



***IGI GENERAL INSURANCE LIMITED
AND
WINDOW TAKAFUL OPERATIONS

AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018***



General

DIRECTORS REPORT TO THE SHAREHOLDERS

The Directors of IGI General Insurance Limited (“the Company”) take pleasure in presenting the annual report of your Company, together with the audited financial statements for the year ended December 31, 2018.

PRINCIPAL ACTIVITIES OF THE COMPANY

The Company was incorporated as a public limited company on November 18, 2016 under the Companies Ordinance 1984. The objects of the Company include general insurance services in spheres of Fire, Marine, Motor, Health and Miscellaneous including engineering and travel as well as general takaful services, which the Company commenced in July 2017.

PERFORMANCE OF THE COMPANY

Conventional Insurance Business

On conventional business side, the Company has written gross premium of Rs 4,418 million with net premium revenue of Rs 2,236 million compared to Rs 2,901 million and Rs 1,645 million respectively in the corresponding period.

The Company incurred net claims of Rs. 1,143 million during the year compared to Rs 933 million in the corresponding period. The Company also created Rs 21 million premium deficiency reserve on its health business.

Net commission expense stood at Rs 66 million compared to net commission income of Rs 122 million during last year. Investment and other income increased by Rs 155 million during the year.

WINDOW TAKAFUL OPERATIONS

The Company has written gross contribution of Rs 190 million compared to Rs 36 million in the corresponding period and earned Rs 24 million from its Takaful operations compared to loss of Rs 3 million in the corresponding period.

As a result, the Company generated profit before tax of Rs. 468 million with profit after tax of Rs. 327 million and earnings per share of Rs. 1.74 during the year compared to Rs 249 million and Rs 174 million respectively in the corresponding period.

Head Office & Karachi Branch

7th Floor, The Forum, Suite No. 701 - 713, G-20, Block-9, Khayaban-e-Jami, Clifton, Karachi-75600, Pakistan.
UAN: +92 (21) 111-308-308 I Fax: + 92 (21) 35301706 I E-mail: contact.center@igi.com.pk I Web: www.igiinsurance.com.pk



General

SEGMENTS AT A GLANCE

FIRE

Gross Premium written was Rs 1,203 million compared to Rs 793 million during 2017. Net Premium Earned and Net claims were Rs 175 million and Rs 98 million respectively compared to Rs 164 million and Rs 79 million respectively during 2017. This resulted in underwriting loss of Rs 36 million compared to underwriting profit of Rs 29 million during 2017.

MARINE, AVIATION AND TRANSPORT

Marine business gross written premium was Rs 528 million in 2018 compared to Rs 373 million during 2017. Net Premium Earned and Net claims were Rs 242 million and Rs 85 respectively compared to Rs 189 million and Rs 76 million respectively during 2017. This resulted in underwriting profit of Rs 107 million compared to Rs 86 million during 2017.

MOTOR

Motor business gross Premium was Rs 1,399 million compared to Rs 870 million during 2017. Net Premium Earned and Net claims were Rs 1,219 million and Rs 551 respectively. This resulted in underwriting profit of Rs 279 million compared to Rs 181 million during 2017.

HEALTH

Gross Premium was Rs 368 million compared to Rs 249 million during 2017. Net Premium Earned and Net claims were Rs 325 million and Rs 306 respectively. During the year, the Company has recorded premium deficiency reserve amounting to Rs 20 million during the current year. This resulted in underwriting loss of Rs 61 million.

MISCELLANEOUS

Miscellaneous segment includes Engineering and Contractor's All Risk Insurance, Travel, Bond and Pecuniary lines of business. This business line has written gross premium of Rs 920 million in 2018 compared to Rs 617 million during 2017. Net premium earned and net claims amounted to Rs 275 million and Rs 103 million respectively with underwriting loss of Rs 27 million.

CLAIMS

Our focus is on swift settlement of claims. For this purpose, the Company has taken a number of initiatives to further reduce the claims settlement turnaround time.

Incurred loss ratio remained 51% in 2018 compared to 57% in 2017. Our claims settlement ratio during the year was 90%.

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RE-INSURANCE AND RISK MANAGEMENT

The Company follows a policy of risk optimization through a carefully designed program of re-insurance. The Company believes in building partnerships with our clients to provide them a long term risk management solution by using our insurance expertise, a state of the art technology platform and a focused risk management service that helps our clients understand the hazards that may threaten their businesses and determine cost-effective loss prevention solutions.

APPROPRIATIONS

The Board of Directors has proposed final dividend for the year ended December 31, 2018 of Rs. 1.06 per share (2017: Rs. 0.85 per share), amounting to Rs. 203.348 million (2017: Rs 163 million).

BOARD OF DIRECTORS MEETINGS

During the year 2018, meetings of the board of directors were held on timely basis. Attendance by each director in the meetings held was as follows:

| | <u>Attendance</u> |
|--------------------------|-------------------|
| Syed Hyder Ali | 5 |
| Shamim Ahmad Khan | 5 |
| Atif Aslam Bajwa* | 2 |
| Syed Hasnain Ali | 5 |
| Khurram Raza Bakhtayari* | 2 |
| Tahir Masaud (CEO) | 5 |
| Sajjad Iftikhar | 5 |
| Faisal Khan | 0 |

* Director resigned during the year.

Leave of absence was granted to directors who could not attend some of the Board meetings.

RELATED PARTY TRANSACTIONS

The Board of Directors approved Company's transactions made with Associated Companies / Related parties. All the transactions executed with related parties were on commercial terms and conditions.

CAPITAL MANAGEMENT AND LIQUIDITY

The Company actively manages and monitors the matching of its asset positions against its

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General

commitments, together with diversification and credit quality of its investments against established targets.

The Company's primary source of funds is cash provided by operating activities i.e. insurance business. Net operating cash flows have also been invested to generate investment income for the Company. Net cash flows of the Company are utilized for business commitments, expansions and for dividend payout to the shareholders.

INSURER'S FINANCIAL STRENGTH RATING

Pakistan Credit Rating Agency (Private) Limited (PACRA) has assigned your Company an "Insurer Financial Strength" (IFS) Rating of "AA" (Double A), further, during the year JCR-VIS Credit Rating Company Limited has also assigned your Company an IFS Rating of "AA" (Double A). IFS rating of "AA" (Double A) denotes a very strong capacity to meet policyholder and contract obligations, modest risk factors, and the expectation that the impact of any adverse business and economic factors will be very limited.

RISK MITIGATION

The senior management team, led by the Chief Executive Officer is responsible for risk mitigation measures. The Company's proactive risk management program helps in identifying and responding to changing business and regulatory requirements on timely basis.

MATERIAL CHANGES

There have been no material changes during the year which would affect financial position of Company.

CODE OF CONDUCT

The Board has adopted a statement of ethics and business practices. The Code of Conduct is signed by all the employees undertaking that they subscribe to high ethical values. All our operational activities are carried out in a transparent manner in accordance with the code of ethics.

CORPORATE SOCIAL RESPONSIBILITY

Your Company is aware of its corporate social responsibilities and is supporting social sector organizations in the fields of education, health and environment. The Company also offers internships all around the year to students from colleges and universities.

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General

ISO CERTIFICATION AND ITS VALUE TO OUR CUSTOMERS

Your Company continues to focus on improving productivity and efficiency in its operations and during the year has upgraded its Quality Management Certification to ISO 9001:2015.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

- The financial statements prepared by the management of the Company present the state of its affairs, the results of its operations, cash flows and changes in equity, fairly.
- Proper books of accounts have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The financial statements have been prepared in conformity with the Companies Ordinance 1984 and International Financial Reporting Standards, as applicable in Pakistan. Any departures therefrom have been adequately disclosed and explained;
- The system of internal control is sound in design and has been effectively implemented and monitored;
- There are no doubts on the Company's ability to continue as a going concern;
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations;
- Key operating and financial data is separately annexed with the report.
- Outstanding taxes and duties are given in the financial statements.
- The value of investments of based on audited accounts of the respective funds were as follows:

Provident fund as at June 30, 2017 Rs 74.2 million
Gratuity fund as at December 31, 2016 Rs 50.4 million
- The statement of pattern of shareholding in the Company as on December 31, 2018 is as follows:

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General

Holding Co

IGI Holdings Limited

191,838,394

Directors

Syed Hyder Ali

1

Mr. Shamim Ahmed Khan

1

Mr. Tahir Masaud (Chief Executive Officer)

1

Mr. Sajjad Iftikhar

1

Syed Hasnain Ali

1

Mr. Faisal Khan

1

Total

191,838,400

The directors are holding one share each of the Company as nominee of IGI Holdings.

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

The directors hereby certify that in their opinion:

- the annual statutory accounts of the company annexed hereto have been drawn up in accordance with the Ordinance and any Rules made thereunder;
- the company has during the period complied with the provisions of the Ordinance and the Rules made thereunder relating to paid up capital, solvency and reinsurance arrangements; and
- as at the date of the statement, the company continues to be in compliance with the provisions of the Ordinance and the Rules made thereunder relating to paid up capital, solvency and reinsurance arrangements.

FUTURE OUTLOOK

The Board and management of your Company are cognizant of the fact that we are operating in a highly competitive industry. We are making significant investment in modern technology and infrastructure to enable the Company to improve its product offering, efficiency and levels of customer service. During the year the Company has obtained license from Pakistan Telecommunication Authority to commence its tracking division.

We also believe that we have the right professional team and a modern infrastructure to deliver sustainable and profitable growth in the years ahead.

AUDITORS

The present auditors M/s A.F Ferguson & Co., Chartered Accountants retire and offer themselves for reappointment. They have confirmed achieving satisfactory rating by the Institute of Chartered

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General

Accountants of Pakistan (ICAP) and compliance with the Guidelines on the Code of Ethics of the International Federation of Accountants (IFAC) as adopted by ICAP.

The Board of Directors have recommended their reappointment as Auditors of the Company for the year ending December 31, 2019, at a fee to be mutually agreed.

ACKNOWLEDGEMENT

We value the support and patronage received from our business partners and all stakeholders and appreciate the dedicated and sincere efforts of our employees.

For and on behalf of the Board

Shamim Ahmad Khan

Chairman

Lahore: March 04, 2019

Tahir Masaud

Chief Executive Officer

Lahore: March 04, 2019

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IGI GENERAL INSURANCE LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

INDEPENDENT AUDITOR'S REPORT**To the members of IGI General Insurance Limited****Report on the Audit of the Financial Statements****Opinion**

We have audited the annexed financial statements of **IGI General Insurance Limited** (the Company), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof, conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of Company's affairs as at December 31, 2018 and of the profit, total comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

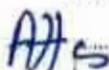
Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the requirements of Insurance Ordinance, 2000 and, Companies Act, 2017 (XIX of 2017), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>



In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017);

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A.F. FERGUSON & CO.

- b) the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XXI of 2017), and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Operator's business; and;
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is **Noman Abbas Sheikh**.

A.F. Ferguson & Co.

A.F. Ferguson & Co.
Chartered Accountants

Karachi

Dated: April 2, 2019

IGI GENERAL INSURANCE LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

| | Note | 2018 | 2017 |
|----------------------------------------------------------------------|------|------------------|------------------|
| | | (Rupees in '000) | |
| Assets | | | |
| Property and equipment | 5 | 315,619 | 274,627 |
| Intangible assets | 6 | 3,694 | 5,193 |
| Investment properties | 7 | 169,754 | 179,346 |
| Investments | | | |
| - Equity securities | 8 | 225,821 | - |
| - Government securities | 9 | 1,814,142 | 321,211 |
| - Term deposits | 10 | 525,000 | 960,000 |
| Loans and other receivables | 11 | 295,890 | 138,741 |
| Insurance / reinsurance receivables | 12 | 1,101,170 | 701,814 |
| Reinsurance recoveries against outstanding claims | | 854,042 | 723,743 |
| Salvage recoveries accrued | | 46,148 | 78,689 |
| Deferred commission expense | 24 | 153,419 | 127,569 |
| Deferred taxation | 14 | 32,700 | 13,902 |
| Tax recoverable | 29.2 | 65,301 | 137,883 |
| Prepayments | 15 | 645,177 | 509,692 |
| Cash and bank | 16 | 477,161 | 1,507,742 |
| | | <u>6,716,038</u> | <u>5,680,352</u> |
| Total assets of Window Takaful Operations - operator's fund | | 142,357 | 64,186 |
| Total assets | | <u>6,858,395</u> | <u>5,744,538</u> |
| Equity and Liabilities | | | |
| Capital and reserves attributable to Company's equity holders | | | |
| Authorised capital | | | |
| 250,000,000 (2017: 250,000,000) ordinary shares of Rs 10 each | | <u>2,500,000</u> | <u>2,500,000</u> |
| Issued, subscribed and paid-up share capital | | | |
| 191,838,400 (2017: 150,100,000) ordinary shares of Rs 10 each | 17 | 1,918,384 | 1,501,000 |
| Proposed shares to be issued under scheme of arrangement | | - | 417,384 |
| Unappropriated profit | | <u>331,655</u> | <u>172,622</u> |
| Total equity | | <u>2,250,039</u> | <u>2,091,006</u> |
| Liabilities | | | |
| Underwriting provisions | | | |
| Outstanding claims including IBNR | 23 | 1,314,812 | 1,226,184 |
| Unearned premium reserves | 22 | 1,503,062 | 1,185,547 |
| Premium deficiency reserves | | 20,503 | - |
| Unearned reinsurance commission | | 120,932 | 101,679 |
| Retirement benefit obligations | 13 | 21,217 | 12,419 |
| Borrowings | 18 | 118,881 | 78,235 |
| Premium received in advance | | 484 | 536 |
| Insurance / reinsurance payables | 19 | 703,314 | 347,883 |
| Other creditors and accruals | 20 | 733,931 | 684,324 |
| Total liabilities | | <u>4,537,136</u> | <u>3,636,807</u> |
| Total liabilities of Window Takaful Operations - operator's fund | | 71,220 | 16,725 |
| Total equity and liabilities | | <u>6,858,395</u> | <u>5,744,538</u> |
| Contingencies and commitments | 21 | | |

The annexed notes 1 to 38 form an integral part of these financial statements.

AH/S


Chairman


Director


Director


Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

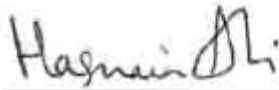
| | Note | 2018 -----(Rupees in '000)---- | 2017 |
|----------------------------------------------------------|------|-----------------------------------|----------------|
| Net insurance premium | 22 | 2,238,396 | 1,645,140 |
| Net insurance claims | 23 | (1,142,715) | (933,244) |
| Premium deficiency | | (20,503) | - |
| Net commission and other acquisition costs | 24 | (66,245) | 121,835 |
| Insurance claims and acquisition expenses | | (1,229,463) | (811,409) |
| Management expenses | 25 | (764,933) | (624,973) |
| Underwriting results | | 242,000 | 208,758 |
| Investment income | 26 | 134,816 | 63,685 |
| Rental income | | 31,766 | 22,117 |
| Other income | 27 | 83,111 | 8,947 |
| Other expenses | 28 | (42,603) | (48,631) |
| Result of operating activities | | 449,090 | 254,876 |
| Finance costs | | (5,168) | (3,539) |
| Profit from Window Takaful Operations | | 23,677 | (2,539) |
| Profit before tax | | 467,599 | 248,798 |
| Income tax expense | 29 | (140,213) | (74,919) |
| Profit after tax | | 327,386 | 173,879 |
| Other comprehensive loss | | | |
| -Remeasurement of defined benefit obligations-net of tax | | (5,290) | (1,257) |
| Total comprehensive income | | 322,096 | 172,622 |

The annexed notes 1 to 38 form an integral part of these financial statements.

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Chairman



Director



Director



Chief Executive Officer

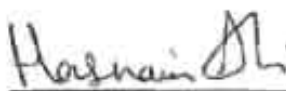
IGI GENERAL INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

| | Issued, subscribed and paid-up share capital | Proposed shares to be issued under scheme of arrangement | Unappropriated profit | Total |
|-------------------------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------|--------------------------|-----------|
| | (Rupees in '000) | | | |
| Balance as at January 1, 2017 | 1,000 | - | - | 1,000 |
| Profit after taxation for the year ended December 31, 2017 | - | - | 173,879 | 173,879 |
| Other comprehensive loss for the year | - | - | (1,257) | (1,257) |
| Total comprehensive income for the year ended December 31, 2017 | - | - | 172,622 | 172,622 |
| Transactions with owners-directly recognised in equity | | | | |
| Proposed issue of share capital under scheme of arrangement | - | 417,384 | - | 417,384 |
| Issue of paid-up share capital | 1,500,000 | - | - | 1,500,000 |
| Balance as at December 31, 2017 | 1,501,000 | 417,384 | 172,622 | 2,091,006 |
| Profit after taxation for the year ended December 31, 2018 | - | - | 327,386 | 327,386 |
| Other comprehensive loss for the year | - | - | (5,290) | (5,290) |
| Total comprehensive income for the year ended December 31, 2018 | - | - | 322,096 | 322,096 |
| Transactions with owners-directly recognised in equity | | | | |
| Issuance of shares under scheme of arrangement | 417,384 | (417,384) | - | - |
| Final dividend at rate of Re. 0.85 per share for year ended December 31, 2017 | - | - | (163,063) | (163,063) |
| Balance as at December 31, 2018 | 1,918,384 | - | 331,655 | 2,250,039 |

The annexed notes 1 to 38 form an integral part of these financial statements

AHS


Chairman


Director


Director


Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018


| | Note | 2018 ---- (Rupees in '000) ---- | 2017 ---- (Rupees in '000) ---- |
|-----------------------------------------------------------------------------|------|------------------------------------|------------------------------------|
| OPERATING CASH FLOWS | | | |
| Underwriting activities | | | |
| Premium received | | 4,312,361 | 3,261,063 |
| Reinsurance premium paid | | (1,853,523) | (1,337,939) |
| Claims paid | | (1,820,722) | (1,195,945) |
| Reinsurance and other recoveries received | | 436,336 | 494,470 |
| Commissions paid | | (477,884) | (197,424) |
| Commissions received | | 435,423 | 290,002 |
| Net cash inflow from underwriting activities | | <u>1,231,991</u> | <u>1,314,227</u> |
| Other operating activities | | | |
| Income tax paid | | (84,270) | (111,699) |
| General management expenses paid | | (780,258) | (664,811) |
| Operating receipts / (payments) - net | | (104,283) | (64,082) |
| Net cash outflow from operating activities | | <u>(968,811)</u> | <u>(840,592)</u> |
| Total cash inflow from all operating activities | | <u>263,180</u> | <u>473,635</u> |
| INVESTMENT ACTIVITIES | | | |
| Profit received | | 152,688 | 53,177 |
| Payments for investments | | (1,669,139) | (196,093) |
| Cash transfer to Window Takaful Operations | | - | (50,000) |
| Fixed capital expenditure- owned | | (49,618) | (41,478) |
| Proceeds from disposal of fixed assets- owned | | 20,805 | 11,997 |
| Total cash outflow from investing activities | | <u>(1,545,264)</u> | <u>(222,397)</u> |
| FINANCING ACTIVITIES | | | |
| Net cash inflow on hive down under scheme of arrangement | | - | 728,960 |
| Issue of capital | | - | 1,500,000 |
| Dividend paid | | (163,063) | - |
| Financial charges paid | | (5,168) | (3,539) |
| Addition / (repayment) of liability against assets subject to finance lease | | (15,266) | (9,917) |
| Total cash (outflow) / inflow from financing activities | | <u>(183,497)</u> | <u>2,215,504</u> |
| Net cash (outflow) / inflow from all activities | | <u>(1,465,581)</u> | <u>2,466,742</u> |
| Cash and cash equivalents at beginning of the year | | 2,467,742 | 1,000 |
| Cash and cash equivalents at end of the year | 16.2 | <u><u>1,002,161</u></u> | <u><u>2,467,742</u></u> |

The annexed notes 1 to 38 form an integral part of these financial statements.

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Chairman


Director


Director


Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

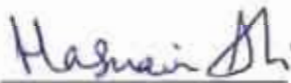
| | 2018 | 2017 |
|-----------------------------------------------------|--------------------------|----------------|
| | --- (Rupees in '000) --- | |
| Reconciliation to statement of comprehensive income | | |
| Operating cash flows | 263,180 | 473,635 |
| Depreciation and amortisation expense | (55,454) | (48,103) |
| Depreciation on leased assets | (16,397) | (10,239) |
| Financial cost | (5,168) | (3,539) |
| Gain on disposal of fixed assets | 5,015 | 8,567 |
| Increase / (decrease) in assets other than cash | 720,873 | (131,450) |
| Increase in liabilities | (743,156) | (176,490) |
| Return on bank balances | 63,835 | 49,450 |
| Investment income | 70,981 | 14,587 |
| Profit from window takaful operations | 23,677 | (2,539) |
| Profit after tax | <u>327,386</u> | <u>173,879</u> |

The annexed notes 1 to 38 form an integral part of these financial statements

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Chairman



Director



Director



Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. LEGAL STATUS AND NATURE OF BUSINESS

- 1.1 IGI General Insurance Limited ("the Company"), a Packages Group Company, was incorporated as a public limited company on November 18, 2016 under the Companies Ordinance, 1984 (now Companies Act, 2017). The registered office of the Company is situated at 7th floor, The Forum, Suite No. 701-713, G-20, Block 9, Khayaban-e-Jami, Clifton, Karachi. The objects of the Company include providing general insurance services (mainly Fire, Marine, Motor, Health and Miscellaneous) and general takaful services (mainly Fire, Marine, Motor, Health and Miscellaneous).
- 1.2 The Company is a wholly owned subsidiary of IGI Holdings Limited - Parent Company (formerly: IGI Insurance Limited) and has been formed to facilitate the transfer of general insurance segment of IGI Insurance Limited to the Company under the Scheme of Arrangement filed with the Honourable High Court of Sindh (SHC). The transfer of general insurance business and related assets and liabilities from IGI Insurance Limited to the Company has been made effective from January 31, 2017, which has been sanctioned by SHC vide Order dated December 16, 2017. The insurance license was transferred to the Company from IGI Insurance Limited with effect from January 16, 2018.
- 1.3 The Company commenced its window takaful operations with effect from July 1, 2017 after getting the approval from the SECP.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017, Insurance Ordinance, 2000, Insurance Rules 2017, Insurance Accounting Regulations, 2017 and Takaful Rules, 2012.

In case requirements differ, the provisions or directives of the Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and the Takaful rules, 2012 shall prevail.

- 2.1.1 In terms of the requirements of the Takaful Rules, 2012, read with SECP Circular 25 of 2015 dated July 9, 2015, the assets, liabilities and profit and loss of the Operator Fund of the General Takaful operations of the Company have been presented as a single line item in the statement of financial position and statement of comprehensive income of the Company respectively.
- 2.1.2 A separate set of financial statements of the General Takaful operations has been annexed to these financial statements as per the requirements of the Takaful Rules, 2012.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are carried at present value of the defined benefit obligation less fair value of plan assets and certain investments which are carried at market value.

2.3 Functional and presentation currency

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates. These financial statements are presented in Pakistani rupees, which is the Company's functional and presentation currency.

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2.4 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current year:

The Securities and Exchange Commission of Pakistan (SECP) through its notification SRO 89(1) / 2017 dated February 9, 2017 had issued Insurance Rules, 2017 (the Rules) which had come into force at once. The Rules prescribed the format of annual financial statements for non-life insurers. Further, the SECP through SRO 88 (1) / 2017 dated February 9, 2017 had also issued Insurance Accounting Regulations, 2017 (the Regulations). The Regulations were applicable from April 1, 2017. However, SECP on application of the Company had allowed to apply the Regulations, effective from the accounting year commencing from January 1, 2018. The Rules and Regulations prescribe new format of the financial statements, measurement principles for subsequent measurement and impairment of available for sale investments and also explain principles for recognition of premium receivable under an insurance policy and cover note. Accordingly, during the current year, the Company has changed its accounting policy for these items and the presentation of the financial statements has been realigned with the format prescribed under the Rules while corresponding figures have been reclassified or additionally incorporated in the financial statements for the year ended December 31, 2018 on the basis of the classification prescribed therein. Further, nomenclatures of the primary statements have also been aligned with the Rules and certain primary statements such as statement of premiums, statement of claims, statement of expenses and statement of investment income which were previously made part of the financial statements have now been excluded from the financial statements in accordance with the requirements of the Rules. The impact of key changes is disclosed in note 3 to these financial statements.

There are certain amendments to the standards and new interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2018 but are considered not to be relevant or do not have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

2.5 Standards, interpretations and amendments to published accounting and reporting standards that are not yet effective:

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

| Standard, Interpretations or Amendments | Effective date (accounting periods beginning on or after) |
|-----------------------------------------|-----------------------------------------------------------|
| IFRS 9 - Financial Instruments | April 1, 2019 |
| IFRS 15 - Revenue from contracts | July 1, 2018 |
| IFRS 16 - Leases | January 1, 2019 |

The management is in the process of assessing the impact of these standards on the financial statements of the Company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. Accounting policies relating to Window Takaful Operations are disclosed in a separate financial statements of Window Takaful Operations which have been annexed to these financial statements. The accounting policies have been consistently applied for all the years presented except for the changes disclosed in notes 3.1, 3.2 and 3.3 to the financial statements.

3.1 During the year, the Company has changed its accounting policy with respect to presentation of financial statements and these financial statements have been presented in accordance with the revised format of financial statements as prescribed under the Insurance Rules, 2017 (as explained in note 2.4). The significant reclassification changes resulting therefrom are disclosed in note 36 to these financial statements.

3.2 During the current year, consequent to the application of the Insurance Accounting Regulation, 2017, the Company has changed its accounting policy in respect of subsequent measurement and impairment of available for sale investments to comply with the requirements of IAS 39, 'Financial Instruments : Recognition and Measurement'. As per the revised policy available for sale investments are measured at fair value subsequent to initial recognition with changes in fair value recognise in other comprehensive income. A significant or prolonged decline in the value of equity securities below its cost is also considered as an objective evidence of impairment. Impairment losses, if any, on available for sale investments are recognised directly in the statement of comprehensive income. Previously, available for sale investments were stated subsequent to initial recognition at the lower of cost or market value (market value being taken as lower if fall is other than temporary) in accordance with the requirements of SEC (Insurance) Rules, 2002. Any decline in the market value recognised by the Company was taken to the statement of comprehensive income.

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This change in accounting policy does not have any impact on these financial statements as there were no investments classified as available for sale as at December 31, 2018 and December 31, 2017.

- 3.3 The Insurance Accounting Regulations, 2017 requires recording of premium receivable under an insurance policy / cover note as written from the date of attachment of risk to the policy / cover note. Previously the Company was recognising premium income and receivable at the time of issuance of insurance policy in accordance with the SEC (Insurance) Rules, 2002. Therefore, the Company has accounted for cover notes which are effective at the reporting date as change in accounting policy. This change in accounting policy has not been applied retrospectively in accordance with the requirement of International Accounting Standard (IAS) - 8, "Accounting Policies, Change in Accounting Estimates and Errors" as the cumulative effect of the change at the beginning and at the end of the prior and current year is immaterial. Therefore, figures have not been adjusted accordingly.

3.4 Insurance contracts

Insurance contracts are those contracts where the Company (the insurer) has accepted significant insurance risk from another party (the policy holders) by agreeing to compensate the policy holders if a specified uncertain future event (the insured event) adversely affects the policy holders.

The Company enters into fire and property damage, marine, motor, health, burglary, loss of cash in transit, travel, personal accident, engineering losses and other insurance contracts with corporate clients and individuals residing or located in Pakistan.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and liabilities are extinguished or expired.

The Company neither issues investment contracts nor does it issue insurance contracts with Discretionary Participation Features (DPF).

3.5 Premium

Premium received / receivable under a policy is recognised as written from the date of attachment of the risk to the policy to which it relates. Where the pattern of incidence of risk varies over the period of the policy, premium is recognised as revenue in accordance with the pattern of the incidence of risk. The portion of premium written relating to the unexpired period of coverage is recognised as unearned premium by the Company. This liability is calculated by applying 1/24 method as specified in the Insurance Rules, 2017.

Premium income includes administrative surcharge that represents documentation and other charges recovered by the Company from policy holders in respect of policies issued, at the rate of 5% of the premium written restricted to a maximum of Rs. 5,000 per policy.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any. If there is objective evidence that the receivables are impaired, the Company reduces the carrying amount of the receivables and recognises that impairment loss in the statement of comprehensive income.

3.6 Reinsurance ceded

Insurance contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued are reinsurance contracts. These reinsurance contracts include both facultative and treaty arrangement contracts.

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

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

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

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

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

3.7 Claims expense

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

The Company recognises liability in respect of all claims incurred upto the reporting date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract. The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

The provision for Incurred But Not Reported (IBNR) claims is determined by the Company as required under circular No. 9 of 2016 issued by SECP. As per SECP circular No. 9 of 2016 an insurer shall estimate IBNR claims reserve based on the prescribed method provided in the guidelines. Guidelines also allows the use of any other alternative method of determining IBNR, if found more suitable for the risk class, provided that the amount estimated under the alternative method shall not be less than the amount calculated under prescribed method. The prescribed method for estimating IBNR claim reserve is the chain ladder method based on paid claims hereinafter called 'Incurred But Not Paid' or 'IBNP'. The Basic Chain Ladder (BCL) method uses a run off triangle to estimate the development factors for each accident period which are further used to estimate the ultimate paid claims. Data from settlement registers are used in the BCL models. Lags are determined to be the difference between the 'date of loss' and 'date of claim payment'. Monthly lags are used since it reflects the claim development pattern within a given year and the back testing supports the same. Once IBNP has been determined using BCL, the outstanding claims are deducted to arrive at IBNR on paid basis.

Under alternative method IBNR is determined on reported basis. IBNR (reported basis) is much similar to IBNR (paid basis) but is calculated using a different methodology. It does not use either IBNP or outstanding claims to estimate IBNR rather, is determined using BCL method. Development factors are determined for each accident period to estimate the ultimately reported claims directly. Intimation registers are used in the BCL model where lags are calculated as the difference between the 'date of loss' and 'date of intimation'.

The analysis is carried out separately for each class of business and results determined through this alternative method are compared to the results of prescribed method and higher of the two are set as the final reserve.

3.8 Reinsurance recoveries against claims

Claim recoveries receivable from the reinsurer are recognised as an asset at the same time as the claims which give rise to the right of recovery are recognised as a liability and are measured at the amount expected to be received.

3.9 Commission and other acquisition costs

Commission expense and other acquisition costs are charged to the statement of comprehensive income at the time the policies are accepted. This expense is deferred and brought to account as expense in accordance with the pattern of recognition of the gross premium to which it relates. Commission expense is arrived at after taking the impact of opening and closing deferred commission.

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

3.10 Premium deficiency reserve

The Company is required as per Insurance Rules, 2017 to maintain a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the reporting date in respect of the unexpired policies in that class of business at the reporting date. The movement in the premium deficiency reserve is recorded as an expense / income in the statement of comprehensive income for the year.

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At each reporting date, liability adequacy tests are performed separately for each class of business to ensure the adequacy of the unearned premium liability for that class. It is performed by comparing the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other underwriting expenses, expected to be incurred after reporting date in respect of policies in force at reporting date with the carrying amount of unearned premium liability. Any deficiency is recognised by establishing a provision (premium deficiency reserve) to meet the deficit. The expected future liability is estimated with reference to the experience during the expired period of the contracts, adjusted for significant individual losses which are not expected to recur during the remaining period of the policies, and expectations of future events that are believed to be reasonable. The movement in the premium deficiency reserve is recognised as an expense or income in the statement of comprehensive income for the year. The expected ultimate net claim ratios for the unexpired periods of policies in force at reporting date for each class of business is as follows:

| | |
|--------------------------------|-----|
| Fire and property damage | 56% |
| Marine, aviation and transport | 35% |
| Motor | 45% |
| Health | 94% |
| Miscellaneous | 37% |

Based on an analysis of combined operating ratio for the expired period of each reportable segment, the management considers that the unearned premium reserve for all classes of business as at the year end is adequate (except for health class) to meet the expected future liability after reinsurance, from claims and other expenses, expected to be incurred after the reporting date in respect of policies in those classes of business in force at the reporting date.

The company has recorded premium deficiency reserve on the recommendation of actuary for health business.

3.11 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether or not billed to the Company.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.12 Taxation

Current

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

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences at the reporting date between the tax bases and carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to the statement of comprehensive income, except in the case of items credited or charged to equity in which case it is included in equity.

3.13 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, deposits with banks, stamps in hand and short term finances.

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3.14 Investments

3.14.1 All investments are initially recognised at cost, being the fair value of the consideration given and include transaction cost, except for held for trading investments in which case transaction costs are charged to the statement of comprehensive income. These are classified into the following categories:

- Investment at fair value through profit or loss - held for trading
- Held to maturity
- Available for sale

3.14.1.1 Investments at fair value through profit or loss - held for trading

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

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

3.14.1.2 Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost being the fair value of the consideration given and include transaction cost. At subsequent reporting dates, these are measured at amortised cost using the effective yield method.

Any premium paid or discount availed on acquisition of held to maturity investments is deferred and amortised over the term of the investment using the effective yield.

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

The difference between the redemption value and the purchase price of the held to maturity investments is amortised and taken to the statement of comprehensive income over the term of the investment.

3.14.1.3 Available for sale

Available for sale investments are those non-derivative investments that are designated as available for sale or are not classified in any other category. Subsequent to initial recognition, these are stated at market value. The Company uses stock exchange quotation at the reporting date to determine the market value of its quoted investments and the MUFAP rates to compute market value of government securities.

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

3.14.1.4 Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition these are measured at amortised cost.

3.14.1.5 Date of recognition

Regular way purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Company commits to purchase or sell the investment.

3.15 Investment property

Investment property is held for earning rentals and capital appreciation. Investment property is accounted for under the cost model in accordance with International Accounting Standards (IAS) 40, "Investment property".

Depreciation policy, subsequent capital expenditures and gain or losses on disposal are accounted for in the same manner as tangible fixed assets.

3.16 Operating assets

Tangible

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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Depreciation on all operating assets is charged to the statement of comprehensive income using the straight line method so as to write-off depreciable amount of an asset over its useful life. Depreciation on additions to fixed assets is charged from the month in which an asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed of.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted, if impact on depreciation is significant. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to statement of comprehensive income in the period in which they are incurred.

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

Leased Assets

Asset subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

Finance leases

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long term depending upon the timing of the payment. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to statement of comprehensive income over the lease term.

Intangible

Software development cost are only capitalised to the extent that future economic benefits are expected to flow to the entity. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with indefinite useful lives are stated at cost less impairment losses, if any.

Amortisation is charged to statement of comprehensive income using the straight line method.

3.17 Staff retirement benefits

3.17.1 Defined contribution plan

The Company operates an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the Company and employees to the fund at the rate of 10 percent of basic salary.

3.17.2 Defined benefit plan

All permanent employees of the Company participate in an approved funded defined gratuity plan. Contributions to the fund are made based on actuarial recommendations. The most recent actuarial valuation was carried out as at December 31, 2018 using the Projected Unit Credit Method. Amounts arising as a result of 'Remeasurements', representing the actuarial gains and losses and the difference between the actual investment returns and the return implied by the net interest cost are recognised in the statement of financial position immediately, with a charge or credit to 'Other Comprehensive Income' in the periods in which they occur.

3.17.3 Accumulating compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to statement of comprehensive income.

3.18 Financial instruments

Financial assets and financial liabilities within the scope of IAS 39 are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and are de-recognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in the statement of comprehensive income for the year.

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Financial instruments carried on the statement of financial position mainly include cash and bank deposits, investments, accrued investment income, sundry receivables, accrued expenses, amount due from / to other insurers / reinsurers, sundry creditors, short term finance, long term finance and unclaimed dividend. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

3.19 Offsetting of financial assets and financial liabilities

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

3.20 Segment reporting

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the Insurance Rules, 2017. The reported operating segments are also consistent with the internal reporting provided to Strategy Committee and Board of Directors which are responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

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

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

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

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

Health insurance provides coverage against expenses incurred during the hospitalisation due to sickness, emergency and accidents.

Miscellaneous insurance provides cover against health, burglary, loss of cash in safe and cash in transit, travel, personal accident, money, engineering losses, live stocks, crops and other covers.

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

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

3.21 Impairment

The carrying values of the Company's non-financial assets are reviewed at each financial year end for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The resulting impairment loss is taken to the statement of comprehensive income.

3.22 Foreign currency transactions and translations

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

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3.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

3.24 Borrowing costs

Borrowing costs are recognised as an expense in the period in which these are incurred except in cases where such costs are directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) in which costs such costs are capitalised as part of the cost of that asset. Currently, the Company does not have any borrowing costs directly attributable to the acquisition of or construction of qualifying assets.

3.25 Share capital

Ordinary shares are classified as equity and recognised at their face value. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.26 Expenses of management

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

3.27 Dividends and appropriations to reserves

Dividends and appropriations to reserves are recorded in the period in which these are approved.

3.28 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with accounting and reporting standards as applicable in Pakistan requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in application of its accounting policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Significant accounting estimates and areas where judgments were made by the management in the application of accounting policies are as follows:

- Provision for outstanding claims including IBNR (notes 3.7 and 23);
- Provision for taxation and deferred tax (notes 3.12 and 14);
- Defined benefit plan (notes 3.17.2 and 13);
- Useful lives and residual values of fixed assets and investment property (notes 3.15, 3.16, 5, 6 and 7);
- Premium deficiency reserve (note 3.10);
- Classification of investments and its impairment (notes 3.14, 8, 9 and 10);
- Reinsurance recoveries against outstanding claims (notes 3.8); and
- Provision against premium due but unpaid and amount due from other insurers / reinsurers (notes 3.5, 12.3 and 12.4)

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| 5 | PROPERTY AND EQUIPMENT | Note | 2018 | 2017 |
|---|--------------------------|------|----------------------------|----------------|
| | | | ---- (Rupees in '000) ---- | |
| | Operating assets | 5.1 | 299,552 | 274,135 |
| | Capital work-in-progress | 5.2 | 16,067 | 492 |
| | | | <u>315,619</u> | <u>274,627</u> |

5.1 Operating assets

| Operating assets | 2018 | | | | | | | | | |
|------------------------|---------------------|-----------|-----------|-------------------------|--------------------------|------------------------|-----------|-------------------------|-----------------------------------------------|---------------------------------------|
| | Cost | | | | Accumulated Depreciation | | | | Written Down Value as at December 31 | Depreciation rate (% per annum) |
| | As at January 01 | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |
| | | | | | | | | | | |
| (Rupees in '000) | | | | | | | | | | |
| Furniture and fixtures | 26,281 | 4,887 | (1,682) | 29,466 | 2,501 | 3,232 | (1,383) | 4,350 | 25,116 | 10%-18.67% |
| Office equipment | 22,623 | 7,873 | (2,538) | 27,958 | 4,448 | 5,356 | (2,079) | 7,725 | 20,233 | 10%-28% |
| Computer equipment | 17,113 | 10,853 | (2,777) | 25,189 | 5,272 | 7,462 | (2,752) | 9,982 | 15,207 | 33.33%-50% |
| Buildings | 126,075 | 3,810 | - | 129,885 | 15,516 | 14,461 | - | 29,977 | 99,908 | 5%-33% |
| Motor vehicles-owned | 42,026 | 18,632 | (24,092) | 36,566 | 11,189 | 13,852 | (10,393) | 14,648 | 21,918 | 20%-40% |
| Motor vehicles-leased | 89,202 | 55,912 | (2,102) | 143,012 | 10,239 | 16,397 | (794) | 25,842 | 117,170 | 20%-25% |
| | 323,300 | 101,967 | (33,191) | 392,076 | 49,165 | 60,760 | (17,401) | 92,524 | 299,552 | |

| 2017 | | | | | | | | | | |
|------------------------|-------------------------------------------------------------|-----------|-----------|-------------------|--------------------------|---------------------|-----------|-------------------|--------------------------------------|---------------------------------|
| Cost | | | | | Accumulated Depreciation | | | | Written Down Value as at December 31 | Depreciation rate (% per annum) |
| As at January 01 | Net book value transferred as part of Scheme of Arrangement | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |
| (Rupees in '000) | | | | | | | | | | |
| Furniture and fixtures | - | 20,229 | 6,505 | (473) | 26,261 | - | 2,515 | (14) | 2,501 | 10%-16.67% |
| Office equipment | - | 18,840 | 4,033 | (250) | 22,623 | - | 4,465 | (17) | 4,448 | 10%-28% |
| Computer equipment | - | 6,728 | 10,385 | - | 17,113 | - | 5,272 | - | 5,272 | 33.33%-50% |
| Buildings | - | 121,697 | 4,378 | - | 128,075 | - | 15,516 | - | 15,516 | 5%-33% |
| Motor vehicles-owned | - | 46,161 | 538 | (4,673) | 42,026 | - | 13,124 | (1,935) | 11,189 | 20%-40% |
| Motor vehicles-leased | - | 44,897 | 44,305 | - | 89,202 | - | 10,239 | - | 10,239 | 20%-25% |
| | - | 258,552 | 70,144 | (5,396) | 323,300 | - | 51,131 | (1,966) | 49,165 | 274,135 |

5.1.1 Disposal of operating assets

| Particulars of the assets | Cost | Accumulated depreciation | Book value | Sale proceeds | Net gain / (loss) | Mode of disposal | Particulars of purchaser |
|--------------------------------------------|--------------|--------------------------|------------|---------------|-------------------|------------------|--------------------------|
| (Rupees in '000) | | | | | | | |
| Furniture and fixtures | | | | | | | |
| Various furniture and fixtures | 1,432 | (1,133) | 299 | 46 | (253) | Negotiation | Abdul Quddus |
| Various furniture and fixtures | 207 | (207) | - | 79 | 79 | Negotiation | Muhammad Yousuf |
| Various furniture and fixtures | 43 | (43) | - | 8 | 8 | Negotiation | Shajar Abbas |
| | <u>1,682</u> | <u>(1,383)</u> | <u>299</u> | <u>133</u> | <u>(166)</u> | | |
| Office equipment | | | | | | | |
| iPhone 7S Plus | 80 | (24) | 56 | 38 | (17) | Negotiation | Abdul Quddus |
| Air conditioners, Chillers and compressors | 1,081 | (1,081) | - | 34 | 34 | Negotiation | Abdul Quddus |
| APPLE iPhone 6 | 88 | (46) | 42 | 50 | 8 | Insurance claim | Aifalah Insurance |
| LED 50 Inch | 93 | (40) | 53 | 49 | (4) | Insurance claim | Aifalah Insurance |
| Photocopier machines | 118 | (62) | 56 | 30 | (26) | Negotiation | Arham Business Solution |
| Air conditioners | 353 | (314) | 39 | 101 | 62 | Negotiation | Muhammad Yousuf |
| Philips LCD 42" | 40 | (36) | 4 | 4 | - | Negotiation | Rafaqat |
| Photocopier machine | 245 | (244) | 1 | 15 | 14 | Negotiation | Document Solution |
| Air conditioner 1.5 Ton | 110 | (58) | 52 | 8 | (44) | Negotiation | Muhammad Imran |
| Air conditioner 1.5 Ton | 110 | (58) | 52 | 8 | (44) | Negotiation | Muhammad Imran |
| Air conditioner Finance 1.5 Ton | 110 | (58) | 52 | 8 | (44) | Negotiation | Muhammad Imran |
| Air conditioner 1.5 Ton | 110 | (58) | 52 | 8 | (44) | Negotiation | Muhammad Imran |
| | <u>2,538</u> | <u>(2,079)</u> | <u>459</u> | <u>354</u> | <u>(105)</u> | | |
| Computer equipment | | | | | | | |
| Various PCs and Printers | 312 | (311) | 1 | 4 | 3 | Negotiation | Abdul Sattar |
| Lenovo | 41 | (41) | - | 5 | 5 | Insurance claim | Aifalah Insurance |
| Various printers/PCs/server machines | 2,377 | (2,353) | 24 | 20 | (4) | Negotiation | Muhammad Imran |
| Laptop Dell 5110 # 105 | 47 | (47) | - | 15 | 15 | Company policy | Shahbaz Haider Agha * |
| | <u>2,777</u> | <u>(2,752)</u> | <u>25</u> | <u>44</u> | <u>19</u> | | |

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| Particulars of the assets | Cost | Accumulated depreciation | Book value | Sale proceeds | Net gain / (loss) | Mode of disposal | Particulars of purchaser |
|----------------------------------|---------------|--------------------------|---------------|---------------|-------------------|------------------|--------------------------|
| (Rupees in '000) | | | | | | | |
| Motor vehicles-Own | | | | | | | |
| Honda civic | 2,655 | (1,283) | 1,372 | 2,094 | 722 | Company policy | Pervaiz Nadir * |
| Honda civic | 2,839 | (379) | 2,460 | 2,839 | 379 | Company policy | Pervaiz Nadir * |
| Honda City aspire | 2,091 | (244) | 1,847 | 2,091 | 244 | Company policy | Ahmed Zia * |
| Suzuki wagon-R | 1,109 | (129) | 980 | 1,109 | 129 | Company policy | Muhammed Javed * |
| Toyota corolla altis | 2,074 | (1,383) | 691 | 1,150 | 459 | Company policy | Athar Chaudhry * |
| Toyota vitz | 1,207 | (685) | 522 | 742 | 220 | Company policy | Muhammed Akram * |
| Toyota Corolla altis grande | 2,475 | (1,361) | 1,114 | 1,903 | 789 | Company policy | Khurram Iram * |
| Suzuki wagon-R | 1,106 | (147) | 959 | 1,105 | 146 | Company policy | Syed Ahsan Ali * |
| Suzuki wagon-R | 1,106 | (129) | 977 | 1,106 | 129 | Company policy | Faisal Siddiq * |
| Suzuki swift | 1,495 | (174) | 1,321 | 1,495 | 174 | Company policy | Murid Abbas * |
| Suzuki swift | 1,495 | (175) | 1,320 | 1,495 | 175 | Company policy | Shakeel Ahmed * |
| Honda CD 70 | 68 | (12) | 56 | 64 | 8 | Insurance claim | Alfalah Insurance |
| Suzuki alto | 728 | (728) | - | 273 | 273 | Company policy | Syed Zeeshan Rafiq * |
| Suzuki mehran | 692 | (680) | 12 | 307 | 295 | Company policy | Shakeel Ahmed * |
| Suzuki cultus | 1,072 | (1,072) | - | 476 | 476 | Company policy | Mohammed Iqbal * |
| Toyota corolla XLI | 1,528 | (1,528) | - | 500 | 500 | Company policy | Mustafa Nafees * |
| Honda motorcycle 100CC | 87 | (87) | - | 40 | 40 | Company policy | Ashfaq Ahmed Khan * |
| Honda CG 125 | 102 | (102) | - | 54 | 54 | Company policy | Wahab Zaidi * |
| Super power bike | 42 | (30) | 12 | 10 | (2) | Company policy | Muhammed Abid * |
| Unique UD 70 | 49 | (30) | 19 | 30 | 11 | Company policy | Nishat Ahmed * |
| CD Dream bike | 72 | (35) | 37 | 50 | 13 | Insurance claim | Alfalah Insurance |
| | 24,092 | (10,393) | 13,699 | 18,933 | 5,234 | | |
| Motor vehicles-Leased | | | | | | | |
| Toyota corolla altis | 2,102 | (794) | 1,308 | 1,341 | 33 | Company policy | Khurram Paul * |
| Total - December 31, 2018 | 33,191 | (17,401) | 15,790 | 20,805 | 5,015 | | |
| Total - December 31, 2017 | 23,932 | (20,502) | 3,430 | 11,997 | 8,567 | | |

* These represent persons in employment of the company

- 5.1.2 The cost of fully depreciated property and equipment still in use amounts to 88.816 million (2017: Rs. 60.626 million).

5.2 Capital Work-in-Progress

Advances to suppliers *

Others

| | 2018 | 2017 |
|-------------------------|------------------|------------|
| | (Rupees in '000) | |
| Advances to suppliers * | 11,135 | - |
| Others | 4,932 | 492 |
| | <u>16,067</u> | <u>492</u> |

* This includes advances related to purchase of leased assets

6 INTANGIBLE ASSETS

| | 2018 | | | | | | | | | Amortisation rate (% per annum) |
|-------------------|---------------------|-----------|-----------|----------------------|--------------------------|------------------------|-----------|----------------------|--------------------------------------------|------------------------------------|
| | Cost | | | | Accumulated Amortisation | | | | Written Down Value as at December 31 | |
| | As at January 01 | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |
| | (Rupees in '000) | | | | | | | | | |
| Computer Software | 6,465 | - | - | 6,485 | 1,272 | 1,499 | - | 2,771 | 3,694 | 20% |

| 2017 | | | | | | | | | | | | |
|-------------------|----------------------------------------------|-----------|-----------|-------------------|--------------------------|----------------------------------------------|---------------------|-----------|-------------------|--------------------------------------|---------------------------------|-----|
| Cost | | | | | Accumulated Amortisation | | | | | Written Down Value as at December 31 | Amortisation rate (% per annum) | |
| As at January 01 | Transferred as part of Scheme of Arrangement | Additions | Disposals | As at December 31 | As at January 01 | Transferred as part of Scheme of Arrangement | Charge for the year | Disposals | As at December 31 | | | |
| (Rupees in '000) | | | | | | | | | | | | |
| Computer Software | - | 2,110 | 4,355 | - | 6,465 | - | - | 1,272 | - | 1,272 | 5,193 | 20% |

7 INVESTMENT PROPERTIES

| | 2018 | | | | | | | | | |
|------------------|---------------------|-----------|-----------|----------------------|--------------------------|------------------------|-----------|----------------------|-----------------------------------------------------|----------------|
| | Cost | | | | Accumulated Depreciation | | | | Written Down Value as at December 31, 2018 | Useful life |
| | As at January 01 | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |
| | | | | | | | | | | |
| (Rupees in '000) | | | | | | | | | | |
| Buildings | 185,285 | - | - | 185,285 | 5,939 | 9,592 | - | 15,531 | 169,754 | 20 years |

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| 2017 | | | | | | | | | | |
|------------------|----------------------------------------------|-----------|-----------|--------------------------|------------------|---------------------|-----------|-------------------|--------------------------------------------|-------------|
| Cost | | | | Accumulated Depreciation | | | | | Written Down Value as at December 31, 2017 | Useful life |
| As at January 01 | Transferred as part of Scheme of Arrangement | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |

(Rupees in '000)

Buildings - 170,257 15,028 - 185,285 - 5,939 - 5,939 179,346 20 years

- 7.1 The market value of the investment properties is Rs. 845.885 million (2017: Rs. 692.903 million) as per valuation carried out by the independent professional valuer as at December 31, 2018.

8 INVESTMENTS IN EQUITY SECURITIES - MUTUAL FUNDS

| 2018 | | | | | 2017 | | | | |
|-----------------|----------------|--------------------------|---------------------------------|--------------|-----------------|----------------|--------------------------|---------------------------------|--------------|
| Number of units | Carrying value | (Impairment / provision) | Revaluation surplus / (deficit) | Market value | Number of units | Carrying value | (Impairment / provision) | Revaluation surplus / (deficit) | Market value |

(Rupees in '000)

(Rupees in '000)

At fair value through profit or loss

| | | | | | | | | | |
|--------------------------------|-----------|---------|---|----------|---------|---|---|---|---|
| Alfalch GHP Stock Fund | 355,961 | 45,000 | - | (7,923) | 37,077 | - | - | - | - |
| HLB Stock Fund | 399,361 | 45,000 | - | (7,173) | 37,827 | - | - | - | - |
| MCB Pakistan Stock Market Fund | 591,878 | 60,000 | - | (9,978) | 50,022 | - | - | - | - |
| NAFA Stock Fund | 3,845,299 | 59,870 | - | (9,975) | 49,895 | - | - | - | - |
| UBL Stock Advantage Fund | 828,454 | 60,000 | - | (9,000) | 51,000 | - | - | - | - |
| | 6,020,953 | 269,870 | - | (44,049) | 225,821 | - | - | - | - |

9 INVESTMENTS IN DEBT SECURITIES - PAKISTAN INVESTMENT BONDS AND MARKET TREASURY BILLS

| Particulars | Maturity year | Effective yield % per annum | Profit payment | 2018 | 2017 |
|-------------|---------------|-----------------------------|----------------|------|------|
|-------------|---------------|-----------------------------|----------------|------|------|

(Rupees in '000)

| | | | | | |
|---------------------------------------------|------|--------|-------------|-----------|---------|
| Held to maturity (note 9.1) | | | | | |
| Pakistan Investment Bonds | 2021 | 13.08% | Semi-annual | 14,643 | 14,726 |
| Pakistan Investment Bonds | 2022 | 11.24% | Semi-annual | 1,021 | 14,551 |
| Pakistan Investment Bonds | 2020 | 13.98% | Semi-annual | 24,323 | 23,915 |
| Pakistan Investment Bonds | 2022 | 11.99% | Semi-annual | 60,508 | 60,525 |
| Pakistan Investment Bonds | 2019 | 13.22% | Semi-annual | 14,880 | 1,028 |
| Pakistan Investment Bonds | 2022 | 12.76% | Semi-annual | 10,961 | 10,914 |
| Pakistan Investment Bonds | 2019 | 6.34% | Semi-annual | 194,329 | 195,552 |
| | | | | 320,665 | 321,211 |
| At fair value through profit or loss | | | | | |
| Treasury Bills | 2019 | 10.30% | On maturity | 75,574 | - |
| Treasury Bills | 2019 | 10.30% | On maturity | 245,022 | - |
| Treasury Bills | 2019 | 10.30% | On maturity | 48,113 | - |
| Treasury Bills | 2019 | 10.30% | On maturity | 431,117 | - |
| Pakistan Investment Bonds | 2028 | 7.32% | Semi-annual | 123,838 | - |
| Pakistan Investment Bonds | 2028 | 8.55% | Semi-annual | 246,075 | - |
| Pakistan Investment Bonds | 2028 | 8.51% | Semi-annual | 94,886 | - |
| Pakistan Investment Bonds | 2028 | 8.51% | Semi-annual | 105,814 | - |
| Pakistan Investment Bonds | 2028 | 8.55% | Semi-annual | 123,038 | - |
| | | | | 1,493,477 | - |
| Total market value-December 31, 2018 | | | | 1,814,142 | 321,211 |
| Total carrying value-December 31, 2018 | | | | 1,824,846 | 321,211 |

- 9.1 The Pakistan Investment Bonds are placed as statutory deposit with the State Bank of Pakistan in accordance with the requirements of Clause (a) of sub-section 2 of section 29 of Insurance Ordinance, 2000 having market value of Rs 319.364 million (2017: Rs 339.538 million).

| Note | 2018 | 2017 |
|------------------------------------|------|-----------------|
| --- (Rupees in '000) --- | | |
| 10 INVESTMENTS IN TERM DEPOSITS | | |
| Held to maturity | | |
| Deposits maturing within 12 months | 10.1 | 525,000 960,000 |

- 10.1 These carry profit rate ranging from 9.5 % to 12 % per annum (2017: 5 % to 5.75 %) and have maturities upto March 2019.

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| 11 | LOANS AND OTHER RECEIVABLES | Note | 2018 ---- (Rupees in '000) ---- | 2017 |
|----|----------------------------------------------------|------|------------------------------------|----------------|
| | Receivable from related parties | 11.1 | 79,291 | 38,603 |
| | Advances - considered good | | 9,043 | 5,671 |
| | Security deposits | | 55,030 | 39,933 |
| | Sales tax recoverable | | 35,350 | 19,475 |
| | Accrued income on savings accounts and investments | | 45,429 | 13,688 |
| | Others | 11.2 | 62,747 | 21,371 |
| | | | <u>286,890</u> | <u>138,741</u> |

11.1 This includes receivables under group shared services.

11.2 These include a receivable from takaful operations amounting to Rs. 58.028 million in respect of Sindh Sales Tax as disclosed in note 21.4.

| 12 | INSURANCE / REINSURANCE RECEIVABLES | Note | 2018 ---- (Rupees in '000) ---- | 2017 |
|----|-------------------------------------------------------------------------------|-------------|------------------------------------|----------------|
| | Due from insurance contract holders-unsecured | | | |
| | - considered good | | 537,728 | 432,211 |
| | - considered doubtful | | 120,338 | 102,741 |
| | | | 658,066 | 534,952 |
| | Less: provision for impairment of receivables from insurance contract holders | 12.3 | (120,338) | (102,741) |
| | | 12.1 & 12.2 | 537,728 | 432,211 |
| | Due from other insurer / reinsurer - unsecured | | | |
| | - considered good | | 563,442 | 269,603 |
| | - considered doubtful | | 41,423 | 41,423 |
| | | | 604,865 | 311,026 |
| | Less: provision for impairment of receivables from insurance contract holders | 12.4 | (41,423) | (41,423) |
| | | | 563,442 | 269,603 |
| | | | <u>1,101,170</u> | <u>701,814</u> |

12.1 This includes an amount of Rs. 13.009 million (2017: Rs. 21.496 million) receivable from related parties.

12.2 The aggregate amount due by directors, chief executive and executives of the Company amounts to Rs 0.297 million (2017: Rs 0.355 million).

| 12.3 | Provision for doubtful receivables | Note | 2018 ---- (Rupees in '000) ---- | 2017 |
|------|------------------------------------------------------|------|------------------------------------|----------------|
| | Opening | | 102,741 | - |
| | Balance transferred as part of Scheme of Arrangement | | - | 83,894 |
| | Provision made during the year | | 17,597 | 18,847 |
| | Balance as at December 31 | | <u>120,338</u> | <u>102,741</u> |
| 12.4 | Provision for doubtful receivables | | | |
| | Opening | | 41,423 | - |
| | Balance transferred as part of Scheme of Arrangement | | - | 41,423 |
| | Provision made during the year | | - | - |
| | Balance as at December 31 | | <u>41,423</u> | <u>41,423</u> |

13 RETIREMENT BENEFITS OBLIGATIONS

13.1 Salient features

The Company offers an approved gratuity fund for all employees. Annual contributions are made to the fund on the basis of actuarial recommendations. The gratuity is governed under the Trust Act, 1882, the Trust Deed and the Rules of the Fund, the Income Tax Ordinance, 2001, the Income Tax Rules, 2002 and the applicable local regulations. An actuarial valuation is carried out every year to determine the liability of the Company in respect of the benefit. The most recent valuation in this regard has been carried out as at December 31, 2018 using the Projected Unit Credit (PUC) Actuarial Cost Method as allowed under the International Accounting Standard (IAS) 19 - 'Employee Benefits' for valuation of the Fund.

Atter

The Company faces the following risks on account of gratuity fund:

Final salary risks

The risk that the final salary at the time of cessation of service is greater than what was assumed. Since the benefit is calculated on the final salary, the benefit amount would also increase proportionately.

Asset volatility

Most assets are invested in risk free investments. However, investments in shares, are subject to adverse fluctuation as a result of change in market price.

Discount rate fluctuation

The plan liabilities are calculated using a discount rate set with reference to corporate bond yields. A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the current plan's bond holdings.

Investment risks

The risk of the investment underperforming and not being sufficient to meet the liabilities. The risk is mitigated by closely monitoring the performance of investment.

Mortality risks

The risk that the actual mortality experience is different. The effect depends on the beneficiaries' service / age distribution and the benefit.

Longevity risks

The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Withdrawal risks

The risk of higher or lower withdrawal experience than assumed. The final effect could go either way depending on the beneficiaries' service / age distribution and the benefit.

| 13.1.1 Principal actuarial assumptions | 2018 | 2017 |
|---------------------------------------------------------------|--------------------------|--------------|
| Valuation discount rate | 13.75% | 9.50% |
| Valuation discount rate for statement of comprehensive income | 9.50% | 9.50% |
| Salary increase rate - short term | 13.75% | 10.00% |
| Salary increase rate - long term | 13.75% | 9.50% |
| Return on plan assets | 13.75% | 9.50% |
| Duration | 10.91 years | 10.99 years |
| Normal retirement age | 58 | 58 |
| Withdrawal rate | Moderate | Moderate |
| Mortality rate | SLIC 2001-05 | SLIC 2001-05 |
| Next salary increase date | 1-Jan-2019 | 1-Jan-2018 |
| 13.1.2 Amount recognised in statement of financial position | 2018 | 2017 |
| Reconciliation | --- (Rupees in '000) --- | |
| Present value of defined benefit obligation | 98,685 | 84,971 |
| Less: fair value of plan assets | (77,468) | (72,552) |
| Payable to defined benefit plan | 21,217 | 12,419 |
| Movement in net liability / (asset) recognised | | |
| Opening net liability | 12,419 | 9,588 |
| Expense for the year | 11,658 | 9,829 |
| Other comprehensive loss | 7,451 | 1,795 |
| Contributions | (10,311) | (8,793) |
| | 21,217 | 12,419 |

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| | 2018 ---- (Rupees in '000) ---- | 2017 ---- (Rupees in '000) ---- |
|-----------------------------------------------------------------------|------------------------------------|------------------------------------|
| Movement in present value of defined benefit obligation | | |
| Opening | 84,971 | 68,205 |
| Current service cost | 10,990 | 9,336 |
| Interest cost | 7,643 | 6,479 |
| Benefits paid | (8,565) | - |
| Actuarial loss on obligation | 3,646 | 951 |
| Closing | <u>98,685</u> | <u>84,971</u> |
| Movement in the fair value of plan assets | | |
| Opening | 72,552 | 58,617 |
| Expected return on plan assets | 6,975 | 5,986 |
| Contributions | 10,311 | 8,793 |
| Benefits paid | (8,565) | - |
| Actuarial loss on obligation | (3,805) | (844) |
| | <u>77,468</u> | <u>72,552</u> |
| 13.1.3 Amount recognised in statement of comprehensive income | | |
| Current service cost | 10,990 | 9,336 |
| Interest cost | 668 | 493 |
| Past service cost | - | - |
| Expense for the year | <u>11,658</u> | <u>9,829</u> |
| 13.1.4 Amount recognised in other comprehensive income | | |
| Remeasurement loss on obligation | 3,646 | 951 |
| Remeasurement loss on plan assets | 3,805 | 844 |
| | <u>7,451</u> | <u>1,795</u> |
| 13.1.5 Actual return on plan assets | | |
| Expected return on assets | 6,975 | 5,142 |
| Actuarial (loss) / gain | (3,805) | (844) |
| | <u>3,170</u> | <u>4,298</u> |
| 13.1.6 Analysis of present value of defined benefit obligation | | |
| Split by vested / non-vested | | |
| (i) Vested benefits | 98,685 | 84,971 |
| (ii) Non-vested benefits | - | - |
| | <u>98,685</u> | <u>84,971</u> |
| 13.1.7 Sensitivity analysis | | |

| | As at December 31, 2018 | | | As at December 31, 2017 | | |
|-----------------------------------|-------------------------|----------------------------------------------------------------------|--|-------------------------|----------------------------------------------------------------------|--|
| | Change in assumption | Increase / (decrease) in present value of defined benefit obligation | | Change in assumption | Increase / (decrease) in present value of defined benefit obligation | |
| | | (%) Rupees in '000 | | | (%) Rupees in '000 | |
| Discount rate | +1% | -10.09% (9,954) | | +1% | -10.13% (8,604) | |
| | -1% | 11.74% 11,582 | | -1% | 11.86% 10,079 | |
| Salary increase rate | +1% | 12.12% 11,956 | | +1% | 12.24% 10,397 | |
| | -1% | -10.57% (10,427) | | -1% | -10.60% (9,011) | |
| Life expectancy / withdrawal rate | +10% | -0.25% (251) | | +10% | -0.26% (220) | |
| | -10% | 0.26% 256 | | -10% | 0.26% 224 | |

The above sensitivity analysis are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant assumptions, same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the gratuity liability.

| | | | | |
|------------------------------------------------------|------------------------|---------------------------|------------------------|---------------------------|
| 13.1.8 Plan assets comprise of the following: | 2018 Rupees in '000 | Percentage composition | 2017 Rupees in '000 | Percentage composition |
| Equity investments | 14,526 | 18.75% | 14,869 | 20.49% |
| Cash and bank deposits | 16,809 | 21.70% | 9,045 | 12.47% |
| Government securities | 46,133 | 59.55% | 48,638 | 67.04% |
| Fair value of plan assets | <u>77,468</u> | <u>100.00%</u> | <u>72,552</u> | <u>100.00%</u> |

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- 13.1.9 As per the actuarial recommendations, the expected return on plan assets was taken as 13.75% (2017: 9.50%), which is representative of yields on long-term Government bonds. Due to the increased volatility of share prices in recent months, there is no clear indication of return on equity. It is therefore assumed that the yield on equity matches the return on debt.

Based on actuarial advice, the Company intends to charge an amount of Rs 14.923 million in the financial statements for the year ending December 31, 2019.

The Expected Contribution for the next one year should take into account the maximum annual contribution limit set by the Income Tax Rules, 2002 i.e. the basic payroll of the last month of the financial year end. If the contribution exceeds the limit defined in the Income Tax Rules, the Company may apply to the Commissioner of Inland Revenue (CIR) for special contribution for the excess amount. The Expected Gratuity Expense is around 9.18% of annual salary which is greater than the maximum allowable limit of 8.33%. Therefore, the Company may contribute up to Rs. 13.544 million during 2019.

- 13.1.10 Expected maturity analysis of undiscounted defined benefit obligation for the gratuity scheme is as follows:

| | Less than a year | Between 1-2 Years | Between 2-5 years | Over 5 years | Total |
|----------------------|---------------------|----------------------|----------------------|-----------------|---------|
| (Rupees in '000) | | | | | |
| At December 31, 2018 | | | | | |
| Gratuity | 1,960 | 3,768 | 31,334 | 665,217 | 702,279 |
| At December 31, 2017 | | | | | |
| Gratuity | 4,347 | 1,738 | 17,200 | 287,336 | 310,621 |

- 13.1.11 5 year data on the deficit / (surplus) of the plan is as follows:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---------------------------------------------|----------|----------|------|------|------|
| (Rupees in '000) | | | | | |
| Present value of defined benefit obligation | 98,685 | 84,971 | - | - | - |
| Fair value of plan assets | (77,468) | (72,552) | - | - | - |
| Deficit / (surplus) | 21,217 | 12,419 | - | - | - |

13.2 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Company has set up a provident fund for its permanent employees and contributions were made by the Company to the Trust in accordance with the requirements of Section 218 of the Companies Act, 2017. The total charge against provident fund for the year ended December 31, 2018 was Rs. 13.251 million. The net assets based on unaudited financial statements of Provident Fund as at June 30, 2018 are Rs. 96.069 million out of which 83.1% were invested in different financial instruments categories as provided in Section 218 of the Companies Act, 2017 and the rules formulated therein. The carrying value of the investments of the provident fund as at June 30, 2018 (unaudited) was Rs. 100.01 million. The above investments out of provident fund have been made in accordance with the requirements of Section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

| | 30-Jun-2018 (un-audited) | | 30-Jun-2017 (audited) | |
|---------------------------|--------------------------|------------------------------|-----------------------|------------------------------|
| | Rupees in '000 | % of the size of the fund | Rupees in '000 | % of the size of the fund |
| Government securities | 59,676 | 59.67% | 68,836 | 79.58% |
| Listed securities | 4,860 | 4.86% | 5,334 | 6.17% |
| Bank deposits | 16,902 | 16.90% | 12,330 | 14.25% |
| Mutual Funds | 13,571 | 13.57% | - | 0.00% |
| Term finance certificates | 5,000 | 5.00% | - | 0.00% |
| Total | 100,009 | 100.00% | 86,500 | 100% |

| | 2018 (Number of employees) | 2017 (Number of employees) |
|---------------------------------------------|-------------------------------|-------------------------------|
| 13.3 STAFF STRENGTH | | |
| Number of employees as at December 31 | 176 | 149 |
| Average number of employees during the year | 176 | 149 |

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| | Note | 2018 --- (Rupees in '000) --- | 2017 --- (Rupees in '000) --- |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
| 14 DEFERRED TAXATION | | | |
| Deferred debits arising in respect of : | | | |
| - Provision for doubtful receivables | | 46,911 | 45,248 |
| - Defined benefit plan | | 6,153 | 3,725 |
| - Unrealised loss on investments | | 15,878 | - |
| - Liabilities against assets subject to finance lease | | 34,475 | 23,471 |
| | | <u>103,417</u> | <u>72,444</u> |
| Deferred credits arising due to | | | |
| - Accelerated tax depreciation | | (36,738) | (34,853) |
| - Assets subject to finance lease | | (33,979) | (23,689) |
| | | <u>(70,717)</u> | <u>(58,542)</u> |
| | | <u>32,700</u> | <u>13,902</u> |
| 15 PREPAYMENTS | | | |
| Prepaid reinsurance premium ceded | | 613,174 | 481,956 |
| Others | | 32,003 | 27,736 |
| | | <u>645,177</u> | <u>509,692</u> |
| 16 CASH AND BANK | | | |
| Cash and cash equivalents | | | |
| Policy stamps in hand | | 240 | 2,684 |
| Cash at bank | | | |
| Current accounts | | 3,929 | 1,488,024 |
| Savings accounts | 16.1 | 472,992 | 17,034 |
| | | <u>476,921</u> | <u>1,505,058</u> |
| | | <u>477,161</u> | <u>1,507,742</u> |
| 16.1 | The balances in savings accounts carry mark-up ranging between 6.5% to 10% (2017: 3.5% to 4.75%) per annum. | | |
| 16.2 Cash and cash equivalents for the purpose of statement of cash flows: | Note | 2018 --- (Rupees in '000) --- | 2017 --- (Rupees in '000) --- |
| Cash and cash equivalents | | 477,161 | 1,507,742 |
| Term deposits | 10.1 | 525,000 | 960,000 |
| | | <u>1,002,161</u> | <u>2,467,742</u> |
| 17 | During the year, the Company has issued 41,738,400 fully paid shares of Rs. 10 each to IGI Holdings Limited - Parent Company as disclosed in note 1.2 (formerly IGI Insurance Limited) in accordance with the Scheme of Arrangement (under sections 284 to 288 of the Companies Act, 2017) sanctioned by the High Court of Sindh through its order dated December 16, 2017. The Company is a wholly owned subsidiary of IGI Holdings Limited. | | |
| 18 BORROWINGS | Note | 2018 --- (Rupees in '000) --- | 2017 --- (Rupees in '000) --- |
| Liabilities against assets subject to finance lease | 18.1 | <u>118,881</u> | <u>78,235</u> |
| Current portion | | 24,265 | 13,339 |
| Non-current portion | | 94,616 | 64,896 |
| | | <u>118,881</u> | <u>78,235</u> |
| 18.1 Liabilities against assets subject to finance lease | | | |

| | 2018 | | | 2017 | | |
|---------------------------------------------------|------------------------|-------------------|-----------------------|------------------------|-------------------|-----------------------|
| | Minimum Lease Payments | Financial charges | Principal outstanding | Minimum Lease Payments | Financial charges | Principal outstanding |
| | (Rupees in '000) | | | | | |
| Not later than one year | 26,706 | 2,441 | 24,265 | 16,190 | 2,851 | 13,339 |
| Later than one year and not later than five years | 106,260 | 11,644 | 94,616 | 70,220 | 5,324 | 64,896 |
| | <u>132,966</u> | <u>14,085</u> | <u>118,881</u> | <u>86,410</u> | <u>8,175</u> | <u>78,235</u> |

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The Company has entered into lease agreements with various leasing companies for lease of motor vehicles. The liabilities under these agreements are payable by the year 2019 - 2023 and are subject to finance charge at rates ranging from 4.45% - 7.16% per annum.

The Company intends to exercise its option to purchase these assets upon the termination of the lease term. The cost of operating and maintaining the leased assets is borne by the Company.

| | Note | 2018 ---- (Rupees in '000) ---- | 2017 |
|------------------------------------|-----------------------------------------|------------------------------------|----------------|
| 19 | INSURANCE / REINSURANCE PAYABLES | | |
| Due to other insurers / reinsurers | | <u>703,314</u> | <u>347,883</u> |
| 20 | OTHER CREDITORS AND ACCRUALS | | |
| Agent commission payable | | 154,728 | 124,347 |
| Cash margin | | 265,036 | 219,424 |
| Federal excise duty | | 29,177 | 21,656 |
| Federal insurance fee | | 1,977 | 1,397 |
| Workers' Welfare Fund | 20.1 | - | 66,618 |
| Accrued expenses | | 136,104 | 97,684 |
| Others | | <u>146,909</u> | <u>153,198</u> |
| | | <u>733,931</u> | <u>684,324</u> |

- 20.1** The Finance Act, 2008 had introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance) as a result of which it was construed that all industrial establishments whose income exceeded Rs. 0.5 million in a tax year were brought within the scope of the WWF Ordinance, thus rendering them liable to pay contribution to WWF at the rate of two percent of their accounting or taxable income, whichever was higher. In light of this, the Company filed a constitutional petition in the Honourable Sindh High Court (SHC) challenging the applicability of WWF which is pending adjudication. However, these decisions were challenged in the Supreme Court of Pakistan.

On November 10, 2016 the Supreme Court of Pakistan (SCP) passed a judgment declaring the amendments made in the Finance Acts 2006 and 2008 pertaining to WWF as illegal citing that WWF was not in the nature of tax and could, therefore, not have been introduced through money bills. Accordingly, the aforesaid amendments were struck down by the SCP. The Federal Board of Revenue filed a petition in the SCP against the said judgment, which is pending hearing. While the petitions filed on the matter are still pending before the SHC, the Company have taken legal and tax opinions on the impact of the SCP judgment on the petition before the SHC. Both legal and tax advisors consulted were of the view that the judgment has removed the very basis on which the demands were raised against the Company. Therefore, there was no longer any liability against the Company under the WWF Ordinance and that all cases pending in the SHC or lower appellate forums will now be disposed of in light of the earlier judgment of the SCP.

In the current year, based on the above facts above and the advice sought from tax consultants, the management of the Company decided to reverse the provision against WWF from the years 2008 to 2012 amounting to Rs 66.618 million.

21 CONTINGENCIES AND COMMITMENTS

The following contingencies were transferred to and vested into IGI General Insurance Limited with effect from close of business on January 31, 2017 that have been retained by the Company as part of the scheme of arrangement:

- 21.1** The Company is defending a suit against it by M/s Nawaz Enterprises for recovery of Rs. 9.45 million on account of insurance claim. The management, based on a advice of the legal counsel, is confident that the outcome of the case is likely to be in favor of the Company.
- 21.2** The Company is defending a suit filed against it and the beneficiary by the Federation of Pakistan amounting to Rs. 4.929 million. The petition is pending for hearing before Civil Court judge. The management, based on a advice of the legal counsel, is hopeful that the outcome of the case is likely to be decided in favor of the Company.

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21.3 An appeal was filed before the Commissioner - Appeals, the Sindh Revenue Board (SRB) against the order passed by the Assistant Commissioner, SRB under section 23(1) of the Sindh Sales Tax on Services Act, 2011 for tax periods July 2011 to December 2012 in respect of re-insurance accepted transactions which was decided against the Company. The department alleged that the company provided re-insurance services to local insurance companies and demanded sindh sales tax on services under Sindh Sales Tax on Services Act, 2011. The Commissioner Appeals had decided the matter against the company. Against the order of the Commissioner - Appeals, further appeal had been filed before the Appellate Tribunal, SRB on January 16, 2015, which was also decided against the Company. The Company had filed an appeal in the Honourable High Court of Sindh which is pending adjudication. The management, based on a advice of the legal counsel, is hopeful that the outcome of the case will be decided in favor of the Company.

21.4 During the year, the Sindh Revenue Board (SRB) raised a demand of tax of Rs 430.412 million under section 23(1) of Sindh Sales Tax on Services Act (SSTA), 2011, in respect of sales tax on reinsurance obtained from foreign re-insurers by the Company. The department has also imposed a penalty of Rs 21.520 million.

The department alleged that the Company has received re-insurance services from foreign re-insurance companies for the period from July 2011 to December 2014 and it is the contention of the department that these services are liable to sales tax under SSTA, 2011. The department attached the Company's bank account and directed the Company's banker to issue pay orders to SRB. The pay orders of Rs 58.028 million from the Company's bank account were issued by the Company's banker on December 27, 2018 upon direction of SRB.

The Company has filed an appeal before the Commissioner Appeals on December 28, 2018 against the above order. The Company has also filed a constitutional petition before the Honourable High Court (the Court) of Sindh at Karachi on December 28, 2018 seeking protection from the above mentioned coercive action taken by the tax department. The Court has suspended the above mentioned attachment notice and also instructed the bank that the said pay orders should not be encashed.

The management in its first hearing before the Assistant Commissioner SRB has submitted that:

- The payments to foreign re-insurance companies are not a service and is merely a re-distribution of the insurance risk and therefore the insurance premium. There is no value addition involved since in essence it is a sharing of the insurance risk between the insurer and re-insurers. The Management believes that the gross premium charged by the insurer was already subject to Sales Tax on the gross amount, hence it is illogical to again subject it to sales tax upon its re-distribution keeping in view the fact that neither any service is being provided to the policy holder nor any value addition is being made.
- These services have been obtained by the Company from the re-insurance companies incorporated outside Pakistan with no legal or physical presence therefore it is the view that the provisions of Sindh Sales Tax laws are not applicable to these type of arrangements and are outside the jurisdiction of Sindh Sales Tax laws.

The management believes that even if it is assumed that Sindh Sales Tax on re-insurance provided to insurer / insurance companies is applicable, the law does not provide any mechanism for calculating the basis on which such tax will be imposed and its related payment and the same would have been claimed as adjustable input tax by the Company against its output tax liability.

The management, based on the advice received from their tax and legal advisors, is confident that this matter is likely to be decided in favour of the Company. The Company has recorded Rs 58.028 million as 'other receivable' in these financial statements.

21.5 The contingencies relating to taxation are given in note 29.2 to the financial statements.

| 22 | NET INSURANCE PREMIUM | 2018 | 2017 |
|----|-------------------------------------------------------|--------------------------|------------------|
| | | --- (Rupees in '000) --- | |
| | Written gross premium | 4,417,930 | 2,901,560 |
| | Add: Unearned premium reserve - opening | 1,185,547 | - |
| | Add: Balances transferred under scheme of arrangement | - | 1,227,094 |
| | Less: Unearned premium reserve - closing | (1,503,062) | (1,185,547) |
| | Premium earned | 4,100,415 | 2,943,107 |
| | Less: Reinsurance premium ceded | (1,995,237) | (1,203,948) |
| | Add: Prepaid reinsurance premium ceded - opening | (481,956) | - |
| | Add: Balances transferred under scheme of arrangement | - | (575,975) |
| | Less: Prepaid reinsurance premium ceded - closing | 613,174 | 481,956 |
| | Reinsurance expense | (1,864,019) | (1,297,967) |
| | | <u>2,236,396</u> | <u>1,645,140</u> |

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| | Note | 2018 --- (Rupees in '000) --- | 2017 --- (Rupees in '000) --- |
|-----------------------------------------------------------------------------------|------|----------------------------------|----------------------------------|
| 23 NET INSURANCE CLAIMS | | | |
| Claims paid | | 1,620,722 | 1,195,945 |
| Add: Outstanding claims (including IBNR) - closing | 23.1 | 1,314,812 | 1,226,184 |
| Less: Balances transferred under scheme of arrangement | | - | (902,330) |
| Less: Outstanding claims (including IBNR) - opening | | (1,226,184) | - |
| Claims expense | | <u>1,709,350</u> | <u>1,519,799</u> |
| Less: Reinsurance and other recoveries received | | (436,336) | (494,470) |
| Add: Reinsurance and other recoveries in respect of outstanding claims - closing | | (854,042) | (723,743) |
| Less: Balances transferred under scheme of arrangement | | - | 631,658 |
| Less: Reinsurance and other recoveries in respect of outstanding claims - opening | | 723,743 | - |
| Reinsurance and other recoveries revenue | | <u>(566,635)</u> | <u>(586,555)</u> |
| | | <u>1,142,715</u> | <u>933,244</u> |

23.1 Claims development tables

The following table shows the development of fire claims over a period of time. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments. For other classes of business the uncertainty about the amount and timings of claims payment is usually resolved within a year.

Analysis on gross basis

| Accident year | 2014 | 2015 | 2016 | 2017 | 2018 | Total |
|-------------------------------------------------------------|------------------|-----------|-----------|-----------|-----------|-------------|
| | (Rupees in '000) | | | | | |
| Estimate of ultimate claims cost: | | | | | | |
| At end of accident year | 232,592 | 324,613 | 332,103 | 363,401 | 575,330 | 1,828,039 |
| One year later | 216,453 | 371,882 | 358,703 | 330,493 | - | 1,277,531 |
| Two years later | 220,697 | 370,112 | 303,642 | - | - | 894,451 |
| Three years later | 217,108 | 360,734 | - | - | - | 577,842 |
| Four years later | 78,974 | - | - | - | - | 78,974 |
| Estimate of cumulative claims | 78,974 | 360,734 | 303,642 | 330,493 | 575,330 | 1,649,173 |
| Cumulative payments to date | (78,974) | (315,075) | (271,820) | (317,880) | (239,598) | (1,223,347) |
| Liability recognised in the statement of financial position | - | 45,659 | 31,822 | 12,613 | 335,732 | 425,826 |

The above effects have been worked out on the assumption that increase / decrease in net claims expense pertains to individual segment in isolation.

| | 2018 --- (Rupees in '000) --- | 2017 --- (Rupees in '000) --- |
|-------------------------------------------------------|----------------------------------|----------------------------------|
| 24 NET COMMISSION EXPENSE | | |
| Commission paid or payable | 508,265 | 338,903 |
| Add: Deferred commission expense - opening | 127,569 | - |
| Less: Deferred commission expense - closing | (153,419) | (127,569) |
| Net commission | <u>482,415</u> | <u>211,334</u> |
| Less: Commission received or receivable | (435,423) | (290,002) |
| Add: Unearned reinsurance commission - opening | (101,679) | - |
| Add: Balances transferred under scheme of arrangement | - | (144,846) |
| Less: Unearned reinsurance commission - closing | 120,932 | 101,679 |
| Commission from reinsurers | <u>(416,170)</u> | <u>(333,169)</u> |
| | <u>66,245</u> | <u>(121,835)</u> |

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| | Note | 2018 ---- (Rupees in '000) ---- | 2017 ---- |
|-----------------------------------------------------|------------|------------------------------------|----------------|
| 25 MANAGEMENT EXPENSES | | | |
| Employee benefit cost | 25.1 | 387,843 | 316,170 |
| Rent, rates and taxes | | 37,598 | 30,269 |
| Electricity, gas | | 11,506 | 8,892 |
| Repairs and maintenance | | 5,512 | 4,385 |
| Education and training | | 2,558 | 5,399 |
| Computer expenses | | 9,420 | 4,530 |
| Communication | | 12,063 | 7,972 |
| Inspection fee | | 6,291 | 2,666 |
| Tracker / security locks | | 83,035 | 45,602 |
| Depreciation and amortisation | 5, 6 and 7 | 71,851 | 58,342 |
| Provision for doubtful debts | | 17,597 | 18,847 |
| Motor car expenses | | 33,757 | 23,357 |
| Travelling expenses | | 27,062 | 29,611 |
| Representation expenses | | 8,909 | 7,153 |
| Printing and stationary | | 9,198 | 7,320 |
| Legal and professional | | 31,024 | 42,365 |
| Advertisement expenses | | 7,057 | 9,805 |
| Miscellaneous | | 2,652 | 2,288 |
| | | <u>764,933</u> | <u>624,973</u> |
| 25.1 Employee benefit cost | | | |
| Salaries, allowance and other benefits | | 362,472 | 296,821 |
| Charges for post employment benefit | | 25,371 | 19,349 |
| | | <u>387,843</u> | <u>316,170</u> |
| 26 INVESTMENT INCOME | | | |
| Income from equity securities | | | |
| Held for trading | | | |
| Dividend income | | 5,870 | - |
| Income from debt securities | | | |
| Held for trading | | | |
| Return on government securities | | 88,104 | - |
| Held to maturity | | | |
| Return on government securities | | 27,860 | 14,587 |
| Income from term deposits | | | |
| Return on term deposits | | 63,835 | 49,098 |
| Net realised gains / (losses) on investments | | | |
| Held for trading financial assets | | | |
| Equity securities | | 5,140 | - |
| Debt securities | | (1,240) | - |
| Net unrealised loss on investments | | | |
| Held for trading financial assets | | | |
| Equity securities | | (44,049) | - |
| Government securities | | (10,704) | - |
| Total investment income | | <u>134,816</u> | <u>63,685</u> |

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| | Note | 2018 --- (Rupees in '000) --- | 2017 |
|--------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------|
| 27 OTHER INCOME | | | |
| Reversal of Workers' Welfare Fund | 20.1 | 66,618 | - |
| Return on bank balances | | 7,395 | 352 |
| Gain on sale of fixed assets | | 5,015 | 8,567 |
| Exchange gain | | 4,048 | - |
| Miscellaneous | | 35 | 28 |
| | | <u>83,111</u> | <u>8,947</u> |
| 28 OTHER EXPENSES | | | |
| Group shared services expenses | | 7,680 | 23,910 |
| Insurance expense | | 11,362 | 10,596 |
| Repairs and maintenance | | 148 | 3,882 |
| Legal and professional | | 11,508 | 7,129 |
| Auditors' remuneration | 28.1 | 11,490 | 2,952 |
| Donations | | 415 | 162 |
| | | <u>42,603</u> | <u>48,631</u> |
| 28.1 Auditor's remuneration | | | |
| Fee for statutory audit | | 1,150 | 1,150 |
| Fee for interim review | | 500 | 500 |
| Fee for audit of regulatory return | | 350 | 350 |
| Special certifications and sundry services | | 1,250 | 750 |
| Tax advisory and other consultancy services | | 8,018 | - |
| Out of pocket expenses | | 222 | 202 |
| | | <u>11,490</u> | <u>2,952</u> |
| 29 TAXATION | | | |
| For the year | | | |
| Current | | 156,850 | 81,118 |
| Deferred | | (16,637) | (6,199) |
| | | <u>140,213</u> | <u>74,919</u> |
| 29.1 Relationship between tax expense and accounting profit | | | |
| Profit before tax | | <u>467,599</u> | <u>248,798</u> |
| Tax calculation at the rate of 29% (2017: 30%) | | 135,604 | 74,639 |
| Provision for impairment | | 1,740 | - |
| Effect of permanent differences | | - | 49 |
| Effect of items taxable under lower rates | | - | 231 |
| Change in tax rate | | (463) | - |
| Others | | 3,332 | - |
| | | <u>140,213</u> | <u>74,919</u> |
| 29.2 Taxation | | | |
| 29.2.1 | During the year, the Company has entered into a group taxation policy with its Parent Company under section 59AA of the Income Tax Ordinance, 2001 under which payments of tax are made through Parent Company. | | |

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The income tax assessments of the Company have been finalised up to and including the tax year 2017. However, the Company has filed appeals in respect of certain assessment years which mainly relate to the following:

- 29.2.2 While finalising the assessment for the year 1999-2000 the Taxation Officer had not allowed credit for tax paid under section 54 amounting to Rs. 3 million for which rectification application is filed which is pending.

The Company has also filed applications in respect of certain mistakes made in the orders passed under section 124 of the Income tax Ordinance for 2001-2002 and 2002-2003. The applications filed were rejected by the T.O. against which appeals had been filed with the CIT (A) which are pending.

The Additional Commissioner of Income Tax (AC) has issued notice under section 122 (5A) of the Income Tax Ordinance, 2001 in respect of the tax year 2005 and 2006 whereby he has proposed to disallow claim of expenses and exemption in respect of gain on sale of shares and taxed income from associates. Against the above notice, the Company has filed a constitutional petition before the Honorable High Court. The regular hearing of petition is currently pending with the High Court.

- 29.2.3 In respect of tax year 2007, all significant issues involved amounting to Rs. 7 billion were decided in favor of the Company by CIR(A) and then by the ATIR. However, no appeal effect order has been passed. Further, certain matters amounting to Rs. 82 million that were remanded back to DCIR by the CIR(A) were not decided upon by the High Court. The Company has written a letter to the taxation officer for passing appeal effect orders. The department had filed Income Tax Reference Application before Honorable High Court of Sindh against the deletion of the addition made on account of re-characterisation of actual realized capital gain. The said Income Tax Reference Application was heard by Honorable High Court and the judgment has been passed in favour of the Company.

- 29.2.4 In case of tax year 2008, the Additional Commissioner Audit Division-11 had issued notice under section 122 (5A) of the Ordinance for passing an amended order on certain issues. The Company filed a writ petition before the High Court of Sindh which has restrained the department to take up the amended proceedings.

The additional Commissioner Audit zone III LTU Karachi issued another notice under section 122(5A) of the Ordinance in May 14, 2014 and passed an amended assessment order under section 122(5A) by disallowing provision for IBNR and allocation of expense against capital gains and dividend income. As a result of amended assessment demand of Rs. 63.166 million was created. Against the disallowances made by the ACIR, the Company has filed an appeal before the Commissioner Inland Revenue (Appeals) and also filed an application for stay of demand. Pursuant to the stay application, the CIR(A) has granted stay of demand to the Company. Against the above disallowance, the company filed an appeal before the learned Appellate Tribunal Inland Revenue. Further, the company challenged the assessment order on the ground that the assessment was barred by limitation of time. Moreover, the department filed a cross appeal before the ATIR challenging the relief granted by the CIR(A). The ATIR has decided both the appeals on the point of limitation of law as contained under section 122(2) of the Ordinance and have decided the appeal in favor of the company. Moreover, the departmental appeal has also been rejected being treated as infructuous. The department has filed a reference application before the Sindh High Court against the order of the ATIR which is pending adjudication.

Moreover, pursuant to the decision of the CIR(A), the ACIR has passed an appeal effect order duly incorporating the relief granted by the CIR(A) in respect of allocation of expenses and tax refundable of Rs. 18.030 million has been determined.

- 29.2.5 In case of tax year 2009, the Deputy Commissioner of Inland Revenue (DCIR) has passed the amended order under section 122(5A) of the Ordinance by disallowing provisions on account of IBNR, Unearned Commission and allocation of expenses relating to exempt income. As a result of amended assessment demand of Rs 141 million was created. The DCIR has made certain errors in the order for which application for rectification was filed. Rectified order under Section 221 has been passed and as a result demand has been reduced to Rs.51 million. The learned CIR(A) has granted partial relief in respect of certain issue and confirmed certain disallowances. The company filed further appeal before the appellate tribunal inland revenue (ATIR) in respect of issues on which relief was not allowed by the CIR(A). The ATIR, pursuant to the appeals filed against the order of CIR(A), has now passed the order whereby the ATIR has confirmed disallowance made on account of provision for IBNR. Further issue of allocation of expenses against investment income has been remanded back to CIR(A). As regards, the issue of addition made on account of provision of unearned commission, the ATIR has upheld the decision of CIR(A) whereby disallowance made on this score is deleted. In respect of issues decided against the Company, a reference application was filed before honorable Sindh High Court where the IBNR issue has been decided in favor of the Company whereas remaining issues are pending adjudication.

ATIR

The Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend income, commission income and property income has been charged at corporate tax rate (i.e. 35% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. As a result of the amended assessment demand of Rs.31.420 million was created. The Company paid an amount of Rs.10 million and obtained stay from the Commissioner Inland Revenue till 31 August 2015 in respect of payment of the remaining tax demand of Rs.21.420 million. Further, against the above treatment meted out by the ACIR, the Company has filed an appeal before the Commissioner Inland Revenue (Appeals) which is pending adjudication. The Company also filed a petition against the said order before the Honorable Sindh High Court which was disposed off with the directions that no coercive measures taken by the Tax Authorities till the decision of the CIR(A) on the appeal filed which is pending adjudication.

- 29.2.6 In case of tax year 2010, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend and property income has been charged at corporate tax rate (i.e. 35% for the year) by treating such income as business income of the Company under Fourth Schedule to the Ordinance. Further, the ACIR has disallowed provision of IBNR under section 34(3) of the Ordinance. As a result of the amended assessment demand of Rs.93.445 million has been created. The Company has filed appeal and application for stay of tax demand before the CIR(A) against the above assessment order. The Company has also filed a petition against the said order before the Honorable Sindh High Court which is pending adjudication.

Pursuant to the appeal, the learned CIR(A) vide combined appellate order No.21 and 22/A-1 dated 10 March 2016 has decided all issues in favor of the company. The tax department has filed further appeal before the Appellate Tribunal Inland Revenue(ATIR) in respect of the issues on which relief was allowed by the CIR(A) which is pending adjudication.

- 29.2.7 In case of tax year 2011, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend and property income has been charged at corporate tax rate (i.e. 35% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. Further, the ACIR has also disallowed provision of IBNR, claim of brought forward loss for the tax year 2008 and refund adjustments for tax years 2004 and 2009 in the amended assessment order. Moreover, Workers' Welfare Fund @ 2% of the accounting profit for the year has also been levied. As a result of the amended assessment demand of Rs.142.414 million has been created. The Company has filed appeal and application for stay of tax demand before the CIR(A) against the above assessment order. The Company has also filed a petition against the said order before the Honorable Sindh High Court which is pending adjudication.

Pursuant to the appeal, the learned CIR(A) vide combined appellate order No. 21 & 22/A-1 dated 10 March 2016 has decided the following issues in favor of the Company-

- (a) Chargeability of tax on dividend income and property income at corporate tax rate;
- (b) Provision for IBNR;
- (c) Levy of Workers' welfare fund for the year.

As regards, credit/adjustment of refunds available to the company, the CIR(A) has remanded back the issue with the directions to verify the claim of refunds and allow the adjustment as per law. The tax department has filed further appeal before the Appellate Tribunal Inland Revenue(ATIR) in respect of the year issues on which relief was allowed by the CIR(A) which is pending adjudication.

- 29.2.8 In case of tax year 2012, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend and property income has been charged at corporate tax rate (i.e. 35% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. Further, the ACIR has also disallowed provision of IBNR amounting to Rs. 33 million in the amended assessment order. As a result of the amended assessment, demand of Rs. 106.563 million was created. The company has obtained stay from the Honorable Sindh High court in respect of the above tax demand. Further, against the aforesaid order, the Company also filed an appeal before CIR(A) which is pending adjudication. The stay from the Honorable Sindh High Court has been disposed off subsequently with the directions that no coercive measures taken by the Tax Authorities till the decision of the CIR(A) on the appeal filed which is pending adjudication.

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29.2.9 In case of tax year 2013, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend and property income has been charged at corporate tax rate (i.e. 35% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. Further, the ACIR has also disallowed provision of IBNR, claim of brought forward loss for the tax year 2012 and has also made an addition on account of disposal of fixed assets at less than fair market value(FMV) in the amended assessment order. As a result of the amended assessment, demand of Rs. 95.008 million was created. Against the aforesaid order, the company has filed an appeal before CIR(A). Pursuant to the appeal, the learned CIR(A) vide appellate order No. 10/A-1 dated 05 October 2016 has decided the following issues in favor of the Company:

- (a) Chargeability of tax on dividend income and property income at corporate tax rate;
- (b) Provision for IBNR amounting to Rs. 33 million;
- (c) Addition on account of disposal of fixed assets.

Further the CIR(A) has remanded back the issues in respect of adjustment of brought forward loss for the tax year 2012 and credit of workers' welfare fund paid with the return of income. The tax department has filed further appeal before the Appellate Tribunal Inland Revenue(ATIR) in respect of the issues on which relief was allowed by the CIR(A) which is pending adjudication.

29.2.10 In case of tax year 2014, case of the Company was selected for audit under section 177 of the ordinance and subsequently, the Deputy Commissioner Inland Revenue (DCIR) has passed an amended assessment order under section 122(1) of the Ordinance wherein tax on dividend income has been charged at corporate tax rate (i.e. 34% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. Further, the ACIR has also disallowed provision of IBNR and has also made an addition on account of disposal of fixed assets at less than Fair Market Value(FMV) and motor car expenses paid in cash under section 21(l) in the amended assessment order. As a result of the amended assessment, demand of Rs. 148.444 million was created. The Company has obtained stay from the honorable Sindh High court in respect of the above tax demand. Further, against the aforesaid order, the Company has also filed an appeal before CIR(A) which is pending adjudication.

29.2.11 In case of tax year 2015, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend and property income has been charged at corporate tax rate (i.e. 33% for the year) by treating such income as business income of the Company under Fourth Schedule to the Ordinance. Further, the ACIR has levied Super tax under section 4B of the ordinance amounting to Rs. 27.743 million and Workers' Welfare Fund for the year. As a result of the amended assessment, demand of Rest. 234.287 million was created. The Company has obtained stay from the honorable Sindh High court in respect of the above tax demand. Further, against the aforesaid order, the Company has also filed an appeal before CIR(A) which is pending adjudication. The stay from the Honorable Sindh High Court has been disposed off subsequently with the directions that no coercive measures taken by the Tax Authorities till the decision of the CIR(A) on the appeal filed which is pending adjudication.

The ACIR also passed an order under section 221 of the Ordinance charging Super tax under section 4B amounting to Rs 27.912 million. Without prejudice to the stance in appeal, the company made payment of Rs 20.000 million in respect of the Super tax liability under section 4B whereas the remaining Super tax demand of Rs 7.913 million was adjusted against the refund of tax year 2008. The company filed an application with the ACIR requesting to annul the order based on various legal grounds, however, no order was passed in this regard. Moreover, the company also filed an appeal before the CIR(A) in respect of the order passed under section 221 of the Ordinance. Pursuant to the above appeal, the CIR(A) passed the appellate order wherein the action of the ACIR in charging super tax under section 221 of the Ordinance was annulled. The company has written a letter to the concerned taxation officer for passing appeal effect order in line with the appellate order passed by the CIR(A), which is pending. The tax department has also filed further appeal before the ATIR against the order passed by the CIR(A), which is pending adjudication.

29.2.12 The case for tax year 2015 was further selected for audit under section 177 of the Ordinance. The company submitted all the information requested through the Information and Document Request (IDR) pursuant to which a show-cause notice was issued in December 2017. The company has submitted its response in respect of the issues raised in the show-cause notice, however, no assessment order has yet been passed.

In case of tax year 2016, the Additional Commissioner Inland Revenue (ACIR) has passed an amended assessment order under section 122(5A) of the Ordinance wherein tax on dividend income has been charged at corporate tax rate (i.e. 32% for the year) by treating such income as business income of the company under Fourth Schedule to the Ordinance. Further, the ACIR has disallowed the claim of expense on account of health administrative services under section 21(c) of the ordinance and has also made an addition on account of disposal of fixed assets at less than Fair Market Value(FMV) in the amended assessment order. As a result of the amended assessment, demand of Rs. 206.542 was created. The Company has filed stay application in respect of the above tax demand in the Honorable High Court of Sindh and also filed an appeal against the aforesaid order before the CIR(A) which are pending adjudication.

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The management and tax advisor of the Company are confident that the above matters will be decided in the Company's favor. Accordingly, no provision has been recognised in these financial statements.

30 COMPENSATION FOR DIRECTORS AND EXECUTIVES

| | Chief Executive | | Directors | | Executives | |
|------------------------------------------------|-----------------|---------------|--------------|--------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| (Rupees in '000) | | | | | | |
| Fee for attending board meeting | - | - | 2,750 * | 1,425 * | - | - |
| Managerial remuneration | 12,270 | 9,780 | 1,350 | 1,980 | 100,066 | 72,680 |
| Bonus | 13,398 | 10,860 | - | - | 43,132 | 29,995 |
| Retirement benefits (including provident fund) | 2,129 | 1,697 | - | - | 17,361 | 12,610 |
| Housing and utilities | 6,841 | 5,459 | - | - | 56,809 | 41,520 |
| Medical expenses | 1,227 | 978 | - | - | 7,519 | 5,371 |
| Conveyance allowance | 446 | 588 | - | - | 12,975 | 9,880 |
| Others | 3,011 | 6,324 | - | - | 5,747 | 6,322 |
| | <u>39,322</u> | <u>35,686</u> | <u>4,100</u> | <u>3,405</u> | <u>243,609</u> | <u>178,378</u> |
| Number of persons | <u>1</u> | <u>1</u> | <u>6</u> | <u>6</u> | <u>73</u> | <u>60</u> |

30.1 Chief Executive and executives of the Company are provided with Company maintained cars and residential telephones.

* This includes fee for attending Board meeting of all the six directors.

31 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of Holding Company, associates, related group companies, directors of the Company, key management personnel, post employment benefit plans and other related parties. The Company in the normal course of business carries out transactions with various related parties at agreed / commercial terms and conditions. Amounts due to / from and other significant transactions, other than those disclosed else where in these condensed interim financial statements, are as follows:

| | Parent | | Post employment benefit plans | | Key management personnel (including directors) | | Other related parties | |
|---------------------------------------|---------|-------|-------------------------------|----------|------------------------------------------------|---------|-----------------------|---------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| (Rupees in '000) | | | | | | | | |
| Transactions | | | | | | | | |
| Premium underwritten | - | - | - | - | 540 | 73 | 344,681 | 218,956 |
| Premium collected | - | - | - | - | 599 | 479 | 448,313 | 404,117 |
| Claims expense | - | - | - | - | 118 | 174 | 26,782 | 54,688 |
| Commission expense | - | - | - | - | - | - | 15,507 | 17,358 |
| Commission paid | - | - | - | - | - | - | 17,668 | 16,422 |
| Rental income | - | - | - | - | - | - | 31,488 | 21,627 |
| Key management personnel compensation | - | - | - | - | 287,031 | 122,953 | - | - |
| Charge in respect of gratuity fund | - | - | 12,120 | 9,129 | - | - | - | - |
| Charge in respect of provident fund | - | - | 13,251 | 10,219 | - | - | - | - |
| Contribution to gratuity fund | - | - | 10,311 | 8,093 | - | - | - | - |
| Contribution to provident fund | - | - | 13,251 | 10,219 | - | - | - | - |
| Insurance premium paid | - | - | - | - | - | - | 4,473 | 3,199 |
| Rent paid | - | - | - | - | - | - | 1,309 | - |
| Dividend paid | 163,063 | - | - | - | - | - | - | - |
| Balances | | | | | | | | |
| Premium receivable | - | - | - | - | 297 | 144 | 18,058 | 21,496 |
| Commission payable | - | - | - | - | - | - | 4,355 | 5,234 |
| Dividend payable | - | - | - | - | - | - | - | - |
| Investment in shares | - | - | - | - | - | - | - | - |
| Other receivable | - | 6,639 | - | - | - | - | 137,499 | 43,581 |
| Payable to gratuity fund | - | - | (21,217) | (12,419) | - | - | - | - |
| Payable to provident fund | - | - | (3,661) | (4,027) | - | - | - | - |

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32 SEGMENT REPORTING

The Company has five primary business segments for reporting purposes namely fire and property damage, marine, aviation and transport, motor, accident and health and liability.

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

| Particulars | 2018 | | | | | |
|-------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------|-----------|---------------------|---------------|-------------|
| | Fire and property Damage | Marine, Aviation and Transport | Motor | Accident and Health | Miscellaneous | Total |
| (Rupees) in '000 | | | | | | |
| Premium receivable (inclusive of Sindh sales tax, federal insurance fee and administrative surcharge) | 1,391,328 | 621,079 | 1,528,318 | 378,075 | 1,065,351 | 5,684,761 |
| Less: Federal Excise Duty | (177,313) | (74,966) | (214,835) | (6,051) | (134,460) | (607,555) |
| Federal Insurance Fee | (11,639) | (5,286) | (13,986) | (3,662) | (9,159) | (43,752) |
| Stamp duty | (34) | (13,035) | (594) | (2) | (1,758) | (15,424) |
| Gross written premium (inclusive of administrative surcharge) | 1,202,942 | 527,772 | 1,398,903 | 368,330 | 919,983 | 4,417,930 |
| Gross direct premium | 1,196,997 | 518,245 | 1,358,605 | 367,705 | 910,862 | 4,350,534 |
| Administrative surcharge | 5,945 | 9,527 | 42,298 | 625 | 9,001 | 67,396 |
| | 1,202,942 | 527,772 | 1,398,903 | 368,330 | 919,983 | 4,417,930 |
| Insurance premium earned | 1,142,155 | 518,239 | 1,232,679 | 324,680 | 887,662 | 4,100,415 |
| Insurance premium ceded to reinsurers | (966,853) | (276,349) | (13,702) | - | (607,115) | (1,864,019) |
| Net insurance premium | 175,302 | 241,890 | 1,218,977 | 324,680 | 275,547 | 2,236,396 |
| Commission income | 227,954 | 105,458 | 955 | - | 81,793 | 416,170 |
| Net underwriting income | 403,256 | 347,358 | 1,219,932 | 324,680 | 357,340 | 2,652,566 |
| Insurance claims | (361,243) | (167,322) | (552,675) | (305,625) | (322,400) | (1,709,350) |
| Insurance claims recovered from reinsurers | 263,676 | 82,010 | 1,304 | - | 215,645 | 560,635 |
| Net Claims | (97,567) | (85,312) | (651,369) | (305,625) | (106,755) | (1,142,715) |
| Commission expense | (133,054) | (82,903) | (147,714) | (15,066) | (122,517) | (482,415) |
| Management expenses | (208,281) | (91,380) | (242,210) | (63,774) | (159,288) | (764,933) |
| Net insurance claims and expenses | (438,002) | (239,655) | (941,250) | (385,465) | (384,751) | (2,390,063) |
| Premium Deficiency | - | - | - | (20,503) | - | (20,503) |
| Underwriting result | (35,646) | 107,703 | 278,642 | (60,785) | (27,411) | 242,000 |
| Net investment income | - | - | - | - | - | 134,816 |
| Rental income | - | - | - | - | - | 31,768 |
| Other income | - | - | - | - | - | 83,111 |
| Other expenses | - | - | - | - | - | (42,603) |
| Result of operating activities | - | - | - | - | - | 449,090 |
| Finance cost | - | - | - | - | - | (5,168) |
| Profit from window takatul operations | - | - | - | - | - | 22,677 |
| Profit before tax | - | - | - | - | - | 467,599 |
| Segment assets | 1,115,326 | 276,357 | 437,384 | 100,152 | 790,581 | 2,721,805 |
| Unallocated assets | - | - | - | - | - | 3,994,233 |
| Assets of Window Takatul Operations | - | - | - | - | - | 142,357 |
| - Operator's Fund | - | - | - | - | - | 6,858,395 |
| Segment liabilities | 1,134,400 | 324,583 | 1,032,419 | 295,812 | 855,299 | 3,642,603 |
| Unallocated liabilities | - | - | - | - | - | 894,533 |
| Total liabilities of Window Takatul Operations | - | - | - | - | - | 71,220 |
| - Operator's Fund | - | - | - | - | - | 4,608,356 |

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| Particulars | 2017 | | | | | |
|-------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------|-----------|---------------------|---------------|-------------|
| | Fire and property Damage | Marine, Aviation and Transport | Motor | Accident and Health | Miscellaneous | Total |
| | (Rupees) in '000 | | | | | |
| Premium receivable (inclusive of Sindh sales tax, federal insurance fee and administrative surcharge) | 916,932 | 435,135 | 1,017,540 | 258,038 | 723,450 | 3,351,095 |
| Less: Federal Expose Duty | (117,651) | (51,916) | (133,681) | (7,652) | (98,778) | (409,678) |
| Federal Insurance Fee | (7,726) | (3,686) | (8,698) | (2,488) | (6,101) | (28,699) |
| Stamp duty | (27) | (8,950) | (316) | (2) | (1,853) | (11,158) |
| Gross written premium (inclusive of Administrative Surcharge) | 791,528 | 370,583 | 874,845 | 247,896 | 616,708 | 2,901,560 |
| Gross direct premium | 788,877 | 365,109 | 844,807 | 248,318 | 608,981 | 2,856,092 |
| Administrative surcharge | 4,554 | 7,465 | 25,361 | 472 | 7,616 | 45,468 |
| | 793,431 | 372,574 | 870,168 | 248,790 | 616,597 | 2,901,560 |
| Insurance premium earned | 904,320 | 410,099 | 852,003 | 215,203 | 561,482 | 2,943,107 |
| Insurance premium ceded to reinsurers | (740,515) | (221,023) | (5,111) | - | (331,318) | (1,297,957) |
| Net Insurance premium | 163,805 | 189,076 | 846,892 | 215,203 | 230,164 | 1,645,140 |
| Commission income | 166,658 | 95,060 | 23 | - | 71,428 | 333,169 |
| Net underwriting income | 330,463 | 284,136 | 846,915 | 215,203 | 301,592 | 1,978,309 |
| Insurance claims | (401,487) | (246,162) | (432,922) | (198,037) | (241,191) | (1,519,799) |
| Insurance claims recovered from reinsurers | 322,299 | 170,051 | - | - | 94,205 | 586,555 |
| Net claims | (79,188) | (76,111) | (432,922) | (198,037) | (146,986) | (933,244) |
| Commission expense | (52,575) | (42,560) | (46,163) | (5,755) | (64,281) | (211,334) |
| Management expenses | (169,931) | (79,795) | (186,366) | (53,284) | (135,597) | (624,973) |
| Net insurance claims and expenses | (301,694) | (198,466) | (665,451) | (257,076) | (346,864) | (1,769,551) |
| Underwriting result | 28,769 | 85,670 | 181,464 | (41,873) | (45,272) | 208,758 |
| Net investment income | | | | | | 63,685 |
| Rental Income | | | | | | 22,117 |
| Other income | | | | | | 8,947 |
| Other expenses | | | | | | (48,631) |
| Result of operating activities | | | | | | 254,876 |
| Finance costs | | | | | | (3,539) |
| Loss from window takaful operations | | | | | | (2,539) |
| Profit before tax | | | | | | 248,798 |
| Segment assets | 959,302 | 228,086 | 323,503 | 82,021 | 630,515 | 2,223,427 |
| Unallocated assets | - | - | - | - | - | 3,456,925 |
| Assets of Window Takaful Operations - Operator's Fund | | | | | | 64,186 |
| | | | | | | 5,744,538 |
| Segment liabilities | 1,042,393 | 280,315 | 847,045 | 246,310 | 801,956 | 3,218,019 |
| Unallocated liabilities | - | - | - | - | - | 418,788 |
| Total liabilities of Window Takaful Operations - Operator's Fund | | | | | | 16,725 |
| | | | | | | 3,653,532 |

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33 MOVEMENT IN INVESTMENTS

| | 2018 | | |
|-----------------------------------------------------|------------------|------------------------|-------------|
| | Held to maturity | Fair value through P&L | Total |
| | (Rupees in '000) | | |
| As at January 1, 2018 | 1,281,210 | - | 1,281,210 |
| Additions | - | 8,447,271 | 8,447,271 |
| Disposals (sale and redemptions) | (435,000) | (6,737,111) | (7,172,111) |
| Fair value net gains (excluding net realised gains) | - | (54,753) | (54,753) |
| Amortisation of premium / discount | (545) | 63,891 | 63,346 |
| Total | 845,665 | 1,719,298 | 2,564,963 |

| | 2017 | | |
|-----------------------------------------------------|------------------|------------------------|-----------|
| | Held to maturity | Fair value through P&L | Total |
| | (Rupees in '000) | | |
| Balances transferred under scheme of arrangement | 125,118 | - | 125,118 |
| Additions | 1,153,999 | - | 1,153,999 |
| Disposals (sale and redemptions) | - | - | - |
| Fair value net gains (excluding net realised gains) | - | - | - |
| Amortisation of premium / discount | 2,093 | - | 2,093 |
| Total | 1,281,210 | - | 1,281,210 |

34 MANAGEMENT OF INSURANCE RISK AND FINANCIAL RISK

The Company issue contracts that transfer insurance risk or financial risk or both. This section summarises the insurance risks and the way the company manages them.

34.1 Insurance risk

The Company accepts the insurance risk through its insurance contracts where it assumes the risk of loss from persons or organizations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts. The Company manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the Company from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis.

Further, the Company adopts strict claim review policies including active management and prompt pursuing of the claims, regular detailed review of claim handling procedures and frequent investigation of possible false claims to reduce the insurance risk.

Concentration of insurance risk

A concentration of risk may also arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial businesses. The Company minimises its exposure to significant losses by obtaining reinsurance from a number of reinsurers, who are dispersed over several geographical regions.

To optimise benefits from the principle of average and law of large numbers, geographical spread of risk is of extreme importance. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location, the most important of which is risk survey.

Risk surveys are carried out on a regular basis for the evaluation of physical hazards associated with the commercial / industrial / residential occupation of the insured. Details regarding the fire separation / segregation with respect to the manufacturing processes, storage, utilities, etc. are extracted from the layout plan of the insured facility. Such details are formed part of the reports which are made available to the underwriters / reinsurance personnel for their evaluation. Reference is made to the standard construction specifications as laid down by IAP (Insurance Association of Pakistan). For instance, the presence of Perfect Party Walls, Double Fire Proof Iron Doors and physical separation between the buildings within an insured's premises. It is basically the property contained within an area which is separated by another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area.

Address look-up and decoding is the essential field of the policy data interphase of IT systems. It provides instant location which is dependent on data collection provided under the policy schedule. All critical underwriting information is punched into the IT system / application through which a number of MIS reports can be generated to assess the concentration of risk.

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The ability to manage catastrophic risk is tied to managing the density of risk within a particular area. For catastrophic aggregates, the IT system also assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardising Target Accumulations) codes with reference to the accumulation of sums insured in force at any particular location against natural perils. A risk management solution is implemented to help assess and plan for risk in catastrophic scenarios. It provides a way to better visualise the risk exposures so the Company determines the appropriate amount of reinsurance coverage to protect the business portfolio.

For Marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea / air / inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are fed into the IT system. The reinsurance module of the IT system is designed to satisfy the requirements as laid down in the proportional treaty agreement. Shipment declarations are also endorsed on the policies. Respective reinsurance cessions are automatically made upon the posting of policy documents.

The voyage cards so maintained for the particular set of policies for a single vessel voyage are automatically logged into the system showing actual gross, treaty and net exposure, both in terms of sums insured and premiums.

34.1.2 Reinsurance arrangements

Keeping in view the maximum exposure in respect of key zone aggregates, a number of proportional and non-proportional reinsurance arrangements are in place to protect the net account in case of a major catastrophe. Apart from the adequate event limit which is a multiple of the treaty capacity or the primary recovery from the proportional treaty, accumulated losses on net account can also be recovered from the non-proportional treaty which is very much in line with the risk management philosophy of the Company.

In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with Securities and Exchange Commission of Pakistan on an annual basis.

The Company's class wise risk exposure (based on maximum loss coverage in a single policy) is as follows:

| | 2018 | | |
|--------------------------------|---------------------|-------------------|-----------------------|
| | Maximum sum insured | Reinsurance cover | Highest net liability |
| | (Rupees in '000) | | |
| Fire and property damage | 36,067,249 | 35,917,249 | 150,000 |
| Marine, aviation and transport | 17,608,304 | 14,086,643 | 3,521,661 |
| Motor | 74,555 | - | 74,555 |
| Health | 2,740,936 | - | 2,740,936 |
| Miscellaneous | 10,000,000 | 9,945,000 | 55,000 |
| Window Takaful Operations | 4,933,898 | 4,719,898 | 214,000 |
| | <u>71,424,942</u> | <u>64,668,790</u> | <u>6,756,152</u> |

| | 2017 | | |
|--------------------------------|---------------------|-------------------|-----------------------|
| | Maximum sum insured | Reinsurance cover | Highest net liability |
| | (Rupees in '000) | | |
| Fire and property damage | 37,272,240 | 37,230,977 | 41,263 |
| Marine, aviation and transport | 12,077,761 | 5,193,437 | 6,884,324 |
| Motor | 74,555 | - | 74,555 |
| Health | 1,000 | - | 1,000 |
| Miscellaneous | 13,500,000 | 8,100,000 | 5,400,000 |
| Window Takaful Operations | 6,254,766 | 5,863,987 | 390,779 |
| | <u>69,180,322</u> | <u>55,388,401</u> | <u>12,791,921</u> |

The table below sets out the concentration of insurance contract liabilities by type of contract:

| | 2018 | | |
|--------------------------------|-------------------|------------------|----------------------------|
| | Gross liabilities | Gross assets | Net liabilities / (assets) |
| | (Rupees in '000) | | |
| Fire and property damage | 1,134,490 | 1,115,326 | 19,164 |
| Marine, aviation and transport | 324,583 | 278,362 | 46,221 |
| Motor | 1,032,419 | 437,384 | 595,035 |
| Health | 295,812 | 100,152 | 195,660 |
| Miscellaneous | 855,299 | 790,581 | 64,718 |
| Window Takaful Operations | 235,962 | 126,064 | 109,898 |
| | <u>3,878,565</u> | <u>2,847,869</u> | <u>1,030,696</u> |

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| | 2017 | | |
|--------------------------------|-------------------|------------------|----------------------------|
| | Gross liabilities | Gross assets | Net liabilities / (assets) |
| | (Rupees in '000) | | |
| Fire and property damage | 1,042,393 | 959,302 | 83,091 |
| Marine, aviation and transport | 280,315 | 228,086 | 52,229 |
| Motor | 847,045 | 323,504 | 523,541 |
| Health | 246,310 | 82,021 | 164,289 |
| Miscellaneous | 801,956 | 630,515 | 171,441 |
| Window Takaful Operations | 62,706 | 39,153 | 23,553 |
| | <u>3,280,725</u> | <u>2,262,581</u> | <u>1,018,144</u> |

34.1.3 Uncertainty in the estimation of future claims payment

Claims on general insurance contracts are payable on a claim occurrence basis. The Company is liable for all insured events that occur during the term of the insurance contract.

An estimated amount of the claim is recorded immediately on intimation to the Company. The estimation of the amount is based on the amount notified by the policy holder, management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. For the estimation of provision of claims incurred but not reported (IBNR), the Company uses actuarial advice as more fully explained in note 3.7 to these financial statements.

There are several variable factors which affect the amount and timing of recognised claim liabilities. However, the management considers that uncertainty about the amount and timing of claim payments is generally resolved within a year. The Company takes all reasonable measures to mitigate the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from recognised amounts.

34.1.4 Key assumptions

The principal assumption underlying the liability estimation of IBNR and premium deficiency reserve is that the Company's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

34.1.5 Sensitivities

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

| | Effect of 10% increase in claims | | Effect of 10% decrease in claims | |
|--------------------------------|----------------------------------|-----------------|----------------------------------|---------------|
| | Profit and Loss account | Equity | Profit and Loss account | Equity |
| | (Rupees in '000) | | | |
| Fire and property damage | (6,927) | (6,927) | 6,927 | 6,927 |
| Marine, aviation and transport | (6,057) | (6,057) | 6,057 | 6,057 |
| Motor | (39,147) | (39,147) | 39,147 | 39,147 |
| Health | (21,699) | (21,699) | 21,699 | 21,699 |
| Miscellaneous | (7,302) | (7,302) | 7,302 | 7,302 |
| Window Takaful Operations | (3,667) | (3,667) | 3,667 | 3,667 |
| | <u>(84,799)</u> | <u>(84,799)</u> | <u>84,799</u> | <u>84,799</u> |

34.2 Financial risk

(i) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and market prices.

Ans

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest / mark-up rate risk in respect of the following:

| 2018 | | | | | | | |
|----------------|----------------------------|-------------------------|-----------|--------------------------------|-------------------------|-----------|-------|
| Interest Rates | Interest / mark-up bearing | | | Non-interest / mark-up bearing | | | Total |
| | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |
| | | | | | | | |

(Rupees in '000)

Financial assets

| | | | | | | | | |
|----------------------------------------------------------|----------------|---------|-----------|-----------|-----------|---|-----------|-----------|
| Cash and bank | 6.5% - 10% | 472,992 | - | 472,992 | 3,029 | - | 3,029 | 476,021 |
| Investments | 7.32% - 10.31% | 525,000 | 1,014,316 | 1,539,316 | 1,025,647 | - | 1,025,647 | 2,564,963 |
| Premium due but unpaid | | - | - | - | 537,728 | - | 537,728 | 537,728 |
| Amounts due from other insurers / reinsurers - unsecured | | - | - | - | 563,442 | - | 563,442 | 563,442 |
| Reinsurance recoveries against outstanding claims | | - | - | - | 854,042 | - | 854,042 | 854,042 |
| Loans and other receivables | | - | - | - | 251,540 | - | 251,540 | 251,540 |
| Salvage recoveries accrued | | - | - | - | 46,148 | - | 46,148 | 46,148 |
| Window Takaful Operations - total assets | | - | - | - | 142,357 | - | 142,357 | 142,357 |
| | | 997,992 | 1,014,316 | 2,012,308 | 3,424,833 | - | 3,424,833 | 5,437,141 |

Financial liabilities

| | | | | | | | | |
|---------------------------------------------------|---------------|--------|---------|---------|-----------|---|-----------|-----------|
| Provision for outstanding claims (including IBNR) | | - | - | - | 1,314,812 | - | 1,314,812 | 1,314,812 |
| Amounts due to other insurers / reinsurers | | - | - | - | 703,314 | - | 703,314 | 703,314 |
| Other creditors and accruals | | - | - | - | 702,777 | - | 702,777 | 702,777 |
| Retirement benefit obligations | | - | 21,217 | 21,217 | - | - | - | 21,217 |
| Borrowings | 4.45% - 7.16% | 24,265 | 94,616 | 118,881 | - | - | - | 118,881 |
| Window Takaful Operations - total liabilities | | - | - | - | 71,220 | - | 71,220 | 71,220 |
| | | 24,265 | 115,833 | 140,098 | 2,792,123 | - | 2,792,123 | 2,932,221 |

973,727 898,463 1,872,190 532,710 - 532,710 2,504,920

| 2017 | | | | | | | |
|----------------|----------------------------|-------------------------|-----------|--------------------------------|-------------------------|-----------|-------|
| Interest Rates | Interest / mark-up bearing | | | Non-interest / mark-up bearing | | | Total |
| | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |
| | | | | | | | |

(Rupees in '000)

Financial assets

| | | | | | | | | |
|----------------------------------------------------------|----------------|---------|---------|---------|-----------|---|-----------|-----------|
| Cash and bank | 3.5% - 4.75% | 17,034 | - | 17,034 | 1,488,024 | - | 1,488,024 | 1,505,058 |
| Investments | 8.34% - 13.22% | 210,278 | 110,933 | 321,211 | 960,000 | - | 960,000 | 1,281,211 |
| Premium due but unpaid | | - | - | - | 432,211 | - | 432,211 | 432,211 |
| Amounts due from other insurers / reinsurers - unsecured | | - | - | - | 268,603 | - | 268,603 | 268,603 |
| Reinsurance recoveries against outstanding claims | | - | - | - | 723,743 | - | 723,743 | 723,743 |
| Salvage recoveries accrued | | - | - | - | 78,869 | - | 78,869 | 78,869 |
| Loans and other receivables | | - | - | - | 118,266 | - | 118,266 | 118,266 |
| Window Takaful Operations - total assets | | - | - | - | 64,186 | - | 64,186 | 64,186 |
| | | 227,312 | 110,933 | 338,245 | 4,135,922 | - | 4,135,922 | 4,474,167 |

Financial liabilities

| | | | | | | | | |
|-----------------------------------------------------|---------------|--------|--------|--------|-----------|---|-----------|-----------|
| Provision for outstanding claims (including IBNR) | | - | - | - | 1,226,184 | - | 1,226,184 | 1,226,184 |
| Amounts due to other insurers / reinsurers | | - | - | - | 347,883 | - | 347,883 | 347,883 |
| Accrued expenses | | - | - | - | 164,302 | - | 164,302 | 164,302 |
| Sundry creditors | | - | - | - | 509,388 | - | 509,388 | 509,388 |
| Liabilities against assets subject to finance lease | 3.60% - 4.16% | 64,895 | 13,339 | 78,235 | - | - | - | 78,235 |
| Window Takaful Operations - total liabilities | | - | - | - | 73,072 | - | 73,072 | 73,072 |
| | | 64,895 | 13,339 | 78,235 | 2,320,829 | - | 2,320,829 | 2,399,064 |

152,415 97,594 250,010 1,815,093 - 1,815,093 2,075,103

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Sensitivity analysis

Interest / mark-up rate risk is the risk that value of a financial instrument or future cash flows of a financial instrument will fluctuate due to changes in the market interest / mark-up rates. Sensitivity to interest / mark up rate risk arises from mismatches of financial assets and liabilities that mature or re-price in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted. Borrowing arrangements have variable rate pricing that is dependent on the Karachi Inter Bank Offer Rate (KIBOR) as indicated in respective notes. The table below summarises Company's interest rate risk as of December 31, 2018 and 2017 and shows the effects of a hypothetical 1% increase and a 1% decrease in interest rates as at the year end.

| | Profit and Loss | |
|-------------------------------------------------------------|------------------|----------|
| | Increase | Decrease |
| | (Rupees in '000) | |
| As at December 31, 2018 | | |
| Cash flow sensitivity - Variable rate financial liabilities | (1,189) | 1,189 |
| Cash flow sensitivity - Variable rate financial assets | 454 | (454) |
| As at December 31, 2017 | | |
| Cash flow sensitivity - Variable rate financial liabilities | (782) | 782 |
| Cash flow sensitivity - Variable rate financial assets | 12 | (12) |

(b) Foreign currency risk

Currency risk is the risk that the value of a financial asset or liability will fluctuate due to changes in foreign currency rates. Foreign exchange risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As of the reporting date, the Company does not have material assets or liabilities which are exposed to foreign currency risk.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. To guard against the risk, the Company maintains balance of cash and other equivalents and readily marketable securities. The maturity profile of assets and liabilities are also monitored to ensure adequate liquidity is maintained.

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date on an undiscounted cash flow basis.

| | 2018 | | | |
|---------------------------------------------------|------------------|-----------------------|------------------|--------------------|
| | Carrying amount | Contractual cash flow | Upto one year | More than one year |
| | (Rupees in '000) | | | |
| Provision for outstanding claims [including IBNR] | 1,314,812 | 1,314,812 | 1,314,812 | - |
| Amounts due to other insurers / reinsurers | 703,314 | 703,314 | 703,314 | - |
| Other creditors and accruals | 702,777 | 702,777 | 702,777 | - |
| Retirement benefit obligations | 21,217 | 21,217 | - | 21,217 |
| Borrowings | 118,881 | 118,881 | 24,265 | 94,616 |
| Window Takaful Operations - total liabilities | 71,220 | 71,220 | 71,220 | - |
| | <u>2,932,221</u> | <u>2,932,221</u> | <u>2,816,388</u> | <u>115,833</u> |
| | 2017 | | | |
| | Carrying amount | Contractual cash flow | Upto one year | More than one year |
| | (Rupees in '000) | | | |
| Provision for outstanding claims [including IBNR] | 1,226,184 | 1,226,184 | 1,226,184 | - |
| Amounts due to other insurers / reinsurers | 347,883 | 347,883 | 347,883 | - |
| Other creditors and accruals | 684,324 | 684,324 | 684,324 | - |
| Retirement benefit obligations | 12,419 | 12,419 | - | 12,419 |
| Borrowings | 78,235 | 78,235 | 13,339 | 64,896 |
| Window Takaful Operations - total liabilities | 16,725 | 16,725 | 16,725 | - |
| | <u>2,365,770</u> | <u>2,365,770</u> | <u>2,288,455</u> | <u>77,315</u> |

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34.3 Credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counterparties in various industries and by continually assessing the credit worthiness of counterparties.

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. 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 exposure and conservative estimates of provisions for doubtful assets, if any. 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 sectors.

| | 2018 | 2017 |
|-----------------------------------------------------|------------------|------------------|
| | (Rupees in '000) | |
| Investments | | |
| - Equity | 225,821 | - |
| - Government securities | 1,814,142 | 321,211 |
| - Term deposits | 525,000 | 960,000 |
| - Loans and other receivables | 251,540 | 119,266 |
| Insurance / reinsurance receivables | | |
| - Premiums due but unpaid | 537,728 | 432,211 |
| - Amount due from other insurers / reinsurers | 563,442 | 269,603 |
| - Reinsurance recoveries against outstanding claims | 854,042 | 723,743 |
| - Salvage recoveries accrued | 46,148 | 78,889 |
| - Cash and bank | 476,921 | 1,505,058 |
| - Window Takaful Accounts - total assets | 142,357 | 64,186 |
| | <u>5,437,141</u> | <u>4,474,167</u> |

The Company did not hold any collateral against the above during the year. The management continuously monitors the credit exposure towards the policyholders and other insurers / reinsurers and makes provision against those balances considered doubtful of recovery. The movement in the provision for doubtful debt account is shown in notes 12.3 and 12.4. The remaining past due balances were not impaired as they relate to a number of policy holders and other insurers / reinsurers for whom there is no recent history of default.

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

| | Rating Agency | Rating | |
|-----------------------------------------|---------------|------------|-----------|
| | | Short Term | Long Term |
| Bank deposits and term deposit receipts | | | |
| Allied Bank | PACRA | A1+ | AAA |
| Bank Al Habib | PACRA | A1+ | AA+ |
| Faysal Bank Limited | PACRA | A1+ | AA |
| Habib Bank Limited | JCR VIS | A-1+ | AAA |
| Habib Metropolitan Bank Limited | PACRA | A1+ | AA+ |
| JS Bank Limited | PACRA | A1+ | AA- |
| Bank Islami | PACRA | A1 | A+ |
| MCB Bank Limited | PACRA | A1+ | AAA |
| National Bank of Pakistan | PACRA | A1+ | AAA |
| Soneri Bank Limited | PACRA | A1+ | AA- |
| Standard Chartered Bank | PACRA | A1+ | AAA |
| Summit Bank Limited | JCR VIS | A-1 | A- |
| Samba Bank Limited | JCR VIS | A-1 | AA |
| MIB Bank Limited (Formerly NIB Bank) | PACRA | A1+ | AA- |
| Bank of Punjab | PACRA | A1+ | AA |
| United Bank Limited | JCR VIS | A-1+ | AAA |
| Meezan Bank | JCR VIS | A1+ | AA+ |
| FINCA Microfinance Bank Limited | PACRA | A1 | A |
| First MicroFinance Bank-Pakistan | JCR VIS | A-1 | A+ |
| Telenor Microfinance Bank | PACRA | A1 | A+ |
| U Microfinance Bank Limited | JCR VIS | A-2 | A |
| NRSP MicroFinance Bank | PACRA | A1 | A |

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The age analysis of premiums due but unpaid and amounts due from other insurers / reinsurers is as follows.

| | 2018 (Rupees in '000) | 2017 (Rupees in '000) |
|----------------------------------|--------------------------|--------------------------|
| Upto 1 year | 1,004,389 | 551,904 |
| 1-2 years | 64,603 | 131,404 |
| 2-3 years | 51,439 | 41,909 |
| Over 3 years | 142,500 | 120,761 |
| | <u>1,262,931</u> | <u>845,978</u> |
| Window Takaful Operations | | |
| Upto 1 year | 60,720 | 20,573 |
| 1-1.5 years | 2,030 | - |
| | <u>62,750</u> | <u>20,573</u> |

Concentration of credit risk exists when changes in economic or industry factors affect the group of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial assets subject to credit risk is broadly diversified and transactions are entered into with diverse credit worthy counterparties thereby mitigating any significant concentration of credit risk.

| | 2018 ----- (Rupees in '000) ----- | 2017 ----- (Rupees in '000) ----- |
|--------------------------------------------------------|--------------------------------------|--------------------------------------|
| Sector wise analysis of premiums due but unpaid | | |
| Foods and beverages | 37,198 | 15,416 |
| Financial services | 71,291 | 37,244 |
| Pharmaceuticals | 30,105 | 42,417 |
| Textile and composites | 93,740 | 89,354 |
| Plastic industries | - | 305 |
| Engineering | 48,361 | 29,268 |
| Other manufacturing | 37,105 | 27,047 |
| Miscellaneous | 340,266 | 293,901 |
| | <u>658,066</u> | <u>534,952</u> |
| Window Takaful Operations | | |
| Textile | 8,368 | 2,625 |
| Financial services | 205 | - |
| Engineering | 97 | 2,144 |
| Pharmaceuticals | 737 | 480 |
| Food | 7,404 | 300 |
| Other manufacturing | 70 | - |
| Others | 13,293 | 5,400 |
| | <u>30,174</u> | <u>10,949</u> |

The credit quality of amount due from other insurers and reinsurers can be assessed with reference to external credit ratings as follows:

| | Amount due from other insurers / reinsurers | Reinsurance recoveries against outstanding claims | Prepaid reinsurance premium ceded | 2018 | 2017 |
|------------------------------|---------------------------------------------|---------------------------------------------------|---------------------------------------|------------------|------------------|
| | (Rupees in '000) | | | | |
| A- or above (including PRCL) | 556,157 | 561,549 | 392,279 | 1,509,985 | 1,274,563 |
| BBB and B+ | 2,864 | 92,655 | 72,498 | 168,017 | 152,632 |
| Others | 45,844 | 199,838 | 148,397 | 394,079 | 89,530 |
| Total | <u>604,865</u> | <u>854,042</u> | <u>613,174</u> | <u>2,072,081</u> | <u>1,516,725</u> |
| | Amount due from re-takaful operators | Re-takaful recoveries against outstanding claims | Prepaid re-takaful contribution ceded | 2018 | 2017 |
| | (Rupees in '000) | | | | |
| A or above | 31,025 | 15,014 | 24,723 | 70,762 | 17,595 |
| BBB | 731 | 354 | 582 | 1667 | 2,094 |
| Others | 820 | 273 | 450 | 1543 | 682 |
| | <u>32,576</u> | <u>15,641</u> | <u>25,755</u> | <u>73,972</u> | <u>20,371</u> |

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34.4 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefit for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company currently meets the paid up capital requirement as required by Securities and Exchange Commission of Pakistan.

35 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Company has no items to report in this level.

The Company held the following financial instruments measured at fair value:

| | 2018 | | |
|-----------------------------------------------------|----------------|-----------|---------|
| | Level 1 | Level 2 | Level 3 |
| | Rupees in '000 | | |
| Assets carried at fair value | | | |
| Held for Trading Investments | | | |
| Mutual fund | 225,821 | - | - |
| Market treasury bills and Pakistan investment bonds | - | 1,493,477 | - |
| | | | |
| | 2017 | | |
| | Level 1 | Level 2 | Level 3 |
| | Rupees in '000 | | |
| Assets carried at fair value | | | |
| Held for Trading Investments | - | - | - |

The carrying amounts of all other financial assets and liabilities reflected in these financial statements approximate their fair values.

36 CORRESPONDING FIGURES

Corresponding figures have been rearranged or reclassified wherever necessary to conform with the revised format of the financial statements prescribed under the Insurance Rules, 2017 as detailed in note 2.2. The effects of these reclassifications are summarised below:

| Reclassification from Balance Sheet | Reclassification to Statement of Financial Position | 2018 Rupees ' 000 |
|-------------------------------------------------------------|-----------------------------------------------------|----------------------|
| Operating assets - Tangible | Property and equipment | 274,135 |
| Capital work-in-progress | Property and equipment | 492 |
| Cash and bank deposits - Deposits maturing within 12 months | Investments - Term deposits | 960,000 |
| Sundry receivables | Loans and other receivables | 125,053 |
| Accrued investment income | Loans and other receivables | 13,688 |
| Sundry receivables | Salvage recoveries accrued | 78,889 |
| Prepayments - prepaid reinsurance premium ceded | Prepayments | 481,956 |
| Prepayments - others | Prepayments | 27,736 |

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| Reclassification from Balance Sheet | Reclassification to Statement of Financial Position | 2018 Rupees ' 000 |
|------------------------------------------------------------------|-----------------------------------------------------|----------------------|
| Premiums due but unpaid | Insurance / reinsurance receivables | 432,211 |
| Amounts due from other insurers / reinsurers | Insurance / reinsurance receivables | 269,603 |
| Sundry creditors | Retirement benefit obligations | 12,419 |
| Borrowings - Liabilities against assets subject to finance lease | Borrowings | 64,896 |
| Current portion of long term liabilities | Borrowings | 13,339 |
| Accrued expenses | Other creditors and accruals | 164,302 |
| Sundry creditors | Other creditors and accruals | 520,022 |

| Reclassification from Profit and Loss Account | Reclassification to Statement of Comprehensive Income | 2018 Rupees ' 000 |
|-----------------------------------------------|-------------------------------------------------------|----------------------|
| General and administration expenses | Management expenses | 199,088 |
| Return on bank balances | Investment income | 49,098 |

37 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Company on 4th March 2019

38 GENERAL

Figures in these financial statements have been rounded off to the nearest thousand of rupees.

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S. A. K.
Chairman
S.A.K.

H. S. S. I.
Director
S.H.A.

S. I.
Director
S.I.

T. M.
Chief Executive Officer
T. M.

**IGI GENERAL INSURANCE LIMITED -
WINDOV / TAKAFUL OPERATIONS**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



INDEPENDENT AUDITOR'S REPORT

To the members of IGI General Insurance Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **IGI General Insurance Limited – Window Takaful Operations** ("the Operator"), which comprise the statement of financial position as at December 31, 2018, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof, conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of Operator's affairs as at December 31, 2018 and of the profit, total comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Operator in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the requirements of Insurance Ordinance, 2000 and, Companies Act, 2017 (XIX of 2017), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
State Life Building No. 1-C, I.I. Chundrigar Road, P.O. Box 4716, Karachi-74000, Pakistan
Tel: +92 (21) 32426682-6/32426711-5; Fax: +92 (21) 32415007/32427938/32424740; <www.pwc.com/pk>



In preparing the financial statements, management is responsible for assessing the Operator's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Operator or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Operator's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Operator's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Operator's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Operator to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Operator as required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017);

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- b) the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XXI of 2017), and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Operator's business; and;
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

The engagement partner on the audit resulting in this independent auditor's report is **Noman Abbas Sheikh**.

A.F. Ferguson & Co.

A.F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: April 2, 2019

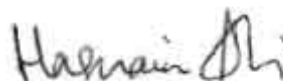
IGI GENERAL INSURANCE LIMITED
WINDOW TAKAFUL OPERATIONS
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018

| Note | 2018 | | | 2017 |
|--------------------------------------------------------|---------------|-----------------------|----------------|----------------|
| | Operator Fund | Participants' Takaful | Aggregate | Aggregate |
| (Rupees in '000) | | | | |
| Assets | | | | |
| Operating assets | 5 | 21 | - | 21 |
| Investments | | | | 46 |
| - Equity securities | 6 | 40 | 40 | 80 |
| - Term deposits | 7 | 46,000 | 60,500 | 106,500 |
| Wakala fee receivable | | 41,763 | - | 41,763 |
| Other receivables | 8 | 12,368 | 79,408 | 91,776 |
| Takaful / retakaful receivables | 9 | - | 62,750 | 62,750 |
| Retakaful recoveries against outstanding claims | | - | 15,641 | 15,641 |
| Qard-e-hasan to Participant Takaful Fund | 10 | 28,000 | - | 28,000 |
| Deferred commission expense | 18 | 7,976 | - | 7,976 |
| Deferred wakala fee | 19 | - | 21,919 | 21,919 |
| Taxation - payment less provisions | | 261 | 320 | 581 |
| Prepayments | 11 | 225 | 25,755 | 25,980 |
| Cash and bank | 12 | 5,703 | 46,473 | 52,176 |
| Total assets | | 142,357 | 312,806 | 455,163 |
| Funds and liabilities | | | | |
| Funds attributable to Operator and Participants | | | | |
| Operator's Fund (OPF): | | | | |
| Statutory fund | | 50,000 | - | 50,000 |
| Unappropriated profit / (accumulated losses) | | 21,137 | - | 21,137 |
| | | 71,137 | - | 71,137 |
| Waqf / Participants' Takaful Fund (PTF): | | | | |
| Ceded money | | - | 500 | 500 |
| Accumulated (deficit) / surplus | | - | (14,192) | (14,192) |
| | | - | (13,692) | (13,692) |
| Qard-e-hasan from Operator's Fund | 10 | - | 28,000 | 28,000 |
| Liabilities | | | | |
| Underwriting provisions | | | | |
| - Outstanding claims including IBNR | 17 | - | 52,075 | 52,075 |
| - Unearned contribution reserve | 16 | - | 70,587 | 70,587 |
| - Contribution deficiency reserve | | - | 3,954 | 3,954 |
| - Unearned retakaful reward | 20 | - | 5,460 | 5,460 |
| Contribution received in advance | | - | 378 | 378 |
| Takaful / retakaful payable | 13 | 2,278 | 66,077 | 68,355 |
| Wakala fee payable | | - | 41,763 | 41,763 |
| Unearned wakala fee | | 21,919 | - | 21,919 |
| Other creditors and accruals | 14 | 47,023 | 58,204 | 105,227 |
| Total liabilities | | 71,220 | 298,498 | 369,718 |
| Total equity and liabilities | | 142,357 | 312,806 | 455,163 |
| Contingencies and commitments | 15 | | | |

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

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Chairman


Director


Director


Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
WINDOW TAKAFUL OPERATIONS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

| Note | For the year ended December 31, 2018 | For the period from July 1, 2017 to December 31, 2017 |
|------|--------------------------------------------|----------------------------------------------------------------|
| | ————(Rupees in '000)———— | |
| 16 | 95,548 | 8,959 |
| 17 | (76,313) | (3,356) |
| | (3,954) | - |
| 19 | (44,193) | (3,694) |
| 20 | 10,019 | 1,835 |
| 21 | (1,764) | (1) |
| | (116,205) | (5,216) |
| | (20,657) | 3,743 |
| 23 | 2,527 | - |
| | 1,101 | 1 |
| | (907) | - |
| | 2,721 | 1 |
| | (17,936) | 3,744 |
| 19 | 44,193 | 3,694 |
| 18 | (14,894) | (2,163) |
| 22 | (8,375) | (3,517) |
| | 20,924 | (1,986) |
| 23 | 399 | - |
| | 2,030 | 446 |
| | 907 | - |
| 24 | (583) | (1,000) |
| | 23,677 | (2,540) |
| | - | - |
| | 23,677 | (2,540) |

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

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Chairman

Director

Director

Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
WINDOW TAKAFUL OPERATIONS
STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018

| | Operator's Fund | |
|-----------------------------------------------------------|-----------------|-----------------------|
| | Statutory fund | Unappropriated profit |
| | Rupees in '000 | |
| Balance as at July 1, 2017 | - | - |
| Contribution made during the period | 50,000 | - |
| Total comprehensive income / (loss) for the period | | |
| Loss for the period | - | (2,540) |
| Other comprehensive income | - | (2,540) |
| | - | (2,540) |
| Balance as at December 31, 2017 | 50,000 | (2,540) |
| Total comprehensive income for the year | | |
| Profit for the year | - | 23,677 |
| Other comprehensive income | - | - |
| | - | 23,677 |
| Balance as at December 31, 2018 | 50,000 | 21,137 |

| | Participant's Takaful Fund | |
|-----------------------------------------|----------------------------|---------------------|
| | Cede money | Accumulated deficit |
| | Rupees in '000 | |
| Balance as at July 1, 2017 | - | - |
| Contribution received during the period | 500 | - |
| Surplus for the period | | |
| Other comprehensive income | - | 3,744 |
| | - | 3,744 |
| Balance as at December 31, 2017 | 500 | 3,744 |
| Deficit for the year | | |
| Other comprehensive income | - | (17,936) |
| | - | (17,936) |
| Balance as at December 31, 2018 | 500 | (14,192) |

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

Chairman

Director

Director

Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
WINDOW TAKAFUL OPERATIONS
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2018

| Note | For the year ended December 31, 2018 | | | For the period from July 1, 2017 to December 31, 2017 |
|------|--------------------------------------|----------------------------|-----------|-------------------------------------------------------|
| | Operator's Fund | Participants' Takaful Fund | Aggregate | Aggregate |

Rupees in '000

OPERATING CASH FLOWS

Takaful activities

| | | | | |
|------------------------------------------|----------|----------|----------|---------|
| Contributions received | - | 171,162 | 171,162 | 25,486 |
| Retakaful ceded | - | (40,768) | (40,768) | (2,636) |
| Claims paid | - | (44,276) | (44,276) | (659) |
| Re-takaful and other recoveries received | - | 571 | 571 | 1,129 |
| Retakaful reward received | - | 13,137 | 13,137 | 4,177 |
| Commission paid | (11,911) | - | (11,911) | (955) |
| Wakalah fee received | 28,043 | - | 28,043 | - |
| Wakalah fee paid | - | (28,043) | (28,043) | - |
| Other takaful receipts | - | 3,146 | 3,146 | 2,318 |
| Net cash inflow from takaful activities | 16,132 | 74,929 | 91,061 | 28,660 |

Other operating activities

| | | | | |
|--------------------------------------------------|----------|-------|----------|------|
| Income tax paid | (216) | (320) | (536) | (44) |
| General and other expenses paid | (15,266) | - | (15,266) | (1) |
| Net cash outflow from other operating activities | (15,482) | (320) | (15,802) | (45) |

Total cash inflow from all operating activities

650 74,609 75,259 28,615

INVESTMENT ACTIVITIES

| | | | | |
|-----------------|-------|-------|-------|-----|
| Profit received | 2,146 | 2,290 | 4,436 | 446 |
| Investment made | (40) | (40) | (80) | - |

Total cash inflow from investing activities

2,106 2,250 4,356 446

FINANCING ACTIVITIES

| | | | | |
|----------------------------------------------------|---|---|---|--------|
| Contribution to operators' fund | - | - | - | 50,000 |
| Total cash inflow from financing activities | - | - | - | 50,000 |

Net cash inflow from all activities

2,756 76,859 79,615 79,061

Cash and cash equivalents at beginning of the year / period

48,947 30,114 79,061 -

Cash and cash equivalents at end of the year / period

12.2 51,703 106,973 158,676 79,061

Reconciliation to statement of comprehensive income

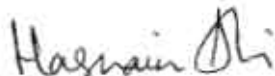
| | | | | |
|-------------------------------------------|----------|-----------|-----------|----------|
| Operating cash flows | 650 | 74,609 | 75,259 | 28,616 |
| Depreciation expenses | (25) | - | (25) | (9) |
| Financial charges | - | - | - | (1) |
| Ceded amount to PTF | - | - | - | (500) |
| Return on bank balances and investment | 2,146 | 2,290 | 4,436 | 446 |
| Increase in liabilities | (54,494) | (261,299) | (315,793) | (81,870) |
| Increase in assets | 75,400 | 166,464 | 241,864 | 54,522 |
| Surplus / (deficit) for the year / period | 23,677 | (17,936) | 5,741 | 1,204 |

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

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Chairman



Director



Director



Chief Executive Officer

IGI GENERAL INSURANCE LIMITED
WINDOW TAKAFUL OPERATIONS
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1 LEGAL STATUS AND NATURE OF BUSINESS

IGI General Insurance Limited ("the Operator"), a Packages Group Company, was incorporated as a public limited company on November 18, 2016 under the Companies Ordinance, 1984 (now Companies Act, 2017). The registered office of the Operator is situated at 7th floor, The Forum, Suite No. 701-713, G-20, Block 9, Khayaban-e-Jami, Clifton, Karachi. The objects of the Operator include providing general insurance services (in spheres of Fire, Marine, Motor, Health and Miscellaneous) and general takaful services.

The Operator was granted authorisation on June 20, 2017 under Rule 6 of the Takaful Rules, 2012 to undertake Window Takaful Operations ("WTO") by the Securities and Exchange Commission of Pakistan ("SECP") under Takaful Rules, 2012 to carry on general takaful in Pakistan.

The Operator transferred statutory fund of Rs. 50 million in a separate bank account for the window takaful operations as per the requirement of circular 8 of 2014. The Operator has formed a Waqf for Participants' Fund by executing the Waqf deed dated February 27, 2017 and deposited a cede money of Rs. 0.5 million. The cede money is required to be invested in Shari'ah compliant remunerative instrument which may be used to acquire immovable Waqf property if Shari'ah and law so warrants. Waqf Deed governs the relationship of Operator and participants for management of takaful operations, investments of participants' funds and investments of the Operator's funds approved by the shari'ah advisor of the Operator. The Operator commenced activities of WTO on July 01, 2017.

2 BASIS OF PREPARATION

2.1 Statement of compliance

2.1.1 These financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan. The accounting and reporting standards applicable in Pakistan comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017 and Insurance Ordinance, 2000, Insurance Rules 2017, Insurance Accounting Regulations, 2017 and Takaful Rules, 2012.

In case requirements differ, the provisions or directives of the Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and the Takaful Rules, 2012 shall prevail.

2.1.2 The Securities and Exchange Commission of Pakistan (SECP) through its notification SRO 89(1) / 2017 dated February 9, 2017 had issued Insurance Rules, 2017 which had come into force at once. The Insurance Rules, 2017 (the Rules) prescribe format of annual financial statements for non-life insurers. Further, SECP through SRO 88 (1) / 2017 dated February 9, 2017 had also issued Insurance Accounting Regulations, 2017. The Insurance Accounting Regulations were applicable from April 1, 2017. However, SECP on application of the Operator had allowed to apply Insurance Accounting Regulations, 2017 effective from the accounting year commencing from January 1, 2018. Accordingly, during the current year, the Operator has changed its accounting policy and the presentation of the financial statements has been realigned with the format prescribed under the Rules while corresponding figures have been reclassified or additionally incorporated in the financial statements for the year ended December 31, 2018 on the basis of the classification prescribed therein.

Further nomenclature of the primary statements have also been aligned with the Rules and certain primary statements such as statement of contribution, statement of claims, statement of expenses and statement of investment income which were previously made part of financial statements have now been excluded from the financial statements in accordance with the requirements of the Insurance Rules, 2017.

2.1.3 These financial statements reflect the financial position and results of operations of both the Operator's Fund (OPF) and Participant Takaful Fund (PTF) in a manner that the assets, liabilities, income and expenses of the Operator and PTF remain separately identifiable.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for investments which are carried at fair value.

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2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Operator operates. The financial statements are presented in Pakistani Rupees, which is the Operator's functional and presentation currency and has been rounded off to the nearest thousand of rupees.

2.4 Standards, interpretations and amendments to published accounting and reporting standards that are effective in the current year:

There are certain amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after January 1, 2018 but are considered not to be relevant or do not have any significant effect on the Operator's operations and are, therefore, not detailed in these financial statements.

2.5 Standards, interpretations and amendments to published accounting and reporting standards that are not yet effective:

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

| Standard, interpretation or amendment | Effective date (accounting periods ending on or after) |
|---------------------------------------|-----------------------------------------------------------|
| - IFRS 9 – Financial Instruments | June 30, 2019 |
| | Effective date (accounting periods beginning on or after) |
| - IFRS 15 - Revenue from contracts | July 1, 2018 |
| - IFRS 16 - Leases | January 1, 2019 |

The management is currently in the process of assessing the impact of these standards on the financial statements of the Operator.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. These accounting policies have been consistently applied for all the years presented except for the changes mentioned in notes 3.1 and 3.2 below:

3.1 During the year the Operator has changed its accounting policy with respect to presentation of financial statements and these financial statements have been presented in accordance with the revised format of financial statements as prescribed under the Insurance Rules, 2017 (as explained in note 2.1.2). The significant reclassification changes resulting therefrom are disclosed in note 31 to these financial statements.

3.2 During the current year, consequent to the application of the Insurance Accounting Regulation, 2017, the Operator has changed its accounting policy in respect of subsequent measurement and impairment of available for sale investments to comply with the requirements of IAS 39, "Financial Instruments : Recognition and Measurement". As per the revised policy available for sale investments are measure at fair value subsequent to initial recognition with changes in fair value recognise in other comprehensive income through the statement in other comprehensive income. A significant or prolonged decline in the value of equity securities below its cost is also considered as an objective evidence of impairment. Impairment losses, if any, on available for sale investments are recognised directly in the income statement. Previously, available for investments were stated subsequent to initial recognition at the lower of cost or market value (market value being taken as lower if fall is other than temporary) in accordance with the requirements of SEC (Insurance) Rules, 2002 any decline in the market value recognised by the Operator was taken to the statement of comprehensive income. This change in accounting policy does not have any impact on the financial statements of the Operator as there were no available for sale investments as at December 31, 2018 and December 31, 2017.

3.3 Takaful contracts

The takaful contracts are based on the principles of wakala. The takaful contracts so agreed usually inspire concept of tabarru (to donate for benefit of others) and mutual sharing of losses with the overall objective of eliminating the element of uncertainty.

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Contracts under which the Participant Takaful Fund (PTF) accepts significant takaful risk from another party (the participant) by agreeing to compensate the participant if a specified uncertain future event (the takaful event) adversely affects the participant are classified as takaful contracts. Takaful risk is significant if a takaful event could cause the PTF to pay significant benefits due to the happening of the takaful event compared to its non-happening. Once a contract has been classified as a takaful contract, it remains a takaful contract for the remainder of its lifetime, even if the takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

The PTF underwrites non-life takaful contracts that can be categorised into following main categories:

3.3.1 Fire and property

Fire and property takaful contracts mainly compensate the participants for damage suffered to their properties or for the value of property lost. Participants who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the takaful covered properties in their business activities. These contracts are generally one year contracts except some contracts that are of three months period.

3.3.2 Marine, aviation and transport

Marine takaful covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination. These contracts are generally for three months period.

3.3.3 Motor

Motor takaful provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident. These contracts are generally one year contracts.

3.3.4 Miscellaneous

All other various types of Takaful contracts are classified in miscellaneous category. These contracts are normally one year contracts except some engineering contracts that are of more than one year period. Whereas, normally travel contracts expire within one month time.

3.4 Contribution

Contribution written under a policy is recognised as income over the period of takaful from the date of issuance of the policy to which it relates to its expiry. Where the pattern of incidence of risk varies over the period of the policy, contribution is recognised as revenue in PTF in accordance with the pattern of the incidence of risk. The portion of contribution written relating to the unexpired period of coverage is recognised as unearned contribution by the PTF. This liability is calculated by applying 1/24 method as specified in the Insurance Accounting Regulations, 2017.

3.5 Re-takaful ceded

These are contracts entered into by the Operator with re-takaful operators for compensation of losses suffered on Takaful contracts issued. These re-takaful contracts include both facultative and treaty arrangement contracts and are classified in same categories of Takaful contracts for the purpose of these financial statements. The Operator recognises the entitled benefits under the contracts as various re-takaful assets.

The deferred portion of re-takaful contribution is recognised as a prepayment in PTF. The deferred portion of re-takaful contribution ceded is calculated by using 1/24 method.

3.6 Claims expense

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

The Operator recognises liability in respect of all claims incurred upto the reporting date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an takaful contract. The liability for claims include amounts relating to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

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The provision for Incurred But Not Reported (IBNR) claims is determined by the Operator as required under circular No. 9 of 2016 issued by the SECP. As per SECP circular No. 9 of 2016 an Operator shall estimate IBNR claims reserve based on the prescribed method provided in the guidelines. Guidelines also allows the use of any other alternative method of determining IBNR, if found more suitable for the risk class, provided that the amount estimated under the alternative method shall not be less than the amount calculated under prescribed method. The prescribed method for estimating IBNR claim reserve is the chain ladder method based on paid claims hereinafter called 'Incurred But Not Paid' or 'IBNP'. The Basic Chain Ladder (BCL) method uses a run off triangle to estimate the development factors for each accident period which are further used to estimate the ultimate paid claims. Data from settlement registers are used in the BCL models. Lags are determined to be the difference between the 'date of loss' and 'date of claim payment'. Monthly lags are used since it reflects the claim development pattern within a given year and the back testing supports the same. Once IBNP has been determined using BCL, the outstanding claims are deducted to arrive at IBNR on paid basis.

Under alternative method IBNR is determined on reported basis. IBNR (reported basis) is much similar to IBNR (paid basis) but is calculated using a different methodology. It does not use either IBNP or outstanding claims to estimate IBNR rather, is determined using BCL method. Development factors are determined for each accident period to estimate the ultimately reported claims directly. Intimation registers are used in the BCL model where lags are calculated as the difference between the 'date of loss' and 'date of intimation'.

The analysis is carried out separately for each class of business and results determined through this alternative method are compared to the results of prescribed method and higher of the two are set as the final reserve.

3.7 Re-takaful recoveries against claims

Re-takaful recoveries against outstanding claims and salvage recoveries are recognised as an asset and measured at the amount expected to be received.

3.8 Commission, other acquisition costs and re-takaful reward

Commission expense and other acquisition costs are charged to the OPF at the time the policies are accepted. Re-takaful reward from re-takaful operator is recognised at the time of issuance of the underlying takaful policy by the PTF. This income is deferred and brought to statement of comprehensive income as revenue in accordance with the pattern of recognition of the re-takaful contribution to which it relates. Retakaful reward from re-takaful operator is arrived at after taking the impact of opening and closing unearned re-takaful reward. Profit on re-takaful contracts, if any, which the PTF may be entitled to under the terms of re-takaful, is recognised on accrual basis.

3.9 Contribution deficiency reserve

The Operator is required as per the Insurance Accounting Regulations, 2017, to maintain a provision in respect of contribution deficiency for the class of business where the unearned contribution reserve is not adequate to meet the expected future liability, after re-takaful from claims, and other supplementary expenses expected to be incurred after the reporting date in respect of the unexpired takaful contracts in that class of business at the reporting date. The movement in the contribution deficiency reserve is recorded as an expense in the statement of comprehensive income.

The company has recorded contribution deficiency reserve on the recommendation of actuary for fire and property damage, marine, aviation and transport, health and miscellaneous business.

3.10 Takaful surplus

Takaful surplus attributable to the participants is calculated after charging all direct cost and setting aside various reserves. Allocation to participants, if applicable, is made after adjustment of claims paid to them during the year.

3.11 Wakalah fee

The Operator of Window Takaful manages the general takaful operations for the participants and charge wakala fee to PTF to meet the general and administrative expenses of the Operator including commissions to agents at following rates:

| Class | Percentage |
|--------------------------------|------------|
| Fire and property | 33.5% |
| Marine, aviation and transport | 35.0% |
| Motor | 30.0% |
| Miscellaneous | 27.5% |

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The deferred portion of wakala fee is recognised as a prepayment in PTF and unearned wakala fee in OPF. The deferred portion of wakalah fee is calculated by using 1/24 method.

3.12 Mudarib's share - PTF

The Operator also manages the participants' investment as Mudarib and charges 25% of the investment income earned by the PTF as Mudarib's share. It is recognised on the same basis on which related revenue is recognised.

3.13 Qard-e-Hasan

If there is a deficit of admissible assets over liabilities in PTF, the Operator provides interest free loan 'Qard-e-Hasan' to PTF from OPF so that PTF may become solvent as per Takaful Rules, 2012.

Qard-e-Hasan from PTF can be recovered by the Operator over any period of time without charging any profit.

3.14 Creditors, accruals and provisions

Liabilities for creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the services received, whether or not billed to the Operator.

Provisions are recognised when the Operator has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

3.15 Taxation

The profit of the Operator is taxed as part of total profit of the IGI General Insurance Limited as the Operator is not separately registered for tax purposes.

3.16 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash in hand, deposits with banks, stamps in hand and short term finances.

3.17 Investments

3.17.1 The Operator invests in Shariah compliant financial instruments only. All investments are initially recognised at cost, being the fair value of the consideration given and include transaction cost, except for held for trading investments in which case transaction costs are charged to the statement of comprehensive income. These are classified into the following categories:

- Fair value through profit or loss
- Held to maturity
- Available for sale

3.17.2 Investments at fair value through profit or loss - held for trading

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

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

3.17.3 Held to maturity

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

Any premium paid or discount availed on acquisition of held to maturity investments is deferred and amortised over the term of the investment using the effective yield.

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

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The difference between the redemption value and the purchase price of the held to maturity investments is amortised and taken to the statement of comprehensive income account over the term of the investment.

3.17.4 Available for sale

Available for sale investments are those non-derivative investments that are designated as available for sale or are not classified in any other category. These are primarily those investments that are intended to be held for an undefined period of time or may be sold in response to the need for liquidity. It also includes investments in associated undertakings where the Operator does not have significant influence. The Operator follows trade date accounting for 'regular way purchase and sales' of investments.

Subsequent to initial recognition, these are stated at market value. The Operator uses stock exchange quotation at the reporting date to determine the market value of its quoted investments whereas, impairment of unquoted investments is computed by reference to net assets value of the investee.

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

Gains / (losses) on sale of available for sale investments are recognised in statement of comprehensive income.

3.17.5 Other receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition these are measured at amortised cost.

3.17.6 Date of recognition

Regular way purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date on which the Operator commits to purchase or sell the investment.

3.17.7 Sale and repurchase agreements

Securities purchased under an agreement to resell (reverse repo) are not recognised in the financial statements as investments and the amount extended to the counter party is included in sundry receivables. The difference between the sale and repurchase price is recognised as income and included in other income.

3.18 Fixed assets

Tangible

These are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation on all fixed assets is charged to statement of comprehensive income on the straight line method so as to write-off depreciable amount of an asset over its useful life. Depreciation on additions to fixed assets is charged from the month in which an asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted, if impact on depreciation is significant. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Operator and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit and loss in the period in which they are incurred.

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

Intangible

Software development cost are only capitalised to the extent that future economic benefits are expected to flow to the entity. Intangible assets with finite useful lives are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with indefinite useful lives are stated at cost less impairment losses, if any.

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3.19 Offsetting of financial assets and financial liabilities

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

3.20 Segment reporting

A business segment is a distinguishable component of the Operator that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Operator accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the Insurance Rules, 2017. The reported operating segments are also consistent with the internal reporting provided to Board of Directors which is responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

The Operator has four primary business segments for reporting purposes namely fire, marine, motor and miscellaneous.

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

3.21 Impairment

The carrying values of the Operator's non-financial assets are reviewed at each financial year end for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists, and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The resulting impairment loss is taken to the statement of comprehensive income.

3.22 Foreign currency transactions and translations

Foreign currency transactions are translated into Pak Rupees at the exchange rates prevailing on the date of transaction. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was determined. Exchange gains or losses are included in income currently.

3.23 Expenses of management

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with the approved accounting standards as applicable in Pakistan requires the use of certain critical accounting estimates, judgments and assumptions that affect the reported amount of assets, liabilities, income and expenses. It also requires the management to exercise its judgment in the process of applying the Operator's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances.

The areas where various assumptions and estimates are significant to the Operator's financial statements are as follows:

- i) classification of takaful contracts (note 3.3)
- ii) provision for unearned contribution (notes 3.4 and 16)
- iii) provision for contribution due but unpaid and amount due from other takaful / re-takaful operators (note 3.4)
- iv) provision for outstanding claims including IBNR and re-takaful recoveries there against (notes 3.6, 3.7 and 17)
- v) contribution deficiency reserve (note 3.9)
- vi) provision for unearned wakala fee (note 3.11)
- vii) classification of investments (note 3.17, 6 and 7)
- viii) residual values and useful lives of fixed assets (note 3.18 and 5)
- ix) allocation of management expenses (note 3.23 and 22)
- x) taxation (note 3.15)

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| 5 | OPERATING ASSETS | Note | 2018 | 2017 |
|---|--------------------------------------|------|----------------|------|
| | | | Rupees in '000 | |
| | Computer equipment - Operator's Fund | 5.1 | 21 | 46 |

5.1

| 2018 | | | | | | | | | |
|------------------|-----------|-----------|-------------------|--------------------------|---------------------|-----------|-------------------|--------------------------------------|---------------------------------|
| Cost | | | | Accumulated Depreciation | | | | Written down value as at December 31 | Depreciation rate (% per annum) |
| As at January 01 | Additions | Disposals | As at December 31 | As at January 01 | Charge for the year | Disposals | As at December 31 | | |

(Rupees in '000)

| | | | | | | | | | | |
|--------------------|----|---|---|----|---|----|---|----|----|--------|
| Computer equipment | 55 | - | - | 55 | 9 | 25 | - | 34 | 21 | 33.33% |
|--------------------|----|---|---|----|---|----|---|----|----|--------|

| 2017 | | | | | | | | | |
|------------------|-----------|-----------|-------------------|--------------------------|-----------------------|-----------|-------------------|--------------------------------------|---------------------------------|
| Cost | | | | Accumulated Depreciation | | | | Written down value as at December 31 | Depreciation rate (% per annum) |
| As at 01 January | Additions | Disposals | As at December 31 | As at 01 January | Charge for the period | Disposals | As at December 31 | | |

(Rupees in '000)

| | | | | | | | | | | |
|--------------------|---|----|---|----|---|---|---|---|----|--------|
| Computer equipment | - | 55 | - | 55 | - | 9 | - | 9 | 46 | 33.33% |
|--------------------|---|----|---|----|---|---|---|---|----|--------|

6 INVESTMENTS IN EQUITY SECURITIES - MUTUAL FUND

| 2018 | | | | | 2017 | | | | |
|-----------------|----------------|------------------------|---------------------------------|--------------|-----------------|----------------|------------------------|---------------------------------|--------------|
| Number of units | Carrying value | Impairment / provision | Revaluation surplus / (deficit) | Market value | Number of units | Carrying value | Impairment / provision | Revaluation surplus / (deficit) | Market value |

(Rupees in '000)

(Rupees in '000)

Operator's Fund

At fair value through profit or loss

| | | | | | | | | | |
|-------------------------------------------|-----|----|---|---|----|---|---|---|---|
| Alfalah GHP Islamic Income & Growth Units | 97 | 10 | - | - | 10 | - | - | - | - |
| Al-Ameen Islamic Cash Fund | 101 | 10 | - | - | 10 | - | - | - | - |
| HBL Islamic Money Market Fund | 104 | 10 | - | - | 10 | - | - | - | - |
| MCB Al- Hamra Islamic Fund | 97 | 10 | - | - | 10 | - | - | - | - |
| | 399 | 40 | - | - | 40 | - | - | - | - |

Participant's Takaful Fund

At fair value through profit or loss

| | | | | | | | | | |
|-------------------------------------------|-----|----|---|---|----|---|---|---|---|
| Alfalah GHP Islamic Income & Growth Units | 97 | 10 | - | - | 10 | - | - | - | - |
| Al-Ameen Islamic Cash Fund | 101 | 10 | - | - | 10 | - | - | - | - |
| HBL Islamic Money Market Fund | 104 | 10 | - | - | 10 | - | - | - | - |
| MCB Al- Hamra Islamic Fund | 97 | 10 | - | - | 10 | - | - | - | - |
| | 399 | 40 | - | - | 40 | - | - | - | - |

7 INVESTMENTS IN TERM DEPOSITS

| 2018 | | |
|---------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |

(Rupees in '000)

Held to maturity
Term deposits

| | | |
|--------|--------|---------|
| 46,000 | 60,500 | 106,500 |
|--------|--------|---------|

| 2017 | | |
|---------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |

(Rupees in '000)

Held to maturity
Term deposits

| | | |
|--------|-----|--------|
| 25,000 | 500 | 25,500 |
|--------|-----|--------|

7.1 The operator's fund and participants' takaful fund's term deposits carry expected profit at the rate of 10% (2017: 5.5% to 5.75%) per annum and are due to mature in January 2019.

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8 OTHER RECEIVABLES

Note

| 2018 | | |
|----------------------------------------------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| Accrued income | 283 | 431 |
| Receivable from IGI General Insurance Limited (operator) | 771 | - |
| Inter-fund receivable | 3,418 | 144 |
| Qard-e-hasan from Operator's Fund | - | 28,000 |
| Other receivables | 7,896 | 50,833 |
| | 12,368 | 79,408 |
| | | 91,776 |

| 2017 | | |
|-----------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| Inter-fund receivable | - | 144 |
| Other receivables | - | 33 |
| | - | 177 |
| | | 177 |

- 8.1 During the year, the Sindh Revenue Board (SRB) raised a demand of tax of Rs 430.412 million under section 23(1) of Sindh Sales Tax on Services Act (SSTA), 2011, in respect of sales tax on reinsurance obtained from foreign re-insurers by the conventional business of Operator. The department has also imposed a penalty of Rs 21.520 million.

The department alleged that the conventional business of Operator has received re-insurance services from foreign re-insurance companies for the period from July 2011 to December 2014 and it is the contention of the department that these services are liable to sales tax under SSTA, 2011. The department attached the bank accounts relating to Window Takaful Operations and directed the Operator's banker to issue pay orders from these bank accounts to SRB. The pay orders of Rs 58.028 million from the Operator's bank accounts (Rs. 50.391 million from PTF's bank account and Rs. 7.637 million from OPF's bank account) were issued by the Operator's banker on December 27, 2018 upon direction of SRB. The Operator has reimbursed the said amount withdrawn from these bank accounts to Window Takaful Operations from its conventional business since the amount withdrawn pertain to conventional business only. Accordingly, a receivable against the amount withdrawn of Rs. 58.028 million and a corresponding liability to conventional business has been recorded in these financial statements.

The Operator has filed an appeal before the Commissioner Appeals on December 28, 2018 against the above order. The Operator has also filed a constitutional petition before the Honourable High Court (the Court) of Sindh at Karachi on December 28, 2018 seeking protection from the above mentioned coercive action taken by the tax department. The Court has suspended the above mentioned attachment notice and also instructed the bank that the said pay orders should not be encashed.

The management in its first hearing before the Assistant Commissioner SRB has submitted that:

- The payments to foreign re-insurance companies are not a service and is merely a re-distribution of the insurance risk and therefore the insurance premium. There is no value addition involved since in essence it is a sharing of the insurance risk between the insurer and re-insurers. The Management believes that the gross premium charged by the insurer was already subject to Sales Tax on the gross amount, hence it is illogical to again subject it to sales tax upon its re-distribution keeping in view the fact that neither any service is being provided to the policy holder nor any value addition is being made.
- These services have been obtained by the Operator from the re-insurance companies incorporated outside Pakistan with no legal or physical presence therefore it is the view that the provisions of Sindh Sales Tax laws are not applicable to these type of arrangements and are outside the jurisdiction of Sindh Sales Tax laws.

The management believes that even if it is assumed that Sindh Sales Tax on re-insurance provided to insurer / insurance companies is applicable, the law does not provide any mechanism for calculating the basis on which such tax will be imposed and its related payment and the same would have been claimed as adjustable input tax by the Operator against its output tax liability.

The management, based on the advice received from their tax and legal advisors, is confident that this matter is likely to be decided in favour of the Operator. The Operator shall repay the amount withdrawn from Window Takaful Operations to conventional business once the matter is decided in favour of the Operator and the payorders are cancelled accordingly.

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9 TAKAFUL / RETAKAFUL RECEIVABLES

Considered good

Contribution due from policyholders

Amount due from other takaful / retakaful operator

| 2018 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| - | 30,174 | 30,174 |
| - | 32,576 | 32,576 |
| - | 62,750 | 62,750 |

Considered good

Contribution due from policyholders

Amount due from other takaful / retakaful operator

| 2017 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| - | 10,949 | 10,949 |
| - | 9,624 | 9,624 |
| - | 20,573 | 20,573 |

10 QARD-E-HASAN

Opening balance of Qard-e-hasan

Qard-e-hasan transferred from OPF during the year

Closing balance of Qard-e-hasan

| Note | 2018 | 2017 |
|------|------------------|------|
| | (Rupees in '000) | |
| | - | - |
| 10.1 | 28,000 | - |
| | 28,000 | - |

- 10.1 The Operator fund has funded the deficit in participant takaful fund by way of an interest free loan (Qard-e-hasan) in accordance with the Takaful Rules, 2012. In the event of future surplus in the Participant Takaful Fund to which a Qard-e-hasan has been made, the Qard-e-hasan shall be repaid prior to distribution of surplus to participants.

11 PREPAYMENTS

Prepaid retakaful contribution ceded

Others

| 2018 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| - | 25,755 | 25,755 |
| 225 | - | 225 |
| 225 | 25,755 | 25,980 |

Prepaid retakaful contribution ceded

Others

| 2017 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| - | 10,747 | 10,747 |
| - | - | - |
| - | 10,747 | 10,747 |

Note

12 CASH AND BANK

Cash and cash equivalents

Cash in hand

Cash at bank

Profit and loss sharing accounts

| 2018 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| - | 125 | 125 |
| 5,703 | 46,348 | 52,051 |

| 2017 | | |
|------------------|----------------------------|-----------|
| Operator Fund | Participants' Takaful Fund | Aggregate |
| (Rupees in '000) | | |
| 23,947 | 29,614 | 53,561 |

Cash at bank

Current accounts

12.1 These profit and loss sharing accounts carry expected profit rates ranging from 5.05% to 5.25% (2017: 5.50% to 5.75%) per annum.

12.2 Cash and cash equivalents for the purpose of statement of cash flows:

| Note | 2018 | | |
|--------------------------|------------------|----------------------------|----------------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |
| Cash and cash equivalent | 5,703 | 46,473 | 52,176 |
| Term deposits | 46,000 | 60,500 | 106,500 |
| | <u>51,703</u> | <u>106,973</u> | <u>158,676</u> |

| | 2017 | | |
|--------------------------|------------------|----------------------------|---------------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |
| Cash and cash equivalent | 23,947 | 29,614 | 53,561 |
| Term deposits | 25,000 | 500 | 25,500 |
| | <u>48,947</u> | <u>30,114</u> | <u>79,061</u> |

13 TAKAFUL / RETAKAFUL PAYABLE

Amount due to co-takaful / re-takaful operators

| | 2018 | | |
|-------------------------------------------------|------------------|----------------------------|---------------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |
| Amount due to co-takaful / re-takaful operators | <u>2,278</u> | <u>66,077</u> | <u>68,355</u> |

| | 2017 | | |
|-------------------------------------------------|------------------|----------------------------|---------------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |
| Amount due to co-takaful / re-takaful operators | <u>443</u> | <u>22,912</u> | <u>23,355</u> |

14 OTHER CREDITORS AND ACCRUALS

Accrued expenses
Commission payable
Federal excise duty and sales tax
Federal takaful fee
Inter-fund payable
Payable to IGI General Insurance Limited - operator 8.1
Qard-e-hasan to Participants' Takaful Fund 10.1
Others

| | 2018 | | |
|-----------------------------------------------------|------------------|----------------------------|----------------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |
| Accrued expenses | 732 | 916 | 1,648 |
| Commission payable | 9,746 | - | 9,746 |
| Federal excise duty and sales tax | - | 2,262 | 2,262 |
| Federal takaful fee | - | 455 | 455 |
| Inter-fund payable | 144 | 3,418 | 3,562 |
| Payable to IGI General Insurance Limited - operator | 7,637 | 50,392 | 58,029 |
| Qard-e-hasan to Participants' Takaful Fund | 28,000 | - | 28,000 |
| Others | 764 | 761 | 1,525 |
| | <u>47,023</u> | <u>58,204</u> | <u>105,227</u> |

| | 2017 | | |
|--|------------------|----------------------------|-----------|
| | Operator Fund | Participants' Takaful Fund | Aggregate |
| | (Rupees in '000) | | |

Accrued expenses
Commission payable
Federal excise duty and sales tax
Federal takaful fee
Payable to IGI General Insurance Limited - operator
Inter-fund payable
Others

| | | | |
|-----------------------------------------------------|--------------|--------------|---------------|
| Accrued expenses | 500 | - | 500 |
| Commission payable | 4,244 | - | 4,244 |
| Federal excise duty and sales tax | - | 895 | 895 |
| Federal takaful fee | - | 56 | 56 |
| Payable to IGI General Insurance Limited - operator | 3,560 | 56 | 3,616 |
| Inter-fund payable | 144 | - | 144 |
| Others | 3 | 1,487 | 1,490 |
| | <u>8,451</u> | <u>2,494</u> | <u>10,945</u> |

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15 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at December 31, 2018 and December 31, 2017.

| | Note | For the year ended December 31, 2018 | For the period from July 1, 2017 to December 31, 2017 |
|----------------------------------------------------------------------------------|------|--------------------------------------|-------------------------------------------------------|
| | | --- (Rupees in '000) --- | |
| 16 NET CONTRIBUTION REVENUE | | | |
| Written gross contribution | | 190,078 | 36,366 |
| Add: Unearned contribution reserve - opening | | 22,030 | - |
| Less: Unearned contribution reserve - closing | | (70,587) | (22,030) |
| Contribution earned | | 141,521 | 14,336 |
| Less: Re-takaful contribution ceded | | (60,981) | (16,124) |
| Add: Prepaid re-takaful contribution ceded - opening | | (10,747) | - |
| Less: Prepaid re-takaful contribution ceded - closing | | 25,755 | 10,747 |
| Re-takaful expense | | (45,973) | (5,377) |
| | | <u>95,548</u> | <u>8,959</u> |
| 17 NET CLAIMS | | | |
| Claims paid | | 44,276 | 659 |
| Add: Outstanding claims (including IBNR) - closing | | 52,075 | 3,826 |
| Less: Outstanding claims (including IBNR) - opening | | (3,826) | - |
| Claims expense | | 92,525 | 4,485 |
| Less: Re-takaful and other recoveries received | | (571) | (1,129) |
| Add: Re-takaful and other recoveries in respect of outstanding claims - closing | | (15,641) | - |
| Less: Re-takaful and other recoveries in respect of outstanding claims - opening | | - | - |
| Re-takaful and other recoveries revenue | | (16,212) | (1,129) |
| | | <u>76,313</u> | <u>3,356</u> |
| 18 NET COMMISSION EXPENSE | | | |
| Commission paid or payable | | 19,247 | 5,786 |
| Add: Deferred commission - opening | | 3,623 | - |
| Less: Deferred commission - closing | | (7,976) | (3,623) |
| | | <u>14,894</u> | <u>2,163</u> |
| 19 NET WAKALA FEE | | | |
| Gross wakala fee | | 58,280 | 11,526 |
| Add: Deferred wakala fee - opening | | 7,832 | - |
| Less: Deferred wakala fee - closing | | (21,919) | (7,832) |
| | | <u>44,193</u> | <u>3,694</u> |
| 20 REWARD ON RE-TAKAFUL | | | |
| Reward on re-takaful received | | 13,137 | 4,177 |
| Add: Unearned re-takaful reward - opening | | 2,342 | - |
| Less: Unearned re-takaful reward - closing | | (5,460) | (2,342) |
| | | <u>10,019</u> | <u>1,835</u> |
| 21 DIRECT EXPENSES | | | |
| Tracker cost | | 1,723 | - |
| Bank charges | | 20 | 1 |
| Other expenses | | 21 | - |
| | | <u>1,764</u> | <u>1</u> |

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| | Note | For the year ended December 31, 2018 | For the period from July 1, 2017 to December 31, 2017 |
|-----------------------------------------|------|--------------------------------------|-------------------------------------------------------|
| | | ---- (Rupees in '000) ---- | |
| 22 MANAGEMENT EXPENSES | | | |
| Salaries, allowances and other benefits | 22.1 | 4,925 | 2,103 |
| Shariah advisor fees | | 1,050 | 1,264 |
| Printing and stationery | | 75 | 141 |
| Computer running expenses | | 2,161 | - |
| Depreciation | | 25 | 9 |
| Training expenses | | 64 | - |
| Motor expenses | | 38 | - |
| Advertisement | | 15 | - |
| Other | | 22 | - |
| | | <u>8,375</u> | <u>3,517</u> |

22.1 This includes Rs. 4.925 million (2017: 1.4 million) in respect of remuneration of the key management personnel.

| | Note | 2018 | | |
|----------------------------------|------|------------------------------|----------------------------|--------------|
| | | Operator Fund | Participants' Takaful Fund | Aggregate |
| 23 INVESTMENT INCOME | | ----- (Rupees in '000) ----- | | |
| Income from term deposit receipt | | | | |
| Return on term deposits | 23.1 | <u>2,030</u> | <u>1,101</u> | <u>3,131</u> |

23.1 This includes Rs. 0.026 million (2017: Rs. 0.001 million) profit earned on placement of cede money in term deposit.

| | Note | 2017 | | |
|----------------------------------|------|------------------------------|----------------------------|------------|
| | | Operator Fund | Participants' Takaful Fund | Aggregate |
| | | ----- (Rupees in '000) ----- | | |
| Income from term deposit receipt | | | | |
| Return on term deposits | | <u>446</u> | <u>1</u> | <u>447</u> |
| | | <u>446</u> | <u>1</u> | <u>447</u> |

| | Note | 2018 | 2017 |
|--------------------------|------|----------------------------|--------------|
| | | ---- (Rupees in '000) ---- | |
| 24 OTHER EXPENSES | | | |
| Bank charges | | 12 | - |
| Auditors' remuneration | | 571 | 500 |
| Ceded amount to PTF | | - | 500 |
| | | <u>583</u> | <u>1,000</u> |

25 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of related group companies, directors of the Operator, key management personnel, major shareholders, post employment benefit plans and other related parties. The Operator in the normal course of business carries out transactions with various related parties at agreed / commercial terms and conditions. Balances and transactions with the related parties are disclosed in the relevant notes to these financial statements.

| | 2018 | | | 2017 | | |
|----------------------------------------------------------|-----------------|----------------------------|-----------|-----------------|----------------------------|-----------|
| | Operator's fund | Participants' Takaful Fund | Aggregate | Operator's fund | Participants' Takaful Fund | Aggregate |
| ----- Rupees in '000 ----- | | | | | | |
| Transactions with related parties | | | | | | |
| Contribution underw ritten | - | 1,013 | 1,013 | - | - | - |
| Contribution collected | - | 927 | 927 | - | - | - |
| Commission expense | 44 | - | 44 | - | - | - |
| Balances with related parties | | | | | | |
| Receivable from IGI General Insurance Limited - operator | 771 | - | 771 | | | |
| Payable to IGI General Insurance Limited - operator | 7,637 | 50,392 | 58,029 | 3,560 | 56 | 3,616 |
| Inter-fund receivable | 3,418 | 144 | 3,562 | - | 144 | 144 |
| Inter-fund payable | 144 | 3,418 | 3,562 | 144 | - | 144 |
| Contribution receivable | - | 86 | 86 | - | - | - |
| Commission payable | 40 | - | 40 | - | - | - |

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26 SEGMENT REPORTING

26.1 Participants' Takaful fund

| For the year ended December 31, 2018 | | | | | | |
|----------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------|----------|----------|---------------|-----------|
| Particulars | Fire and property Damage | Marine, Aviation and Transport | Motor | Health | Miscellaneous | Total |
| (Rupees in '000) | | | | | | |
| Contribution receivable (inclusive of federal excise duty, federal insurance fee and administrative surcharge) | 58,575 | 13,643 | 97,448 | 40,315 | 5,559 | 215,540 |
| Less: Federal Excise Duty | (7,575) | (1,496) | (12,824) | (325) | (685) | (22,905) |
| Federal Insurance Fee | (524) | (135) | (877) | (386) | (58) | (1,980) |
| Other Charges | (2) | (551) | (22) | - | (2) | (577) |
| Gross written contribution (inclusive of administrative surcharge) | 50,474 | 11,461 | 83,725 | 39,604 | 4,814 | 190,078 |
| Gross direct contribution | 50,427 | 11,449 | 83,701 | 39,604 | 4,810 | 189,991 |
| Administrative surcharge | 47 | 12 | 24 | - | 4 | 87 |
| | 50,474 | 11,461 | 83,725 | 39,604 | 4,814 | 190,078 |
| Contribution earned | 36,106 | 10,905 | 56,349 | 35,058 | 3,103 | 141,521 |
| Retakaful expense | 32,064 | 9,549 | 1,710 | - | 2,650 | 45,973 |
| Net contribution revenue | 4,042 | 1,356 | 54,639 | 35,058 | 453 | 95,548 |
| Net rebate on retakaful | 6,847 | 2,260 | 339 | - | 573 | 10,019 |
| Net underwriting income | 10,889 | 3,616 | 54,978 | 35,058 | 1,026 | 105,567 |
| Takaful claims | (12,876) | (3,712) | (32,686) | (40,192) | (3,059) | (92,525) |
| Retakaful and other recoveries | 10,344 | 3,201 | 44 | - | 2,623 | 16,212 |
| Net claims | (2,532) | (511) | (32,642) | (40,192) | (436) | (76,313) |
| wakalah expense | (12,517) | (3,854) | (17,322) | (9,641) | (859) | (44,193) |
| Direct expense | (12) | (2) | (1,740) | (9) | (1) | (1,764) |
| Net claims and expenses | (15,061) | (4,367) | (51,704) | (49,842) | (1,296) | (122,270) |
| Contribution deficiency | (2,520) | (58) | - | (1,358) | (18) | (3,954) |
| Underwriting (deficit)/surplus | (6,692) | (809) | 3,274 | (16,142) | (288) | (20,657) |
| Net investment income | | | | | | 2,721 |
| Deficit for the year | | | | | | (17,936) |

| For the period from July 1, 2017 to December 31, 2017 | | | | | |
|----------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------|---------|---------------|---------|
| Particulars | Fire and property Damage | Marine, Aviation and Transport | Motor | Miscellaneous | Total |
| (Rupees in '000) | | | | | |
| Contribution receivable (inclusive of federal excise duty, federal insurance fee and administrative surcharge) | 18,635 | 2,008 | 20,669 | 977 | 42,290 |
| Less: Federal Excise Duty | (2,502) | (227) | (2,649) | (128) | (5,506) |
| Federal Insurance Fee | (159) | (18) | (177) | (8) | (363) |
| Other Charges | (1) | (51) | (3) | 0 | (55) |
| Gross written contribution (inclusive of administrative surcharge) | 15,973 | 1,712 | 17,840 | 841 | 36,366 |
| Gross direct contribution | 15,971 | 1,708 | 17,826 | 840 | 36,345 |
| Administrative surcharge | 2 | 4 | 14 | 1 | 21 |
| | 15,973 | 1,712 | 17,840 | 841 | 36,366 |
| Contribution earned | 5,596 | 1,561 | 6,814 | 365 | 14,336 |
| Retakaful expense | 3,737 | 1,364 | - | 276 | 5,377 |
| Net contribution revenue | 1,859 | 197 | 6,814 | 89 | 8,959 |
| Net rebate on retakaful | 814 | 311 | 649 | 61 | 1,835 |
| Net underwriting income | 2,673 | 508 | 7,463 | 150 | 10,794 |
| Takaful claims | (870) | (78) | (3,222) | (315) | (4,485) |
| Retakaful and other recoveries | 774 | 71 | - | 284 | 1,129 |
| Net claims | (96) | (7) | (3,222) | (31) | (3,356) |
| wakalah expense | (1,476) | (534) | (1,589) | (95) | (3,694) |
| Direct expense | - | - | (1) | - | (1) |
| Net claims and expenses | (1,572) | (541) | (4,812) | (126) | (7,051) |
| Underwriting result | 1,101 | (33) | 2,651 | 24 | 3,743 |
| Net investment income | | | | | 1 |
| Surplus for the period | | | | | 3,744 |

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26.2 Operator's Fund

| For the year ended December 31, 2018 | | | | | | |
|--------------------------------------|--------------------------|--------------------------------|---------|---------|---------------|----------|
| Particulars | Fire and property Damage | Marine, Aviation and Transport | Motor | Health | Miscellaneous | Total |
| | (Rupees) In '000 | | | | | |
| wakala fee | 12,517 | 3,854 | 17,322 | 9,641 | 859 | 44,193 |
| Commission expense | (5,882) | (1,485) | (6,021) | (1,126) | (380) | (14,894) |
| Management expenses | (2,224) | (505) | (3,689) | (1,745) | (212) | (8,375) |
| | 4,411 | 1,864 | 7,612 | 6,770 | 287 | 20,924 |
| Profit on bank deposit | | | | | | 399 |
| Investment income - net | | | | | | 2,030 |
| Mudarib's share on investment income | | | | | | 907 |
| Other expense | | | | | | (583) |
| Profit before tax | | | | | | 23,677 |

| For the period from July 1, 2017 to December 31, 2017 | | | | | |
|---------------------------------------------------------------------|--------------------------|--------------------------------|---------|---------------|---------|
| Particulars | Fire and property Damage | Marine, Aviation and Transport | Motor | Miscellaneous | Total |
| | (Rupees In '000) | | | | |
| wakala fee | 1,476 | 534 | 1,589 | 95 | 3,694 |
| Commission expense | (1,041) | (88) | (989) | (35) | (2,163) |
| Management expense | (1,544) | (166) | (1,726) | (81) | (3,517) |
| | (1,109) | 280 | (1,138) | (21) | (1,986) |
| Investment income - net of Mudarib's share of PTF Investment Income | | | | | 446 |
| Other expenses | | | | | (1,000) |
| Loss for the period | | | | | (2,540) |

26.3 Statement of financial position

| 2018 | | | | | | |
|--------------------------------|-------------------|--------------------------------|---------|--------|---------------|---------|
| | Fire and property | Marine, aviation and transport | Motor | Health | Miscellaneous | Total |
| | Rupees in '000 | | | | | |
| Segment assets | | | | | | |
| Segment assets | | | | | | |
| - Participants' Takaful Fund | 56,438 | 7,488 | 41,229 | 14,324 | 6,605 | 126,064 |
| Unallocated assets | | | | | | |
| - Participants' Takaful Fund | - | - | - | - | - | 186,742 |
| - Operators' Fund | - | - | - | - | - | 142,357 |
| Consolidated total assets | | | | | | 455,163 |
| Segment liabilities | | | | | | |
| Segment liabilities | | | | | | |
| - Participants' Takaful Fund | 70,730 | 10,495 | 106,319 | 40,441 | 7,977 | 235,962 |
| Unallocated liabilities | | | | | | |
| - Participants' Takaful Fund | - | - | - | - | - | 62,536 |
| - Operators' Fund | - | - | - | - | - | 71,220 |
| Consolidated total liabilities | | | | | | 369,718 |

| 2017 | | | | | |
|--------------------------------|-------------------|--------------------------------|--------|---------------|---------|
| | Fire and property | Marine, aviation and transport | Motor | Miscellaneous | Total |
| | Rupees In '000 | | | | |
| Segment assets | | | | | |
| Segment assets | | | | | |
| - Participants' Takaful Fund | 23,051 | 1,257 | 13,830 | 1,015 | 39,153 |
| Unallocated assets | | | | | |
| - Participants' Takaful Fund | - | - | - | - | 30,290 |
| - Operators' Fund | - | - | - | - | 64,186 |
| Consolidated total assets | | | | | 133,629 |
| Segment liabilities | | | | | |
| Segment liabilities | | | | | |
| - Participants' Takaful Fund | 28,604 | 1,823 | 30,609 | 1,670 | 62,706 |
| Unallocated liabilities | | | | | |
| - Participants' Takaful Fund | - | - | - | - | 2,493 |
| - Operators' Fund | - | - | - | - | 16,726 |
| Consolidated total liabilities | | | | | 81,925 |

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27 MANAGEMENT OF TAKAFUL RISK AND FINANCIAL RISK

The operator issue contracts that transfer takaful risk or financial risk or both. This section summarises the takaful risks and the way the Operator manages them.

27.1 Takaful risk management

27.1.1 Takaful risk

The risk under any one takaful contract is the possibility of the covered event occurring and the uncertainty of the amount of the resulting claim. The Operator is exposed to the uncertainty surrounding the timing, frequency and severity of claims under takaful contracts and there is a risk that actual claims exceed the carrying amount of the takaful liabilities.

Experience shows that the larger the portfolio of similar takaful contracts, the smaller will be the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Operator has developed its takaful underwriting strategy to diversify the type of takaful risks accepted and within each of these categories the Operator's takaful contract are for a maximum period of one year.

Factors that aggravate takaful risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

(a) Frequency and severity of claims

Political, environmental, economical and climatic changes give rise to more frequent and severe extreme events (for example, fire, theft, riot and strike, explosion, earthquake, atmospheric damage, hurricanes, typhoons, river flooding, electric fluctuation, terrorism, war risk, damages occurring in inland transit, burglary, loss of cash in safe and cash in transit, travel and personal accident, money losses, engineering losses and other events) and their consequences (for example, subsidence claims). For certain contracts, the Operator has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

Takaful contracts which are divided into direct and facultative arrangements are further subdivided into four segments: fire, marine, motor and miscellaneous. The takaful risk arising from these contracts is concentrated in the territories in which the Operator operates, and there is a balance between commercial and personal properties / assets in the overall portfolio of covered properties / assets. The Operator underwrites takaful contracts in Pakistan only.

The Operator manages these risks through its underwriting strategy, adequate re-takaful arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. The Operator has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Takaful contracts also entitle the Operator to pursue third parties for payment of some or all costs (for example, subrogation). The claims payments are limited to the extent of sum covered on occurrence of the covered event.

The Operator has entered into re-takaful cover / arrangements, with local and foreign re-takaful operators having good credit rating by reputable rating agencies, to reduce its exposure to risks and resulting claims. Keeping in view the maximum exposure in respect of key zone aggregates, a number of proportional and non-proportional facultative re-takaful arrangements are in place to protect the net account in case of a major catastrophe. The effect of such re-takaful arrangements is that the Operator recovers the share of claims from re-takaful companies thereby reducing its exposure to risk. Apart from the adequate event limit which is a multiple of the treaty capacity or the primary recovery from the proportional re-takaful arrangements, any loss over and above the said limit would be recovered under non-proportional treaty which is very much in line with the risk management philosophy of the Operator.

In compliance of the regulatory requirement, the re-takaful agreements are duly submitted with the Securities and Exchange Commission of Pakistan (SECP) on an annual basis.

The Operator has claims department dealing with the mitigation of risks surrounding claims incurred whether reported or not. This department investigates and settles all claims based on surveyor's report / assessment. The unsettled claims are reviewed individually at least semi-annually and adjusted to reflect the latest information on the underlying facts, contractual terms and conditions, and other factors. The Operator actively manages and pursues early settlements of claims to reduce its exposure to unpredictable developments.

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(b) Sources of uncertainty in the estimation of future claim payments

Claims reported and the development of large losses / catastrophes is analysed separately. The shorter settlement period for claims allows the Operator to achieve a higher degree of certainty about the estimated cost of claims including IBNR. However, the longer time needed to assess the emergence of a subsidence claim makes the estimation process more uncertain for these claims.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value, re-takaful and other recoveries. The Operator's claim are for shorter settlement period generally and Operator takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome may be different from the original liability established. The liability comprises amount in relations to unpaid reported claims, claims incurred but not reported (IBNR), expected claims settlement costs and a provision for unexpired risks at the end of the reporting period.

Liability in respect of outstanding claims is based on the best estimate of the claims intimated or assessed. In calculating the estimated cost of unpaid claims (both reported and not), the Operator estimation techniques are a combination of loss-ratio based estimates (where the loss ratio is defined as the ratio between the ultimate cost of takaful claims and takaful contribution earned in prior financial years in relation to such claims) and an estimate based upon actual claims experience using predetermined basis where greater weight is given to actual claims experience as time passes.

In estimating the liability for the cost of reported claims not yet paid, the Operator considers any information available from surveyor's assessment and information on the cost of settling claims with cases having similar characteristics in previous periods. Claims are assessed on a case-by-case basis separately.

(c) Process used to decided on assumptions

The risks associated with takaful contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. This exposure is geographically concentrated in the Pakistan only.

The Operator uses internal data to measure its related estimated claim liabilities. Internal data is derived mostly from the Operator's monthly claims reports, surveyor's report for particular claim and screening of the actual takaful contracts carried out to derive data for the contracts held. The Operator has reviewed the individual contracts and in particular the industries in which the participant companies operate and the actual exposure years of claims. This information is used to develop related provision for outstanding claims (both reported and non-reported).

The principal assumption underlying the liability estimation of IBNR and contribution deficiency reserve is that the Operator's future claim development will follow similar historical pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which past occurrence and reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc.

(d) Changes in assumptions

The Operator has not changed its assumptions for the takaful contracts as disclosed in above (b) and (c).

(e) Sensitivity analysis

The analysis of exposure described in paragraph (c) above is also used to test the sensitivity of the selected assumptions to changes in the key underlying factors. Assumptions of different levels have been used to assess the relative severity of subsidence claims given past experience. The key material factor in the Operator's exposure to subsidence claims is the risk of more permanent changes in geographical location in which Operator is exposed.

The Operator makes various assumptions and techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The Operator considers that the liability for takaful claims recognised in the statement of financial position is adequate. However, actual experience will differ from the expected outcome.

As the Operator enters into short term takaful contracts, it does not assume any significant impact of changes in market conditions on unexpired risks. However, results of sensitivity testing assuming 10% change in the claim incidence net of recoveries showing effect on underwriting results and balance of waqf is set out below.

4/11/15

| | 2018 | | 2017 | |
|-------------------------------------------|----------------------|-----------------|----------------------|-----------------|
| | Underwriting results | Balance of Waqf | Underwriting results | Balance of Waqf |
| | (Rupees in '000) | | (Rupees in '000) | |
| 10% increase in average claim cost | | | | |
| Fire and property damage | (253) | (253) | (10) | (10) |
| Marine, aviation and transport | (51) | (51) | (1) | (1) |
| Motor | (3,264) | (3,264) | (322) | (322) |
| Miscellaneous | (44) | (44) | (3) | (3) |
| | <u>(3,612)</u> | <u>(3,612)</u> | <u>(336)</u> | <u>(336)</u> |
| 10% decrease in average claim cost | | | | |
| Fire and property damage | 253 | 253 | 10 | 10 |
| Marine, aviation and transport | 51 | 51 | 1 | 1 |
| Motor | 3,264 | 3,264 | 322 | 322 |
| Miscellaneous | 44 | 44 | 3 | 3 |
| | <u>3,612</u> | <u>3,612</u> | <u>336</u> | <u>336</u> |

Concentration of takaful risk

A concentration of risk may also arise from a single takaful contract issued to a particular type of participant, within a geographical location or to types of commercial business. In order to minimise the financial exposure arising from large claims, the Operator, in the normal course of business, enters into agreement with other re-takaful operators, who are dispersed over several geographical regions.

The Operator has certain single takaful contracts which it considers as risk of high severity but very low frequency. The Operator cedes substantial part of these risks to the re-takaful companies on its panel and its maximum exposure on any single policy is limited to the amount of Rs. 25 million.

The maximum class wise risk exposure (in a single policy) is as follows:

| | 2018 | | |
|--------------------------------|-------------------|------------------|-----------------------|
| | Gross sum covered | Retakaful cover | Highest net liability |
| | (Rupees in'000) | | |
| Fire and property damage | 3,395,066 | 3,370,066 | 25,000 |
| Marine, aviation and transport | 1,400,000 | 1,260,000 | 140,000 |
| Motor | 44,000 | - | 44,000 |
| Miscellaneous | 94,832 | 89,832 | 5,000 |
| | <u>4,933,898</u> | <u>4,719,898</u> | <u>214,000</u> |

| | 2017 | | |
|--------------------------------|-------------------|------------------|-----------------------|
| | Gross sum covered | Retakaful cover | Highest net liability |
| | (Rupees in'000) | | |
| Fire and property damage | 4,700,322 | 4,548,308 | 152,014 |
| Marine, aviation and transport | 1,400,000 | 1,260,000 | 140,000 |
| Motor | 80,205 | - | 80,205 |
| Miscellaneous | 74,239 | 55,679 | 18,560 |
| | <u>6,254,766</u> | <u>5,863,987</u> | <u>390,779</u> |

28 FINANCIAL RISK MANAGEMENT

The Operator has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Operator's risk management framework. The Board is also responsible for developing and monitoring the Operator's risk management policies.

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Risk management framework

Every takaful operator is exposed to a wide range of risks, some discrete and some interdependent; integrated risk management entail strong governance processes; ensuring greater accountability, transparency and risk awareness in underwriting, investment and strategic decisions. The Board of Directors take ultimate responsibility for supervising the Operator's risk management framework. Risk management framework covers the need to review the strategy of a Operator and to assess the risk associated with it.

The Audit Committee oversees compliance by management with the Operator's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Operator. The Audit Committee is assisted in its oversight role by an Internal Audit Function. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

28.1 Credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Operator attempts to control credit risk by mitigating credit exposures by undertaking transactions with a large number of counter parties in various industries and by continually assessing the credit worthiness of counter parties.

28.1.1 Exposure to credit risk

Credit risk of the Operator arises principally from the deposit and account placement with banks, investment, contribution due but unpaid, amount due from other takaful / re-takaful operators, retakaful and other recoveries against outstanding claims, accrued investment income and other receivables. To reduce the credit risk, Operator's management monitors exposure to credit risk through its regular review, assessing credit worthiness of counter parties and prudent estimates of provision for doubtful debts.

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

| | Note | 2018 ----- (Rupees in '000) ----- | 2017 |
|-----------------------------------------------------|------|--------------------------------------|----------------|
| Cash and bank | 12 | 52,176 | 53,561 |
| Investments-term deposits | 7 | 106,500 | 25,500 |
| Investments-equity securities | 6 | 80 | - |
| Contribution due but unpaid | 9 | 30,174 | 10,949 |
| Amount due from other takaful / retakaful operators | | 32,576 | 9,624 |
| Wakala fees receivable | | 41,763 | 11,526 |
| Other receivables | 8 | 33,047 | 177 |
| | | <u>296,316</u> | <u>111,337</u> |

The credit quality of the Operator's bank balances and deposits can be assessed with reference to external credit ratings as follows:

| | 2018 | | |
|-----------------------|------------|-----------|---------|
| | Short term | Long term | Agency |
| Meezan Bank Limited | A1+ | AA+ | JCR-VIS |
| Bank Al Habib Limited | A1+ | AA+ | PACRA |
| | 2017 | | |
| | Short term | Long term | Agency |
| Meezan Bank Limited | A1+ | AA | JCR-VIS |
| Bank Al Habib Limited | A1+ | AA+ | PACRA |

Contribution due but unpaid

Contribution due but unpaid is mostly recoverable from corporate customers.

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Concentration of credit risk

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. Sector-wise analysis of gross "contribution due but unpaid" (before charging of provision for impairment) at the reporting date was:

| | 2018 | | 2017 | |
|---------------------|----------------|-------------|----------------|-------------|
| | Rupees in '000 | % | Rupees in '000 | % |
| Textile | 8,368 | 28% | 2,625 | 24% |
| Financial services | 205 | 1% | - | - |
| Engineering | 97 | 0% | 2,144 | 20% |
| Pharmaceuticals | 737 | 2% | 480 | 4% |
| Food | 7,404 | 25% | 300 | 3% |
| Other manufacturing | 70 | 0% | - | - |
| Others | 13,293 | 44% | 5,400 | 49% |
| | <u>30,174</u> | <u>100%</u> | <u>10,949</u> | <u>100%</u> |

Age analysis of "contribution due but unpaid" at the reporting date was:

| | 2018 | | 2017 | |
|--------------------|------------------|------------|------------------|------------|
| | Gross | Impairment | Gross | Impairment |
| | (Rupees in '000) | | (Rupees in '000) | |
| Upto 1 year | 29,010 | - | 10,949 | - |
| Upto 1 - 1.5 years | 1,164 | - | - | - |

Re-takaful ceded does not relieve the Operator from its obligation to participants and as a result the Operator remains liable for the portion of outstanding claims covered by re-takaful to the extent that re-takaful fails to meet the obligation under the re-takaful agreements.

In common with other takaful companies, in order to minimise the financial exposure arising from large claims, the Operator, in the normal course of business, enters into agreement with other re-takaful companies.

The Operator enters into re-takaful arrangements with re-takaful companies having sound credit ratings accorded by reputed credit rating agencies. The Operator is required to comply with the requirements of circular no. 32 / 2009 dated 27 October 2009 issued by SECP which requires a takaful operator to place at least 80% of their outward treaty cessions with re-takaful companies rated 'A' or above by Standard & Poor's or equivalent rating by any other reputed international rating agency, with the balance (20%) being placed with entities rated at least 'BBB' by Standard & Poor's or equivalent rating by any other reputed international rating agency. An analysis of all re-takaful assets relating to outward treaty cessions recognised by the rating of the entity from which it is due is as follows:

| | 2018 | | | |
|------------|--------------------------------------|--------------------------------------------------|---------------------------------------|---------------|
| | Amount due from re-takaful operators | Re-takaful recoveries against outstanding claims | Prepaid re-takaful contribution ceded | Total |
| | (Rupees in '000) | | | |
| A or above | 31,025 | 15,014 | 24,723 | 70,762 |
| BBB | 731 | 354 | 582 | 1,667 |
| Others | 820 | 273 | 450 | 1,543 |
| | <u>32,576</u> | <u>15,641</u> | <u>25,755</u> | <u>73,972</u> |

| | 2017 | | | |
|------------|--------------------------------------|--------------------------------------------------|---------------------------------------|---------------|
| | Amount due from re-takaful operators | Re-takaful recoveries against outstanding claims | Prepaid re-takaful contribution ceded | Total |
| | (Rupees in '000) | | | |
| A or above | 8,799 | - | 8,796 | 17,595 |
| BBB | 143 | - | 1,951 | 2,094 |
| Others | 682 | - | - | 682 |
| | <u>9,624</u> | <u>-</u> | <u>10,747</u> | <u>20,371</u> |

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Age analysis of "Amount due from other takaful companies" at the reporting date was:

| | 2018 | | 2017 | |
|--------------------|------------------|------------|------------------|------------|
| | Gross | Impairment | Gross | Impairment |
| | (Rupees in '000) | | (Rupees in '000) | |
| Upto 1 year | 31,710 | - | 9,624 | - |
| Upto 1 - 1.5 years | 866 | - | | |

In respect of the aforementioned takaful and re-takaful assets, the Operator takes into account its track record of recoveries and financial position of the counterparties while creating provision for impairment. Further, re-takaful recoveries are made when corresponding liabilities are settled.

28.2 Liquidity risk

Liquidity risk is the risk that the Operator will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Operator could be required to pay its liabilities earlier than expected or difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Operator's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Operator's reputation. The diversified funding sources and assets of the Operator are managed with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

The table below analyses the Operator's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date on an undiscounted cash flow basis.

| | 2018 | | | |
|---------------------------------------------------|------------------|------------------------|----------------|-------------------------|
| | Carrying amount | Contractual cash flows | Up to 6 months | Over 6 months to 1 year |
| | (Rupees in '000) | | | |
| Financial liabilities-OPF | | | | |
| Takaful / retakaful payable | 2,278 | 2,278 | 2,278 | - |
| Other creditors and accruals | 47,023 | 47,023 | 47,023 | - |
| | 49,301 | 49,301 | 49,301 | - |
| Financial liabilities-PTF | | | | |
| Provision for outstanding claims (including IBNR) | 52,075 | 52,075 | 52,075 | - |
| Provision for unearned contribution | 70,587 | 70,587 | 70,587 | - |
| Provision for unearned re-takaful reward | 5,460 | 5,460 | 5,460 | - |
| Takaful / retakaful payable | 66,077 | 66,077 | 66,077 | - |
| wakala fees payable | 41,763 | 41,763 | 41,763 | - |
| Other creditors and accruals | 55,487 | 55,487 | 55,487 | - |
| | 291,449 | 291,449 | 291,449 | - |
| | 340,750 | 340,750 | 340,750 | - |
| | (Rupees in '000) | | | |
| | | | | |
| Financial liabilities-OPF | | | | |
| Takaful / retakaful payable | 443 | 443 | 443 | - |
| Other creditors and accruals | 8,451 | 8,451 | 8,451 | - |
| | 8,894 | 8,894 | 8,894 | - |
| Financial liabilities-PTF | | | | |
| Outstanding claims including IBNR | 3,826 | 3,826 | 3,826 | - |
| Unearned contribution reserve | 22,030 | 22,030 | 22,030 | - |
| Unearned retakaful reward | 2,342 | 2,342 | 2,342 | - |
| Takaful / retakaful payable | 22,912 | 22,912 | 22,912 | - |
| wakala fee payable | 11,526 | 11,526 | 11,526 | - |
| Other creditors and accruals | 1,543 | 1,543 | 1,543 | - |
| | 64,179 | 64,179 | 64,179 | - |
| | 73,073 | 73,073 | 73,073 | - |

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28.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as profit rates, foreign exchange rates and market prices. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk arises mainly where receivables and payables exist due to transactions in foreign currencies. As at reporting date there are no financial instruments denominated in foreign currencies. Therefore, the Operator is not exposed to risk from foreign currency exchange rate fluctuations.

28.3.1 Profit rate risk

Profit rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market profit rates. Majority of the profit rate exposure arises from balances held in term deposits with reputable banks.

At the reporting date, the profit rate profile of the operator's significant profit-bearing financial instrument is:

| 2018 | | | | | | | |
|------------------|------------------------|-------------------------|-----------|------------------------|-------------------------|-----------|-------|
| Profit Rate | Profit bearing | | | Non-profit bearing | | | Total |
| | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |
| (Rupees in '000) | | | | | | | |

Financial assets

Operator's Fund

| | | | | | | | | |
|------------------------------------------|---------------|--------|---|--------|--------|---|--------|---------|
| Cash and bank | 5.50% - 5.75% | 5,703 | - | 5,703 | - | - | - | 5,703 |
| Investments-term deposits | 10% | 46,000 | - | 46,000 | - | - | - | 46,000 |
| Investments - mutual fund | | - | - | - | 40 | - | 40 | 40 |
| Wakala fees receivable | | - | - | - | 41,763 | - | 41,763 | 41,763 |
| Other receivables | | - | - | - | 4,472 | - | 4,472 | 4,472 |
| Qard-e-hasan to Participant Takaful Fund | | - | - | - | 28,000 | - | 28,000 | 28,000 |
| | | 51,703 | - | 51,703 | 74,275 | - | 74,275 | 125,978 |

Participants' Takaful Fund

| | | | | | | | | |
|-----------------------------------------------------|---------------|---------|---|---------|---------|---|---------|---------|
| Cash and bank | 5.50% - 5.75% | 46,473 | - | 46,473 | - | - | - | 46,473 |
| Investments-term deposits | 10% | 60,500 | - | 60,500 | - | - | - | 60,500 |
| Investments-mutual fund | | - | - | - | 40 | - | 40 | 40 |
| Contribution due but unpaid | | - | - | - | 30,174 | - | 30,174 | 30,174 |
| Amount due from other takaful / retakaful operators | | - | - | - | 32,576 | - | 32,576 | 32,576 |
| Retakaful recoveries against outstanding claims | | - | - | - | 15,641 | - | 15,641 | 15,641 |
| Other receivables | | - | - | - | 28,575 | - | 28,575 | 28,575 |
| | | 106,973 | - | 106,973 | 107,006 | - | 107,006 | 213,979 |

Financial liabilities

Operator's Fund

| | | | | | | | |
|------------------------------|---|---|---|--------|---|--------|--------|
| Takaful / retakaful payable | - | - | - | 2,278 | - | 2,278 | 2,278 |
| Other creditors and accruals | - | - | - | 47,023 | - | 47,023 | 47,023 |
| | - | - | - | 49,301 | - | 49,301 | 49,301 |

Participants' Takaful Fund

| | | | | | | | |
|---------------------------------------------------|---|---|---|---------|---|---------|---------|
| Provision for outstanding claims (including IBNR) | - | - | - | 52,075 | - | 52,075 | 52,075 |
| Provision for unearned contribution | - | - | - | 70,587 | - | 70,587 | 70,587 |
| Provision for unearned re-takaful reward | - | - | - | 5,460 | - | 5,460 | 5,460 |
| Takaful / retakaful payable | - | - | - | 66,077 | - | 66,077 | 66,077 |
| Wakala fees payable | - | - | - | 41,763 | - | 41,763 | 41,763 |
| Other creditors and accruals | - | - | - | 55,487 | - | 55,487 | 55,487 |
| | - | - | - | 291,449 | - | 291,449 | 291,449 |

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| 2017 | | | | | | | |
|-------------|------------------------|-------------------------|-----------|------------------------|-------------------------|-----------|-------|
| Profit Rate | Profit bearing | | | Non-profit bearing | | | Total |
| | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | |

(Rupees in '000)

Financial assets

| | | | | | | | | |
|-----------------------------------------------------------|---------------|--------|---|--------|--------|---|--------|---------|
| Cash and bank deposits | 5.50% - 5.75% | 25,500 | - | 25,500 | 53,561 | - | 53,561 | 79,061 |
| Contribution due but unpaid (PTF) | | - | - | - | 10,949 | - | 10,949 | 10,949 |
| Amount due from other takaful / retakaful operators (PTF) | | - | - | - | 9,624 | - | 9,624 | 9,624 |
| Wakala fees receivable (OPF) | | - | - | - | 11,526 | - | 11,526 | 11,526 |
| | | 25,500 | - | 25,500 | 85,660 | - | 85,660 | 111,160 |

Financial liabilities

| | | | | | | | | |
|------------------------------------------------|--|---|---|---|--------|---|--------|--------|
| Provision for outstanding claims | | - | - | - | 3,826 | - | 3,826 | 3,826 |
| Provision for unearned contribution | | - | - | - | 22,030 | - | 22,030 | 22,030 |
| Provision for unearned re-takaful reward | | - | - | - | 2,342 | - | 2,342 | 2,342 |
| Amount due to co-takaful / retakaful operators | | - | - | - | 23,355 | - | 23,355 | 23,355 |
| Wakala fees payable | | - | - | - | 11,526 | - | 11,526 | 11,526 |
| Accrued expenses (OPF) | | - | - | - | 500 | - | 500 | 500 |
| Other creditors and accruals | | - | - | - | 9,494 | - | 9,494 | 9,494 |
| | | - | - | - | 73,073 | - | 73,073 | 73,073 |

Cash flow sensitivity analysis for variable rate instruments

The Operator is exposed to cash flow profit rate risk in respect of its term deposits receipts. In case of 100 basis points (bp) increase / decrease in profit rates at period end, assuming that all other variables remain constant, the net income and equity would have been higher / lower approximately by Rs 2.830 million (2017: Rs.0.714 million) in operators' fund. Similarly, in case of Participants' Takaful Fund the net income and balance of Waqf / PTF would have been higher / lower approximately by Rs 4.310 million (2017: Rs. 0.005 million).

28.3.2 Price risk

Price risk is the risk of changes in the fair value of investments. The Operator is not exposed to price risk since it has no investments.

28.4 Fund Management

The operator's objective when managing capital is to safeguard the operator's ability to continue as going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its businesses.

The Operator manages its fund structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.

29 FINANCIAL INSTRUMENTS BY CATEGORY**Financial assets and financial liabilities****Financial assets****Loans and receivables - amortised cost****Cash and bank deposits**

| | | |
|----------------------------|--------|--------|
| Current and other accounts | 52,176 | 53,561 |
|----------------------------|--------|--------|

Investments

| | | |
|---------------|---------|--------|
| Term deposits | 106,500 | 25,500 |
| Mutual fund | 80 | - |

2018 2017
 ----- (Rupees in '000) -----

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| | 2018 | 2017 |
|-----------------------------------------------------|------------------|--------|
| | (Rupees in '000) | |
| Current assets - others | | |
| Contribution due but unpaid | 30,174 | 10,949 |
| Amount due from other takaful / retakaful operators | 32,576 | 9,624 |
| Other receivables | 33,047 | - |
| Retakaful recoveries against outstanding claims | 15,641 | - |
| Wakala fees receivable | 41,763 | 11,526 |
| | 153,201 | 32,099 |
| Qard-e-hasan to Participant Takaful Fund | 28,000 | - |
| Financial Liabilities | | |
| Amortised cost | | |
| Provision for outstanding claims including IBNR | 52,075 | 3,826 |
| Provision for unearned contribution | 70,587 | 22,030 |
| Provision for unearned retakaful reward | 5,460 | 2,342 |
| Takaful / retakaful payable | 68,355 | 23,355 |
| Wakala fees payable | 41,763 | 11,526 |
| Accrued expenses (OPF) | - | 500 |
| Other creditors and accruals | 102,510 | 9,494 |
| | 340,750 | 73,073 |

30 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The table below analyses financial instruments carried at fair value. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). The Operator has no items to report in this level.

The Company held the following financial instruments measured at fair value:

| | 2018 | | |
|-------------------------------------|----------------|---------|---------|
| | Level 1 | Level 2 | Level 3 |
| | Rupees in '000 | | |
| Assets carried at fair value | | | |
| Held for trading investments | | | |
| Mutual fund | 80 | - | - |
| | | | |
| | 2017 | | |
| | Level 1 | Level 2 | Level 3 |
| | Rupees in '000 | | |
| Assets carried at fair value | | | |
| Held for trading investments | | | |
| Mutual fund | - | - | - |

31 CORRESPONDING FIGURES

Corresponding figures have been rearranged or reclassified wherever necessary to conform with the revised format of financial statements prescribed under the Insurance Rules, 2017 as detailed in note 2.1.2. The effects of these reclassifications are summarised below:

| Reclassification from Balance Sheet | Reclassification to Statement | 2018 |
|-------------------------------------------------------------------------|-------------------------------|----------------|
| | | Rupees in '000 |
| Creditors and Accruals - Amount due to co-takaful / retakaful operators | Takaful / retakaful payable | 23,355 |
| Cash and bank deposits - Deposits maturing within 12 months | Investments - Term deposits | 25,500 |

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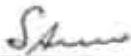
| Reclassification from Balance Sheet | Reclassification to Statement | 2018 Rupees in '000 |
|-----------------------------------------------------|------------------------------------|------------------------|
| Creditors and Accruals - Accrued expenses (OPF) | Other creditors and accruals | 500 |
| Sundry receivables | Taxation - payment less provisions | 44 |
| Sundry receivables | Loans and other receivables | 177 |
| Contribution due but unpaid | Takaful / Retakaful receivables | 10,949 |
| Amount due from other takaful / retakaful operators | Takaful / Retakaful receivables | 9,624 |

32 DATE OF AUTHORISATION FOR ISSUE

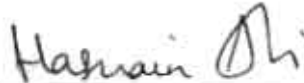
These financial statements were authorised for issue by the Board of Directors of the Operator on _____ 2018.

33 GENERAL

Figures in these financial statements have been rounded off to the nearest thousand of rupees.

Chairman



Director



Director



Chief Executive Officer



INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of IGI General Insurance Limited

Review Report on the Statement of Compliance contained in the Code of Corporate Governance for Insurers, 2016

We have reviewed the enclosed Statement of Compliance with the Code of Corporate Governance for Insurers, 2016 (the Code) prepared by the Board of Directors of **IGI General Insurance Limited** ('the Company') for the year ended December 31, 2018 in accordance with the requirements of Code of Corporate Governance for Insurers, 2016 applicable to insurance companies as issued by the Securities and Exchange Commission of Pakistan (SECP).

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code.

As a part of our audit of the 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 are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval, its related party transactions and also ensure compliance with the requirements of section 208 of the Companies Act, 2017. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures to assess and determine the Company's process for identification of related parties and that whether the related party transactions were undertaken at arm's length price or not.

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 requirements contained in the Code as applicable to the Company for the year ended December 31, 2018.

A. Ferguson & Co

Chartered Accountants

Dated: April 2, 2019

Karachi

**STATEMENT OF COMPLIANCE WITH THE CODE
OF CORPORATE GOVERNANCE FOR INSURERS, 2016**

**IGI GENERAL INSURANCE LIMITED
for the year ended 31st December 2018**

This statement is being presented in compliance with the Code of Corporate Governance for Insurers, 2016 for the purpose of establishing a framework of good governance, whereby an insurer is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

| Category | Name |
|--------------------------------|--------------------------------------------------------------------------------------------|
| Independent Director | None |
| Executive Director | Mr. Chaudhry Tahir Masaud Mr. Faisal Khan |
| Non-Executive Directors | Mr. Shamim Ahmad Khan Mr. Syed Hyder Ali Mr. Sajjad Iftikhar Mr. Syed Hasnain Ali |

*As per clause (iii) of the Code of Corporate Governance for Insurers, 2016, the appointment of an independent director on the Board is preferred but is not mandatory. Hence, no independent director has been appointed on the Board of Directors of the Company.

2. The directors have confirmed that none of them is serving as a director in more than seven 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 NBFI, or being a member of a stock exchange, has been declared as a defaulter by the stock exchange.
4. Two casual vacancies occurred on the Board during the year which were filled up by the directors within 90 days thereof.
5. The Company has prepared a Code of Conduct, which has been disseminated among all the directors and employees of the Company.
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 along with the dates on which they were approved or amended has been maintained.
7. All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer, other executive directors and the key officers, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven (7) days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. The Board has established a system of sound internal control, which is effectively implemented at all levels within the Company. The Company has adopted and complied with all the necessary aspects of internal controls given in the Code.
10. The Board has arranged an orientation course for its newly appointed directors during the year to apprise them of their duties and responsibilities.
11. The Board has approved appointment of Chief Financial Officer, Company Secretary and Head of Internal Audit, including their remuneration and terms & conditions of employment.
12. The Directors' Report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance for Insurers, 2016 and fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.
14. The directors, Chief Executive Officer and other executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code of Corporate Governance for Insurers, 2016.

16. The Board has formed the following Management Committees:

| UNDERWRITING, RE-INSURANCE & CO-INSURANCE COMMITTEE | |
|-----------------------------------------------------|--------------------|
| Name of the Member | Category |
| Syed Hyder Ali | Chairman |
| Tahir Masaud | Member |
| Faisal Khan | Member |
| Syed Hasnain Ali | Member |
| Sajjad Iftikhar | Member |
| Jamshaid Hussain | Member & Secretary |
| Noman Bashir | Member |
| Fawad Sarwar | Member |

| CLAIM SETTLEMENT COMMITTEE | |
|----------------------------|----------|
| Name of the Member | Category |
| Shamim Ahmad khan | Chairman |
| Tahir Masaud | Member |
| Syed Awais Amjad | Member |
| Kashif Qayyum | Member |
| Zahid Mehmood | Member |

| RISK MANAGEMENT & COMPLIANCE COMMITTEE | |
|----------------------------------------|----------|
| Name of the Member | Category |
| Shamim Ahmad khan | Chairman |
| Tahir Masaud | Member |
| Sajjad Iftikhar | Member |
| Faisal Khan | Member |
| Syed Awais Amjad | Member |
| Saira Sheikh | Member |

17. The Board has formed the following Board Committees:

| ETHICS, HUMAN RESOURCE & REMUNERATION COMMITTEE | |
|-------------------------------------------------|----------|
| Name of the Member | Category |
| Syed Hyder Ali | Chairman |
| Syed Hasnain Ali | Member |
| Tahir Masaud | Member |

| INVESTMENT COMMITTEE | |
|----------------------|----------|
| Name of the Member | Category |
| Syed Hasnain Ali | Chairman |
| Syed Hyder Ali | Member |
| Tahir Masaud | Member |
| Sajjad Iftikhar | Member |
| Syed Awais Amjad | Member |

18. The Board has formed an Audit Committee. It comprises of three (3) members, all of them are non-executive directors. The chairman of the Committee is a non-executive director. The composition of the Audit Committee is as follows:

| AUDIT COMMITTEE | |
|--------------------|----------|
| Name of the Member | Category |
| Syed Hasnain Ali | Chairman |
| Syed Hyder Ali | Member |
| Sajjad Iftikhar | Member |

19. The meetings of the Committees were held at least once every quarter prior to approval of interim and final results of the insurer and as required by the Code of Corporate Governance for Insurers, 2016. The terms of references of the Committees have been formed and advised to the Committee for compliance.

20. The Board had outsourced the internal audit function to a firm of Chartered Accountants till September 30, 2018 and after that it has set up an effective internal audit function. They are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a regular basis.

21. The Chief Executive Officer, Chief Financial Officer, Compliance Officer and the Head of Internal Audit possess such qualification and experience as is required under the Code of Corporate Governance for Insurers, 2016. The Appointed Actuary of the Company also meets the conditions as laid down in the said Code. Moreover, the

persons heading the underwriting, claim, reinsurance, risk management and grievance departments possess qualification and experience of direct relevance to their respective functions, as required under section 12 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000):

| Name of the Person | Designation |
|---------------------------|---------------------------------------------------|
| Tahir Masaud | Chief Executive Officer |
| Syed Awais Amjad | Chief Financial Officer |
| Saira Shaikh | Compliance Officer & Head of Grievance Department |
| Yasir Ali Quraishi | Company Secretary |
| Shahzeb Haider | Head of Internal Audit |
| Jamshaid Hnssain | Head of Underwriting |
| Kashif Qayyum | Head of Claims |
| Faisal Khan | Head of Risk Management & Reinsurance |

22. The statutory auditors of the Company have been appointed from the panel of auditors approved by the Commission in terms of section 48 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000). The statutory auditors have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP), 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.
23. The statutory auditors or the persons associated with them have not been appointed to provide other services and the auditors have confirmed that they have observed IFAC guidelines in this regard.
24. The Appointed Actuary of the Company has confirmed that he or his spouse and minor children do not hold shares of the Company.
25. The Board ensures that the Appointed Actuary complies with the requirements set out for him in the Code of Corporate Governance for Insurers, 2016.
26. The Board ensures that the investment policy of the Company has been drawn up in accordance with the provisions of the Code of Corporate Governance for Insurers, 2016.
27. The Board ensures that the risk management system of the Company is in place as per the requirement of the Code of Corporate Governance for Insurers, 2016.
28. The Company has set up a risk management function, which carries out tasks as covered under the Code of Corporate Governance for Insurers, 2016.
29. The Board ensures that as part of the risk management system, the Company gets itself rated from JCR-VIS and PACRA which is being used by its risk management function and the respective Committee as a risk monitoring tool. The rating assigned by the said rating agencies on September 13, 2018 and December 18, 2018 are "AA" & "AA" respectively.
30. The Board has set up a grievance department / function, which fully complies with the requirements of the Code of Corporate Governance for insurers, 2016.
31. We confirm that all other material principles contained in the Code of Corporate Governance for Insurers, 2016 have been complied with.

By Order of the Board



Shamim Ahmad Khan

Date: March 04, 2019