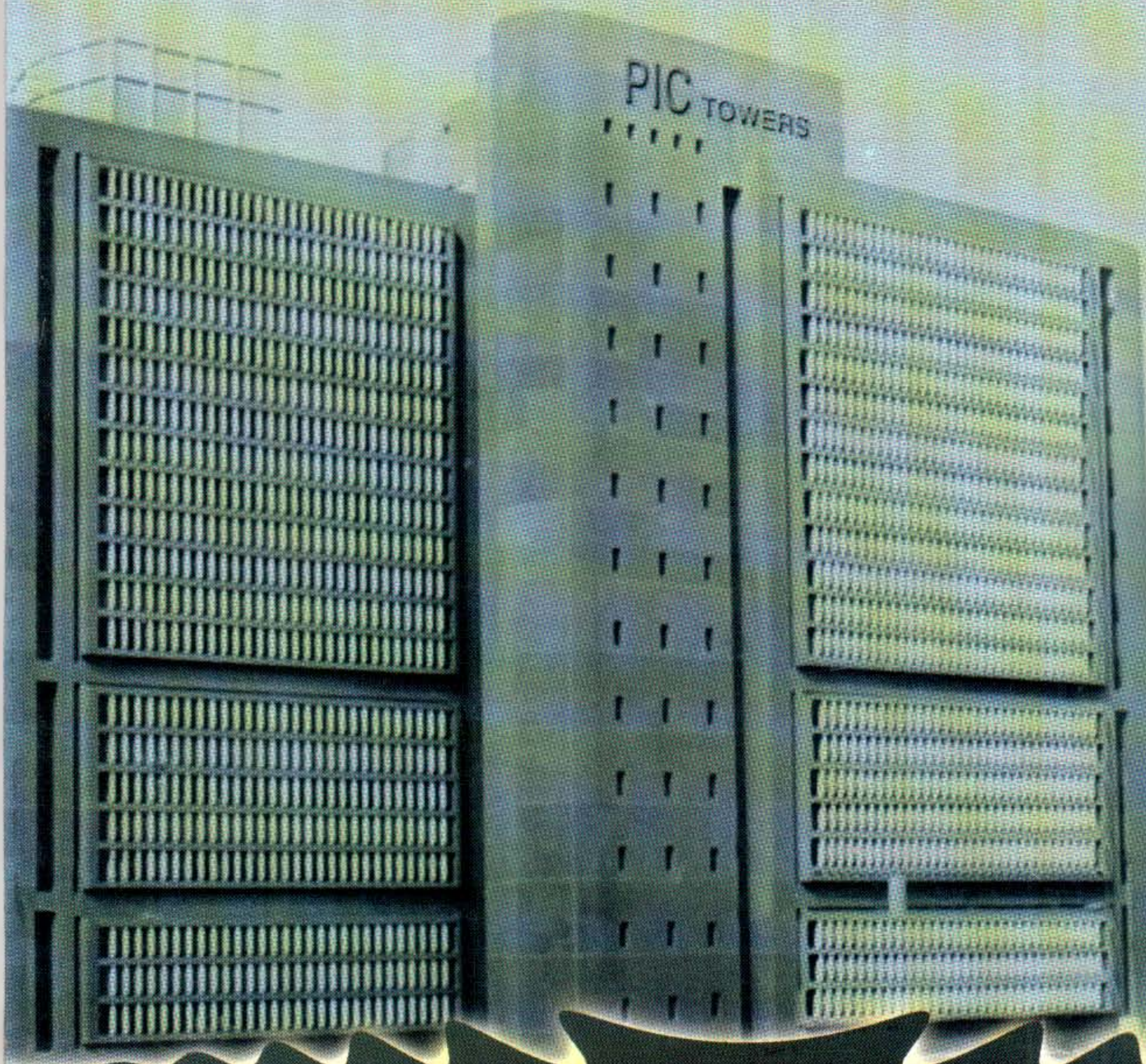


Annual Report 2004



**PAKISTAN REINSURANCE
COMPANY LIMITED**

(Formerly Pakistan Insurance Corporation)





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Vision Statement

Our vision is to be a leading provider of reinsurance and risk management services in the region.

Mission Statement

Our mission is to provide secure reinsurance capacity and outstanding risk management advice in a profitable manner, conduct our business in a dependable and professional manner with the highest standards of customer service.

In fulfilling this mission, we are committed to:

- *Providing our clients, and particularly insurance companies in Pakistan, with comprehensive insurance, reinsurance, financial and business services of the highest quality and value*
- *Maintaining financial strength and stability through prudent business decisions and sound operations based on state of the art information technology*
- *Taking a long-term view of business relationships*
- *Practice the highest standards of integrity and professionalism*
- *Continuously investing in knowledge required to support business decisions and long-term business strategy formulation*
- *Achieving consistent, long-term financial growth and profitability for our shareholders*
- *Attracting, retaining and developing capable and dedicated employees contributing to the growth and sharing in the success of the company*



Board of Directors

BOARD OF DIRECTORS

MAJOR (R) MUHAMMAD FAZAL DURRANI	CHAIRMAN
MR. IMTIAZ KAZI	DIRECTOR
MR. KAMAL AFSAR	DIRECTOR
MR. S. M. RAFIQUE AKHTAR	DIRECTOR
SYED YAWAR ALI	DIRECTOR
MR. FAZLUR REHMAN DITTU	DIRECTOR
MR. SHAMIM AHMED KHAN	DIRECTOR
MR. SIKANDAR HAYAT JAMALI	DIRECTOR

AUDIT COMMITTEE

SYED YAWAR ALI	CHAIRMAN
MR. S. M. RAFIQUE AKHTAR	MEMBER
MR. FAZLUR REHMAN DITTU	MEMBER

AUDITORS

TASEER HADI KHALID & CO.
Chartered Accountants

LEGAL ADVISOR

Aman Law Associates

HEAD OFFICE

PIC Towers, 32-A, Lalazar Drive, M.T.Khan Road,
P.O. Box : 4777, Karachi - Pakistan
Telephone No.9202908 - 14
Telex 20428 PAKRE PK Telefax (92-21) 9202921 - 9202922
E-mail: pic@khi.compol.com & pic@worldtelmeca.net
Website : www.pakre.org.pk

ZONAL OFFICE

AL-Jannat,
Bank Square, Lahore

BANKERS

National Bank of Pakistan
Habib Bank Ltd
Muslim Commercial Bank Ltd

Senior Management



Ms. Naheed Hyder	Executive Director (Finance & Accounts)
Mr. Usman Hasan	Executive Director (Reinsurance)
Mr. Rahat Sadiq	Executive Director (P & D)
Mr. S. S. Momin	Secretary
Mr. Mohammed Yakoob	Senior Manager (Finance & Accounts)
Mr. Sajid Ali Khan	Chief Manager (DPD)
Mrs. Ghazala Imran	Chief Manager (NZO), Lahore
Mr. Fida Hussain Samoo	Acting Chief Manager (Reinsurance)
Mr. Asghar Imam Khalid	Manager (Finance & Accounts)
Mr. Ayaz Hussain M. Gad	Manager (Marine & Fire)
Mr. Shahzad Farooq Lodhi	Manager (Establishment & Administration)
Mr. Anzarul Hasan Hashmi	Manager (Aviation & Accident)
Mr. Rahmatullah Khilji	Manager (Internal Audit)



Notice of Annual General Meeting

Notice is hereby given that the 5th Annual General Meeting of **PAKISTAN REINSURANCE COMPANY LIMITED** will be held on (Thursday) the 28th April, 2005 at 11.00 a.m. at BEACH LUXURY HOTEL, Lalazar Drive, M. T. Khan Road, Karachi, to transact the following business:-

ORDINARY BUSINESS :

1. To confirm the minutes of Extra Ordinary General Meeting held on 31st December, 2004.
2. To receive consider and adopt the audited accounts of the Company for the year ended 31st December, 2004, and the report of directors and auditors thereon.
3. To declare dividend, as recommended by the Board of Directors for the year ended 31st December, 2004.
4. To appoint auditors of the Company (PRC) for the year ending 31st December, 2005 and fix their remuneration.
5. To consider any other business with the permission of the Chair.

By Order of the Board

Karachi, the March 25, 2005

S. S. Momin
(Company Secretary)

NOTES

- 1). The share transfer books of the company shall remain closed from 21st April, 2005 to 28th April, 2005 (both days inclusive): no transfer will be accepted for registration during the period.
- 2). A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for him/her. A proxy must be deposited at the Company not less than 48 hours before the meeting and in case of default, form of proxy will not be treated as valid.



3) CDC Account Holders are advised to follow the following guidelines of the Securities and Exchange Commission of Pakistan.

A. For attending the meeting :

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, will authenticate his identity by showing his original National Identity Card (NIC) or original passport at the time of attending the meeting.
- ii) In case of corporate entity, the Board of Director's resolution/power of attorney with specimen signature of the nominee will be produced (unless it has been provided earlier) at the time of the meeting.

B. For appointing proxies :

- i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in a group and their registration details are uploaded as per the Regulations, will submit the proxy form as per the above requirement.
- ii) The proxy form will be witnessed by two persons whose names, addresses and NIC numbers will be mentioned on the form.
- iii) Attested copies of NIC or the passport of the beneficial owners and the proxy will be furnished with the proxy form.
- iv) The proxy will produce his original NIC or original passport at the time of the meeting.
- v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature will be submitted (unless it has been provided earlier) alongwith proxy form to the Company.

4) Shareholders are requested to communicate to the Company of any change in their addresses.



Directors' Report on the working of PRC for the year ended 31st December, 2004

The Shareholders,
Pakistan Reinsurance Co. Ltd.,

Gentlemen,

Your directors are pleased to present the 5th Annual Report of the company together with the audited financial statements and Auditors' Report thereon for the year ended 31st December, 2004.

Review of business activities

The continuation of the macro-economic policies of the present Government since 1999, have resulted in acceleration of growth, increase in industrial production & investment and further strengthened balance of payment situation.

The economic development goes to prove that the prerequisite for long-term sustained growth is consistency and continuity of economic policy framework and reform process. The stabilization process of macro-economic indicators has continued and now the long awaited effect of the continued high growth has started in improvement of social indicators and reduction of poverty.

The domestic insurance market is steadily growing and general insurance market has crossed the Rs.14 billion mark and PRC has achieved market share of 37% during the year 2004.

After slow recovery last year, the pace of economic activities gained ground and with strong economic fundamentals, policy of privatization and availability of financing at lower mark up, the year closed with better performance in line with growth of insurance industry. As a result, your company has been able to increase its volume of premium income by more than 11% over the year 2003.

The salient features of the business operations during the year, 2004 are as under:-

	Dec. 31, 2004	Dec. 31, 2003
	(Rupees in million)	
Gross Premium	5,241	4,697
Retrocession	2,850	2,564
	2,391	2,133
Premium Reserve	102	686
Net Premium	2,289	1,447
Net Commission	774	219
Net Claims	1,329	1,911
Management expenses	134	140
Underwriting Profit/(Loss)	51	76
Investment Income	360	333
Exchange gain, rental & Other income	59	32
Gen. & Admn.exp.	19	16
Provisions for Doubtful debt/litigation	60	59
Profit before tax	391	366
Profit after tax	326	297

The Gross Premium of the company was Rs.5,241 million in the year 2004 as compared to Rs.4,697 for the year 2003. The increase in the Gross Premium is mainly attributable to the increase in Fire, Aviation and Marine Cargo Business.



The net premium of the company was Rs.2,289 million as compared to Rs.1,447 million for the year of 2003. Thus, there was an increase of Rs.842 million under this head in the year 2004, due to same reason as mentioned in the above para.

The net claims for the year 2004 were Rs.1,329 million as compared to Rs.1,011 million for the year of 2003. Thus, there was an increase of Rs.318 million under this head in the year 2004 due to increase in Fire and Engineering business.

The commission expenses of the company were Rs.774 million for the year 2004 as compared to Rs.219 million for the year 2003. The increase in commission resulted due to application of newly introduced Insurance Rules, 2002.

The investment income in the year 2004 increased to Rs.360 million as compared to Rs.333 million in the year 2003. The break-up value of PRC's share as at 31st December, 2004 was Rs.39/= per share of Rs.10/= each and the earning per share was Rs.7.23.

The profit before tax was Rs.391 million. After making provision for taxation of Rs.65 million, the profit stood at Rs.326 million.

Department-wise results are as follows:-

Fire Department

The gross premium of Fire deptt. was Rs.1,593 million which contributed about 30% to the company's revenue. The net premium of this department was Rs.864 million. The claim ratio was 45%.

Marine Department

The Gross Premium of Marine dept. was Rs.586 million which contributed about 11% to the company's revenue. The net premium of this department was Rs.391 million. The claim ratio was 6%.

Aviation, Engineering & Accident Departments

The Gross Premium of Aviation, Engineering & Accident Departments was Rs.3,061 million which contributed about 59% to the company's revenue. The net premium of the dept. was Rs.1,136 million. The claim ratio was 49%.

Investment Plan

Investment Plan of PRC is being updated continually. The main objectives of the investment plan are to make the prudent investment in most secured securities as well as to ensure regular and maximum return on the investments. Accordingly, PRC has adopted the strategy of diversification, and the portfolio is being balanced between fixed income securities and equities.

Earlier, the plan envisaged return of 7.5% per annum on its investment mainly due to fall in interest rates and unstable stock market conditions. But with the diversification of investments and market stabilization, your company has been able to achieve average return of more than 13% during the year 2004, which is higher than the average market rate of return on investment during the year.

Investment

The investment as at the end of year 2004 has increased to Rs.2,720 million as compared to Rs.1,886 million in the year 2003 on lower of cost or market value basis.

Income from investments

The Investment income in the year 2004 has increased to Rs.360 million as compared to Rs.333 million in the year 2003.



Profit

The profit before tax of the company for the year ended 31st December, 2004 is as follows:-

	Rupees in '000'
Net profit before tax	390,842
<u>Less:</u> Provision for taxation	<u>65,306</u>
Profit after tax	325,536
<u>Add:</u> Unappropriated profit brought forward	<u>135,148</u>
Final dividend 2003	(112,500)
	<u>348,184</u>
<u>Less:</u> Transfer to General Reserve	<u>200,000</u>
Unappropriated profit carried forward	<u>148,184</u>

Pension, Gratuity and Provident Funds

The value of investment in pension, gratuity and provident fund is as follows:

	(Rs. In million)
Provident fund	
- Employees	39
- General	25
Gratuity fund	47
Pension	
- Employees	31
- General	16

Vision of the future

As part of Insurance Industry Reforms, the compulsory cession to the PRC has come down to zero from 1st January, 2005 in line with the phasing out of the compulsory cession. However, the Company is optimistic about its performance and it is expected that during the coming years, the company would be able to achieve a modest growth of 6% to 8% annually.

In order to achieve this target and mitigate the impact of discontinuation of Compulsory Cession, PRC is in the process of planning a fresh treaty Reinsurance Programme for the year 2005. In addition to the compulsory and treaty cessions, vigorous efforts will be made to increase the facultative reinsurance from the insurance companies operating in Pakistan with reasonably good reputation of business. PRC will concentrate on quality treaty and facultative business and profitable treaty cession. To achieve this, the quality of services in all respects will be improved further.

In view of above, the directors do not foresee any problem arising as a result of the above factor and a corporate plan has been prepared by the Company.

Insurance Rules, 2002

The Insurance Rules, 2002 have been issued by the Federal Government in December, 2002. Moreover, SECP has also prescribed a new format for preparing financial statement by the insurance companies. The overall regulatory framework for the Insurance industry has become more stringent. Your company has taken every possible measure to comply with the requirement of Insurance Rules, 2002.



Statement on Corporate and Financial Reporting Frame Work

The directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

- a) The financial statements, prepared by the Company, present fairly, its state of affairs, the result of its operations, cash flows and changes in equity.
- b) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
- c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes where made, have been adequately disclosed and accounting estimates are on the basis of prudent and reasonable judgement.
- d) Financial statements have been prepared by the company in accordance with the International Accounting Standards, as applicable in Pakistan, requirement of Companies Ordinance 1984, Insurance Ordinance 2000 and the Securities and Exchange Commission (Insurance) Rules, 2002.
- e) The system of internal control, presently in place, is being continually reviewed by the internal audit dept. The process of review will continue to strengthen the system for its effective implementation.
- f) There are no significant doubts upon the Company's ability to continue as a going concern, except as disclosed in the financial statements.
- g) The Company has followed the best practices of corporate governance, as laid down in the listing regulations of the stock exchanges and there has been no material departure.

Board Meetings and Attendance

During the year, eleven meetings of the Board of Directors were held and the number of meetings attended by each Director is given hereunder:-

S.No.	Name of Director	No. of meetings attended
1.	MAJ. (R) MUHAMMED FAZAL DURRANI	Eleven
2.	MR. IMTIAZ KAZI	Two (Director since 23/11/2004)
3.	MR. KAMAL AFSAR	One (Director since 20/08/2004)
4.	MR. S.M. RAFIQUE AKHTAR	Six
5.	SYED YAWAR ALI	Nine
6.	MR. FAZLUR REHMAN DITTU	Nine
7.	MR. SHAMIM AHMED KHAN	Eleven
8.	MR. SIKANDER HAYAT JAMALI	One (Director since 23/11/2004)

Compliance with the Code of Corporate Governance

The Board is pleased to announce that your company has adopted and complied with the Code of Corporate Governance as per the provisions set out by the SECP and the consequent listing regulations of the Karachi and Lahore Stock Exchanges, on which your company is listed.

Audit Committee

The Board, in compliance with the Code of Corporate Governance, has established an Audit Committee consisting of the following members and has also approved its terms of reference.

Syed Yawar Ali	Chairman
Mr. S.M. Rafique Akhtar	Member
Mr. Fazlur Rehman Dittu	Member



Performance of the company during the last four years

(Rs. in million)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u> (Feb.15 to Dec.2001)
Gross Premium	5,241	4,697	3,500	2,278
Net Premium	2,289	2,133	1,612	1,231
Net Commission	774	219	556	462
Net Claims	1,330	1,011	848	900
Management Expenses	134	140	108	97
Underwriting Profit/(Loss)	51	76	76	42
Investment Income	360	333	269	206
Profit before Tax	391	366	457	108
Profit after Tax	326	297	333	66

Dividend

Your directors are pleased to declare a dividend of 25% for the year 2004.

Earning per share

The earning per share of the Company was Rs.7.23

Trading in Company Shares

Except as detailed below, no trading in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children:-

<u>Name</u>	<u>No. of Shares</u>	
	<u>Purchased</u>	<u>CDC/Physical/(Disposal)</u>
Mr. S.M.Rafiq Akhtar		233,600

Appointment of Auditors

The present auditor M/s. Taseer Hadi Khalid & Co., Chartered Accountants retire, and being eligible offer themselves for re-appointment at the enhanced fee of Rs.396,000/= for conduct of audit for the year 2005.

Appointment of M/s. Taseer Hadi Khalid & Co., Chartered Accountants has been endorsed by Audit Committee and the Board of Directors of the Company for shareholders consideration at the forthcoming annual general meeting for re-appointment as external auditors of the company for year 2005 at the fee of Rs.396,000/= for conduct of audit for the year 2005. The External Auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

Pattern of shareholding

A statement of pattern of shareholding is separately shown in report.

Acknowledgement

In the end, your directors would like to thank all insurance companies their Chairmen, Directors, Officers and staff for the co-operation extended by them in running the affairs of the company.

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

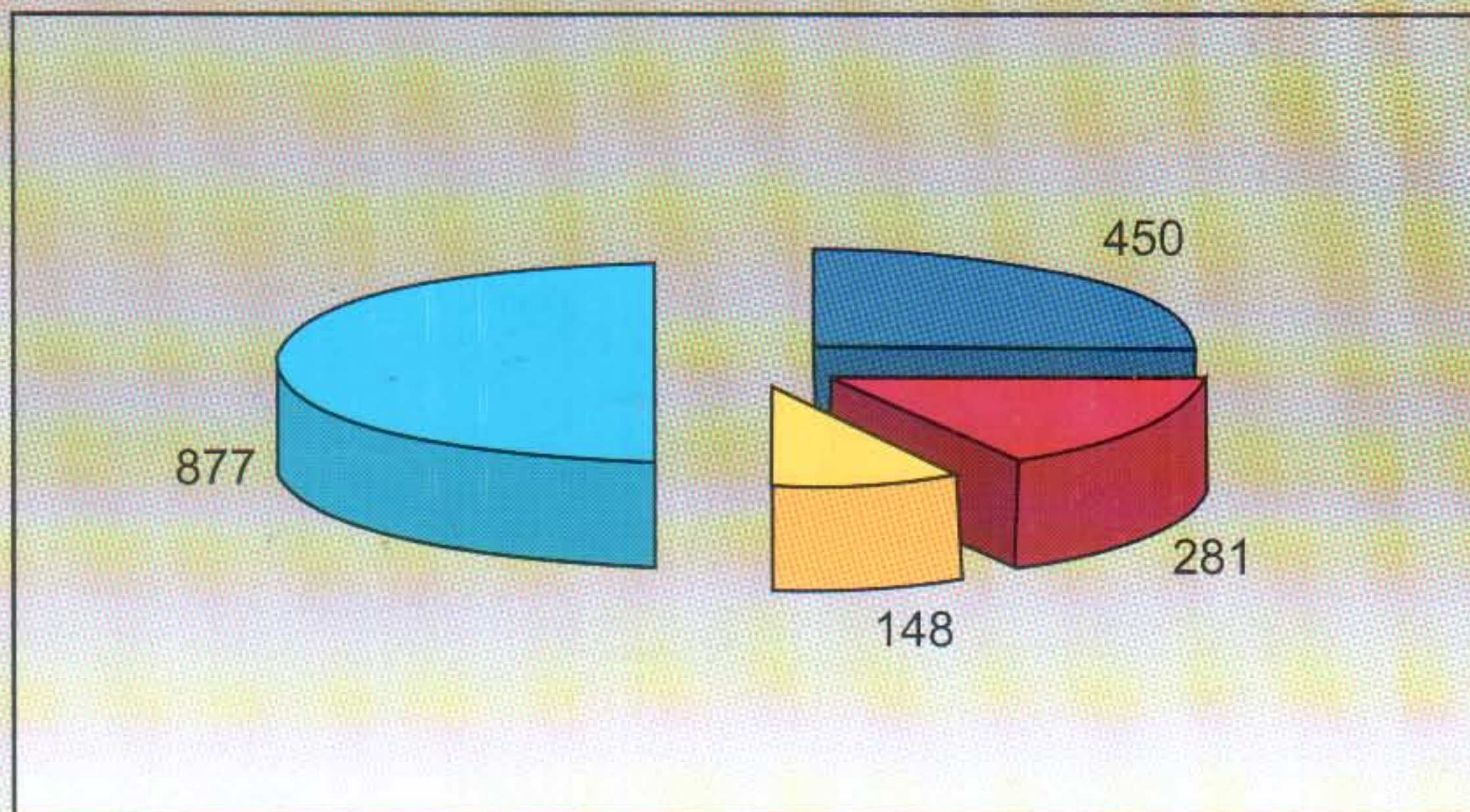
Maj. (R) Muhammed Fazal Durrani
Chief Executive



BREAK-UP VALUE OF COMPANY'S SHARE AS AT 31ST DECEMBER 2004

Rs. in million

Paid-up Capital	450
Reserve for Exceptional Losses	281
Retained Earnings	148
General Reserve	877
Net worth (Owner's equity)	1,756



Break-up value per share
of Rs.10/- each

Rs. 39/=



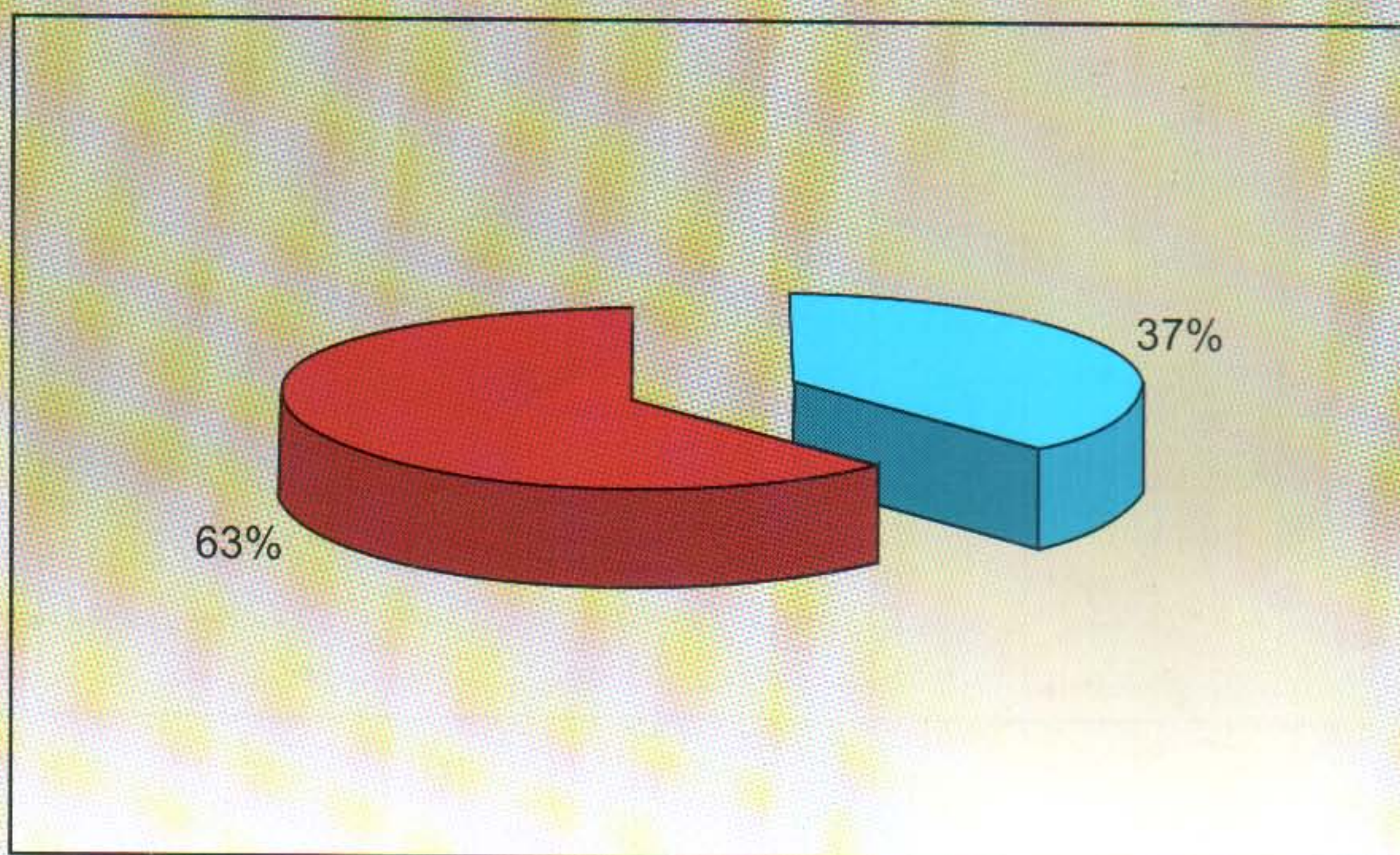
PAKISTAN INSURANCE MARKET AND COMPANY'S SHARE 2004

Rs. in million

1) Gross Premium

(a) Insurance Market	14,200
(b) Company	5,241

2) Company's Share of Market 37%

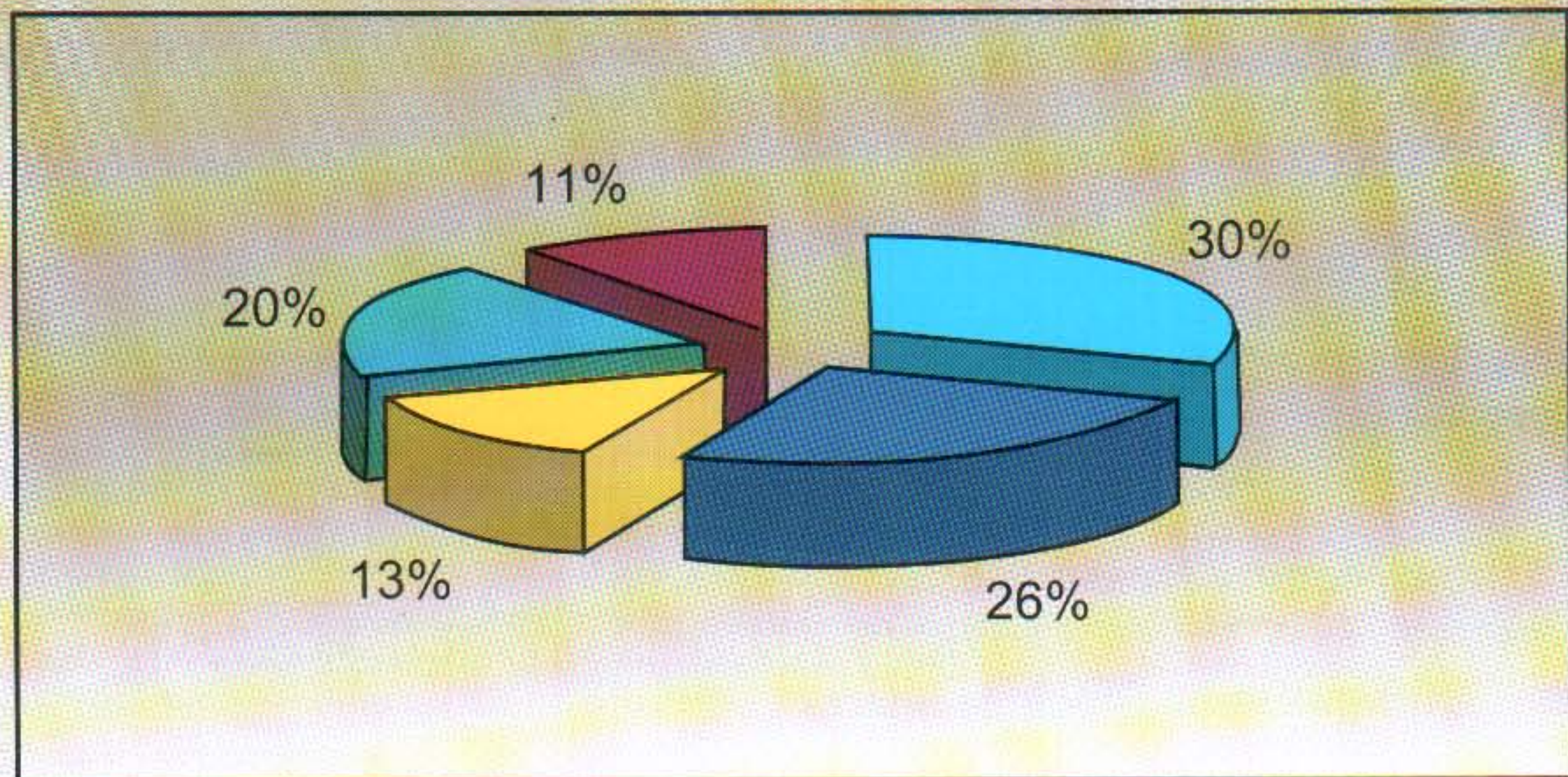




GROSS PREMIUM INCOME BY CLASS OF BUSINESS 2004

Rs. in million

Class of Business	Gross Premium	% of Total
(a) Fire	1,593	30
(b) Aviation	1,369	26
(c) Engineering	663	13
(d) Accident	1,029	20
(e) Marine	587	11
	5,241	100





RESERVES, PROVISIONS AND INVESTMENTS 2004

	Rs. in million	
1 RESERVES & PROVISIONS		
A. FINANCIAL RESERVES		
1) Reserve for Exceptional Losses	281	
2) General Reserve	877	
3) Retained Earnings	148	1,306
B. UNDERWRITING PROVISIONS		
1) Outstanding Claims	867	
2) Unearned Premium	2,838	
3) Unearned Commission	68	
	3,773	
Less : Prepaid Reinsurance ceded	1,389	
Prepaid Commission	511	1,873
		3,179
2 INVESTMENTS		
1) NIT Units	645	
2) Stocks & Shares	454	
3) D.S.C / R.I.C.	273	
4) Pakistan Investment Bonds	905	
5) Three Months Treasury Bill	448	
	2,725	
Less: Diminution in Stock & Shares	5	2,720

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 premium;
- (vi) statement of claims;
- (vii) statement of expenses; and
- (viii) statement of investment income

of **Pakistan Reinsurance Company Limited** as at December 31, 2004 together with the notes forming part thereof, for the year then ended.

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

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

- i) As more fully described in the notes 11, 15.1 and 20 to the financial statements, the balances of Rs. 1,170 million and Rs. 848 million were respectively due from and due to other persons and bodies carrying on insurance business. The Company is in process of obtaining confirmations and reconciling these balances as at 31-December 2004 with these persons and bodies. Further, as explained in note 15.2 to the financial statements, the Company has reversed certain claims lodged by other insurance companies amounting to Rs.104 million due to the reason that appropriate documentation for substantiating these claims was not provided. Pending confirmation of various balances, finalisation of reconciliations and settlement of differences with these persons and bodies, adjustments if any, required in these balances could not be quantified and consequently we are unable to verify these balances.
- ii) As stated in notes 12 and 21 to the financial statements as at 31 December 2004, the balances in respect of deposits retained/received from other companies amounted to Rs. 58 million and balances in respect of deposits held by ceding companies amounted to Rs. 98 million. These balances have not been confirmed by respective insurance companies and contain certain debits and credits balances of Rs. 40 million and Rs. 34 million respectively, the reasons of which could not be ascertained.

Further, the foreign currency deposits retained / received from other companies have not been revalued at the year-end exchange rates and the resulting exchange loss or gain has also not been booked accordingly.

The Company is in process of obtaining confirmations and reconciling these balances with respective insurance companies. Consequently, we are unable to verify these balances.



Except for the financial effect of the matters referred to in the preceding paragraphs, 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 change as stated in note 2.2 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, 2004 and of the profit, its cash flows and changes in equity for the year then ended in accordance with Approved Accounting Standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and
- d) Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Without qualifying our opinion, we draw attention to the matter referred to in note 1.2 to the financial statements. The going concern assumption used in the preparation of these financial statements is dependent on assertions made by the management about its plans to transact reinsurance business in usual manner so as to balance the effect of cessation of compulsory cession by other insurance companies which has become effective from 1 January 2005.

The accounts for the year ended 31 December 2003 were audited by another firm of Chartered Accountants whose report dated 17 March 2004 expressed a qualified opinion on those financial statements.

TASEER HADI KHALID & CO.
CHARTERED ACCOUNTANTS

Karachi :
Dated: 22 March 2005

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2004



This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in Regulation NO.37 and No.XIII of listing regulations of the Karachi Stock Exchange(Guarantee) Ltd., and the Lahore Stock Exchange(Guarantee) Ltd., respectively for the purpose of establishing a framework of good governance by a listed company and additional frame work by a listed insurance company, whereby a listed company/listed insurance company is managed in compliance with the best practice of corporate governance.

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

1. The company encourages representation of independent non-executive Directors on its Board. At present, the Board include seven (out of eight) independent non-executive Directors. Out of seven non-executive directors, five are nominated by the major shareholders (i.e. GOP) and two are elected on 31.12.2004 for three years terms, effective from 1.1.2005.
2. The directors have confirmed that none of them is serving as a director in ten or more listed companies, including this company.
3. All the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. Three casual vacancies have occurred in the year 2004 in the Board after introduction of the Code. The same have been filled by the resolution of the Board within fifteen days. Two vacancies have been filled by election of Directors in pursuance of section 178(1) of the Companies Ordinance, 1984.
5. The Company has prepared a 'Statement of Ethics and Business Practices' which has been signed by the company Secretary. However, signing of Directors and employees of the company is in process.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board except terms and conditions of deputations of Government servants.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, alongwith agenda and working papers were circulated normally 15 days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. An orientation course was conducted for its Directors to apprise them of their duties and responsibilities.
10. There was no new appointment of CFO, Company Secretary and head of Internal Audit 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 CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.



14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of Board members, all of whom are non-executive directors including Chairman, Audit Committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Company has an internal audit department headed by Manager(Internal Audit). The Internal Audit department is in the process of strengthening.
18. 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 the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
20. The actuary appointed by the company has confirmed that he or his spouse and minor children do not hold any shares of the company. The Board has ensured that the appointed actuaries complied with the requirement set out for them in this code.
21. The Company has established the committees namely Underwriting Committee, Claim Settlement Committee and Reinsurance Committee & Co-insurance.
22. We confirm that all other material principles contained in the Code have been complied with.

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Maj. (R) Muhammad Fazal Durrani
Chief Executive

Review Report to the members on Statement of Compliance with best practices of Code of Corporate Governance



We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Pakistan Reinsurance Company Limited ("the Company") to comply with the listing regulations of the respective Stock Exchanges, where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We 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 the 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.

Karachi
Dated: 22 March, 2005

Taseer Hadi Khalid & Co.
Chartered Accountants



Balance Sheet as at

	Note	2004	2003 Restated
Share capital and reserves			
Authorized share capital 100,000,000 Ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid up share capital	3	450,000,720	450,000,720
Exceptional losses reserve	4	281,000,000	281,000,000
General reserve		877,419,085	677,419,085
Retained earnings		148,183,586	135,148,020
		1,306,602,671	1,093,567,105
Liabilities against assets subject to finance lease	5	1,756,603,391 1,253,061	1,543,567,825 3,278,023
Underwriting provisions			
- Provision for outstanding claims (including IBNR)	6	866,888,000	798,072,019
- Provision for unearned premium	7	2,838,490,000	2,833,894,174
- Commission income unearned	8	68,139,897	74,762,995
		3,773,517,897	3,706,729,188
Deferred liability			
Employee benefits	9	118,720,297	114,824,743
Long term deposits	10	16,330,096	15,161,097
Creditors and accruals			
Amount due to other persons and bodies carrying on insurance business	11	847,879,124	700,912,549
Deposits retained / received from other companies	12	58,082,026	101,142,051
Current maturity of lease liability	13	2,024,960	1,879,083
Other creditors and accruals	14	30,391,390	29,519,411
Retention money payable		6,414,258	6,375,953
		944,791,758	839,829,047
Other liabilities			
Dividend payable		1,628,737	788,460
Surplus profit payable		767,696	828,791
		2,396,433	1,617,251
Total liabilities		4,857,009,542	4,681,439,349
Contingent liabilities	15	-	-
Total equity and liabilities	Rupees	6,613,612,933	6,225,007,174

The annexed notes 1 to 40 form an integral part of these financial statements.

Karachi, March 22, 2005

Naheed Hyder
Executive Director (F&A)

Maj. (R) Muhammad Fazal Durrani
Chief Executive



	Note	2004	2003 Restated
Cash and bank deposits			
Cash and other equivalents		83,229	81,822
Current and other accounts		313,010,953	547,828,512
Deposits maturing within 12 months		1,700,000	1,700,000
	16	314,794,182	549,610,334
Loans - considered good			
– to employees		29,895,694	31,405,599
– to others		5,145,366	5,302,359
	17	35,041,060	36,707,958
Investments	18	2,719,943,952	1,885,976,104
Investment properties	19	61,983,142	66,650,078
Other assets			
Amount due from persons and bodies carrying on insurance business	20	1,169,694,766	1,308,047,882
Deposits held by ceding companies	21	98,146,570	22,364,521
Accrued investment income	22	32,029,946	133,294,085
Other receivables	23	187,959,144	161,286,650
Prepaid reinsurance ceded	24	1,389,470,000	1,486,829,396
Deferred commission expense		511,351,371	494,333,310
Taxation payments less provision	25	58,811,713	43,329,355
Stock of stationery		942,093	321,125
		3,448,405,603	3,649,806,324
Fixed assets			
Tangible and intangible assets			
Land and building		26,689,697	28,643,170
Furniture, fixture, books and office equipment		2,645,887	1,356,497
Vehicles		4,109,410	5,063,764
	26	33,444,994	35,063,431
Assets related to Bangladesh	27	–	–
Intangible assets		–	1,192,945
Total assets	<i>Rupees</i>	6,613,612,933	6,225,007,174

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Profit and Loss Account for the year ended December 31, 2004



	Note	Facultative					Treaty	2004	2003	
		Fire	Marine Cargo	Marine Hull	Accident	Aviation	Engineering	Rupees	Restated	
Revenue account										
Net premium revenue		(21,400,636)	2,565,687	(366,139)	2,351,020	24,968,487	21,891,130	2,259,339,595	2,289,349,144	1,447,479,033
Net claims		(16,869,430)	(108,501,881)	(4,283,494)	-	(381,214,230)	24,246,538	1,816,513,309	1,329,890,812	1,011,269,810
Management expenses	28	4,134,182	3,061,840	1,852,360	3,021,959	3,383,065	2,122,224	116,450,236	134,025,866	140,446,444
Net commission		(5,751,397)	101,592	(975,154)	161,744	(5,673,941)	(21,809,397)	808,266,895	774,320,342	219,472,353
Underwriting result		(2,913,991)	107,904,136	3,040,149	(832,683)	408,473,593	17,331,765	(481,890,845)	51,112,124	76,290,426
Investment income										
Rental income	29								360,525,695	332,810,882
Exchange gain									27,192,029	11,899,686
Other income	30								25,078,440	9,878,673
									6,659,108	11,019,489
General and administration expenses	31								(19,725,338)	(16,451,741)
Provision for doubtful debts / litigation									(60,000,000)	(49,976,338)
Provision / reversal of diminution in value of investments									-	(9,175,378)
Profit before tax									339,729,934	290,005,273
Provision for taxation	25								390,842,058	366,295,699
									65,306,312	69,000,000
Profit after tax									325,535,746	297,295,699
Profit and loss appropriation account - balance at commencement of year									135,148,020	205,352,429
Transfers (to) / from reserves									(200,000,000)	(300,000,000)
General reserve									(112,500,180)	(67,500,108)
Final dividend										
Balance of unappropriated profit at end of year									148,183,586	135,148,020
Earning per share										
- basic and diluted	32								7.23	6.61

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Statement of Premiums for the year ended December 31, 2004



Class	Premium Written (A)	Unearned premium reserve			Prepaid Reinsurance			Re-insurance expense (H=E+F-G)	2004	2003
		Premium earned			Premium ceded					
		Opening (B)	Closing (C)	Premium earned (D=A+B-C)	Ceded (E)	Opening (F)	Closing (G)			
Rupees										
Business underwritten inside Pakistan										
Facultative Fire	457,474,278	218,223,968	196,644,563	479,053,683	476,431,000	227,793,734	203,770,415	500,454,319	(21,400,636)	(9,090,655)
Marine Cargo	2,864,300	620,323	918,936	2,565,687	-	-	-	-	2,565,687	702,529
Marine Hull	35,649,854	13,551,902	25,585,246	23,616,510	36,405,645	14,562,845	26,985,841	23,982,649	(366,139)	(461,214)
Accident	4,006,050	3,870,767	1,712,517	6,164,300	222,351	3,654,373	63,444	3,813,280	2,351,020	273,587
Aviation	1,354,980,628	521,374,029	711,589,895	1,164,764,762	1,339,261,858	506,428,882	705,894,465	1,139,796,275	24,968,487	20,116,674
Engineering	514,804,691	567,870,803	327,248,405	755,427,089	484,170,524	554,604,868	305,239,433	733,535,959	21,891,130	11,515,014
Total	2,369,779,801	1,325,511,792	1,263,699,562	2,431,592,031	2,336,491,378	1,307,044,702	1,241,953,598	2,401,582,482	30,009,549	23,055,935
Treaty										
	2,871,657,895	1,508,382,382	1,574,790,438	2,805,249,839	513,641,952	179,784,694	147,516,402	545,910,244	2,259,339,595	1,424,423,098
Grand Total	5,241,437,696	2,833,894,174	2,838,490,000	5,236,841,870	2,850,133,330	1,486,829,396	1,389,470,000	2,947,492,726	2,289,349,144	1,447,479,033

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Statement of Claims for the year ended December 31, 2004



Class	Reinsurance and other recoveries		Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries Received (E)	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries Revenue (H=E+G-F)	2004	2003
	Claims Paid (A)	Outstanding Claims		Claims Expense (D=A+C-B)		Opening (F)	Closing (G)		Net claims expense (I=D-H)	Net claims expense
		Opening (B)	Closing (C)							
Rupees										
Business underwritten inside Pakistan										
Facultative										
Fire	7,201,072	84,668,000	73,163,899	(4,303,029)	-	64,063,000	76,629,401	12,566,401	(16,869,430)	1,390,259
Marine Cargo	34,036	129,797,000	12,083	(129,750,881)	-	21,249,000	-	(21,249,000)	(108,501,881)	8,696
Marine Hull	84,890	10,288,000	53,716,475	43,513,365	68,447	-	47,728,412	47,796,859	(4,283,494)	-
Accident	-	-	-	-	-	-	-	-	-	-
Aviation	217,753,667	423,065,000	947,262,294	741,950,961	210,806,206	453,000	912,811,985	1,123,165,191	(381,214,230)	3,627,366
Engineering	278,623,392	931,817,000	475,058,570	(178,135,038)	258,895,450	884,265,000	422,987,974	(202,381,576)	24,246,538	8,743,072
Total	503,697,057	1,579,635,000	1,549,213,321	473,275,378	469,770,103	970,030,000	1,460,157,772	959,897,875	(486,622,497)	13,769,393
Treaty										
	1,427,354,458	1,004,509,414	1,319,196,679	1,742,041,723	200,206,581	811,090,395	536,412,228	(74,471,586)	1,816,513,309	997,500,417
Grand Total	1,931,051,515	2,584,144,414	2,868,410,000	2,215,317,101	669,976,684	1,781,120,395	1,996,570,000	885,426,289	1,329,890,812	1,011,269,810

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Statement of Expenses for the year ended December 31, 2004



Class	Commission paid or payable (A)	Deferred Commission		Net commission expense (D=A+B-C)	Other management expenses (E)	Commission from reinsurers (F=D+E)	Opening (H)	Closing (I)	Commission Retrocession (J=G+H-I)	2004 Net Underwriting Expense (K=F-J)	2003 Net Underwriting Expense	
		Opening (B)	Closing (C)									
Rupees												
Business underwritten inside Pakistan												
Facultative Fire	22,814,311	11,313,046	10,901,577	23,225,780	4,134,182	27,359,962	31,754,018	11,456,543	14,233,384	28,977,177	(1,617,215)	(2,866,694)
Marine Cargo	114,573	23,777	36,758	101,592	3,061,840	3,163,432	-	-	-	-	3,163,432	21,319
Marine Hull	2,818,048	1,014,395	1,961,017	1,871,426	1,852,360	3,723,786	4,550,705	1,669,105	3,373,230	2,846,580	877,206	(183,862)
Accident	369,675	247,371	201,631	415,415	3,021,959	3,437,374	21,394	238,805	6,528	253,671	3,183,703	(41,974)
Aviation	1,675,874	489,577	906,252	1,259,199	3,383,065	4,642,264	8,801,629	3,136,243	5,004,732	6,933,140	(2,290,876)	5,303,400
Engineering	8,598,975	23,738,641	9,289,356	23,048,260	2,122,224	25,170,484	38,026,833	31,472,204	24,641,380	44,857,657	(19,687,173)	(12,540,356)
Total	36,391,456	36,826,807	23,296,591	49,921,672	17,575,630	67,497,302	83,154,579	47,972,900	47,259,254	83,868,225	(16,370,923)	(10,308,167)
Treaty												
	887,620,878	457,506,503	488,054,780	857,072,601	116,450,236	973,522,837	42,896,254	26,790,095	20,880,643	48,805,706	924,717,131	370,226,964
Grand Total	924,012,334	494,333,310	511,351,371	906,994,273	134,025,866	1,041,020,139	126,050,833	74,762,995	68,139,897	132,673,931	908,346,208	359,918,797

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director



Statement of Investment Income for the year ended December 31, 2004

	December 31, 2004 Rupees	December 31, 2003 Rupees
Income from non-trading investment		
Held to maturity investments		
Return on government securities	108,689,485	133,209,601
Amortization of premium on Pakistan Investment Bond	(17,319,229)	—
Return on other fixed income securities and deposits	4,515,016	3,424,544
Income on treasury bills	359,018	—
Available for sale investments		
Dividend income	260,131,116	199,061,894
Gain on sale of non-trading investments		
Available for sale investments	2,889,213	—
Gain on revaluation of non-trading investments		
Available for sale investments	3,874,734	—
	<u>363,139,353</u>	<u>335,696,039</u>
Less: investment related expenses	<u>2,613,658</u>	<u>2,885,157</u>
Net investment income	<u><u>360,525,695</u></u>	<u><u>332,810,882</u></u>

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj. (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Statement of Cash Flow for the year ended December 31, 2004



	December 31, 2004 Rupees	December 31, 2003 Rupees
Operating Cash Flows:		
<u>Underwriting activities</u>		
Premium received	5,332,194,986	3,319,463,561
Reinsurance premium paid	(2,775,447,711)	(1,795,523,594)
Claims paid	(1,931,021,515)	(1,435,339,332)
Reinsurance and other recoveries received	669,976,684	424,069,522
Commission paid	(924,012,334)	(288,853,461)
Commission received	126,050,833	69,381,108
Deposits received from/paid to ceding companies	(116,116,736)	13,700,535
Expenses paid	(151,856,787)	(140,446,444)
Net cash flows from underwriting activities	229,767,420	166,451,895
<u>Other Operating Activities</u>		
Income tax paid	(80,788,670)	(9,428,926)
General management expenses paid	(19,725,339)	(16,451,741)
Loans recovered from employees	1,666,898	1,582,943
Other receipts	6,354,057	80,577,634
Other payments - staff contribution	(23,187,000)	(19,477,000)
Net cash flows from other operating activities	(115,680,054)	36,802,910
Total cash flow from all operating activities	114,087,366	203,254,805
<u>Investment activities</u>		
Fixed Capital expenditure	(1,849,856)	(2,287,770)
Acquisition of investments	(1,039,770,510)	(19,213,641)
Rental income received	18,209,468	9,984,700
Dividend income received	272,662,872	181,433,014
Interest income on bank deposits	2,559,108	3,374,957
Investment income received	195,298,277	111,664,343
Sale proceeds of investments	317,648,301	—
Total cash flow from investment activities	(235,242,340)	284,955,603
<u>Financing activities</u>		
Surplus paid	(61,095)	(523,008)
Dividend paid	(111,720,998)	(67,367,302)
Payments of finance leases	(1,879,085)	(1,577,160)
Total cash flows from financing activities	(113,661,178)	(69,467,470)
Net cash flow from all activities	(234,816,152)	418,742,938
Cash and cash equivalents at beginning of the year	549,610,334	130,867,396
Cash and cash equivalents at end of the year	314,794,182	549,610,334



	December 31, 2004 Rupees	December 31, 2003 Rupees
<u>Reconciliation to profit and loss account</u>		
Operating cash flows	114,087,366	203,254,805
Depreciation expense	(8,135,228)	(8,968,482)
Exchange gain	25,078,440	9,878,673
Provision for doubtful debts/Litigation	(60,000,000)	(49,976,338)
Amortization of deferred cost	(1,192,945)	(596,472)
Rental income	27,192,029	11,899,686
Pension officers expense	(6,132,000)	(1,946,000)
Pension staff expense	(8,597,000)	(6,516,000)
Medical expense	(6,126,000)	(2,424,000)
Gratuity expense	14,405,000	1,657,000
Leave encashment	(1,925,000)	(5,050,000)
Investment income	374,955,711	332,810,882
Amortisation of premium	(17,319,229)	-
Gain on sale of investment	(2,889,213)	-
(Decrease) / Increase in operating assets other than cash	(195,298,277)	253,961,286
(Increase) / Decrease in operating liabilities	58,075,000	(371,942,889)
	306,178,654	366,042,151
<u>Other adjustments:</u>		
Decrease / (Increase) in provision for diminution in value of investments	3,874,734	(9,175,378)
Income tax paid	80,788,670	9,428,926
	84,663,404	253,548
Profit before taxation	390,842,058	366,295,699
Provision for taxation	(65,306,312)	(69,000,000)
Profit after taxation	325,535,746	297,295,699
<u>Cash and cash equivalents:</u>		
Cash and other equivalent	83,229	81,822
Current and other accounts	313,010,953	547,828,512
Deposit maturing within 12 months	1,700,000	1,700,000
	314,794,182	549,610,334

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj. (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Statement of Changes in Equity for the year ended December 31, 2004



	Share Capital	Share Premium Account	Exceptional Losses reserve	General Reserve	Reserve for issue of bonus shares	Unappropriated profit	Total
				Rupees			
Balance as at 1 January 2003 as previously reported	450,000,720	-	281,000,000	377,419,085	-	137,852,321	1,246,272,126
Change in accounting policy with respect to dividend declared after the balance sheet	-	-	-	-	-	67,500,108	67,500,108
Balance as at 1 January 2003 as restated	450,000,720	-	281,000,000	377,419,085	-	205,352,429	1,313,772,234
Final dividend 2002						(67,500,108)	(67,500,108)
Net profit for the year ended 31 December 2003	-	-	-	-	-	297,295,699	297,295,699
Transfer to reserves	-	-	-	300,000,000	-	(300,000,000)	-
Balance as at 31 December 2003 as restated	450,000,720	-	281,000,000	677,419,085	-	135,148,020	1,543,567,825
Balance as at 1 January 2004 as previously reported	450,000,720	-	281,000,000	677,419,085	-	22,647,840	1,431,067,645
Change in accounting policy with respect to dividend declared after the balance sheet	-	-	-	-	-	112,500,180	112,500,180
Balance as at 1 January 2004 as restated	450,000,720	-	281,000,000	677,419,085	-	135,148,020	1,543,567,825
Final dividend 2003	-	-	-	-	-	(112,500,180)	(112,500,180)
Net profit for the year ended 31 December 2004	-	-	-	-	-	325,535,746	325,535,746
Transfer to reserves	-	-	-	200,000,000	-	(200,000,000)	-
Balance as at 31 December 2004	450,000,720	-	281,000,000	877,419,085	-	148,183,586	1,756,603,391

The annexed notes 1 to 40 form an integral part of these financial statements.

Naheed Hyder
Executive Director (F&A)

Maj (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director



Notes to the Financial Statements for the year ended December 31, 2004

1. STATUS AND NATURE OF BUSINESS

- 1.1 Pakistan Reinsurance Company Limited (the Company) was incorporated on 30 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 PIC Towers, 32-A, Lalazar Drive, Maulvi Tamizuddin Khan Road, Karachi. Its shares are quoted on Karachi and Lahore Stock Exchanges.
- 1.2 In order to mitigate the impact of discontinuation of compulsory cession with effect from 01 January 2005, the Company has developed a corporate plan and started adopting necessary measures to be prepared for independently undertaking reinsurance business as per its strategy to continue to operate profitably in the year 2005 and to use its expertise to make further strides in future.

In view of the above, the management does not foresee any problem arising as a result of the above factor. These accounts have accordingly been prepared on going concern basis.

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 12 December 2002.

2.2 Change in accounting policy

The Company has during the year changed its accounting policy where by dividend is now recognised as a liability in the period in which it is declared. The change was considered necessary due to revision of Fourth Schedule to the Companies Ordinance 1984, where by the requirements of IAS-10, "Events after the balance sheet date", are now applicable. The comparative statements for 2003 have been restated to conform to the changed policy. The effect of change is the decrease in appropriation for the final dividend proposed for 2003 amounting to Rs. 112.5 million. Opening unappropriated profit for 2003 has been increased by Rs.67.5 million which is the amount of final dividend proposed for 2002.

2.3 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.

2.4 Basis of measurement

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

2.5 Investments

2.5.1 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.



2.5.2 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.

2.6 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 PIC 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 on building is charged to profit on diminishing balance method so as to write off the historical cost of building over its estimated useful life. Full year depreciation is charged on addition and no depreciation is charged in the year of disposal.

2.7 Underwriting provisions

2.7.1 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.

2.7.2 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.

2.7.3 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.

2.7.4 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.

In order to comply with the Securities and Exchange Commission of Pakistan (Insurance) Rules, 2002, the Company has provided premium deficiency reserve on the basis of actuarial valuation as



determined by the firm of actuaries appointed for the purpose. The actuarial valuation was last carried out on 31 December 2004.

2.7.5 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.

2.7.6 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.

2.8 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).

2.9 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.

2.10 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.

2.11 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.



2.12 Fixed assets

Owned assets

Fixed assets except leasehold lands (other than land of PIC House and PIC 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 to the accounts. Full year depreciation is charged on additions during the year whereas no depreciation is charged on assets disposed off during the year.

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.

2.13 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 2.7.3.

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 PIC Towers are recognized as income on accrual basis.

2.14 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.

2.15 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.

2.16 Provision for bad and doubtful debts

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

2.17 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.

2.18 Foreign currency transactions

Transactions in foreign currencies are translated into reporting currency at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into reporting currency equivalents using year end spot foreign exchange rates. Non monetary assets and liabilities are translated using exchange rates prevalent on transaction date. Exchange differences on foreign currency translations are included in income currently.

2.19 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.

2.20 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.

2.21 Financial Assets and Liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be.

2.22 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.

2.23 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.

	2004 Rupees	2003 Rupees
3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
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 (2003: 8 Ordinary shares of Rs. 10 each)	80	80
5,000,000 Ordinary shares of Rs. 10 each issued for consideration other than cash (2003: 5,000,000 ordinary shares of Rs. 10 each)	50,000,000	50,000,000
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, the company 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:

31 December 2004	—	2,202,144
31 December 2005	2,202,144	2,202,144
31 December 2006	1,284,584	1,284,584
	3,486,728	5,688,872
Less: Financial charges not due	(208,707)	(531,766)
	3,278,021	5,157,106
Less: Current portion shown under creditors and accruals	(2,024,960)	(1,879,083)
	1,253,061	3,278,023



	Mark up	Principle	Total
Payable within one year	177,184	2,024,960	2,202,144
Payable within one to five years	31,523	1,253,061	1,284,584
	<u>208,707</u>	<u>3,278,021</u>	<u>3,486,728</u>

	2004 Rupees	2003 Rupees
6. PROVISION FOR OUTSTANDING CLAIMS		
Fire	324,518,000	247,086,783
Marine	139,430,000	96,068,452
Miscellaneous	402,940,000	454,916,784
	<u>866,888,000</u>	<u>798,072,019</u>

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).

Fire	2,382,000	2,382,000
Marine	1,470,000	1,470,000
Miscellaneous	1,100,000	1,100,000
	<u>4,952,000</u>	<u>4,952,000</u>

7. PROVISION FOR UNEARNED PREMIUM

Fire	857,300,000	928,055,569
Marine	160,500,000	289,610,564
Miscellaneous	7.1 1,820,690,000	1,616,228,041
	<u>2,838,490,000</u>	<u>2,833,894,174</u>

7.1 This includes premium for deficiency reserve amounted to Rs. 39.2 million based on the actuarial valuation.

8. COMMISSION INCOME UNEARNED

Fire	27,965,297	27,764,683
Marine	4,170,248	6,611,380
Miscellaneous	36,004,352	40,386,932
	<u>68,139,897</u>	<u>74,762,995</u>



		2004 Rupees	2003 Rupees
9. EMPLOYEE BENEFITS			
Defined benefit obligations			
– Pension			
Officers		58,810,121	70,654,984
Employees		295,176	(7,353,241)
– Post retirement medical benefits		37,712,000	33,667,000
Compensated absences		21,903,000	17,856,000
	35	<u>118,720,297</u>	<u>114,824,743</u>
10. LONG TERM DEPOSITS			
Represents advance rent and deposits received from tenants in connection with letting of PIC Towers.			
11. AMOUNT DUE TO OTHER PERSONS AND BODIES CARRYING ON INSURANCE BUSINESS			
Amount due to other persons and bodies carrying on insurance business	11.1	847,879,124	700,912,549
11.1 This includes Rs. 495,433 (2003: Rs. 2,252,561) due to related parties.			
12. DEPOSITS RETAINED / RECEIVED FROM OTHER COMPANIES			
Premium reserve withheld		16,673,703	18,188,877
Losses reserve withheld		25,516,041	14,011,561
Cash losses received from retrocessionaire		15,892,282	68,941,613
		<u>58,082,026</u>	<u>101,142,051</u>
This represents company's retention of deposits withheld against the total amount retroceded to other companies.			
13. CURRENT MATURITY OF LEASE LIABILITY			
Current maturity of liabilities against assets subject to finance lease		<u>2,024,960</u>	<u>1,879,083</u>
14. OTHER CREDITORS AND ACCRUALS			
Bonus payable		5,878,264	6,008,565
Provision for litigation		16,075,253	10,000,000
Accrued expenses		4,206,834	4,816,710
Others		4,231,039	8,694,136
		<u>30,391,390</u>	<u>29,519,411</u>



15. CONTINGENT LIABILITIES

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. 405 million as at 31 December 2004, 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.104 million (2003: Rs.33.69 million) 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 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 PIC 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 PIC 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 PIC 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 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.

15.6 War Risk Insurance Receivable

An amount of Rs.23.30 million is receivable from Accountant General of Pakistan (Federal Government) on account of War Risks Insurance for reimbursement of various expense incurred on its behalf since 1991-1992. The Company consider that this amount is recoverable and, therefore, no provision is required to be made against it.



		2004 Rupees	2003 Rupees
16. CASH AND BANK BALANCES			
Cash and other equivalents			
– Cash in hand		59,374	769
– Cheques in hand		23,855	81,053
		83,229	81,822
Current and other accounts			
– Current account		30,858,476	36,817,468
– Deposit account		282,152,477	511,011,044
		313,010,953	547,828,512
Deposits maturing within 12 months		1,700,000	1,700,000
		314,794,182	549,610,334
17. LOANS - considered good			
Loan to employees		29,895,694	31,405,599
Others		5,145,366	5,302,359
	17.1	35,041,060	36,707,958
17.1 Maturity of loans			
Receivable within one year		4,818,270	5,647,091
Receivable after one year		30,228,105	31,060,867
		35,046,375	36,707,958
Provision against impaired loan		(5,315)	–
		35,041,060	36,707,958
17.2 Age analysis of long term loans:			
For period upto three years		15,454,642	16,764,153
For periods more than three years		19,586,418	19,943,805
		35,041,060	36,707,958
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.		
18. INVESTMENTS			
Available for Sale			
Ordinary shares - listed	18.1	443,193,724	363,184,760
Ordinary shares - un-listed	18.2	5,716,784	6,989,390
National Investment Trust Units	18.3	645,090,617	645,090,617
		1,094,001,125	1,015,264,767
Held to maturity			
Defence Saving Certificates	18.4	232,698,890	112,000,000
Pakistan Investment Bonds	18.5	904,603,109	460,911,337
Regular Income Certificates	18.6	40,750,000	277,800,000
WAPDA Bonds (Matured)		–	20,000,000
Treasury Bills (3 Months)	18.7	447,890,828	–
		1,625,942,827	870,711,337
		2,719,943,952	1,885,976,104



As mentioned in note 2.5.2 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 than 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 2004 would have been higher by Rs.3.659 million, while the company's equity would have been higher by Rs.2,378 million (net of tax).

		2004 Rupees	2003 Rupees
18.1 Investment in Listed Companies			
Cost of investment in listed companies	18.1.1	446,249,797	370,122,037
Less: Provision for diminution in value			
Balance brought forward from last year		6,937,277	—
Provision / (Reversal) made during the year		(3,881,204)	6,937,277
		3,056,073	6,937,277
		443,193,724	363,184,760

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

	31 December 2004		
Name of Company	Number of shares / certificates	Book value	Market value
Close-End-Mutual Funds			
BSJS Balanced Fund	346,204	2,978,100	3,513,971
PICIC Growth Fund	13,500,000	202,500,000	717,525,000
	13,846,204	205,478,100	721,038,971
Investment Banks/COS/Securities			
PICIC	7,350,536	92,074,149	654,932,758
Commercial Banks			
Muslim Commercial Bank Limited	112,379	515,299	6,596,647
National Bank of Pakistan	2,453,172	6,595,817	197,112,370
	2,565,551	7,111,116	203,709,017
Insurance			
Adamjee Insurance Co. Limited	330,113	10,000	21,655,413
Asia Insurance Co. Limited	25,000	250,000	500,000
Central Insurance Co. Limited	211,868	50,000	25,741,962
Crescent Star Insurance Co. Limited	399,995	2,933,155	3,619,955
Habib Insurance Co. Limited	369,707	256,786	17,431,685
Pakistan Guarantee Insurance Co. Limited	22,029	173,000	140,986
Sterling Insurance Co. Limited	23,250	232,500	162,750
Union Insurance Co. of Pakistan Limited	55,125	500,000	909,562
United Insurance Co. of Pakistan Limited	131,468	455,000	920,276
	1,568,555	4,860,441	71,082,589



31 December 2004

Name of Company	Number of shares / certificates	Book value	Market value
Textile Composite			
Dawood Lawrencepur	1,633	35,338	138,805
Gul Ahmed Textile Limited	7,366	88,768	561,289
Hussain Industries Limited	15,820	192,017	824,222
Towellers Limited	315,790	6,000,010	8,400,014
Usman Textile Limited	300	3,888	2,265
	340,909	6,320,021	9,926,595
Textile spinning			
Regent Textile Limited	5,000	50,000	132,500
Textile Weaving			
Nakshbandi Industries Limited	331	2,445	6,454
Synthetic and Rayon			
Valika Art Fabrics Limited (Rs.4 each)	300	1,570	21,900
Jute			
Amin Fabrics	45,738	150,000	228,690
Crescent Jute Product	157,314	1,250,055	637,122
	203,052	1,400,055	865,812
Sugar and Allied Industries			
Bawany Sugar Mills Limited	55,174	99,500	689,675
Crescent Sugar Mills Limited	258,208	1,720,486	2,969,392
Fecto Sugar Mills Limited	1,182	8,109	14,893
Kohinoor Sugar Mills Limited	37,045	379,563	703,855
Mirpur Khas Sugar Mills Limited	7,216	19,900	108,601
Noor Sugar Mills Limited	26,021	100,000	3,231,808
Pangrio Sugar Mills Limited	100,000	1,337,000	360,000
Shahtaj Sugar Mills Limited	2,217	16,607	175,143
Sind Abadgar Sugar Mills Limited	98,500	1,276,150	999,775
	585,563	4,957,315	9,253,142
Cement			
Gharibwal Cement Industries Limited	53,337	109,891	778,720
Javedan Cement Limited	14,666	133,330	239,056
Mustehkam Cement Limited	2,400	19,364	33,600
Zeal Pak Cement Limited	39,130	1,360,268	403,039
	109,533	1,622,853	1,454,415
Tobacco			
Pakistan Tobacco Company Limited	70,140	234,209	4,313,610
Lakson Tobacco Company Limited	17,672	36,893	5,407,632
	87,812	271,102	9,721,242
Refinery			
National Refinery Limited	339,320	6,275,195	103,831,920
Power Gneration & Distribution			
Karachi Electric Supply Corporation Limited	1,623,450	3,635,645	12,094,702
Hubpower Company Limited	400,000	5,361,380	12,840,000
	2,023,450	8,997,025	24,934,702



31 December 2004

Name of Company	Number of shares / certificates	Book value	Market value
Oil & Gas Marketing Cos.			
Haroon Oil Mills Limited	5,000	49,750	470,000
Pakistan State Oil Company Limited	69,974	27,640	20,065,044
Sui Southern Gas Company Limited	9,671,792	36,461,488	250,499,413
Sui Northern Gas Pakistan Limited	6,846,285	17,110,611	404,615,443
	16,593,051	53,649,489	675,649,900
Engineering			
Metropolitan Steel Limited	3,492	32,369	57,618
Pakistan Engineering	43,776	364,738	3,283,200
Dadex Eternit Limited	533	995	28,782
Huffaz Seamless	55,800	558,000	1,395,000
	103,601	956,102	4,764,600
Automobile Assembler			
Pak Suzuki Motor Company Limited	688	14,780	97,008
Ghandhara Industries (National Motors)	43,431	342,687	1,302,930
	44,119	357,467	1,399,938
Automobile Parts & Accessories			
Dewan Automotive Engineering	58,333	334,000	918,745
Transport			
Pakistan International Airlines Corporation "A"	2,497,778	9,875,646	34,219,559
Technology & Communication			
Pakistan Telecommunication Company Limited	400,000	5,308,675	17,680,000
Pharmaceuticals			
Glaxo Smithline Beecham Co.	3,192	12,997	577,752
Chemicals			
ICI Pakistan Limited	864,276	8,642,760	77,482,343
Sardar Chemical Limited	500	10,000	5,000
Pakistan PTA Limited	2,357,118	23,571,180	28,285,416
	3,221,894	32,223,940	105,772,759
Paper and Board			
Crescent Board Limited	98,747	926,675	987,470
Packages Limited	462,933	2,451,364	92,054,227
Security Papers Limited	490,615	279,000	84,385,780
	1,052,295	3,657,039	177,427,477
Food & Personal Care Products			
Unilever Pakistan (Lever Brothers)	487	3,520	718,325
Vanaspati & Allied Industries			
Kohinoor Oil Mills Limited	8,800	95,748	61,600
Universal Oil Mills Limited	30,000	300,000	210,000
	38,800	395,748	271,600
Miscellaneous			
Hashmi Can Company Limited	5,250	53,787	65,625
	53,044,916	446,249,797	2,830,378,297

Rupees



	2004 Rupees	2003 Rupees
18.2 Investment in unlisted companies		
Cost of investment in unlisted companies		
Less: Provision for diminution in value	7,961,354	9,227,490
Balance brought forward from last year	2,238,100	2,238,100
Provision / (Reversal) made during the year	6,470	—
	<u>2,244,570</u>	<u>2,238,100</u>
	<u>5,716,784</u>	<u>6,989,390</u>

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

Name of Company	31 December 2004	
	Number of shares / certificates	Book value
Banks		
Allied Bank of Pakistan (Break-up value is Rs.15.25 per share based on accounts for the year ended 31 December 2004) Chief Executive (Chairman): Mr. Khalid A. Sherwani	75,812	529,820
Industrial Development Bank of Pakistan (Break-up value is Rs.(14,732.64) per share based on accounts for the year ended 30 June 2003) Chairman/Managing Director: Mr. Naeem Iqbal	6,213	618,227
The State Bank of Pakistan (Break-up value is Rs.82,390,923 per share based on accounts for the year ended 30 June 2004) Governor: Dr. Ishrat Hussain	4,900	517,615
United Bank Limited (Break-up value is Rs.16,814.47 per share based on accounts for the year ended 31 December 2004) Chairman & President: Mr. Amar Zaffar Khan	435	4,350
Development Financial Institutions		
National Investment Trust Limited (Break-up value is Rs.1788.05 per share based on accounts for the year ended 30 June 2004) Managing Director & Chairman: Mr. Tariq Iqbal Khan	52,800	100,000
Investment Corporation of Pakistan (Break-up value is Rs.320.43 per share based on accounts for the year ended 30 June 2004) Managing Director: Mr. Abdul Latif Uqaili	50,000	4,565,000
Insurance		
Indus Insurance	25,000	250,000
Cotton and Textile		
Afsar Textile	1,000	9,950
Kohinoor Cotton	22,397	219,801
Synthetic and Rayon		
Ravi Rayon Limited	24,800	254,078
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
	<u>227,455</u>	<u>1,626,342</u>
	<u>417,615</u>	<u>7,961,354</u>

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 (2003: 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 2004 was Rs. 37.40 per unit.

18.4 Defence Saving Certificates

	Tenure	Maturity date	Effective interest rate	Carrying value	
				2004 Rupees	2003 Rupees
Defence Saving Certificates	10 Years	3 September 2009 to 16 March 2010	15.01% to 15.97%	232,698,890	112,000,000

18.5 Pakistan Investment Bonds

Tenure	Maturity date	Profit Repayment frequency	Coupon rate	2004 Rupees	2003 Rupees
5 to 10 years	31 December, 2007 to 29 April 2014	Semi-annually	3.70% to 4.00%	904,603,109	460,911,337

18.6 Regular Income Certificates

	Profit Repayment frequency	Maturity date	Profit rate	2004 Rupees	2003 Rupees
Regular Income Certificates	Monthly	4 January 2005 to 2 February 2005	14%	40,750,000	277,800,000

18.7 Treasury bills

	Tenure	Maturity date	Face value Rs.	Cost Rs.	2004 Rupees	2003 Rupees
Treasury bills	3 Month	February 17, 2005	450,000,000	447,531,750	447,890,828	-

19. INVESTMENT PROPERTIES

	COST			DEPRECIATION			Book value	Rate %
	As at 01 January 2004	Addition / (Disposal)	As at 31 December 2004	As at 01 January 2004	For the year / (disposal)	As at 31 December 2004		
Lease hold land	572,406	-	572,406	-	-	-	572,406	-
Building	89,151,323	-	89,151,323	32,160,663	2,849,533	35,010,196	54,141,127	5
Electrical installation	18,995,068	-	18,995,068	16,422,979	514,418	16,937,397	2,057,671	20
Air conditioning	26,556,830	-	26,556,830	22,895,179	732,330	23,627,509	2,929,321	20
Lift	21,085,825	-	21,085,825	18,232,554	570,654	18,803,208	2,282,617	20
2004 Rupees	156,361,452	-	156,361,452	89,711,375	4,666,935	94,378,310	61,983,142	
2003 Rupees	156,361,452	-	156,361,452	84,440,113	5,271,261	89,711,374	66,650,078	

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 latest valuation of property of the company was carried by M/s. Jalal & Associates in 2001. Impairment loss of Rs.13.499 million was then recognized in the financial statements of the Company.



		2004 Rupees	2003 Rupees
20. AMOUNT DUE FROM OTHER PERSONS AND BODIES CARRYING ON INSURANCE BUSINESS			
Amount due from other persons and bodies carrying on insurance business	20.1	1,312,694,766	1,413,047,882
Provision for bad and doubtful balances		(143,000,000)	(105,000,000)
		<u>1,169,694,766</u>	<u>1,308,047,882</u>
20.1	This includes Rs. 64,112,739 (2003: Rs. 61,172,820) due from related parties.		
21. DEPOSITS HELD BY CEDING COMPANIES			
Premium reserve withheld by ceding companies		18,817,797	26,232,142
Losses reserve withheld by ceding companies		96,328,773	(3,867,621)
Provision for bad and doubtful deposits		(17,000,000)	-
		<u>98,146,570</u>	<u>22,364,521</u>
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			
Dividend receivable		19,281,815	34,624,817
Interest accrued		1,663,802	96,567,500
Accrued rental income		11,084,329	2,101,768
		<u>32,029,946</u>	<u>133,294,085</u>
23. OTHER RECEIVABLES			
Gratuity		79,802,667	54,894,667
National Insurance Company Limited		-	48,859
Export Credit Guarantee Schemes	23.1	56,995,835	56,995,835
N.C.S. Cell		5,837,101	5,837,101
W.R.I. Karachi.		13,680,517	13,294,320
W.R.I. Lahore		9,110,223	8,614,565
ECO Centre		4,272	2,724
P.I.C. (W.R.I.) Karachi		511,243	511,243
ECO Reinsurance Pool		24,150,475	24,044,240
Unclaimed Dividend		2,843,147	31,901
Others		-	1,974,211
Misc. debtors		-	13,320
		<u>192,935,480</u>	<u>166,262,986</u>
Provision for doubtful debts		(4,976,336)	(4,976,336)
		<u>187,959,144</u>	<u>161,286,650</u>
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 under active consideration.

	2004 Rupees	2003 Rupees
24. PREPAID REINSURANCE CEDED		
Facultative business		
– Fire	203,770,415	227,793,734
– Marine Cargo	–	–
– Marine Hull	26,985,841	14,562,845
– Accident	63,444	3,654,373
– Aviation	705,894,465	506,428,882
– Engineering	305,239,433	554,604,868
	1,241,953,598	1,307,044,702
Treaty	147,516,402	179,784,694
	1,389,470,000	1,486,829,396

25. TAXATION

Tax provision for current year of Rs.65.3 million (2003: Rs.69 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's appeals for assessment years 1995-96 and 1996-97 against treating capital gains as business income are pending before Appellate Tribunal.

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

25.1 Relationship between tax expenses and accounting profit

Profit before tax	390,842,058	366,295,699
Tax at the applicable rate of 35%	136,794,720	128,203,495
Tax effect of expenses that are not deductible for tax purposes	9,006,011	515,073
Tax effect of expenses that are deductible for tax purposes	(2,455,084)	–
Tax effect of dividend income taxed at lower rate	(78,039,335)	(59,718,568)
Charge for the current year	65,306,312	69,000,000



26. FIXED ASSETS

Particulars	C O S T			D E P R E C I A T I O N						
	As at 01 January 2004	Addition / (Transfer)	Disposal	As at 31 December 2004	As at 01 January 2004	For the Year	Disposal	As at 31 December 2004	Book Value 31 Dec. 2004	Rate %
PIC Building - Karachi	150,302	—	—	150,302	14,654	6,782	—	21,436	128,866	5
PIC House - Karachi	2,693,186	—	—	2,693,186	262,585	121,530	—	384,115	2,309,071	5
Lift	146	—	—	146	—	—	—	—	146	20
	2,843,634	—	—	2,843,634	277,239	128,312	—	405,551	2,438,083	
PIC Towers										
Leasehold land	223,622	—	—	223,622	—	—	—	—	223,622	—
Building	34,828,850	—	—	34,828,850	12,525,730	1,115,156	—	13,640,886	21,187,964	5
Electrical installation	7,420,825	—	—	7,420,825	6,415,984	200,968	—	6,616,952	803,873	20
Air conditioning plant	10,374,988	—	—	10,374,988	8,944,486	286,100	—	9,230,586	1,144,402	20
Lift	8,237,624	—	—	8,237,624	7,122,933	222,938	—	7,345,871	891,753	20
	61,085,909	—	—	61,085,909	35,009,133	1,825,162	—	36,834,295	24,251,614	
Furniture and fixture	8,941,785	211,341	—	9,153,126	8,379,587	77,354	—	8,456,941	696,185	10
Office equipment	566,051	740,890	—	1,306,941	138,231	175,307	—	313,538	993,403	15
	9,507,836	952,231	—	10,460,067	8,517,818	252,661	—	8,770,479	1,689,588	
Vehicles	2,840,012	73,000	—	2,913,012	2,525,369	77,529	—	2,602,898	310,114	20
Books	18,211	18,563	—	36,774	2,621	3,415	—	6,036	30,738	10
Computers	632,731	806,062	—	1,438,793	281,842	231,390	—	513,232	925,561	20
	3,490,954	897,625	—	4,388,579	2,809,832	312,334	—	3,122,166	1,266,413	
Leased vehicle	5,936,400	—	—	5,936,400	1,187,280	949,824	—	2,137,104	3,799,296	20
2004 Rupees	82,864,733	1,849,856	—	84,714,589	47,801,302	3,468,293	—	51,269,595	33,444,994	
2003 Rupees	232,573,534	(149,708,065)	(736)	82,864,733	128,572,256	3,697,221	(74)	47,801,303	35,063,431	

27. ASSETS RELATING TO BANGLADESH (FORMER EAST PAKISTAN)

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

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.



		2004 Rupees	2003 Rupees
28. MANAGEMENT EXPENSES			
Salaries wages and benefits		91,774,588	92,489,760
Retirement benefits			
– Pension			
– Officer	35.1	6,132,000	973,000
– Staff	35.1	8,597,000	3,258,000
– Medical	35.1	6,126,000	1,212,000
– Gratuity	35.1	(14,405,000)	829,000
– Compensated absences	35.1	1,925,000	2,928,000
Traveling and conveyance		6,324,236	3,617,725
Entertainment expenses		2,494,958	1,646,825
Subscription and membership		256,875	445,910
Legal and professional		2,501,257	2,496,638
Telephone and electricity		12,021,517	13,963,182
Printing and stationery		2,858,721	2,898,102
Repairs and renewal		861,588	1,335,035
Others		16,224,361	20,223,567
Expense allocated to rental income		(7,053,577)	(4,985,143)
Expense allocated to investment income		(2,613,658)	(2,885,157)
		<u>134,025,866</u>	<u>140,446,444</u>
29. RENTAL INCOME - Net			
Rental income		34,245,606	16,884,829
Staff salaries and other expenses in respect of building project department		(7,053,577)	(4,985,143)
		<u>27,192,029</u>	<u>11,899,686</u>
The rental income represents income from letting out of PIC Towers.			
30. OTHER INCOME			
Profit receipt on deposit		2,559,108	1,819,670
Management fee - ECO Reinsurance Pool		4,100,000	9,199,819
		<u>6,659,108</u>	<u>11,019,489</u>
31. GENERAL AND ADMINISTRATION EXPENSES			
Depreciation	19 & 26	8,135,228	8,968,482
Preliminary expenses amortized		1,192,944	596,472
Directors fee		1,379,768	995,978
Auditors' remuneration	31.1	470,000	350,000
Advertisement and publicity		898,600	510,115
Training and research		216,010	143,164
Markup / Interest		323,061	—
Others		7,109,727	4,887,530
		<u>19,725,338</u>	<u>16,451,741</u>



		2004 Rupees	2003 Rupees
31.1 Auditors' remuneration			
Taseer Hadi Khalid & Co./ KMRSRIR		360,000	250,000
Out of pocket expenses		36,000	—
Tax related service and other certification		74,000	100,000
		<u>470,000</u>	<u>350,000</u>
32. EARNINGS PER SHARE - Basic and diluted			
Profit after tax for the year		325,535,746	297,295,699
Weighted average number of ordinary shares	Number	45,000,072	45,000,072
Earning per share – Basic and Diluted		<u>7.23</u>	<u>6.61</u>
33. FINANCIAL RISK MANAGEMENT			
33.1 Reinsurance Risk			
<p>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.</p> <p>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.</p> <p>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.</p>			
33.2 Credit risk and concentration of credit risk exposure			
<p>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. 4,477 million, the financial assets which are subject to credit risk amounted to Rs. 2,537 million. The Company considers itself as not being exposed to major concentration of credit risk.</p> <p>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.</p>			
33.3 Foreign exchange risk			
<p>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.</p>			
33.4 Fair values of financial assets and liabilities			
<p>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.</p>			
		2004 Rupees	2003 Rupees
Market value of available for sale investments		<u>4,755,040,000</u>	<u>3,425,462,000</u>



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	2004	2003
FINANCIAL ASSETS								
Cash and bank deposits	283,852	—	283,852	30,492	—	30,492	314,344	549,610
Loans	—	—	—	8,578	26,463	35,041	35,041	36,708
Investment	488,641	1,137,302	1,625,943	—	1,094,001	1,094,001	2,719,944	1,885,976
Amount due from other persons and bodies carrying on Insurance business	—	—	—	1,169,695	—	1,169,695	1,169,695	1,308,048
Deposits held by ceding companies	98,147	—	98,147	—	—	—	98,147	22,365
Accrued investment income	—	—	—	32,030	—	32,030	32,030	133,294
Other receivable	—	—	—	108,156	—	108,156	108,156	106,392
Total	870,640	1,137,302	2,007,942	1,348,951	1,120,464	2,469,415	4,477,357	4,042,393
FINANCIAL LIABILITIES								
Liabilities against asset subject to finance lease	2,025	1,253	3,278	—	—	—	3,278	5,157
Provision for outstanding claims - net	—	—	—	866,888	—	866,888	866,888	798,072
Long term deposits	—	—	—	16,330	—	16,330	16,330	15,161
Amount due to other persons and bodies carrying on insurance business	—	—	—	847,879	—	847,879	847,879	700,912
Deposits retained/received from other companies	58,082	—	58,082	—	—	—	58,082	101,142
Other creditors and accruals	—	—	—	30,391	—	30,391	30,391	29,519
Retention money payable	—	—	—	6,414	—	6,414	6,414	6,376
Dividend payable	—	—	—	1,629	—	1,629	1,629	788
Surplus profit payable	—	—	—	768	—	768	768	829
Total	60,107	1,253	61,360	1,770,299	—	1,770,299	1,831,659	1,657,956
On balance sheet gap	810,533	1,136,049	1,946,582	(421,348)	1,120,464	699,116	2,645,698	2,384,437



2004

2003

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

Lease liability	7.5%	7.5%
Investments	6% to 19%	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 included in above amount to Rs.568 million and Rs.774 million respectively.

35. EMPLOYEE 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 2004.

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 2004.

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	64.438	87.376	18.726	54.379	21.903	246.822
Fair value of any plan asset	(31.339)	(76.889)	(130.075)	—	—	(238.303)
Net actuarial gains / (loss) not recog.	25.711	(10.192)	31.546	(16.667)	—	30.398
	<u>58.810</u>	<u>0.295</u>	<u>(79.803)</u>	<u>37.712</u>	<u>21.903</u>	<u>38.917</u>
Charge/(prepaid) for the defined benefit plan						
Current service cost	2.274	3.747	0.718	0.978		7.717
Interest cost	5.319	6.390	1.461	3.628		16.798
Expected return on plan asset	(0.710)	(4.017)	(11.660)	—		(16.387)
Actuarial (gains)/losses not recog.	(0.75)	2.477	(4.92)	1.520		(1.678)
	<u>6.132</u>	<u>8.597</u>	<u>(14.405)</u>	<u>6.126</u>	<u>1.925</u>	<u>6.450</u>



(Rupees in million)

	Pension		Gratuity	Medical	Compensated absences	Total
	Officer	Employees				
Movement in net liability / (assets) recognized						
Opening net liability	67,261	(3,098)	(63,678)	33,217	19,978	53,680
Expenses recognized	6,132	8,596	(14,405)	6,126	1,925	8,374
Contributions to the fund/benefits paid during the year	(14,583)	(5,203)	(1,720)	(1,631)	—	(23,137)
Closing net liability	58,810	0,295	(79,803)	37,712	21,903	38,917
Actual return on plan assets						
Expected return on plan assets	1,339	3,390	5,893			
Actuarial gain/(loss) on plan assets	8,093	10,529	10,264			
	9,432	13,919	16,157			
Actuarial valuation assumptions						
Valuation discount rate	8.00%	8.00%	8.00%	8.00%	8.00%	
Expected return in plan assets	8.00%	8.00%	8.00%	—	—	
Salary Increase rate	6.00%	6.00%	6.00%	—	6.00%	
Indexation in pension	2.50%	2.50%	—	—	—	
Increase in cost of medical benefits	—	—	—	5.00%	—	

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)

	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:

Locations:		Lahore	Karachi
Revenue - Net premium	Rupees	278,134,431	2,011,214,713
Total assets	Rupees	265,326	6,613,347,607
Total liabilities	Rupees	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 than remuneration and benefits to key management personnel under the terms of their employment disclosed elsewhere in these financial statements, are as follows:

	2004 Rupees	2003 Rupees
Premium	107,458,777	65,885,894
Commission	40,469,815	24,334,241
Claims	24,035,107	15,445,604
Contribution to staff retirement benefit fund	23,137,000	19,477,000

The Company continues to have a policy whereby all transactions with related parties are entered into arm's length prices using admissible valuation methods. Further, contribution to the defined benefit funded scheme is made as per the terms of employment.

38. **REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

	2004			2003		
	Directors		Total	Directors		Total
	Chief Executive	Others		Chief Executive	Others	
Managerial remuneration	375,530	1,252,240	1,627,770	361,789	1,073,000	1,434,789
Fees	–	1,379,768	1,379,768	–	995,978	995,978
Allowances & contribution of the Company in employees fund	351,915	1,516,249	1,868,164	398,948	1,288,528	1,687,476
<i>Rupees</i>	727,445	4,148,257	4,875,702	760,737	3,357,506	4,118,243
Number of persons	01	10	11	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 22 March 2005 by the Board of Directors of the Company.

40. GENERAL

40.1 Number of employees as at 31 December 2004 were 350 (31 December 2003: 355).

40.2 The directors in the Board of Directors meeting held on 22 March 2005 have proposed a final dividend of Rs. 2.50 per share, for approval of the members at the Annual General Meeting to be held on 28 April 2005.

These financial statements do not reflect the final dividend for 2004.

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

40.4 Previous year figures have been rearranged and reclassified wherever necessary for the purposes of comparison. Major changes made during the year were reclassifications resulting from the substituted Fourth Schedule to the Companies Ordinance, 1984.

Naheed Hyder
Executive Director (F&A)

Maj. (R) Muhammad Fazal Durrani
Chief Executive

Fazlur Rehman Dittu
Director

Imtiaz Kazi
Director

Pattern of Holding of the Share held by the Shareholders as at 31st December, 2004



No. of Shareholders		No. of Share		Total Share held
109	From	1	To 100	7,537
203	From	101	To 500	80,020
163	From	501	To 1000	153,075
214	From	1001	To 5000	596,730
112	From	5001	To 20000	1,201,310
49	From	20001	To 50000	1,455,370
22	From	50001	To 150000	1,736,690
6	From	150001	To 300000	1,380,850
1	From	300001	To 400000	336,000
4	From	400001	To 1000000	2,281,660
1	From	1000001	To 3000000	1,037,430
1	From	3000001	To 15000000	11,783,400
1	From	15000001	To 22950000	22,950,000
886				45,000,072

Categories of Shareholders	Number	Share held	Percentage
Directors, Chief Executive and their Family	20	678,182	1.51
Financial Institution	6	75,100	0.17
Investment & Modarba Companies	6	565,200	1.26
Leasing Companies	1	10,000	0.02
Insurance Companies (General)	12	2,659,930	5.91
Insurance Companies (Life)	1	11,783,400	26.19 *
Joint Stock Companies	55	1,848,450	4.11
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)	782	4,362,310	9.69
Total	886	45,000,072	100.00

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

* State Life Insurance Corporation of Pakistan	11,783,400	26.19
** Government of Pakistan	22,950,000	51.00



Additional Information regarding PRC Shares as at 31st December 2004

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.	269,860
3	M/S. CENTRAL INSURANCE CO.	1,037,430
4	M/S. CRESENT STAR INSURANCE CO.	3,800
5	M/S. E.F.U. GENERAL INSURANCE CO.	128,790
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.	217,590
9	M/S. PREMIER INSURANCE CO. LTD.	603,600
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	11,783,400

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	5,500
2	M/S. GUARDIAN MODARBA	22,000
3	M/S. FIRST DAWOOD INVESTMENT BANK LTD.	5,000
4	M/S. MILLENIUM SECURITIES & INVESTMENT BANK LTD.	7,000
5	M/S. CDC TRUSTEE PICIC INVESTMENT FUND	98,500
6	M/S. CDC TRUSTEE PICIC GROWTH FUND	427,200

LEASING COMPANIES

1	M/S. DAWOOD LEASING COMPANY LTD.	10,000
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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)	2,670
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)	550,860
12	MR. RAIFQ AKHTAR (SELF)	67,600

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 HYAT JAMALI	9

MINISTRY OF COMMERCE	22,950,000
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JOINT STOCK COMPANIES	1,848,450
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FINANCE COMPANIES	75,100
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GENERAL PUBLIC (Individuals)	4,362,310
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Form of Proxy



I/ We _____ of _____
being a member of Pakistan Reinsurance Company Limited hereby appoint
Mr. _____ of _____
or failing him _____ of _____
as my / our proxy in my / our absence to attend and vote for me / us and on my / our behalf at the 5th Annual
General Meeting of the Company to be held on Thursday April 28, 2005 at 11:00 a.m. and at any adjournment
thereof.

Signed this _____ day of April, 2005

Affix Rupees Five
Revenue Stamp

Signature of Member(s)

Shareholder's Folio No. _____
and / or CDC

Participant I.D. No. _____

and Sub Account No. _____

WITNESSES:

1. Signature : _____
Name : _____
Address: _____
NIC or
Passport No. _____

2. Signature : _____
Name : _____
Address: _____
NIC or
Passport No. _____

IMPORTANT:

1. No person shall be appointed a proxy who is not a shareholder of the company and qualified to vote, save that a company being member of the company may appoint as its proxy any officer of such company whether a member of the company or not.
2. The instrument appointing proxy and the power of attorney or other authority if any, under which it is signed shall be deposited with the company not less than 48 hours before the date of meeting.
3. In case of joint holders any one of the joint holders may sign the instrument of proxy.
4. The signature on the instrument of proxy must conform to the specimen signature filed with the company.
5. CDC Shareholders and their proxies are each requested to attach attested photocopy of their National Identity Card or Passport with this proxy form before submission to the company.
6. CDC Shareholders or their proxies are requested to bring with them their Original National Identity Card or Passport alongwith the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

— Pakistan Reinsurance Company Limited —