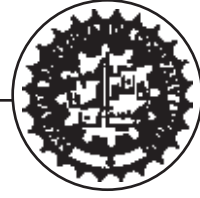






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Vision Statement

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

MS. NAHEED HYDER	CHAIRPERSON
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
MR. HAIDER RAZA	DIRECTOR

AUDIT COMMITTEE

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

AUDITORS

KPMG TASEER HADI & CO.
Chartered Accountants

LEGAL ADVISOR

Aman Law Associates

HEAD OFFICE

PRC 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: pic1@pk.netsolir.com
Website : www.pakre.org.pk

ZONAL OFFICE

AL-Jannat,
Bank Square, Lahore

BANKERS

National Bank of Pakistan
Habib Bank Ltd
MCB Bank Ltd

Senior Management



Ms. Naheed Hyder	Executive Director (F & A) (Addl. Charge)
Mr. Usman Hasan	Executive Director (Reinsurance)
Mr. Rahat Sadiq	Executive Director (P & D)
Mr. Shahzad F. Lodhi	Secretary / Manager (Estb. & Admn.)
Mrs. Ghazala Imran	Chief Manager (NZO), Lahore
Mr. Fida Hussain Samoo	Acting Chief Manager (Reinsurance)
Mr. Asghar Imam Khalid	Acting Chief Manager (Finance & Accounts)
Mr. Ayaz Hussain M. Gad	Manager (Marine & Fire)
Mr. Anzarul Hasan Hashmi	Manager (Aviation)
Mr. Rahmatullah Khilji	Manager (Internal Audit)



Notice of Annual General Meeting

Notice is hereby given that the 6th Annual General Meeting of **PAKISTAN REINSURANCE COMPANY LIMITED** will be held on (Friday) the 28th April, 2006 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 5th Annual General Meeting held on 28th April, 2005.
2. To receive consider and adopt the audited accounts of the Company for the year ended 31st December, 2005, 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, 2005.
4. To appoint auditors of the Company (PRC) for the year ending 31st December, 2006 and fix their remuneration.
5. To consider any other business with the permission of the Chair.

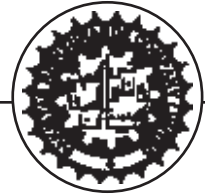
By Order of the Board

Karachi, the March 25, 2006

Shahzad F. Lodhi
(Company Secretary)

NOTES

- 1). The share transfer books of the company shall remain closed from 21st April, 2006 to 28th April, 2006 (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, 2005

The Shareholders,
Pakistan Reinsurance Co. Ltd.,
Gentlemen,

Your directors are pleased to present the 6th Annual Report of the company together with the audited financial statements and Auditors' Report thereon for the year ended 31st December, 2005.

Review of business activities

Economic growth and distribution of economic benefits to the people is the prime goal of the Government. The economic reforms agenda has laid the foundation of a stable and growing economy. There has been an increase in real GDP, growth reserves increased and there has been a remarkable progress in privatization program.

The pace of the economic activities gained ground and with strong economic fundamentals, persuasion of policy of privatization and availability of financing at lower interest rates, the year closed with better performance in line with the growth of insurance industry.

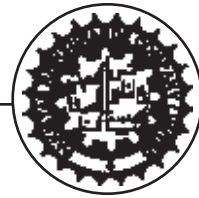
With the growth of domestic insurance market, the general insurance market has crossed Rs.19 billion mark and PRC has been able to achieve market share of 22% during the year 2005 which is the first year without compulsory cession.

PRCL was converted into a company in the year 2000 and now operating under Insurance Ordinance, 2000, and Companies Ordinance, 1984. A number of steps to run it on commercial lines have already been taken. Paid up Capital has been enhanced. Corporate culture is being introduced. Compulsory cession was withdrawn w.e.f. 01.01.2005. As already mentioned above, this was the first year of the company without compulsory cession since the inception of the company (formerly Corporation). The volume of the compulsory cession vis-a-vis market was 32% of the total business of the company. Withdrawal of compulsory cession was a good step because under compulsory cession, PRCL was bound to accept good and bad business. During the year 2005, PRCL was selective in accepting business under treaty and facultative. By the grace of God profit for the year 2005 rose to Rs.594 million as compared to Rs.326 million in 2004.

The salient features of the business operations during the year, 2005 are as under:-

	Dec. 31, 2005	Dec. 31, 2004
	(Rupees in million)	
Gross Premium	4,159	5,241
Retrocession	<u>2,779</u>	<u>2,850</u>
	1,380	2,391
Premium Reserve	+ 625	- 102
Net Premium	<u>2,005</u>	<u>2,289</u>
Net Commission	620	774
Net Claims	823	1,330
Management expenses	171	134
Underwriting Profit/(Loss)	391	51
Investment Income	465	360
Exchange gain, rental & other income	76	59
Gen. & Admn. expense	27	19
Provisions for Doubtful debt/litigation	123	60
Profit before tax	782	391
Profit after tax	594	326

The Gross Premium of the company was Rs.4,159 million in the year 2005 as compared to Rs.5,241 for the year 2004. The reason for this decrease is mainly because 2005 was the first year without compulsory cession which contributed about 32% of the market share of the Gross premium.



However, this decrease was restricted to 21% by increasing business in Treaty and Facultative.

The net premium of the company was Rs.2,005 million in 2005 as compared to Rs.2,289 million in the year of 2004. As already mentioned under the heading "Gross Premium" above, the decrease was mainly due to absence of compulsory cession but the advantage of unearned premium improved the situation.

The net claims for the year 2005 were Rs.823 million as compared to Rs.1,330 million for the year of 2004. The main reason for decrease in claim was that heavy chunk of claims under compulsory cession were reported in 2004 being the last year of compulsory cession. In 2005 very nominal left over claims under this head have been reported.

As regards the commission expenses of the company were Rs.620 million in the year 2005 as compared to Rs.774 million for the year 2004. Commission figures reveals that although the amount paid under this head is less in 2005 compared to 2004. The reason for low commission in 2005 is mainly due to withdrawal of compulsory cession under which PRC was obliged to accept business.

The investment income in the year 2005 increased to Rs.465 million as compared to Rs.360 million in the year 2004. The increase in investment income was mainly due to increase in dividend income received from NIT, PICIC/PICIC.G.F., SNGPL/SSGC. The break-up value of PRC's share as at 31st December, 2005 was Rs.49.73 per share of Rs.10/= each and the earning per share was Rs. 13.21.

The profit before tax was Rs.782 million. After making provision for taxation of Rs.188 million, the profit works out to Rs.594 million.

Department-wise results are as follows:-

Fire Department

The gross premium of Fire dept. was Rs.1,498 million which contributed about 36% to the company's revenue. The net premium of this department was Rs. 848 million. The claim ratio was 32% .

Marine Department

The Gross Premium of Marine dept. was Rs.349 million which contributed about 8% to the company's revenue. The net premium of this department was Rs.184 million. The claim ratio was 6%.

Aviation, Engineering & Accident Departments

The Gross Premium of Aviation, Engineering and Accident dept. was Rs.2,312 million which contributed about 56% to the company's revenue. The net premium of the dept. was Rs.973 million. The claim ratio was 62% .

Investment Plan

Investment Plan of PRC is being updated continually. The main objective of the Investment plan is to make 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, due to low interest rates and unstable market conditions, the return on investment income was low, however, with the diversification of investments and market stabilization, your company has been able to achieve average return of more than 16% during the year 2005, which is higher than the average market rate of return on investment during the year.

Investment

The investment as at the end of year 2005 has increased to Rs.2,872 million as compared to Rs.2,720 million in the year 2004, on lower of cost or market value and amortised cost basis.

Income from investments

The Investment income in the year 2005 has increased to Rs.465 million as compared to Rs.360 million in the year 2004.

Profit

The profit before tax of the company for the year ended 31st December, 2005 is as follows:-



	<u>Rupees in '000'</u>
Net profit before tax	782,386
Less: Provision for taxation	<u>(187,959)</u>
Profit after tax	594,427
Add: Unappropriated profit brought forward	148,183
Final Dividend 2004	<u>(112,500)</u>
	<u>630,110</u>
Less: Transfer to General Reserve	<u>400,000</u>
Unappropriated profit carried forward	<u>230,110</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	59
- General	25
Gratuity Fund	49
Pension	
- Employees	30
- General	15

Privatization of PRCL

Pakistan Reinsurance Company Limited has been placed on the private list by the Privatization Commission. Privatization Commission has also issued Guidelines to all such organizations who are under privatization list for strict compliance which are being observed by PRCL.

Vision of the future

The operating environment for PRCL in 2006 will be further challenging as this would be second year without compulsory cession. PRCL will have to compete in the market for enhanced facultative business, to enable it to increase its profits.

In order to achieve the target/goal its business strategy is to provide prompt service to insurance companies particularly with reference to facultative offers. PRCL is also concentrating on quality treaty and facultative business and profitable treaty cession and is in the process of increasing its retention capacity.

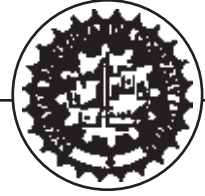
In view of above, the directors do not foresee any problem arising as a result of the above factor and a corporate plan has been prepared by the Company.

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 requirements 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, seven 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. ® MUHAMMED FAZAL DURRANI	Five
2.	MS. NAHEED HYDER	One (since 21.11.2005)
3.	MR.IMTIAZ KAZI	Five
4.	MR. KAMAL AFSAR	Five
5.	MR. S.M. RAFIQUE AKHTAR/ Mr. S.Aijaz Akhtar	Three
6.	SYED YAWAR ALI	Six
7.	MR.FAZLUR REHMAN DITTU	Seven
8.	MR. SHAMIM AHMED KHAN	Seven
9.	MR. SIKANDER HAYAT JAMALI	Five

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
Mr. Shamim Ahmed Khan	Member



Performance of the company during the last five years

	2005	2004	2003	2002	2001 (Feb.15 to Dec.2001)
	(Rs. in million)				
Gross Premium	4,159	5,241	4,697	3,500	2,278
Net Premium	2,005	2,289	2,133	1,612	1,231
Net Commission	620	774	219	556	462
Net Claims	823	1,329	1,011	848	900
Management Expenses	171	134	140	108	97
Underwriting Profit/(Loss)	391	51	76	76	42
Investment Income	465	360	333	269	206
Profit before Tax	782	391	366	457	108
Profit after Tax	594	326	297	333	66

Dividend

Your directors are pleased to declare a dividend of 40% for the year 2005.

Earning per share

The earning per share of the Company was Rs.13.21.

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:-

Name	No. of Shares	
	Purchased	CDC/Physical/Disposal
Mr. S.M.Rafiq Akhtar	1,58,000	

Appointment of Auditors

The present auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants retire, and being eligible offer themselves for re-appointment at the enhanced fee of Rs.440,400/= for conduct of audit for the year 2006.

Appointment of M/s. KPMG Taseer Hadi & 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 2006 at the fee of Rs.440,400/= for conduct of audit for the year 2006. 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.

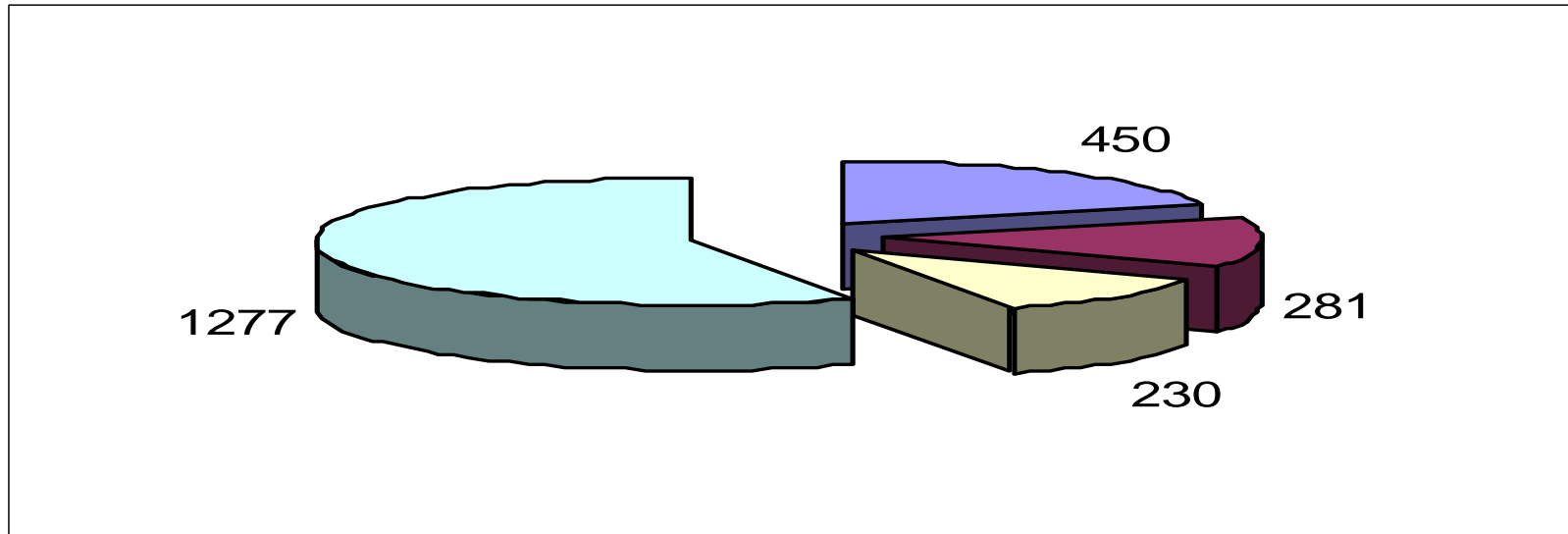
Haider Raza
Director

Fazlur Rehman Dittu
Director

Naheed Hyder
Chief Executive

BREAK-UP VALUE OF COMPANY'S SHARE AS AT 31ST DECEMBER 2005

	Rs. In million
Paid-up Capital	450
Exceptional Losses Reserve	281
Retained Earnings	230
General Reserve	<u>1,277</u>
Net worth (Owner's equity)	<u>2,238</u>



Break-up Value per share 49.73/=

Of Rs.10/- each

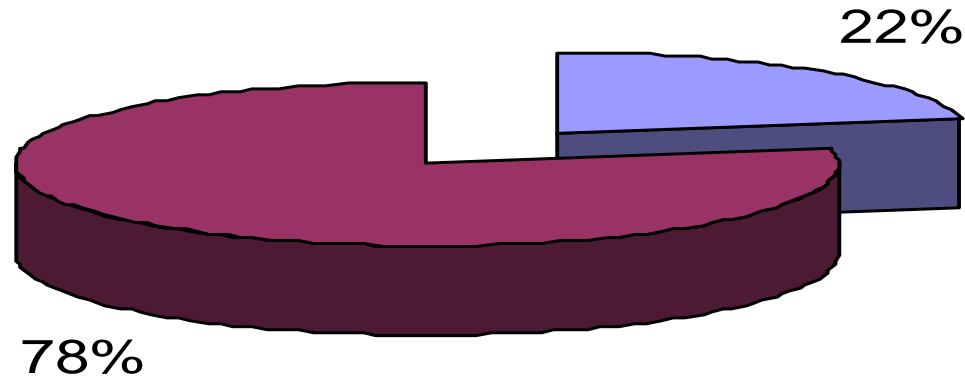
PAKISTAN INSURANCE MARKET AND COMPANY'S SHARE 2005

Rs. In million

1) Gross Premium

a) Insurance Market	19,000
b) Company	4,159

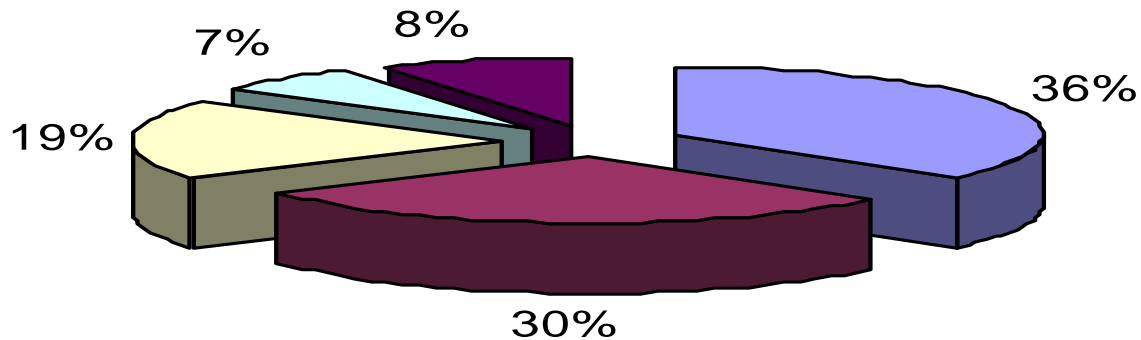
2) Company's Share of Market 22%



GROSS PREMIUM INCOME BY CLASS OF BUSINESS 2005

Rs. In million

Class of Business	Gross Premium	% of Total
a) Fire	1,498	36
b) Aviation	1,242	30
c) Engineering	799	19
d) Marine	349	8
e) Accident	271	7
	<u>4,159</u>	<u>100</u>



RESERVES, PROVISION AND INVESTMENTS 2005

Rs. In million

1. RESERVES & PROVISIONS

A) FINANCIAL RESERVES

1)	Exceptional Losses Reserve	281	
2)	General Reserve	1,277	
3)	Retained Earnings	<u>230</u>	1,788

B) UNDERWRITING PROVISIONS

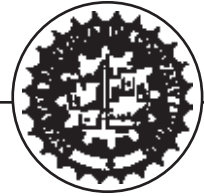
1)	Outstanding Claims	518	
2)	Unearned Premium	2,115	
3)	Unearned Commission	<u>58</u>	
		2,691	

Less:	Prepaid Reinsurance Ceded	1,290	
	Deferred Commission Expense	<u>269</u>	<u>1,132</u>
			<u>2,920</u>

2. INVESTMENT

1)	NIT Units	645	
2)	Stocks & Shares	485	
3)	D.S.C	271	
4)	Pakistan Investment Bonds	891	
5)	Three Months Treasury	<u>590</u>	
		2,882	
Less:	Diminution in Stock & Shares	<u>10</u>	<u>2,872</u>

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 31 December 2005 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.

Except for the matters stated in paragraph (i) and (ii) below, 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. 461 million (net of provision amounting to Rs. 266 million) and Rs. 334 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 2005 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.98.4 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 2005, the balances in respect of deposits retained/received from other companies amounted to Rs. 34 million and balances in respect of deposits held by ceding companies amounted to Rs. 84 million. These balances have not been confirmed by respective insurance companies. Consequently, we are unable to verify these balances.



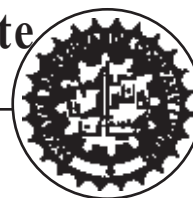
Except for the financial effect of the matters referred to in the preceding paragraphs, in our opinion:

- 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.
- 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, 2005 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.

KPMG TASEER HADI & CO.
CHARTERED ACCOUNTANTS

Karachi :
Dated: 21 March 2006

Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2005



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 were 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. One casual vacancy has occurred in the year 2005 in the Board after introduction of the Code. The same has 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.



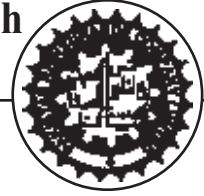
14. The Company has complied with all the corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of Board members, all of whom are non-executive directors including Chairman, Audit Committee.
16. The meetings of the audit committee were held 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.

Haider Raza
Director

Fazlur Rehman Dittu
Director

Naheed Hyder
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: 21 March, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants



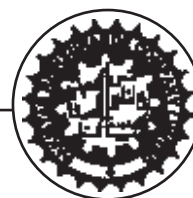
Balance Sheet as at

	Note	2005	2004
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		1,277,419,085	877,419,085
Retained earnings		230,110,869	148,183,586
		1,788,529,954	1,306,602,671
		2,238,530,674	1,756,603,391
Underwriting provisions			
- Provision for outstanding claims (including IBNR)	6	518,012,976	866,888,000
- Provision for unearned premium	7	2,114,756,144	2,838,490,000
- Commission income unearned	8	58,397,167	68,139,897
		2,691,166,287	3,773,517,897
Liabilities against assets subject to finance lease	5	-	1,253,061
Deferred liability-Employee benefits	9	132,515,177	118,720,297
Long term deposits	10	17,670,298	16,330,096
Creditors and accruals			
Amount due to other persons and bodies carrying on insurance business	11	334,700,662	847,879,124
Deposits retained / received from other companies	12	34,381,932	58,082,026
Current maturity of lease liability	13	1,253,061	2,024,960
Other creditors and accruals	14	29,859,710	30,391,390
Taxation - net	25	142,578,859	-
Retention money payable		6,379,025	6,414,258
		549,153,249	944,791,758
Other liabilities			
Dividend payable		3,235,899	1,628,737
Surplus profit payable		1,313,805	767,696
		4,549,704	2,396,433
Total liabilities		3,395,054,715	4,857,009,542
CONTINGENCIES	15	-	-
Total equity and liabilities	Rupees	5,633,585,389	6,613,612,933

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

Executive Director (F&A)

Naheed Hyder
Chief Executive

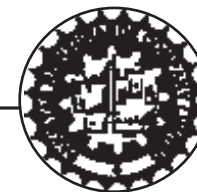


	Note	2005	2004
Cash and bank deposits			
Cash and other equivalents		34,351	83,229
Current and other accounts		269,654,270	313,010,953
Deposits maturing within 12 months		1,700,000	1,700,000
	16	271,388,621	314,794,182
Loans - considered good			
- to employees		30,974,288	29,895,694
- to others		3,926,249	5,145,366
	17	34,900,537	35,041,060
Investments			
	18	2,872,639,778	2,719,943,952
Deferred taxation			
-	25.1.1	43,050,001	
Investment properties			
	19	57,822,167	61,983,142
Other assets			
Amount due from persons and bodies carrying on insurance business	20	461,336,757	1,169,694,766
Deposits held by ceding companies	21	84,143,171	98,146,570
Accrued investment income	22	26,491,735	32,029,946
Other receivables	23	190,471,420	187,959,144
Prepaid reinsurance ceded	24	1,290,424,332	1,389,470,000
Deferred commission expense		269,444,909	511,351,371
Taxation payments less provision	25	-	58,811,713
Stock of stationery		316,741	942,093
		2,322,629,065	3,448,405,603
Fixed assets			
Tangible			
Land and building		24,944,596	26,689,697
Furniture, fixture, books and office equipment		2,923,096	2,645,887
Vehicles		3,287,528	4,109,410
	26	31,155,220	33,444,994
Assets related to Bangladesh	27	-	-
Total assets	Rupees	5,633,585,389	6,613,612,933

Haider Raza
Director

Fazlur Rehman Dittu
Director

Profit and Loss Account for the year ended December 31, 2005



Note	Facultative						Treaty	2005	2004
	Fire	Marine Cargo	Marine Hull	Accident	Aviation	Engineering			
Revenue account									
	28,554,297	6,505,535	1,288,130	5,865,155	20,462,386	47,766,417	1,894,201,388	2,004,643,308	2,289,349,144
	21,425,458	180,741	212,151	6,528,725	(10,533,386)	(13,984,397)	818,860,880	822,690,172	1,329,890,812
Management expenses	4,769,490	3,008,506	1,756,505	3,369,736	3,757,928	3,079,053	150,882,848	170,624,066	134,025,866
Net commission	(3,109,567)	958,290	(1,766,657)	773,457	(8,536,683)	(23,296,693)	654,871,240	619,893,387	774,320,342
Underwriting result	5,468,916	2,357,998	1,086,131	(4,806,763)	35,774,527	81,968,454	269,586,420	391,435,683	51,112,124
Investment income-net								464,694,842	360,525,695
Rental income-net							29	26,547,577	27,192,029
Exchange gain								40,563,284	25,078,440
Other income							30	9,867,218	6,659,108
General and administration expenses							31	(27,722,328)	(19,725,338)
Provision for doubtful debts								(123,000,000)	(60,000,000)
								-	-
								390,950,593	339,729,934
Profit before tax								782,386,276	390,842,058
Provision for taxation							25	187,958,813	65,306,312
Profit after tax								594,427,463	325,535,746
Profit and loss appropriation account									
Balance at the commencement of year								148,183,586	135,148,020
Profit after tax for the year								594,427,463	325,535,746
Transfers to general reserve								(400,000,000)	(200,000,000)
Final dividend								(112,500,180)	(112,500,180)
Balance of unappropriated profit at the end of year							Rupees	230,110,869	148,183,586
Earning per share - basic and diluted	32						Rupees	13.21	7.23

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

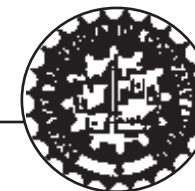
Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director

Statement of Premiums for the year ended December 31, 2005



Class	Premium Written (A)	Unearned premium reserve		Premium earned (D=A+B-C)	Reinsurance Ceded (E)	Prepaid Reinsurance Premium ceded		Re-insurance expense (H=E+F-G)	Net premium revenue	
		Opening (B)	Closing (C)			Opening (F)	Closing (G)		31 December 2005 (I=D-H)	31 December 2004
----- Rupees -----										
Business underwritten inside Pakistan										
Facultative										
Fire	582,028,375	196,644,563	238,631,634	540,041,304	488,439,035	203,770,415	180,722,443	511,487,007	28,554,297	(21,400,636)
Marine Cargo	12,173,759	918,936	4,139,078	8,953,617	2,448,082	-	-	2,448,082	6,505,535	2,565,687
Marine Hull	43,758,329	25,585,246	26,692,581	42,650,994	38,856,818	26,985,841	24,479,795	41,362,864	1,288,130	(366,139)
Accident	18,653,498	1,712,517	12,124,774	8,241,241	9,636,010	63,444	7,323,368	2,376,086	5,865,155	2,351,020
Aviation	1,236,235,036	711,589,895	630,479,868	1,317,345,063	1,206,098,391	705,894,465	615,110,179	1,296,882,677	20,462,386	24,968,487
Engineering	663,629,154	327,248,405	378,268,618	612,608,941	590,007,024	305,239,433	330,403,933	564,842,524	47,766,417	21,891,130
Total	2,556,478,151	1,263,699,562	1,290,336,553	2,529,841,160	2,335,485,360	1,241,953,598	1,158,039,718	2,419,399,240	110,441,920	30,009,549
Treaty	1,603,088,974	1,574,790,438	824,419,592	2,353,459,820	444,126,644	147,516,402	132,384,614	459,258,432	1,894,201,388	2,259,339,595
Grand Total	4,159,567,125	2,838,490,000	2,114,756,145	4,883,300,980	2,779,612,004	1,389,470,000	1,290,424,332	2,878,657,672	2,004,643,308	2,289,349,144

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

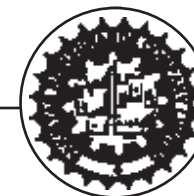
Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director

Statement of Claims for the year ended December 31, 2005



Class	Claims Paid (A)	Outstanding Claims		Claims Expense (D=A+C-B)	Reinsurance and other recoveries Received (E)	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries Revenue (H=E+G-F)	Net claims expenses	
		Opening (B)	Closing (C)			Opening (F)	Closing (G)		31 December 2005 (I=D-H)	31 December 2004
----- Rupees -----										
Business underwritten inside Pakistan										
Facultative										
Fire	7,771,346	73,163,899	86,818,011	21,425,458	7,661,302	76,629,401	68,968,099	-	21,425,458	(16,869,430)
Marine Cargo	192,824	12,083	-	180,741	-	-	-	-	180,741	(108,501,881)
Marine Hull	14,392,391	53,716,475	12,949,463	(26,374,621)	15,643,971	47,728,412	5,497,669	(26,586,772)	212,151	(4,283,494)
Accident	-	-	6,528,725	6,528,725	-	-	-	-	6,528,725	-
Aviation	189,400,606	947,262,294	498,635,923	(259,225,765)	185,485,686	912,811,985	478,633,920	(248,692,379)	(10,533,386)	(381,214,230)
Engineering	66,853,348	475,058,570	326,997,677	(81,207,545)	56,690,900	422,987,974	299,073,926	(67,223,148)	(13,984,397)	24,246,538
Total	278,610,515	1,549,213,321	931,929,799	(338,673,007)	265,481,859	1,460,157,772	852,173,614	(342,502,299)	3,829,292	(486,622,497)
Treaty	1,398,590,639	1,319,196,679	1,478,190,450	1,557,584,410	240,154,099	536,412,228	1,034,981,659	738,723,530	818,860,880	1,816,513,309
Grand Total	1,677,201,154	2,868,410,000	2,410,120,249	1,218,911,403	505,635,958	1,996,570,000	1,887,155,273	396,221,231	822,690,172	1,329,890,812

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

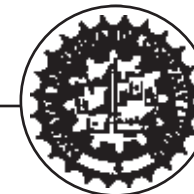
Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director

Statement of Expenses for the year ended December 31, 2005



Class	Commission paid or payable (A)	<u>Deferred Commission</u>		Net commission expense (D=A+B-C)	Other management Underwriting expense (E) (F=D+E)	Commission from reinsurers (G)	<u>Net underwriting expenses</u>		Net Commission Retrocession (J=G+H-I)	31 December	31 December	
		Opening (B)	Closing (C)				Opening (H)	Closing (I)		2005 (K=F-J)	2004	
----- Rupees -----												
Business underwritten												
inside Pakistan												
Facultative												
Fire	38,004,739	10,901,577	18,242,275	30,664,041	4,769,490	35,433,531	31,016,229	14,233,384	11,476,005	33,773,608	1,659,923	(1,617,215)
Marine Cargo	1,805,209	36,758	577,667	1,264,300	3,008,506	4,272,806	306,010	-	-	306,010	3,966,796	3,163,432
Marine Hull	3,606,709	1,961,017	2,164,025	3,403,701	1,756,505	5,160,206	4,857,102	3,373,230	3,059,974	5,170,358	(10,152)	877,206
Accident	1,383,135	201,631	760,724	824,042	3,369,736	4,193,778	71,059	6,528	27,002	50,585	4,143,193	3,183,703
Aviation	4,569,646	906,252	2,513,305	2,962,593	3,757,928	6,720,521	13,530,299	5,004,732	7,035,755	11,499,276	(4,778,755)	(2,290,876)
Engineering	36,639,360	9,289,356	19,785,254	26,143,462	3,079,053	29,222,515	53,910,380	24,641,380	29,111,605	49,440,155	(20,217,640)	(19,687,173)
Total	86,008,798	23,296,591	44,043,250	65,262,139	19,741,218	85,003,357	103,691,079	47,259,254	50,710,341	100,239,992	(15,236,635)	(16,370,923)
Treaty	430,803,025	488,054,780	225,401,659	693,456,146	150,882,848	844,338,994	25,391,088	20,880,643	7,686,825	38,584,906	805,754,088	924,717,131
Grand Total	516,811,823	511,351,371	269,444,909	758,718,285	170,624,066	929,342,351	129,082,167	68,139,897	58,397,166	138,824,898	790,517,453	908,346,208

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

Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director



Statement of Cash Flow for the year ended December 31, 2005

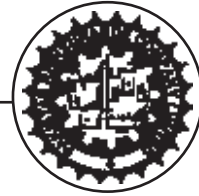
	31 December 2005	31 December 2004
Operating Cash Flows:		
Underwriting activities		
Premium received	4,744,925,134	5,332,194,986
Reinsurance premium paid	(3,252,227,182)	(2,775,447,711)
Claims paid	(1,677,201,154)	(1,931,021,515)
Reinsurance and other recoveries received	505,635,958	669,976,684
Commission paid	(516,811,823)	(924,012,334)
Commission received	129,082,167	126,050,833
Deposits received from/paid to ceding companies	(9,696,695)	(116,116,736)
Expenses paid	(156,697,432)	(151,856,787)
Net cash flows from underwriting activities	(232,991,027)	229,767,420
Other Operating Activities		
Income tax paid	(29,618,241)	(80,788,670)
General management expenses paid	(20,501,710)	(19,725,339)
Loans recovered from employees	140,523	1,666,898
Other receipts	6,824,849	6,354,057
Other payments - staff contribution	(2,724,000)	(23,187,000)
Net cash flows from other operating activities	(45,878,579)	(115,680,054)
Total cash flow from all operating activities	(278,869,606)	114,087,366
Investment activities		
Fixed Capital expenditure	(769,869)	(1,849,856)
Acquisition of investments	(2,262,386,290)	(1,039,770,510)
Rental income received	27,646,388	18,209,468
Dividend income received	354,433,715	272,662,872
Interest Income on bank deposits	4,127,957	2,559,108
Investment income received	138,741,312	195,298,277
Sale proceeds of investments	2,090,570,829	317,648,301
Total cash flow from investment activities	352,364,042	(235,242,340)
Financing activities		
Surplus paid	(767,696)	(61,095)
Dividend paid	(114,107,341)	(111,720,998)
Payments of finance leases	(2,024,960)	(1,879,085)
Total cash flows from financing activities	(116,899,997)	(113,661,178)
Net cash flow from all activities	(43,405,561)	(234,816,152)
Cash and cash equivalents at beginning of the year	314,794,182	549,610,334
Cash and cash equivalents at end of the year	271,388,621	314,794,182

Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director



	31 December 2005	31 December 2004
Reconciliation to profit and loss account		
Operating cash flows	(278,869,606)	114,087,366
Depreciation expense	7,220,618	(8,135,228)
Exchange gain	(40,563,284)	25,078,440
Provision for doubtful debts/Litigation	123,000,000	(60,000,000)
Amortization of deferred cost	-	(1,192,945)
Rental income	(32,856,783)	27,192,029
Pension officers expense	(1,529,000)	(6,132,000)
Pension staff expense	4,982,000	(8,597,000)
Medical expense	8,326,000	(6,126,000)
Gratuity expense	(10,235,000)	14,405,000
Leave encashment	4,680,000	(1,925,000)
Provision for outstanding claims	348,875,024	-
Provision for unearned premium	723,733,856	-
Prepaid reinsurance	(99,045,668)	-
Provision for employee benefits	13,794,880	-
Dividend Income	(338,198,631)	-
Investment income	(148,355,748)	374,955,711
Amortisation of premium	14,585,502	(17,319,229)
Gain on sale of investment	-	(2,889,213)
(Decrease) / Increase in operating assets other than cash	908,033,506	(195,298,277)
(Increase) / Decrease in operating liabilities	(400,105,715)	58,075,000
	807,471,951	306,178,654
Other adjustments:		
Decrease / (Increase) in provision for diminution in value of investments	4,532,564	3,874,734
Income tax paid	(29,618,239)	80,788,670
	<u>(25,085,675)</u>	<u>84,663,404</u>
Profit before taxation	782,386,276	390,842,058
Provision for taxation	(187,958,813)	(65,306,312)
Profit after taxation	<u>594,427,463</u>	<u>325,535,746</u>
	Rupees	
Cash and cash equivalents:		
Cash and other equivalent	34,351	83,229
Current and other accounts	269,654,270	313,010,953
Deposit maturing within 12 months	1,700,000	1,700,000
	<u>271,388,621</u>	<u>314,794,182</u>
	Rupees	

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

Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director



Statement of the Investment Income for the year ended December 31, 2005

	31 December 2005	31 December 2004
Income from non-trading investment		
Held to maturity investments		
Return on government securities	120,522,533	108,689,485
Amortization of premium on Pakistan investment Bond	(14,585,501)	(17,319,229)
Return on other fixed income securities and deposits	4,127,957	4,515,016
Income on treasury bills	23,705,258	359,018
Available for sale investments		
Dividend income	338,198,631	260,131,116
Gain on sale of non-trading investments		
Available for sale investments	-	2,889,213
(Loss)/Gain on revaluation of investments		
Available for sale investments	(4,534,134)	3,874,734
	467,434,744	363,139,353
Less: investment related expenses	(2,739,902)	(2,613,658)
Net investment income	464,694,842	360,525,695

Rupees

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

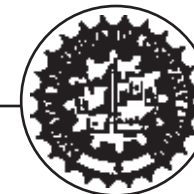
Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director

Statement of Changes in Equity for the year ended December 31, 2005



	Share Capital	Reserves				Total
	Issued	Revenue Reserves			Total	
	Subscribed and paid-up	Exceptional Losses reserve	General Reserve	Unappropriated profit		
Balance as at 1 January 2004	450,000,720	281,000,000	677,419,085	135,148,020	1,093,567,105	1,543,567,825
Final dividend 2003 @ 25% (Rs.2.5 per share)				(112,500,180)	(112,500,180)	(112,500,180)
Total income and expense recognized during the year - profit for the year 2004	-	-	-	325,535,746	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	1,306,602,671	1,756,603,391
Balance as at 1 January 2005	450,000,720	281,000,000	877,419,085	148,183,586	1,306,602,671	1,756,603,391
Final dividend 2004 @ 25% (Rs.2.5 per share)	-	-	-	(112,500,180)	(112,500,180)	(112,500,180)
Total income and expense recognized during the year - profit for the year 2005	-	-	-	594,427,463	594,427,463	594,427,463
Transfer to reserves	-	-	400,000,000	(400,000,000)	-	-
Balance as at 31 December 2005 Rupees	450,000,720	281,000,000	1,277,419,085	230,110,869	1,788,529,954	2,238,530,674

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

Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director



Notes to the Financial Statements for the year ended December 31, 2005

1. STATUS AND NATURE OF BUSINESS

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

2.2 Statement of Compliance

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

2.3 Basis of measurement

These financial statements have been prepared under the historical cost.

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

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

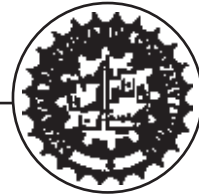
Significant areas requiring the management to use estimates in these financial statements relates to provision for outstanding claims including IBNR, impairment of assets, premium deficiency reserves, provision for income taxes, recoveries from reinsurers, staff retirement benefits and provision against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

2.4 Investments

2.4.1 Recognition

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

- Held to maturity.
- Available for sale



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

2.4.2 Measurement

(a) Held to maturity

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

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

(b) Available for sale - marketable securities

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

2.5 Investment properties

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

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

2.6 Underwriting provisions

2.6.1 Provision for outstanding claims

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

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

2.6.2 Claim recoveries

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

2.6.3 Provision for unearned premium

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

2.6.4 Premium deficiency reserve

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

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

2.6.5 Prepaid reinsurance ceded



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

2.6.6 Provision for unearned commission income

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

2.7 Staff retirement benefits

Defined benefit plans

The company operates following defined benefit plans for its employees:

- Approved gratuity fund.
- Approved pension fund.
- Post retirement medical benefits.

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

2.8 Compensated absences

Officers

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

Staff

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

2.9 Provident Fund

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

2.10 Taxation

Current taxation

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

Deferred taxation

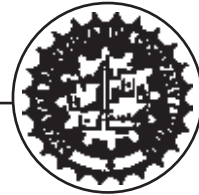
Deferred tax is recognised using the balance sheet liability method for all temporary differences between the amounts attributed to assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax is recognised based on the expected manner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

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

2.11 Fixed assets

Owned assets

Fixed assets except leasehold lands (other than land of PRC House and PRC Building, which has not been



bifurcated) are stated at cost less accumulated depreciation calculated on written down values and accumulated impairment loss thereon. Leasehold land is stated at cost.

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

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

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

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

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

Leases

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

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

2.12 Revenue recognition

Premium

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

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

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

Commission

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

Investments

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

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

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

Rental income

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

2.13 Reinsurance expense

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



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

2.14 Acquisition cost

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

2.15 Provision for bad and doubtful debts

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

2.16 Expense of management

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

2.17 Foreign currency transactions

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

2.18 Impairment

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

2.19 Cash and cash equivalent

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

2.20 Off setting of financial assets and financial liabilities

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

2.21 Segment reporting

(a) Primary segments

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

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

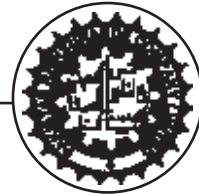
Marine insurance provide coverage against cargo risk, war risk and damages occurring in inland transit.

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

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

(b) Secondary segments

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



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

	2005 Rupees	2004 Rupees
3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
100,000,000 Ordinary Shares of Rs.10 each	<u>1,000,000,000</u>	<u>1,000,000,000</u>
8 Ordinary shares of Rs. 10 each fully paid in cash (2004: 8 Ordinary shares of Rs. 10 each)	80	80
5,000,000 Ordinary shares of Rs. 10 each issued for consideration other than cash (2004: 5,000,000 ordinary shares of Rs. 10 each)	50,000,000	50,000,000
40,000,064 (2004: 40,000,064) Ordinary shares of Rs. 10 each issued as fully paid bonus shares	<u>400,000,640</u>	<u>400,000,640</u>
	<u>450,000,720</u>	<u>450,000,720</u>

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

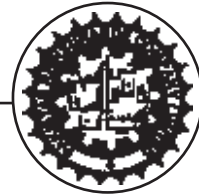
5.1 This represents vehicles leased from First Grindlays Modarba. Minimum lease payments have been discounted using interest rate 7.5% per annum.

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

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



	Mark up	Principle	Total
Payable within one year	31,523	1,253,061	1,284,584
Payable within one to five years	-	-	-
	<u>31,523</u>	<u>1,253,061</u>	<u>1,284,584</u>
		2005	2004
		Rupees	Rupees
6. PROVISION FOR OUTSTANDING CLAIMS			
Fire		88,459,384	324,518,000
Marine		100,724,538	139,430,000
Miscellaneous		328,829,054	402,940,000
		<u>518,012,976</u>	<u>866,888,000</u>
<p>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.</p>			
<p>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).</p>			
		2005	2004
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		779,194,529	857,300,000
Marine		91,131,280	160,500,000
Miscellaneous		1,244,430,335	1,820,690,000
		<u>2,114,756,144</u>	<u>2,838,490,000</u>
7.1	This includes premium for deficiency reserve amounted to Rs. Nil (2004: Rs.39.2 million) based on the actuarial valuation.		
8. COMMISSION INCOME UNEARNED			
Fire		17,320,398	27,965,297
Marine		4,377,618	4,170,248
Miscellaneous		36,699,151	36,004,352
		<u>58,397,167</u>	<u>68,139,897</u>



	2005 Rupees	2004 Rupees
9. EMPLOYEE BENEFITS		
Defined benefit obligations		
– Pension		
Officers	57,281,000	58,810,121
Employees	5,277,177	295,176
– Post retirement medical benefits	44,442,000	37,712,000
Compensated absences	25,515,000	21,903,000
35	132,515,177	118,720,297
10. LONG TERM DEPOSITS		
This represents deposits received from tenants in connection with letting of PRC Towers.		
11. AMOUNT DUE TO OTHER PERSONS AND BODIES CARRYING ON INSURANCE BUSINESS		
Amount due to other persons and bodies carrying on insurance business	334,700,662	847,879,124
11.1 This includes Rs. 4,000,878 (2004: Rs. 495,433) due to related parties.		
12. DEPOSITS RETAINED / RECEIVED FROM OTHER COMPANIES		
Premium reserve withheld	1,730,500	16,673,703
Losses reserve withheld	25,546,980	25,516,041
Cash losses received from retrocessionaire	7,104,452	15,892,282
	34,381,932	58,082,026
This represents company's retention of deposits withheld against the total amount retroceded to other companies.		
13. CURRENT MATURITY OF LEASE LIABILITY		
Current maturity of liabilities against assets subject to finance lease	1,253,061	2,024,960
14. OTHER CREDITORS AND ACCRUALS		
Bonus payable	6,556,478	5,878,264
Provision for litigation	16,075,253	16,075,253
Accrued expenses	5,913,564	4,206,834
Others	1,314,415	4,231,039
	29,859,710	30,391,390



15. CONTINGENCIES

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

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

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

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

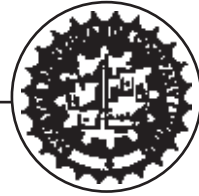
15.4 The Company has certain disputes with National Construction Company Limited (NCC) and other consultant / contractors, over the certification of final bills and breach of contract in relation to the construction of PRC Tower respectively.

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

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

15.5 Case related to Export Credits Guarantee Scheme

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



	2005 Rupees	2004 Rupees
16. CASH AND BANK BALANCES		
Cash and other equivalents		
– Cash in hand	34,351	59,374
– Cheques in hand	–	23,855
	34,351	83,229
Current and other accounts		
– Current account	21,606,843	30,858,476
– Deposit account	248,047,427	282,152,477
	269,654,270	313,010,953
Deposits maturing within 12 months	1,700,000	1,700,000
	271,388,621	314,794,182
17. LOANS - considered good		
Loan to employees	30,974,288	29,895,694
Others	3,926,249	5,145,366
	34,900,537	35,041,060
17.1 Maturity of loans		
Receivable within one year	3,339,729	4,818,270
Receivable after one year	31,566,123	30,228,105
	34,905,852	35,046,375
Provision against impaired loan	(5,315)	(5,315)
	34,900,537	35,041,060
17.2 Age analysis of long term loans:		
For period upto three years	14,612,883	15,454,642
For periods more than three years	20,287,654	19,586,418
	34,900,537	35,041,060
17.3 Above loans represent markup free loans to the employees and are secured against retirement benefits of respective employees including, where applicable, the assets for which the loan has been given. These loans are recoverable within 50 to 180 equal monthly installments.		
18. INVESTMENTS		
Available for Sale		
Ordinary shares - listed 18.1	470,175,260	443,193,724
Ordinary shares - un-listed 18.2	5,182,615	5,716,784
National Investment Trust Units 18.3	645,090,617	645,090,617
	1,120,448,492	1,094,001,125
Held to maturity		
Defence Saving Certificates 18.4	271,084,582	232,698,890
Pakistan Investment Bonds 18.5	890,732,518	904,603,109
Regular Income Certificates 18.6	–	40,750,000
Treasury Bills (3 Months) 18.7	590,374,186	447,890,828
	1,752,191,286	1,625,942,827
	2,872,639,778	2,719,943,952

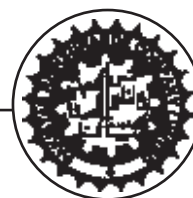


As mentioned in note 2.4.2 to these financial statements, available for sale investments are stated at lower of cost or market value (market value being taken as lower if the reduction is other than temporary). However International Accounting Standard 39 dealing with the recognition and measurements 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 2005 would have been higher by Rs.5,456 million, and the net equity would have been higher by Rs.5,456 million.

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

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

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



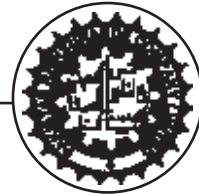
31 December 2005

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



31 December 2005

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



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

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

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

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

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



18.4 Defence Saving Certificates

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

18.5 Pakistan Investment Bonds

Tenure	Maturity date	Profit Repayment frequency	Coupon rate	2005 Rupees	2004 Rupees
5 to 10 years	31 December, 2007 to 24 September 2014	Semi-annually	2.38% to 3.90%	890,732,518	904,603,109

18.6 Regular Income Certificates

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

18.7 Treasury bills

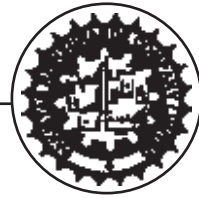
	Tenure	Maturity date	Face value Rs.	Cost Rs.	2005 Rupees	2004 Rupees
Treasury bills	3 Month	March 15, 2006	600,000,000	589,073,400	590,374,186	44,890,828

18.8 Frozen Shares

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

19. INVESTMENT PROPERTIES

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



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

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

		2005 Rupees	2004 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	727,336,757	1,312,694,766
Provision for bad and doubtful balances		<u>(266,000,000)</u>	<u>(143,000,000)</u>
		<u>461,336,757</u>	<u>1,169,694,766</u>
20.1	This includes Rs. 40,583,915 (2004: Rs. 64,112,739) due from related parties.		
21. DEPOSITS HELD BY CEDING COMPANIES			
Premium reserve withheld by ceding companies		33,515,690	18,817,797
Losses reserve withheld by ceding companies		67,880,892	96,328,773
Cash Losses paid to ceding companies		(253,411)	-
Provision for bad and doubtful deposits		<u>(17,000,000)</u>	<u>(17,000,000)</u>
		<u>84,143,171</u>	<u>98,146,570</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		3,046,730	19,281,815
Interest accrued		7,150,281	1,663,802
Accrued rental income		<u>16,294,724</u>	<u>11,084,329</u>
		<u>26,491,735</u>	<u>32,029,946</u>
23. OTHER RECEIVABLES			
Gratuity	35	90,038,000	79,802,667
Export Credit Guarantee Schemes	23.1	56,964,435	56,995,835
N.C.S. Cell		5,837,101	5,837,101
W.R.I. Karachi.		13,884,517	13,680,517
W.R.I. Lahore		9,755,225	9,110,223
ECO Centre		69,371	4,272
P.R.C. (W.R.I.) Karachi		511,243	511,243
ECO Reinsurance Pool		16,215,892	24,150,475
Unclaimed Dividend		-	2,843,147
Others		310,070	-
Government Provident Fund Payable		52,138	-
Employees General Provident Fund		1,723,069	-
Employees Welfare Fund		<u>86,695</u>	<u>-</u>
		<u>195,447,756</u>	<u>192,935,480</u>
Provision for doubtful debts		<u>(4,976,336)</u>	<u>(4,976,336)</u>
		<u>190,471,420</u>	<u>187,959,144</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 awaiting the result of High Court Decision.

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

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

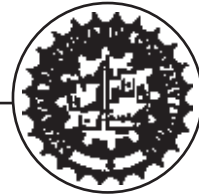
The department had made add backs relating to assessment years 1984-85 to 2001-02 on account of ECGS income in the Company's income. In case of assessment years 1995-96 to 2001-02 the difference in rate of unexpired risk and excess perquisites have been added back in assessment years 1995-96 to 2001-02.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

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

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

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

	2005	2004
25.1 Profit before tax		
Current	231,008,814	65,306,312
Deferred	(43,050,001)	–
	<u>187,958,813</u>	<u>65,306,312</u>
25.1.1 Deferred tax		
The deferred tax asset arises on provision for doubtful debts.		
25.2 Relationship between tax expenses and accounting profit		
Profit before tax	782,386,276	390,842,058
Tax at the applicable rate of 35%	273,835,197	136,794,720
Tax effect of expenses that are not deductible for tax purposes	6,161,053	9,006,011
Tax effect of expenses that are deductible for tax purposes	(856,261)	(2,455,084)
Tax effect of dividend income taxed at lower rate	(89,436,280)	(78,039,335)
Tax effect of property income being taxed separately	(1,744,896)	–
Charge for the current year	<u>187,958,813</u>	<u>65,306,312</u>



26. FIXED ASSETS

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

Change in accounting estimate

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

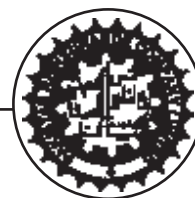
Had the change in accounting estimate not been made, the profit for the year would have been lower by Rs. 31,538, correspondingly, the operating assets and equity as at 31 December 2005 would have been lower by the same amount.



	2005 Rupees	2004 Rupees
27. ASSETS RELATING TO BANGLADESH (FORMER EAST PAKISTAN)		
Assets relating to Bangladesh comprise of fixed assets and investments and are as 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.

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



		2005 Rupees	2004 Rupees
29. RENTAL INCOME - Net			
Rental income		32,856,783	34,245,606
Staff salaries and other expenses in respect of building project department		(6,309,206)	(7,053,577)
		<u>26,547,577</u>	<u>27,192,029</u>
The rental income represents income from letting out of PRC Towers.			
30. OTHER INCOME			
Profit receipt on deposit		52,809	2,559,108
Interest on loans		16,647	-
Management fee - ECO Reinsurance Pool		7,553,225	4,100,000
Liability Written back		2,244,537	-
		<u>9,867,218</u>	<u>6,659,108</u>
31. GENERAL AND ADMINISTRATION EXPENSES			
Depreciation	19 & 26	7,220,618	8,135,228
Preliminary expenses amortized		-	1,192,944
Directors fee		1,107,607	1,379,768
Auditors' remuneration	31.1	435,600	470,000
Advertisement and publicity		1,204,942	898,600
Training and research		362,440	216,010
Markup / Interest		177,204	323,061
Donation		10,000,000	-
Others		7,213,917	7,109,727
		<u>27,722,328</u>	<u>19,725,338</u>
31.1 Auditors' remuneration			
Audit fee		396,000	360,000
Out of pocket expenses		39,600	36,000
Tax related service and other certification		-	74,000
		<u>435,600</u>	<u>470,000</u>
32. EARNINGS PER SHARE - Basic and diluted			
Profit after tax for the year		<u>594,427,463</u>	<u>325,535,746</u>
Weighted average number of ordinary shares	Number	<u>45,000,072</u>	<u>45,000,072</u>
Earning per share – Basic and Diluted		<u>13.21</u>	<u>7.23</u>



33. FINANCIAL RISK MANAGEMENT

33.1 Reinsurance Risk

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

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

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

33.2 Credit risk and concentration of credit risk exposure

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

The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits the Company's exposure to credit risk through monitoring of client's credit exposure, review and conservative estimates of provisions for doubtful assets, if any, and through the prudent use of collateral policy. Subject to the effect of note 15.1 and 15.2 the management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in entities of sound financial standing, covering various industrial sector segments.

33.3 Foreign exchange risk

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

33.4 Fair values of financial assets and liabilities

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

The market value of investment is as follows:

	2005	2004
	Rupees	Rupees
Market value of available for sale investments	<u>6,572,530,819</u>	<u>4,755,040,000</u>

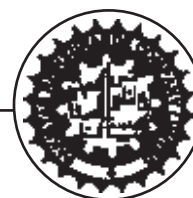
33.5 Market risk

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			2005	2004
	Maturity upto One year	Maturity after One year	Sub Total	Maturity upto One year	Maturity after One year	Sub Total		
FINANCIAL ASSETS								
Cash and bank deposits	248,047	–	248,047	23,341	–	23,341	271,388	314,344
Loans	–	–	–	3,340	31,560	34,900	34,900	35,041
Investment	590,374	1,161,816	1,752,190	–	1,120,449	1,120,449	2,872,639	2,719,944
Amount due from other persons and bodies carrying on Insurance business	–	–	–	461,337	–	461,337	461,337	1,169,695
Deposits held by ceding companies	84,143	–	84,143	–	–	–	84,143	98,147
Accrued investment income	–	–	–	26,492	–	26,492	26,492	32,030
Other receivable	–	–	–	190,471	–	190,471	190,471	108,156
Total	922,564	1,161,816	2,084,380	704,981	1,152,009	1,856,990	3,941,370	4,477,357
FINANCIAL LIABILITIES								
Liabilities against asset subject to finance lease	1,253	–	1,253	–	–	–	1,253	3,278
Provision for outstanding claims - net	–	–	–	518,013	–	518,013	518,013	866,888
Long term deposits	–	–	–	17,670	–	17,670	17,670	16,330
Amount due to other persons and bodies carrying on insurance business	–	–	–	334,701	–	334,701	334,701	847,879
Deposits retained/received from other companies	34,382	–	34,382	–	–	–	34,382	58,082
Other creditors and accruals	–	–	–	29,860	–	29,860	29,860	30,391
Retention money payable	–	–	–	6,379	–	6,379	6,379	6,414
Dividend payable	–	–	–	3,236	–	3,236	3,236	1,629
Surplus profit payable	–	–	–	1,314	–	1,314	1,314	768
Total	35,635	–	35,635	911,173	–	911,173	946,808	1,831,659
On balance sheet gap	886,929	1,161,816	2,048,745	(206,192)	1,152,009	945,817	2,994,562	2,645,698

2005

2004

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

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

Financial assets and liabilities exposed to foreign exchange rate risk included in above amount to Rs.595.48 million and Rs.369.083 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 2005.

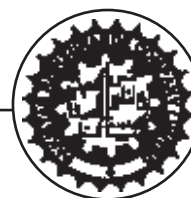
Post retirement medical benefits.

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

Employees compensated absences

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

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



35.2 Defined contribution plan - provident funds

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

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

36. SEGMENT REPORTING

(a) Segment by class of business

	2005							Total
	Fire	Marine Cargo	Marine Hull	Accident	Aviation	Engineering	Treaty Compulsory	
Net premium	28,554	6,506	1,288	5,865	20,462	47,766	1,894,201	2,004,642
Net claims	21,425	181	212	6,529	(10,533)	(13,984)	818,861	822,691
Management Expenses	4,769	3,009	1,757	3,370	3,758	3,079	150,883	170,625
Net Commission	(3,110)	958	(1,767)	773	(8,537)	(23,297)	654,871	619,891
Underwriting result	5,470	2,358	1,086	(4,807)	35,774	81,968	269,586	391,435
Segment assets								
Premium	180,722	—	24,480	7,323	615,110	330,404	132,385	1,290,424
Commission	18,242	578	2,164	761	2,513	19,785	225,402	269,445
	198,964	578	26,644	8,084	617,623	350,189	357,787	1,559,869
Unallocated corporate assets								4,073,716
								<u>5,633,585</u>
Segment liabilities								
Premium reserve	238,632	4,139	26,693	12,125	630,480	378,269	824,420	2,114,758
Commission income unearned	11,476	—	3,060	27	7,036	29,112	7,687	58,398
Provision for outstanding claims	86,818	—	12,949	6,529	498,636	326,998	1,478,190	2,410,120
	336,926	4,139	42,702	18,681	1,136,152	734,379	2,310,297	4,583,276
Un-allocated corporate liabilities								(1,188,221)
								<u>3,395,055</u>
2004								
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
								<u>6,613,613</u>
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
								<u>4,857,010</u>



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

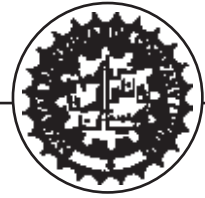
37. TRANSACTIONS WITH RELATED PARTIES

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 in note 38 of in these financial statements, are as follows:

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

38. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

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



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

39. DATE OF AUTHORISATION FOR ISSUE

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

40. GENERAL

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

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

Executive Director (F&A)

Naheed Hyder
Chief Executive

Haider Raza
Director

Fazlur Rehman Dittu
Director

Karachi, March 21, 2006



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

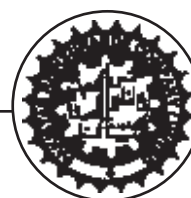
No. of Shareholders	No. of Share				Total Share held
114	From	1	To	100	7,792
225	From	101	To	500	90,849
192	From	501	To	1000	182,991
234	From	1001	To	5000	699,440
136	From	5001	To	20000	1,581,680
64	From	20001	To	50000	1,969,440
28	From	50001	To	150000	2,184,670
8	From	150001	To	300000	1,876,150
3	From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

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

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

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

Additional Information regarding PRC Shares as at 31st December 2005



SHARE HOLDER CATEGORY

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