtful assets, if any, and through the prudent use of collateral policy. Subject to the effect of note 15.1 and 15.2 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.

33.3 Foreign exchange risk

While the Company has no effective arrangement to mitigate the effect from fluctuation in foreign currency and it considers itself as not exposed to such risk due to relative stability of Pak rupees against foreign currencies and as it holds matching foreign currency balances amount, in the amount due to other companies.

33.4 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values except for investments which are stated at cost and in respect of amount due from persons carrying on insurance business subject to the effect of note 15.1 and 15.2.

The market value of investment is as follows:	**2005 Rupees**	2004 Rupees
Market value of available for sale investments	**6,572,530,819**	4,755,040,000

33.5 Market risk

Market risk is a risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company is exposed to market risk with respect to its investments.The company has invested its funds in government securities, debentures, ordinary shares, term finance certificates, modaraba certificates, National Investment Trust Units and close ended mutual funds, resulting in risk arising from fluctuation in the rate of interest and dividend earned thereon and the possibility of capital gains or losses arising from the sale of these investments.

The Company minimize such risk by having a diversified investments portfolio. In addition, the Company actively monitors the key factors that affect investment market.

33.6 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its commitments associated with financial liabilities when they fall due. Liquidity requirements are monitored on monthly basis and management ensures that sufficient liquid funds are available to meet any commitments as they arise.

34. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(Rupees in '000')

	Interest / Markup bearing			Not-interest/Markup bearing				
	Maturity upto One year	Maturity after One year	Sub Total	Maturity upto One year	Maturity after One year	Sub Total	2005	2004
FINANCIAL ASSETS								
Cash and bank deposits	248,047	–	248,047	23,341	–	23,341	271,388	314,344
Loans	–	–	–	3,340	31,560	34,900	34,900	35,041
Investment	590,374	1,161,816	1,752,190	–	1,120,449	1,120,449	2,872,639	2,719,944
Amount due from other persons and bodies carrying on Insurance business	–	–	–	461,337	–	461,337	461,337	1,169,695
Deposits held by ceding companies	84,143	–	84,143	–	–	–	84,143	98,147
Accrued investment income	–	–	–	26,492	–	26,492	26,492	32,030
Other receivable	–	–	–	190,471	–	190,471	190,471	108,156
Total	922,564	1,161,816	2,084,380	704,981	1,152,009	1,856,990	3,941,370	4,477,357
FINANCIAL LIABILITIES								
Liabilities against asset subject to finance lease	1,253	–	1,253	–	–	–	1,253	3,278
Provision for outstanding claims - net	–	–	–	518,013	–	518,013	518,013	866,888
Long term deposits	–	–	–	17,670	–	17,670	17,670	16,330
Amount due to other persons and bodies carrying on insurance business	–	–	–	334,701	–	334,701	334,701	847,879
Deposits retained/received from other companies	34,382	–	34,382	–	–	–	34,382	58,082
Other creditors and accruals	–	–	–	29,860	–	29,860	29,860	30,391
Retention money payable	–	–	–	6,379	–	6,379	6,379	6,414
Dividend payable	–	–	–	3,236	–	3,236	3,236	1,629
Surplus profit payable	–	–	–	1,314	–	1,314	1,314	768
Total	35,635	–	35,635	911,173	–	911,173	946,808	1,831,659
On balance sheet gap	886,929	1,161,816	2,048,745	(206,192)	1,152,009	945,817	2,994,562	2,645,698

The effective interest rates for financial assets and liabilities are as follows:

	2005	2004
Lease liability	**7.5%**	7.5%
Investments	**3.5% to 15.97%**	6% to 19%
Deposits held by ceding companies	**0.03%**	0.03%
Bank balance	**0.03%**	0.03%
Deposits retained/received from other companies	**0.035%**	0.035%

Financial assets and liabilities exposed to foreign exchange rate risk inculded in above amount to Rs.595.48 million and Rs.369.083 million respectively.

35. EMPOLYEE BENEFITS

35.1 Defined benefit plans
Pension and gratuity fund scheme

The projected unit credit method based on the following significant assumptions has been used for valuation of the above funds carried out by an actuary as on 31 December 2005.

Post retirement medical benefits.

The projected unit credit method based on the following significant assumptions has been used for valuation of post retirement medical benefits scheme carried out by an actuary as on 31 December 2005.

Employees compensated absences

The Company makes periodic provisions in the financial statements for its liability towards defined encashment of leaves upto maximum of 6 months in respect of leave preparatory to retirement (LPR) at the rate of 1.7 of basic salary or on the basis of basic plus house rent allowance. The liability is estimated on the basis of actuarial advice under the projected unit credit method carried out by a qualified actuary.

(Rupees in million)

	Pension		Gratuity	Medical	Compensated absences	Total
	Officer	Employees				
Reconciliation of payable to / (receivable) from defined benefit plan						
Present value of defined benefit obligation	87.781	89.825	22.553	62.869	25.515	288.543
Fair value of any plan asset	(41.047)	(88.415)	(146.359)	–	–	(275.821)
Net actuarial gains / (loss) not recog.	10.547	3.867	33.768	(18.427)	–	29.755
	57.281	5.277	(90.038)	44.442	25.515	42.477
Charge/(prepaid) for the defined benefit plan						
Current service cost	2.245	3.981	0.733	1.168	–	8.127
Interest cost	5.155	6.990	1.498	4.350	–	17.993
Expected return on plan asset	(2.507)	(6.151)	(10.406)	–	–	(19.064)
Actuarial (gains)/losses not recog.	(6.42)	0.162	(2.06)	2.807	–	(5.513)
	(1.529)	4.982	(10.235)	8.325	4.680	1.543
Movement in net liability / (assets) recognized						
Opening net liability	58.810	0.295	(79.803)	37.712	21.903	38.917
Expenses recognized	(1.529)	4.982	(10.235)	8.326	4.680	6.224
Contributions to the fund/benefits paid during the year	–	–	–	(1.596)	(1.070)	(2.664)
Closing net liability	57.281	5.277	(90.038)	44.442	25.515	42.477
Actual return on plan assets						
Expected return on plan assets	2.507	6.151	10.406			
Actuarial gain/(loss) on plan assets	14.522	8.857	6.565			
	17.029	15.008	16.971			
Actuarial valuation assumptions						
Valuation discount rate	9.00%	9.00%	9.00%	9.00%	9.00%	
Expected return in plan assets	9.00%	9.00%	9.00%	–	–	
Salary Increase rate	7.00%	7.00%	7.00%	–	7.00%	
Indexation in pension	2.50%	2.50%	–	–	–	
Increase in cost of medical benefits	–	–	–	3.00%	–	
Exposure Inflation rate	–	–	–	3.00%	–	

35.2 Defined contribution plan - provident funds

Equal monthly contributions are made both by the Company and the employees to the contributory provident fund at the rate of 8.33% of the basic salary.

In case of general provident fund the contribution is made by the employees at the minimum rate of 10% of the basic salary.

36. SEGMENT REPORTING

(a) Segment by class of business

(Rupees in `000)

2005

	Fire	Marine Cargo	Marine Hull	Accident	Aviation	Engineering	Treaty Compulsory	Total
Net premium	28,554	6,506	1,288	5,865	20,462	47,766	1,894,201	2,004,642
Net claims	21,425	181	212	6,529	(10,533)	(13,984)	818,861	822,691
Management Expenses	4,769	3,009	1,757	3,370	3,758	3,079	150,883	170,625
Net Commission	(3,110)	958	(1,767)	773	(8,537)	(23,297)	654,871	619,891
Underwriting result	5,470	2,358	1,086	(4,807)	35,774	81,968	269,586	391,435
Segment assets								
Premium	180,722	–	24,480	7,323	615,110	330,404	132,385	1,290,424
Commission	18,242	578	2,164	761	2,513	19,785	225,402	269,445
	198,964	578	26,644	8,084	617,623	350,189	357,787	1,559,869
Unallocated corporate assets								4,073,716
								5,633,585
Segment liabilities								
Premium reserve	238,632	4,139	26,693	12,125	630,480	378,269	824,420	2,114,758
Commission income unearned	11,476	–	3,060	27	7,036	29,112	7,687	58,398
Provision for outstanding claims	86,818	–	12,949	6,529	498,636	326,998	1,478,190	2,410,120
	336,926	4,139	42,702	18,681	1,136,152	734,379	2,310,297	4,583,276
Un-allocated corporate liabilities								(1,188,221)
								3 ,395,055

2004

	Fire	Marine Cargo	Marine Hull	Accident	Aviation	Engineering	Treaty Compulsory	Total
Net premium	(21,401)	2,566	(366)	2,351	24,968	21,891	2,259,340	2,289,349
Net claims	(16,869)	(108,502)	(4,284)	–	(381,214)	24,247	1,816,513	1,329,891
Management Expenses	4,134	3,062	1,852	3,022	3,383	2,122	116,450	134,025
Net Commission	(5,752)	102	(975)	162	(5,674)	(21,810)	808,267	774,320
Underwriting result	(2,914)	107,904	3,041	(833)	408,473	17,332	(481,890)	51,113
Segment assets								
Premium	203,771	–	26,986	64	705,894	305,239	147,516	1,389,470
Commission	10,902	37	1,961	201	906	9,289	488,055	511,351
	214,673	37	28,947	265	706,800	314,528	635,571	1,900,821
Unallocated corporate assets								4,712,792
								6,613,613
Segment liabilities								
Premium reserve	196,645	919	25,585	1,713	711,590	327,248	1,574,790	2,838,490
Commission income unearned	14,233	–	3,373	7	5,005	24,641	20,881	68,140
Provision for outstanding claims	(5,848)	(1,458)	5,988	(1,100)	34,450	52,071	782,784	866,887
	205,030	(539)	34,946	620	751,045	403,960	2,378,455	3,773,517
Un-allocated corporate liabilities								1,083,493
								4,857,010

(b) **Geographical segment**

Although the operations of the company are based primarily on business segments, the Company also operates in geographical area. The following table shows the distribution of the Company's revenue, total assets and total liabilities by geographical segments:

	2005 Rupees		2004 Rupees	
Locations:	Lahore	Karachi	Lahore	Karachi
Revenue - Net premium	106,287,916	1,898,355,392	278,134,431	2,011,214,713
Total assets	298,154	5,633,287,235	265,326	6,613,347,607
Total liabilities	62,985,873	3,332,068,842	65,596,174	4,791,413,368

37. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise companies under common directorship, staff retirement benefit funds, directors and key management personnel. Transactions with related parties other then remuneration and benefits to key management personnel under the terms of their employment disclosed in note 38 of in these financial statements, are as follows:

	2005 **Rupees**	2004 Rupees
Acceptance		
Premium	**107,958,777**	11,792,357
Claims	**24,035,107**	4,407,303
Commission	**40,469,815**	6,518,269
Retrocession		
Premium	**76,638**	4,482,049
Claims	**646,213**	310,703
Commission	**423,402**	2,237,547
Dividend Income	**14,333,544**	13,612,105
Contribution to benefit funds	**2,664,000**	23,137,000

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2005			2004		
	Directors		**Total**	Directors		Total
	Chief Executive	**Others**		Chief Executive	Others	
Managerial remuneration	**331,936**	**1,327,515**	**1,659,451**	375,530	1,252,240	1,627,770
Fees	–	**1,107,607**	**1,107,607**	–	1,379,768	1,379,768
Allowances & contribution of the Company in employees fund	**337,652**	**1,691,150**	**2,028,802**	351,915	1,516,249	1,868,164
Rupees	**669,588**	**4,126,272**	**4,795,860**	727,445	4,148,257	4,875,702
Number of persons	**01**	**08**	**09**	01	10	11

The Company makes contribution based on actuarial calculations and provides certain household items for use of certain executives. Company maintained cars have been provided to Chief Executive, Executive Directors and Secretary of the Company.

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorized for issue on 21 March 2006 by the Board of Directors of the Company.

40. GENERAL

40.1 The directors in the Board of Directors meeting held on 21 March 2006 have proposed a final dividend of Rs. 4 per share, for approval of the members at the Annual General Meeting to be held on 28 April 2006. These financial statements do not reflect the final dividend for 2005.

40.2 All figures have been rounded off to the nearest rupees.

	Naheed Hyder	Haider Raza	Fazlur Rehman Dittu
Executive Director (F&A)	Chief Executive	Director	Director

Karachi, March 21, 2006

Pattern of Holding of the Share held by the Shareholders as at 31st December, 2005

No. of Shareholders		No. of Share			Total Share held
114	From	1	To	100	7,792
225	From	101	To	500	90,849
192	From	501	To	1000	182,991
234	From	1001	To	5000	699,440
136	From	5001	To	20000	1,581,680
64	From	20001	To	50000	1,969,440
28	From	50001	To	150000	2,184,670
8	From	150001	To	300000	1,876,150
3	From	300001	To	400000	1,044,800
2	From	400001	To	3000000	1,429,060
1	From	3000001	To	15000000	10,983,200
1	From	15000001	To	22950000	22,950,000
1,008					45,000,072

Categories of Shareholders	Number	Share held	Percentage
Directors, Chief Executive and their Family	19	836,182	1.86
Financial Institution	6	142,200	0.31
Investment & Modarba Companies	10	1,159,000	2.58
Leasing Companies	2	11,000	0.02
Insurance Companies (General)	12	1,281,310	2.85
Insurance Companies (Life)	**1**	**10,983,200**	**24.41** *
Insurance Companies (Life)	1	288,290	0.64
Joint Stock Companies	46	938,720	2.09
Government of Pakistan Ministry of Commerce	**1**	**22,950,000**	**51.00** **
Administrative Abandoned Properties Organisation	1	22,500	0.05
Staff Providend Fund Adamjee Industries	1	45,000	0.10
General Public(Individuals)	908	6,342,670	14.09
Total	1008	45,000,072	100.00

Shareholders having more than 15% Holdings (Name-Wise Detail)

*State Life Insurance Corporation of Pakistan	10,983,200	24.41
**Government of Pakistan	22,950,000	51.00

Additional Information regarding PRC Shares as at 31st December 2005

SHARE HOLDER CATEGORY

S.NO.	NAME	NO. OF SHARES RS, 10/- EACH
1	M/S. ALPHA INSURANCE CO.	225,000
2	M/S. ADAMJEE INSURANCE CO.	254,860
3	M/S. CRESENT STAR INSURANCE CO.	3,800
4	M/S. E.F.U. GENERAL INSURANCE CO.	288,290
5	M/S. E.F.U. LIFE ASSURANCE LTD.	200,000
6	M/S. EAST WEST INSURANCE CO.	19,800
7	M/S. HABIB INSURANCE CO. LTD.	21,960
8	M/S. NEW JUBILEE INSURANCE CO.	50,990
9	M/S. PREMIER INSURANCE CO. LTD.	372,800
10	M/S. RELIANCE INSURANCE CO. LTD.	15,000
11	M/S. UNITED INSURANCE CO.	100
12	M/S. COOPERATIVE INSURANCE CO.	117,000
13	M/S. STATE LIFE INSURANCE CORP. OF PAKISTAN	10,983,200
OTHERS		
1	M/S. STAFF PROVIDENT FUNDS ADAMJEE INDS	45,000
2	M/S. ABANDONED PROPERTIES ORG. G.O.P.	22,500
INVESTMENT & MODARABA COMPANIES		
1	M/S. MOLASSES EXPORT COMPANY (PVT) LIMITED	175,000
2	M/S. GUARDIAN MODARBA	22,000
3	M/S. FIRST DAWOOD INVESTMENT BANK LTD.	5,000
4	M/S. CDC TRUSTEE PICIC INVESTMENT FUND	650,500
5	M/S. CDC TRUSTEE ATLAS STOCK MARKET FUNDS	100,000
6	M/S. CDC TRUSTEE FIRST MUTUAL FUND	5,000
7	M/S. CDC TRUSTEE ALFALAH GHP VALUE FUND	20,500
8	M/S. TRUSTEES PAK SERVICES LTD-EMPLOYEES	25,000
9	M/S. KAYMO TRADING (FZE)	16,000
10	M/S. FIRST EQUITY MODARABA	140,000
LEASING COMPANIES		
1	M/S. DAWOOD LEASING COMPANY LTD.	10,000
2	M/S. TRUST LEASING CORP. LTD.	1,000
DIRECTORS		
1	MR. AIJAZ AKHTAR (SON)	90
2	MR. AAMIR AKHTAR (SON)	90
3	MISS. FAIZA AKHTAR (DAUGHTER)	2,000
4	SHAIKH MUHAMMED RAFIQ AKHTAR (SELF)	10
5	MR. M.RAFIQ AKHTAR & SAIRA AKHTAR (SELF & DAUGHTER)	570
6	MRS. RAZIA SULTANA (WIFE)	150
7	MRS. RAZIA & FAIZA AKHTAR (WIFE & DAUGHTER)	1,000
8	MR. RAFIQ AKHTAR & FAIZA AKHTAR (SELF & DAUGHTER)	20
9	MISS. SAIRA AKHTAR	53,420
10	MR. S.M. RAFIQ AKHTAR	200
11	MR. M.RAFIQ AKHTAR (SELF)	778,560
GOVERNMENT OF PAKISTAN'S DIRECTORS		
1	MAJ. (R) MOHAMMAD FAZAL DURRANI	9
2	MR. IMTIAZ KAZI	9
3	MR. KAMAL AFSASR	9
4	MR. S. M. RAFIQUE AKHTAR	9
5	SYED YAWAR ALI	9
6	MR. FAZAL-UR REHMAN DITTU	9
7	MR. SHAMIM AHMAD KHAN	9
8	MR. SIKANDAR HAYAT JAMALI	9
MINISTRY OF COMMERCE		22,950,000
JOINT STOCK COMPANIES		938,720
FINANCE COMPANIES		142,200
GENERAL PUBLIC (Individuals)		6,342,670