ALFALAH
INSURANCE COMPANY

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Annual Report 2013

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COMPANY INFORMATION

Chairman

H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan

Board of Directors

H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan	Director
H.E. Sheikh Saif Bin Mohammed Bin Butti	Director
Mr. Khalid Mana Saeed Al Otaiba	Director
Mr. Atif Aslam Bajwa	Director
Mr. Mohammad Yousuf	Director
Mr. Adeel Khalid Bajwa	Director
Mr. Nasar us Samad Qureshi	Director

Chief Executive & Managing Director

Mr. Nasar us Samad Qureshi

Chief Financial Officer & Company Secretary

Mr. Adnan Waheed

Audit Committee

Mr. Atif Aslam Bajwa	Chairman
Mr. Mohammad Yousuf	
Mr. Adeel Khalid Bajwa	
Mr. Faisal Shahzad	Secretary

HR & Finance Committee

Mr. Atif Aslam Bajwa	
Mr. Mohammad Yousuf	
Mr. Nasar us Samad Qureshi	
Mr. Adnan Waheed	Secretary

Underwriting Committee

Mr. Nasar us Samad Qureshi	
Mr. Abdul Haye Mughal	
Capt. Azhar Ehtesham	
Mr. Amjad Masood	
Mr. Fawad Sarwar	
Mr. Irtiza Hussain Kazmi	Secretary

Claim Committee

Mr. Nasar us Samad Qureshi	
Mr. Abdul Haye Mughal	
Capt. Azhar Ehtesham	
Mr. Adnan Waheed	
Mr. Manzoor Hussain	Secretary

Reinsurance/Coinsurance Committee

Mr. Nasar us Samad Qureshi	
Mr. Abdul Haye Mughal	
Capt. Azhar Ehtesham	
Mr. Shahzad Aamir Rafique	Secretary

Bankers

Bank Alfalah Limited
HSBC Bank Middle East Limited – Pakistan
Habib Bank Limited
Silk Bank Limited
The Bank of Punjab

Auditors

M/s Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

Legal Advisors

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

Head Office

5-Saint Mary Park,
Gulberg III, Lahore.
UAN: 111-786-234
Fax: 92-42-35774329
Email: afi@alfalahinsurance.com
Web: www.alfalahinsurance.com

VISION

To be a leading insurer by providing the most comprehensive yet flexible and cost effective risk management solutions to our clients backed with friendly and efficient claims service and to enhance the Alfalah brand value for the benefit of all stakeholders.

Mission

We undertake to provide world class service with unmatched security to our clients and help in increasing awareness about insurance in the country as well as enhancing public confidence in the insurance industry in Pakistan.

We will introduce new and modern insurance products comparable with international standards and will emerge as an innovative insurer providing complete risk management solutions to the insuring public in Pakistan.

A Strong Bond

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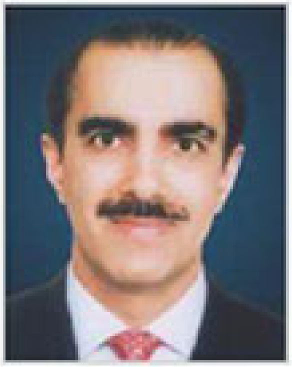
His Highness Sheikh Nahayan Mabarak Al Nahayan
Chairman Abu Dhabi Group

His Highness Sheikh Hamdan Bin Mubarak Al Nahayan
Chairman

His Excellency Sheikh Saif Bin Mohammed Bin Butti
Director

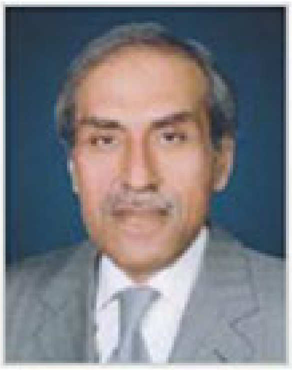
Mr. Khalid Mana Saeed Al Otaiba
Director



Mr. Atif Bajwa
Director

Mr. Mohammad Yousuf
Director

Mr. Adeel Bajwa
Director



Mr. Nasar us Samad Qureshi
MD & CEO

ALFALAH INSURANCE COMPANY

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of Alfalah Insurance Company Limited are pleased to submit the 7th Annual Report of your company, together with the audited financial statements for the year ended December 31, 2013.

Country Overview

Despite continuous energy shortages and worsening law and order situation along with many other internal and external challenges, outgoing year 2013 has been a remarkable year because all the political, judicial and military circles have made a commitment to uphold democracy which would go a long way for a prosperous Pakistan and would have a far reaching positive impact on the economy in years forward. We believe that the newly elected Government would bring fresh hopes for a positive change in the country and would focus more on economic growth, improving transparency and administrative efficiencies.

Key performance of this Government during year 2013 were controlled energy crisis followed by payment of circular debt, relatively stable inflationary impact allowing central bank to maintain its discount rate and evolving national counter terrorism policy to combat terrorism for conducive investment environment. Mainly due to these factors coupled with foreign policy strategies, Stock Exchange which is considered as a barometer of any economy touched an all time high index by registering growth of 49% on YOY basis which showed the confidence of local as well as foreign investors. Government has started various other projects, outcome of which would be tested in the years to come.

Insurance Sector Review and Future Outlook

Gross premium of the non-life insurance market grew by 4.5% in 2012 to Rs. 44 billion. However, in 2013 the growth in premium is expected to be between 10-12%. Thus net of inflation which is currently running at 8%, the non-life insurance market would show a growth of 2-4%. The potential insurance area for the year 2014 would be Micro Insurance especially in health sector. Further, the decision of the Court allowing the conventional insurers to open Takaful Windows would also bode well for the Conventional Insurance Industry.

Alfalah Insurance Performance

Year 2013 was a remarkable year for your Company because of two aspects. One was that the Company was awarded with the 1st FPCCI Award and Gold Medal for being the fastest growing insurance company in the Country and second was the profitable business operations of the Company. Your Company earned an underwriting profit of Rs. 126 million which was 33% higher than last year. We have been able to show CAGR of 26% both in topline and bottom line since inception in 2007.

On the business horizon, your Company's written gross premium of Rs. 1,231 million (2012: Rs.1,060 million) depicting a growth of 16% over last year. Increased business written during the year coupled with crystallization of unearned premium written of last year resulted in higher net premium revenue i.e. 24% as compared to last year.

Although net claims expenses were increased by Rs. 55 million i.e. 21% due to high loss ratios reported in Marine Class of 59% (2012: 17%) and Health Class of 82% (2012: 70%). However, overall net claim ratio of the Company was improved from 58% to 56%. Similarly, in absolute terms, management and admin expenses were increased by 10% when compared with last year mainly due to the inflation factor, however, overall expense ratio was improved from 26% of last year to 25% in current year.

Investment/other income of the Company was decreased by Rs.10 million i.e. 11% due to a massive discount rate reduction of 300bps i.e. 25% by SBP since August 2012 in different phases. Income tax during the year was also increased from Rs.10 million to Rs.20 million. This increase was mainly due to increased underwriting profit by Rs.31 million which was subject to 34% corporate taxation.

Maintained loss ratio coupled with growth in premium revenue has pushed the Company into profitability zone and the Company made an underwriting profit of Rs.127 million, 33% higher than last year. However, due to dent in investment income owing to massive discount rate reduction, and increased taxation owing to increased underwriting profit, Company ended up making a profit after ax of Rs.100 million in comparison to Rs. 96 million of last year.

Segments At Glance

Fire Class contributed 30% to the total premium written and registered annual growth of 17% from Rs.310 million to Rs.363 million. However, due to increased reinsurance costs followed by loss of M/s Wateen Telecom, net premium revenue was down by 9% and net commission was declined by 13% when compared with last year. Though, this class contributed positively to the underwriting profits of the Company, however, due to declining premium income and commission income coupled with increased loss ratio from 48% to 54%, contribution of this class was substantially hampered in comparison to last year.

Marine Class though accounts for only 6% of the total premium written (as always an insignificant contributor to business) grew by Rs.11 million i.e. 16% against last year. However, its underwriting profit was reduced by Rs.4 million mainly because of its all-time high loss ratio of 59% (2012:17%) owing to one off claim of M/s Sun tube resulting from sinking of vessel Fushenghai.

Motor Class, by contributing 25% to the total premium written, registered an annual growth of 34% from Rs.235 million to Rs.315 million. Motor was the most profitable class during the year 2013 and contributed Rs.65 million to the underwriting profits of the Company in comparison to Rs.11 million of last year. This robust increase in profits was supported by increase of Rs.64 million i.e. 33% in net premium revenue followed by improved loss ratio from 55% of last year to 37% in year 2013. The management took all necessary steps in negotiating favorable price arrangements with workshops and to curb the loss ratio with efficient claims administration.

Health Class registered marginal growth in terms of premium written by contributing Rs.230 million in comparison to Rs.228 million of last year. Net premium revenue was although increased by Rs.45 million, however, its impact was diluted due to increase in loss ratio from 70% to 82% and resultantly this class ended making underwriting profits of Rs.9 million in comparison to Rs.19 million of last year. Management, being cognizant for this increased loss ratio, was taking all steps to negotiate better pricing terms with its clients and hospitals.

Miscellaneous contributed Rs. 246 million to gross premium written in comparison to Rs. 221 million of last year showing YoY increase of 12%. Net loss ratio was increased from 39% to 45%, however, its impact was knocked off by increased net commission income of Rs. 7 million and resultantly underwriting profit of this class was increased from Rs.40 million of last year to Rs. 46 million.

Reinsurance is indeed an important segment of any insurance company. Your company has been backed by leading reinsurers and we have developed and enhanced these relationships to the mutual advantage of the reinsurers and the company. Your company followed a policy of optimizing retention of risk through a carefully designed program of insurance risk management. Your company has also increased capacities for traditional reinsurance arrangements as well as obtained capacity for specialized line.

Insurers Financial Rating Strength

PACRA, during its recent review conducted on 24th December 2013, has upgraded the IFS rating of your Company from "A" (Single A) with stable outlook to "A" (Single A) with positive outlook. This rating denotes strong capacity to meet policyholder and contract obligations.

PACRA has stated in its report that this rating recognizes the company's well thought business strategy leading to gradual build up of non-captive business volumes, while keeping overall underwriting performance at adequate level. It further stated that this strategy along with the company's conservative stance, in the form of low risk retention is expected to continue yielding profitability despite continuing challenges in the operating environment.

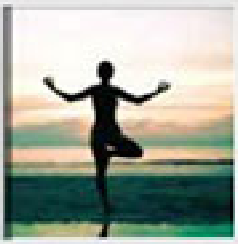
Earning Per Share

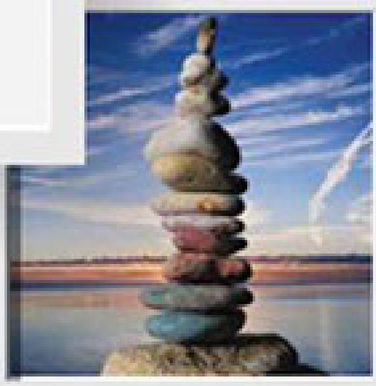
During the year after tax earnings per share was Rs. 3.42 (2012: Rs. 3.27). Detailed working has been reported in Note 25 to the financial statements.

Auditors

The present auditors Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants being eligible, offer themselves for appointment. The Board of Directors on the suggestion of Audit Committee recommended the appointment of Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as statutory auditors till the conclusion of the next AGM.

Steadiness All The Way





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BOARD OF DIRECTORS MEETINGS

During the year 2013, four (4) meetings of the BOD were held. Attendance of Directors was as follows;

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

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

Audit Committee

As required under the Code of Corporate Governance, the Board of Directors has established an Audit Committee comprising of the following non-executive directors:

Mr. Atif Aslam Bajwa	Chairman
Mr. Mohammad Yousuf	Member
Mr. Adeel Bajwa	Member

Related Party Transactions

At each Board meeting 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.

Statement of Ethics and Business Practices

The Board has adopted the statement of ethics and business practices. All employees were informed of this statement and were required to observe these rules of conduct in relation to business and regulations. Statement of Ethics and business practices were based on integrity, dignity, culture of excellence and ethical dealing with clients, peers and the public.

Compliance with Code of Corporate Governance

The provisions of the Code of Corporate Governance for insurance companies have been complied with during the year under review which were as follows:

- The financial statements, together with the notes thereon have been drawn up in conformity with the Insurance Ordinance 2000 and rules thereunder and Companies Ordinance 1984. These statements present fairly the company's state of affairs, results of its operations, cash flow and changes in equity.
- Proper books of accounts have been maintained by the company.
- Appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment.
- The international accounting standards as applicable in Pakistan have been consistently followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been continuously monitored by the internal audits. This is a continuous process and any weakness will be removed and its effective implementation shall be ensured.
- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data is separately annexed with the report.
- Outstanding taxes and duties are given in the financial statements.
- The value of investments of provident fund on the basis of audited accounts and gratuity fund on the basis of unaudited accounts as on December 31, 2013 is as follows:

	Rs in '000'
Provident Fund	42,143
Gratuity Fund	21,705

The statement of pattern of shareholding in the Company as on December 31, 2013 is separately annexed with the report.

Statement of Compliance Under Section 46 (6) of The Insurance Ordinance 2000

The directors of Alfalah Insurance Company Limited hereby certify that in their opinion:

a) the annual statutory accounts of the company annexed hereto have been drawn up in accordance with the ordinance and any rules made thereunder;

b) the company has at all times in the period complied with the provisions of the ordinance and the rules made thereunder relating to paid up capital, solvency and reinsurance arrangements; and

c) as at the date of the statement, the company continues to be in compliance with the provisions of the ordinance and the rules made thereunder relating to paid up capital, solvency and reinsurance arrangements.

ALFALAH INSURANCE COMPANY

Future Outlook

The phenomenal strength of Abu Dhabi Group and our strategies make us feel confident to achieve plans for 2014. By applying prudent policies and disciplines in our business operations and using cost effective methods with increased lines from reinsurance, we are confident that the targets set for the year will be achieved. We see year 2014 as an opportunity to increase our market share, however, we are quite aware of the challenges ahead because uncertainty still persists about the political and economic scenario of Pakistan.

As a responsible corporate entity we will continue to conduct our business in a transparent way, working closely with the regulators to ensure compliance. Our aim is to exceed expectation of our shareholders not only during the current year but beyond too.

ACKNOWLEDGEMENT

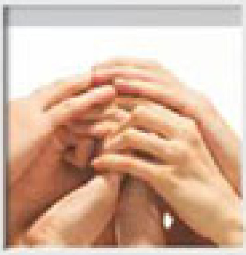
We thank our sponsor shareholders for their support and guidance. We are equally thankful to our clients and to our reinsurers for their collective contribution. We would also like to place on record our special thanks to the Securities and Exchange Commission of Pakistan for rendering invaluable guidance during the period and to Pakistan Reinsurance Company for their support.

We would also like to express our appreciation to our executives, officers and staff for their hard work, dedication and their will to grow and make this company a leading insurer in Pakistan.

On behalf of the Board,

NASAR US SAMAD QURESHI
Chief Executive Officer

Handshake of Trust



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ALFALAH INSURANCE COMPANY

Key Financial Data

(Rupees in thousand)

Description	For the Year Ended December 31						
	2013	2012	2011	2010	2009	2008	2007
Gross Premium Written	1,230,932	1,060,187	928,020	662,971	651,459	568,183	312,924
Net Premium Revenue	563,744	454,403	384,483	359,938	331,786	262,453	73,839
Net Claim Expense	(317,378)	(262,368)	(243,221)	(259,435)	(231,336)	(191,118)	(48,566)
Management Expenses	(214,401)	(195,933)	(134,810)	(108,703)	(94,556)	(65,969)	(41,094)
Net Commission	94,672	96,358	71,167	74,750	68,307	59,561	25,826
Underwriting Profit	126,637	92,460	81,764	66,550	74,201	64,927	10,005
Investment/Other Income	85,605	96,088	72,156	46,177	21,189	3,300	33,080
Admin Expenses	(89,202)	(80,662)	(74,141)	(63,220)	(47,307)	(43,764)	(13,384)
Profit before Tax	123,040	107,886	75,634	49,507	48,083	24,463	29,701
Income Tax	(20,463)	(9,864)	(6,396)	(6,858)	(17,387)	(16,913)	(5,016)
Profit after Tax	102,577	98,022	69,238	42,649	30,696	7,550	24,685
Paid up Capital	300,000	300,000	300,000	250,000	230,000	230,000	230,000
Share Deposit Money	1,381	1,381	1,381	1,381	1,381	1,381	1,381
General Reserve	150,000	15,000	15,000	25,000	25,000	-	-
Un-appropriated Profit	135,475	170,309	72,218	42,980	36,431	30,735	23,185
Share holders Equity	586,856	486,690	388,599	319,361	292,812	262,116	254,566
Earnings per Share	3.42	3.27	2.31	1.71	1.33	0.33	0.99
Breakup Value per Share	19.56	16.22	12.95	12.77	12.73	11.4	11.07
Net Loss Ratio	56%	58%	63%	72%	70%	73%	66%
Expense Ratio	25%	26%	23%	26%	22%	19%	17%
Underwriting Profit to Net Premium	22%	20%	21%	19%	22%	25%	14%
Return on Equity	19%	22%	20%	14%	11%	3%	10%

Pattern of Share Holding

As at December 31, 2013

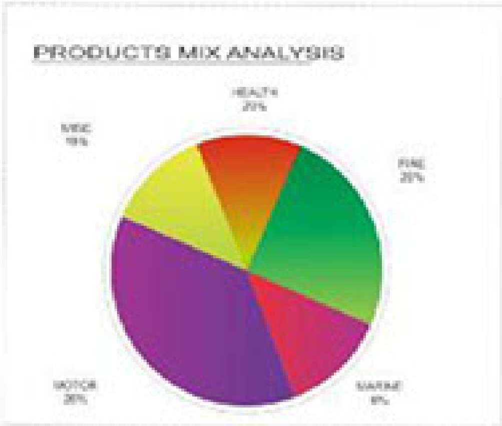
No. of Shareholders	Shareholding		Total Shares Held
	From	To	
6	1	1,000	3,917
1	1,001	1,500,000	1,500,000
4	1,500,001	3,000,000	11,998,694
1	3,000,001	7,500,000	7,498,694
1	7,500,001	9,000,000	8,998,695
Total			
13			30,000,000

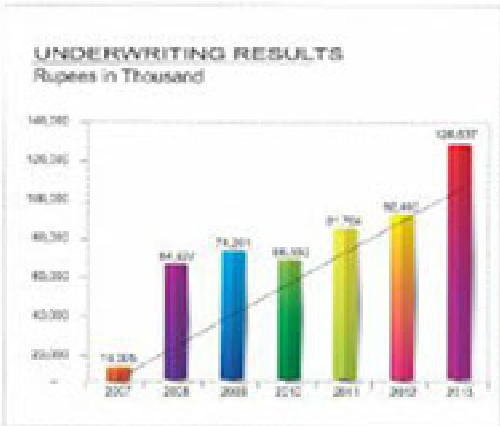
Classification of Shares Categories

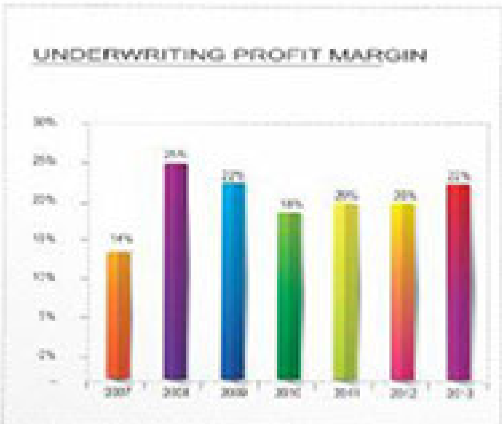
As at December 31, 2013

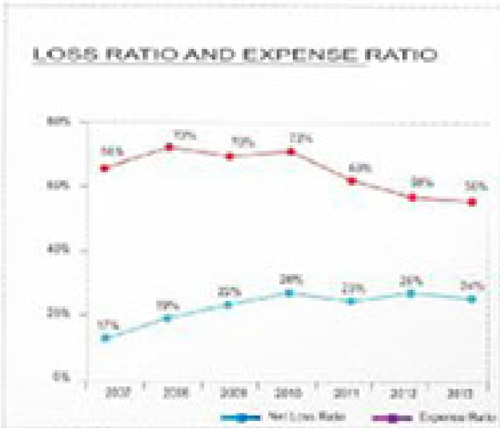
Categories of Members	Number Of Shareholders	Number Of Shares Held	Percentage
Individuals	**3**	**13,497,388**	**44.9913%**
H.H. Sheikh Nahayan Mabarak Al Nahayan		7,498,694	24.9956%
H.E. Sheikh Mohammed Bin Butti Hamid Al Hamid		2,999,347	9.9978%
H.E. Dr. Mana Saeed Al Otaiba		2,999,347	9.9978%
Associated Companies	**1**	**8,998,695**	**30.00%**
M/s Bank Alfalah Limited		8,998,695	30.00%
Directors and CEO	**7**	**1,503,917**	**5.0131%**
H.H. Sheikh Hamdan Bin Mubarak Bin Mohammed Al Nahayan		1,500,000	5%
H.E. Sheikh Saif Bin Mohammed Bin Butti		651	0.0022%
Mr. Khalid Mana Saeed Al Otaiba		651	0.0022%
Mr. Atif Aslam Bajwa		651	0.0022%
Mr. Mohammad Yousuf		651	0.0022%
Mr. Adeel Khalid Bajwa		651	0.0022%
Mr. Nasar us Samad Qureshi		662	0.0022%
Public sector companies and corporations	**2**	**6,000,000**	**20%**
M/s Al Ain Capital LLC (Formerly M/s Al Bateen Investments)		3,000,000	10%
M/s Electromechanical Co. LLC		3,000,000	10%
Total	13	30,000,000	100.00%

FINANCIAL SUMMARY

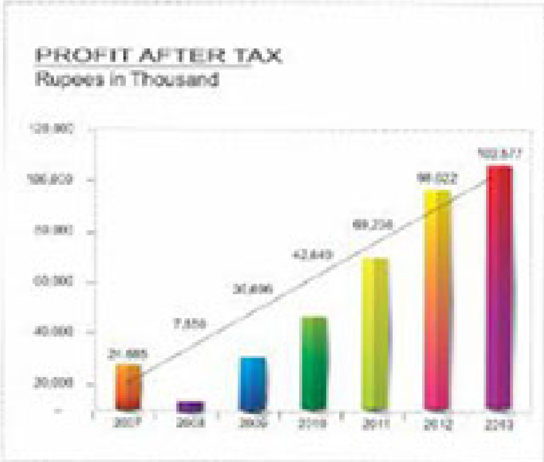


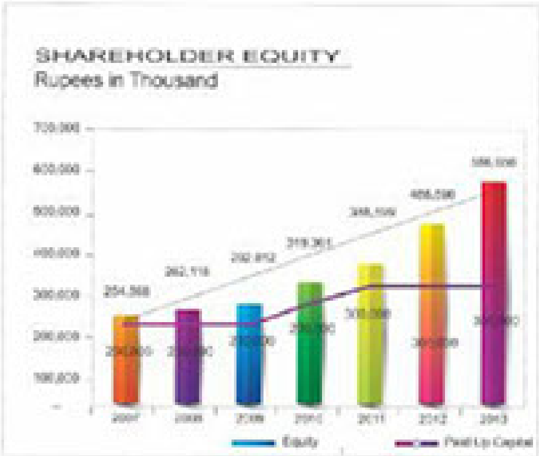






FINANCIAL SUMMARY



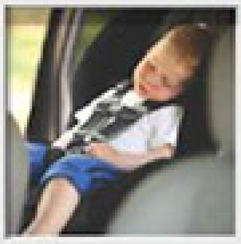


Alfalah Insurance Company Limited

Statement of Ethics and Business Practices

- The interest of the policyholders is absolute. We shall provide the best possible services equivalent to international standard to our clients and shall make arrangements to serve them without any cause of complaint relating to claim settlement and otherwise. Our endeavor is to introduce new and innovative schemes of arrangements for the benefit of clients so that they will be able to get better services at a very economical premium.
- As the reinsurers provide security to the Company and enable us in meeting with the requirements of solvency margin, therefore, it shall be our utmost task to ensure that the reinsurers make profit on our business ceded to them to strengthen our business relation. We shall also endeavor to meet with the projected premium and arrange future reinsurance arrangements on more favorable terms, limits and commission.
- It is the basic principle of Alfalah Insurance Company Limited to obey the law of the land and comply with its legal system. Accordingly, every director and employee of the company shall obey the law. Any director and employee guilty of violation will be liable to disciplinary consequences because of the violation of his/her duties.
- Board members and staff of Alfalah Insurance Company Limited act with honesty and openness as representatives of the organization and in their interactions with one another. Alfalah Insurance Company Limited promotes a working environment that values respect, candor, and fairness.
- Employees must avoid conflicts of interest between their private financial activities and conduct of company business.
- All business transactions on behalf of Alfalah Insurance Company Limited must be reflected accordingly in the financial statements of the company.
- The image and reputation of Alfalah Insurance Company Limited is determined by the way each and every one of us acts and conducts himself/herself at all times.
- We are an equal opportunity employer. Our employees are entitled to a safe and healthy workplace.
- Every manager and supervisor shall be responsible to see that there is no violation of laws within his/her area of responsibility which with proper supervision could have prevented. The manager and supervisor shall still be responsible if he/she delegated particular tasks.

Today's Security Tomorrow's Surety



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ALFALAH INSURANCE COMPANY

Statement of Compliance with The Code of Corporate Governance

For The Year Ended December 31, 2013

This statement is being presented to comply with the Code of corporate governance for Insurance Companies for the purpose of establishing a framework of good governance, whereby an Insurance company is managed in compliance with the bestpractices of corporate governance.

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

1- The directors have confirmed that none of them is serving as a director in ten or more listed companies. The company encourages representation of independent non-executive directors on its Board of Directors. At present, the board includes six non-executive directors out of seven.

2- All the resident directors of the Company have declared that they are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of stock exchange, has been declared as a defaulter by a Stock exchange.

3- The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

4- The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

5- All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

6- No casual vacancy occurred in the Board during the year.

7- All the meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

8- The Board has established a system of sound internal control, which is effectively implemented at all levels within the company. The Company includes all the necessary aspects of internal control given in the code.

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

10- There was no new appointment of CFO, Company Secretary or Internal Auditor during the year.

11- The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12- The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13- The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

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

16- The Board has formed an audit committee comprising of 3 members, all of them are non-executive Directors including the Chairman of the committee.

17- The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as per the requirement of the Code. The audit committee has adopted the same terms of reference as defined by the Code and advised to the committee for compliance.

18- The Board has set-up an effective Internal Audit function which is considered suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company.

19- All related parties transactions entered during the year were on arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by the Audit Committee and Board of Directors.

20- The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

21- The statutory auditors or the persons associated with them have not been appointed to provide other services and the auditors have confirmed that they have observed IFAC guidelines in this regard.

22- The actuary appointed by the company has confirmed that he or his spouse and minor children do not hold shares of the company.

23- The Board ensures that the appointed actuary complied with the requirements set out for him in this code.

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

NASAR US SAMAD QURESHI
Chief Executive Officer

EY
Building a better working world

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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Review Report To The Members on Statement of Compliance with Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices (the Statement) contained in the Code of Corporate Governance (the Code) for the year ended 31 December 2013 prepared by the Board of Directors of Alfalah Insurance Company Limited (the Company) to comply with the code issued by the Securities and Exchange Commission of Pakistan applicable to non listed insurance companies.

The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement reflects the status of the Company's compliance with the provisions of the Code and report if it does not. 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 part of our audit of financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control systems to enable us to express an opinion as to whether the Board's Statement on internal control covers all control and effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement does not appropriately reflect the status of the Company's compliance, in all material respects, with the best practices contained in the Code, for the year ended 31 December 2013.

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountant
Lahore: 02 March 2014

Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants
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Auditors' Report To The Members

We have audited the annexed financial statements comprising of:

(i) Balance Sheet;
(ii) Profit and loss account;
(iii) Statement of changes in equity;
(iv) Cash flow statement;
(v) Statement of premiums;
(vi) Statement of claims;
(vii) Statement of expenses; and
(viii) Statement of investment income

of Alfalah Insurance Company Limited (the Company) as at 31 December 2013, together with the notes forming part thereof, for the year then ended.

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

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

In Our Opinion:

(a) Proper books of accounts have been kept by the Company as required by the Insurance Ordinance 2000 and the Companies Ordinance, 1984;

(b) The financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the changes as stated in note 2.2 of these financial statements, with which we concur.

(c) The financial statements together with the notes thereon present fairly, in all material respects, the state of the Company's affairs as at 31 December 2013 and of the profit, its cash flow and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

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

Ernst & Young Ford Rhodes Sidat Hyder

Chartered Accountant
Engagement Partner: Farooq Hameed
Lahore: 02 March 2014

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Balance Sheet As At 31 December 2013

	Note	2013	2012
		(Rupees in thousand)	
			Restated
Share capital and reserves			
Authorized capital			
50,000,000 (2012: 50,000,000) ordinary shares of Rs 10 each		**500,000**	500,000
Issued, subscribed and paid up capital			
30,000,000 (2012: 30,000,000)			
ordinary shares of Rs 10 each	5	**300,000**	300,000
Share deposit money		**1,381**	1,381
General Reserve		**150,000**	15,000
Unappropriated profit		**135,475**	170,230
		586,856	486,611
Underwriting provisions			
Provision for outstanding claims [including IBNR]		**393,782**	650,048
Provision for unearned premium		**526,235**	460,620
Commission income unearned		**45,846**	50,434
Total underwriting provisions		**965,863**	1,161,102
Deferred Liabilities			
Deferred taxation	6	**5,239**	7,362
Creditors and accruals			
Premium received in advance		**4,885**	5,650
Amounts due to other insurers/reinsurers		**142,414**	241,593
Accrued expenses	7	**60,633**	50,492
Taxation - provision less payments		**4,080**	-
Other creditors and accruals	8	**63,253**	40,079
		275,265	337,814
Other Liabilities			
Deposits and other payables	9	**4,686**	3,390
TOTAL LIABILITIES		**1,251,053**	1,509,668
CONTINGENCIES AND COMMITMENTS	10		
TOTAL EQUITY AND LIABILITIES		**1,837,909**	1,996,279

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

Chairman

Director

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Balance Sheet As At 31 December 2013

	Note	2013	2012
		(Rupees in thousand)	
			Restated
Cash and bank deposits			
Cash and other equivalents	11	**404**	1,328
Current and other accounts	12	**101,999**	158,928
Deposits maturing within 12 months	13	**-**	2,000
		102,403	162,256
Loan - secured considered good			
To employees	14	**2,866**	2,127
Investments	15	**785,754**	701,627
Other assets			
Premiums due but unpaid	16	**254,286**	171,398
Amounts due from other insurers/reinsurers	17	**86,836**	68,289
Salvage recoveries accrued		**7,190**	7,545
Accrued investment income		**1,738**	1,621
Reinsurance recoveries against outstanding claims		**218,933**	502,884
Deferred commission expense		**19,948**	22,302
Prepayments - prepaid reinsurance premium ceded		**253,685**	251,639
- others		**5,560**	5,729
Taxation - payments less provision		**-**	3,985
Sundry receivables	18	**9,789**	7,373
		857,965	1,042,765
Fixed assets			
Tangible	19		
Building on leasehold land		**26,683**	31,706
Furniture, fixtures and office equipment		**24,198**	24,709
Motor vehicles		**32,705**	26,210
		83,586	82,625
Capital work in progress		**1,333**	-
Intangible			
Computer software	20	**4,002**	4,879
TOTAL ASSETS		**1,837,909**	1,996,279

Director

Principal Officer and Chief Executive

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Profit And Loss Account
For The Year Ended 31 December 2013

	Note	Fire and property damage	Marine, aviation and transport	Motor	Health	Miscellaneous	Total 2013	Total 2012
							(Rupees in thousand)	
Revenue account								*Restated*
Net premium revenue		37,192	13,357	280,767	212,653	39,775	**583,744**	454,403
Net claims		(20,074)	(7,846)	(96,295)	(175,338)	(17,825)	**(317,378)**	(262,368)
Management expenses	21	(50,540)	(10,664)	(86,893)	(32,002)	(34,302)	**(214,401)**	(195,933)
Net commission		35,921	8,733	(12,970)	4,164	58,824	**94,672**	96,358
Underwriting result		2,499	3,580	84,609	9,477	46,472	**126,637**	92,460
Investment income							**78,329**	93,166
Other income	22						**7,276**	2,922
General and administration expenses	23						**(89,202)**	(80,662)
							(3,597)	15,426
Profit before taxation							**123,040**	107,886
Taxation	24						**(20,463)**	(9,864)
Profit after taxation							**102,577**	98,022
Other comprehensive loss							**(2,332)**	(1,655)
Total comprehensive income for the year							**100,245**	96,367
Earnings per share - basic and diluted	**25**					*Rupees*	**3.42**	3.27
Profit and loss appropriation account								
Balance at the commencement of the year - *Restated*							**170,230**	73,863
Transfer to general reserve							**(135,000)**	-
Total comprehensive income for the year							**100,245**	96,367
Balance of unappropriated profits at the end of the year							**135,475**	170,230

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

Chairman	Director	Director	Principal Officer and Chief Executive

Alfalah Insurance Company Limited

Statement Of Changes In Equity
For The Year Ended 31 December 2013

	Share capital	Share deposit money	General reserve	Unappropriated profit	Total
				(Rupees in thousand)	
Balance as at 1 January 2012	300,000	1,381	15,000	72,218	388,599
Effect of change in accounting policy as stated in note 2.2	-	-	-	1,645	1,645
Balance as at 1 January 2012 - Restated	300,000	1,381	15,000	73,863	390,244
Profit after tax for the year	-	-	-	98,022	98,022
Other comprehensive income for the year				(1,655)	(1,655)
Total comprehensive income for the year	-	-	-	96,367	96,367
Balance as at 31 December 2012	**300,000**	**1,381**	**15,000**	**170,230**	**486,611**
Balance as at 01 January 2013	300,000	1,381	15,000	170,309	486,690
Effect of change in accounting policy as stated in note 2.2	-	-	-	(79)	(79)
Balance as at 01 January 2013 - Restated	300,000	1,381	15,000	170,230	486,611
Transferred to general reserve	-	-	135,000	(135,000)	-
Profit after tax for the year	-	-	-	102,577	102,577
Other comprehensive income for the year	-	-	-	(2,332)	(2,332)
Total comprehensive income for the year	-	-	-	100,245	100,245
Balance as at 31 December 2013	**300,000**	**1,381**	**150,000**	**135,475**	**586,856**

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

Chairman	Director	Director	Principal Officer and Chief Executive

ALFALAH
INSURANCE COMPANY

Alfalah Insurance Company Limited

Cash Flow Statement
For The Year Ended 31 December 2013

	2013	2012
	(Rupees in thousand)	
Operating cash flows		
Underwriting activities		
Premiums received	1,147,279	1,027,095
Reinsurance premiums paid	(697,261)	(544,399)
Commissions received	114,440	137,109
Commissions paid	(41,661)	(40,811)
Claims paid	(708,483)	(594,371)
Management expense paid	(216,659)	(187,595)
Reinsurance recoveries received	418,790	349,448
Net cash inflow from underwriting activities	16,445	146,476
Other operating activities		
Income tax paid	(14,521)	(2,005)
Other operating payments	(40,893)	(63,190)
Other operating receipts	3,743	592
Loan advanced	(5,278)	(4,434)
Loan repayment received	4,539	3,872
Net cash outflow from other operating activities	(52,410)	(65,165)
Total cash (outflow) / inflow from all operating activities	(35,965)	81,311
Investment activities		
Profit/return received	10,807	12,361
Dividend received	2,956	3,746
Sale of investments	675,924	717,794
Purchase of investments	(695,591)	(704,543)
Proceeds from disposal of fixed assets	6,438	3,679
Fixed capital expenditure	(24,422)	(31,502)
Total cash (outflow) / inflow from investing activities	(23,888)	1,535
Net cash (outflow) / inflow from all activities	(59,853)	82,846
Cash at the beginning of the year	162,256	79,410
Cash at the end of the year	102,403	162,256

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

Chairman

Director

Alfalah Insurance Company Limited

Cash Flow Statement
For The Year Ended 31 December 2013

		2013	2012
		(Rupees in thousand)	
			Restated
Reconciliation to profit and loss account			
Operating cash flows		**(35,965)**	81,311
Depreciation of tangibles		**(18,090)**	(17,278)
Amortization of intangibles		**(2,014)**	(1,791)
Increase /(decrease) in assets other than cash		**(184,178)**	324,435
Increase /(decrease) in liabilities		**260,947**	(384,161)
Un-realised gain on revaluation of held for trading investment		**39,059**	32,157
Others			
Gain on disposal of investments		**25,401**	45,891
Gain on disposal of fixed assets		**3,537**	2,332
Dividend and other investment income		**15,880**	15,126
Impairment in value of term deposits		**(2,000)**	-
Profit after taxation		**102,577**	98,022
Definition of cash			
Cash for the purposes of the Cash Flow Statement consists of:			
Cash and other equivalents			
Cash in hand	- note 11	**211**	1,222
Stamps in hand	- note 11	**193**	106
		404	1,328
Current and other accounts			
Current accounts	- note 12	**31,557**	73,044
Saving accounts	- note 12	**70,442**	85,884
		101,999	158,928
Deposits maturing within 12 months		-	2,000
		102,403	162,256

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

Director

Principal Officer and
Chief Executive

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Statement Of Premiums
For The Year Ended 31 December 2013

Business underwritten inside Pakistan

	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2013	2012
Direct and facultative									(Rupees in thousand)	
Class										
Fire and property damage	363,136	186,138	226,816	322,458	320,775	160,300	135,606	285,266	**37,192**	40,931
Marine, aviation and transport	76,624	5,715	9,701	72,638	59,281	-	-	59,281	**13,357**	11,617
Motor	314,766	123,083	162,833	274,990	13,518	2,376	1,671	14,223	**260,767**	196,495
Health	229,941	76,319	48,527	257,733	4,623	41,632	675	45,080	**212,653**	167,078
Miscellaneous	246,471	69,305	78,358	237,498	206,622	47,532	55,831	197,723	**39,775**	38,282
Total	1,230,932	460,620	526,236	1,165,317	603,819	251,839	253,686	601,573	**563,744**	454,403

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

Chairman	Director	Director	Principal Officer and Chief Executive

Alfalah Insurance Company Limited

Statement Of Claims
For The Year Ended 31 December 2013

Business underwritten inside Pakistan

	Claims paid	Outstanding claims		Claims expense	Reinsurance and other recoveries received	Reinsurance and other recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue	Net Claim Expense	
		Opening	Closing			Opening	Closing		2013	2012
Direct and facultative									(Rupees in thousand)	
Class										
Fire and property damage	204,580	329,176	107,730	(16,857)	156,455	310,081	87,595	(38,931)	**20,074**	19,596
Marine, aviation and transport	152,862	10,367	27,391	169,886	146,828	8,603	23,815	162,040	**7,846**	1,902
Motor	106,396	62,624	55,079	98,853	2,890	120	18	2,558	**96,295**	106,353
Health	157,303	31,489	52,641	178,505	3,167	-	-	3,167	**175,338**	117,552
Miscellaneous	87,301	216,412	150,941	21,830	79,680	183,180	107,505	4,005	**17,825**	14,935
Total	708,442	650,048	393,793	452,217	418,796	502,084	218,903	134,839	**317,378**	260,338

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

Chairman

Director

Director

Principal Officer and
Chief Executive

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Statement Of Expenses
For The Year Ended 31 December 2013

Business underwritten inside Pakistan

	Commissions paid or payable	Deferred commission Opening	Deferred commission Closing	Net commission expenses	Other management expenses	Underwriting expense	Commissions from reinsurers	Net underwriting expense 2013	Net underwriting expense 2012
								(Rupees in thousand)	
Direct and facultative									
Class									
Fire and property damage	16,931	9,227	8,544	17,614	50,540	68,154	53,535	**14,619**	7,503
Marine, aviation and transport	11,464	931	1,451	10,944	10,664	21,608	19,677	**1,931**	1,742
Motor	15,989	5,981	8,567	13,403	86,893	100,296	433	**99,863**	76,849
Health	329	4,629	238	4,720	32,002	36,722	8,884	**27,838**	30,390
Miscellaneous	1,373	1,534	1,148	1,759	34,302	36,061	60,583	**(24,522)**	(16,909)
Total	46,086	22,302	19,948	48,440	214,401	262,841	143,112	**119,729**	99,575

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

Chairman	Director	Director	Principal Officer and Chief Executive

Alfalah Insurance Company Limited

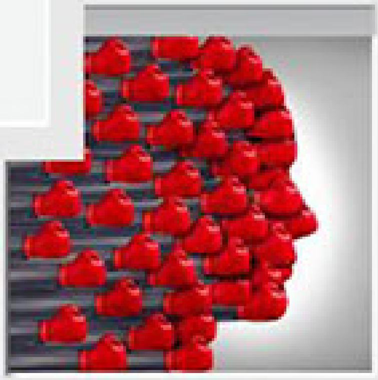
Statement Of Investment Income
For The Year Ended 31 December 2013

	2013	2012
	(Rupees in thousand)	
Income from trading investments		
Gain on sale of held for trading investments	**16,885**	34,607
Income from non-trading investments		
Held to maturity		
Return on Government Securities	**3,404**	2,852
Return on other fixed income securities and deposits	**9,444**	8,528
	12,848	11,380
Available for sale		
Dividend income	**3,032**	3,746
Gain on sale of available for sale investments	**8,516**	11,284
	11,548	15,030
Un-realised gain on revaluation of held for trading investments	**39,059**	32,157
Impairment in value of Term Deposits	**(2,000)**	-
Investment expenses	**(11)**	(8)
Net investment income	**78,329**	93,166

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

Chairman	Director	Director	Principal Officer and Chief Executive

Pledge of Endless Support



peace of mind

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

1. LEGAL STATUS AND NATURE OF BUSINESS

Alfalah Insurance Company Limited (the Company) is a general non-life insurance company which was incorporated as an unquoted public limited company in Pakistan on December 21, 2005 under the Companies Ordinance, 1984. The registered office of the Company is situated at 5-Saint Mary Park, Gulberg III, Lahore.

2. BASIS OF PREPARATION

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

2.2 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS EFFECTIVE IN 2013:

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

New, Revised and Amended Standards and Interpretations

The Company has adopted the following revised standard, amendments and interpretation of IFRSs which became effective for the current year:

IAS 1 – Presentation of Financial Statements – Presentation of items of other comprehensive income (Amendment)

IAS 19 – Employee Benefits –(Revised)

IFRS 7 – Financial Instruments : Disclosures – (Amendments)
– Amendments enhancing disclosures about offsetting of financial assets and financial liabilities

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

Improvements to Accounting Standards Issued by the IASB

IAS 1 – Presentation of Financial Statements - Clarification of the requirements for comparative information

IAS 16 –Property, Plant and Equipment – Clarification of Servicing Equipment

IAS 32 – Financial Instruments: Presentation – Tax Effects of Distribution to Holders of Equity Instruments

IAS 34 – Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Notes To And Forming Part Of The Financial Statements For The Year Ended 31 December 2013

Change in accounting policy

The adoption of the above amendments, revisions, improvements to accounting standards and interpretations did not have any effect on the financial statements except for the adoption of IAS - 19. The amendment in IAS - 19 requires an entity to recognize actuarial gain or losses immediately in other comprehensive income. Actuarial gain or losses were previously amortized over the expected future service of employees.

This change in accounting policy has accounted for retrospectively as required under International Accounting Standard - 8 'Accounting Policies, Change in Accounting Estimates and Errors', and the comparative financial statements have been re-stated.

Effects of retrospective application of the change in accounting policy are as follows:

Adoption of amendments in IAS - 19, (Revised) 'Empployee Benefits'

Amendments to IAS 19 "Employee Benefits" range from fundamental changes to simple clarification and rewording. The significant changes to IAS 19 include the following:

For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognized in other comprehensive income with no subsequent recycling to profit and loss.

The distinction between short-term and other long-term employee benefits will be based on the expected timing of settlement rather than the employee's entitlement to the benefits.

Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information regarding the sensitivity of the defined benefit obligation to a reasonably possible change in each

This change in accounting policy has been accounted for retrospectively as required under International Accounting Standard-8 'Accounting Policies, Changes in Accounting Estimates and Errors', and the comparative financial statements have been re-stated.

The effects of the retrospective application of the change in accounting policy are as follows:

	2013	2012
	(Rupees in thousand)	
(increase)/decrease in the staff retirement gratuity	(2,411)	(79)
Increase /(decrease) in opening up-appropriated profit	(79)	1,645
(decrease) increase in Other Comprehensive Income (OCI)	(2,332)	(1,655)
Increase in profit and loss account	-	(69)
Net (decrease)/increase in equity	(2,411)	(79)

The cumulative effect of the above change is not considered material. Accordingly, third balance sheet as of 01 January 2012 has not been presented in these financial statements.

Alfalah Insurance Company Limited

Notes To And Forming Part Of The Financial Statements For The Year Ended 31 December 2013

2.3 STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS THAT ARE NOT YET EFFECTIVE:

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

Standard or Interpretation	Effective date (annual periods beginning on or after)
IAS 32 – Offsetting Financial Assets and Financial liabilities – (Amendment)	01-Jan-14
IAS 36 – Recoverable Amount for Non-Financial Assets – (Amendment)	01-Jan-14
IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting – (Amendment)	01-Jan-14
IFRIC 21 – Levies	01-Jan-14
IFAS 3 – Profit and Loss Sharing on Deposits	12-Jun-13

The Company expects that the adoption of the above amendments and interpretation of the standards will not affect the Company's financial statements in the period of initial application.

Further, following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	01-Jan-15
IFRS 10 – Consolidated Financial Statements	01-Jan-13
IFRS 11 – Joint Arrangements	01-Jan-13
IFRS 12 – Disclosure of Interests in Other Entities	01-Jan-13
IFRS 13 – Fair Value Measurement	01-Jan-13

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

3. BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost convention, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment and estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Provision for outstanding claims including incurred but not reported (IBNR) (note 4.2);
b) Premium deficiency reserve (note 4.3);
c) Provision for taxation (note 4.6);
d) Employee retirement benefits (note 4.7);
e) Useful life and residual values of fixed assets (note 4.16);

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

4.1 INSURANCE CONTRACTS

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expired.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed.

- Fire and property damage
- Marine, aviation and transport
- Motor
- Health
- Miscellaneous

These contracts are normally one year insurance contracts except marine and some contracts of miscellaneous class. Normally all marine insurance contracts are of three months period. In miscellaneous class, some engineering insurance contracts are of more than one year period.

These contracts are provided to all types of customers based on assessment of insurance risk by the Company. Normally personal insurance contracts e.g. vehicle, personal accident, etc. are provided to individual customers, whereas, insurance contracts of fire and property damage, marine, aviation and transport, health and other commercial line products are provided to commercial organizations.

Alfalah Insurance Company Limited

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Fire and property damage insurance contracts mainly compensate the Company's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities.

Marine Insurance covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination.

Motor insurance provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident.

Health insurance provides protection against losses incurred as a result of medical illnesses, surgical operations and accidental injuries.

Other various types of insurance are classified in miscellaneous category which includes mainly engineering, terrorism, personal accident, worker compensation, products of financial institutions, crop etc.

The Company also accepts insurance risk pertaining to insurance contracts of other insurer as reinsurance inward. The insurance risk involved in these contracts is similar to the contracts undertaken by the Company as insurer. All reinsurance inward contracts are facultative (specific risk) acceptance contracts .

4.2 PROVISION FOR OUTSTANDING CLAIMS INCLUDING INCURRED BUT NOT REPORTED (IBNR)

The Company recognises liability in respect of all claims incurred upto the balance sheet date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates. The liability for claims includes amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for IBNR is based on the management's best estimate which takes into account past trends, expected future patterns of reporting of claims and the claims actually reported subsequent to the balance sheet date, except for the provision of IBNR related to health which is based on actuarial valuation.

Reinsurance recoveries against outstanding claims are recognised on occurrence of the related claim liability. These are recorded as an asset and measured at the amount expected to be received.

4.3 PREMIUM DEFICIENCY RESERVE

The Company maintains a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve is recorded as an expense/income in the profit and loss account for the year.

For this purpose, loss ratios for each class are estimated based on historical claim development except for health which is based on actuarial valuation. Judgment is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. If these ratios are adverse, premium deficiency is determined. The loss ratios for the current and prior year are as follows;

	2013	2012
- Fire and property damage	54%	48%
- Marine, aviation and transport	59%	17%
- Motor	37%	55%
- Health	82%	70%
- Miscellaneous	45%	39%

Based on an analysis of loss ratios for the expired period of each reportable segment, management considers that the unearned premium reserve for all classes of business as at the year end is adequate to meet the expected future liability after reinsurance claims and other expenses, expected to be incurred after the balance sheet date in respect of policies in those classes of business in force at the balance sheet date. Hence, no reserve for the same has been made in these financial statements.

4.4 PROVISION FOR UNEARNED PREMIUM

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage and is recognised as a liability by the Company on the following basis:

- for marine cargo business, premium written is recognised as provision for unearned premium until the commencement of voyage.

- for other classes premium written is recognised as provision for unearned premium by applying the 1/24th method as specified in the SEC (Insurance) Rules, 2002.

4.5 COMMISSION INCOME UNEARNED

Unearned commission income from the reinsurers represents the portion of commission income relating to the unexpired period of reinsurance coverage and is recognised as a liability. It is calculated in accordance with the pattern of its related prepaid reinsurance premium ceded.

4.6 TAXATION

CURRENT

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

DEFERRED

Deferred tax is accounted for using the liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

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Notes to and Forming Part of The Financial Statements
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4.7 EMPLOYEE RETIREMENT BENEFITS

The main features of the schemes operated by the Company for its employees are as follows:

4.7.1 DEFINED CONTRIBUTION PLAN

The Company has established an approved contributory provident fund for all permanent employees with effect from 01 September 2007. Equal monthly contributions are made by the Company and employees to the fund at the rate 8.33 % of basic salary. Contributions made by the company are recognised as expense.

4.7.2 DEFINED BENEFIT PLAN

The Company has established an approved gratuity fund for all permanent employees with effect from 01 September 2007. Monthly contributions are made to the fund on the basis of actuarial recommendations and in line with the provisions of the Income Tax Ordinance, 2001. The latest actuarial valuation was carried out as at 31 December 2013.

The future contribution rates of these plans include allowances for deficit and surplus. Projected unit credit method, using the following significant assumptions, is used for valuation of this scheme:

- Discount rate	13% per annum
- Expected rate of increase in salary level	12% per annum
- Expected rate of return on plan assets	13% per annum

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

The Company has adopted IAS 19 (revised) as mentioned in note 2.2. Actuarial gains or losses are recognized in other comprehensive incomes when they occur. Amounts recorded in profit and loss are limited to current and past service costs, gains or losses on settlements and net interest income (expense). Previously, actuarial gains or losses in excess of 10% of the present value of defined benefit obligation and fair value of plan assets, whichever was higher, were recognized over the expected average remaining working life of the employees in the profit and loss account.

4.8 AMOUNT DUE TO/FROM OTHER INSURERS/REINSURERS

Amounts due to/from other insurers/reinsurers are carried at cost less provision for impairment, if any. Cost represents the fair value of the consideration to be paid/received in future for the services received/rendered.

4.9 CREDITORS, ACCRUALS AND PROVISIONS

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

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

4.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprises of cash in hand, deposits with banks and stamps in hand.

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

4.11 INVESTMENTS

4.11.1 RECOGNITION

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

- Held to maturity
- Available for sale
- Held for trading

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

4.11.2 MEASUREMENT

HELD TO MATURITY

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

Any premium paid or discount availed on acquisition of held to maturity investments is deferred and included in the income for the period on a straight-line-basis over the term of the investment.

AVAILABLE FOR SALE

The financial assets including investments in associated undertakings where the Company does not have significant influence that are intended to be held for an indefinite period of time or may be sold in response to the need for liquidity are classified as available for sale.

Subsequent to initial recognition at cost, these are stated at the lower of cost or market value (market value being taken as lower if the fall is other than temporary) in accordance with the requirements of the S.R.O. 938 issued by the SECP in December 2002. The Company uses latest stock exchange quotations in an active market to determine the market value of its quoted investments whereas, impairment of unquoted investments is computed by reference to net assets of the investee on the basis of the latest available audited/unaudited financial statements.

Had these investments been measured at fair value as required by IAS 39, the Company's net equity would have been higher by Rs 7.261 million (2012: higher by Rs. 1.737 million)

Gain/(loss) on sale of available for sale investments are recognized in profit and loss account.

HELD FOR TRADING

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

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

4.12 PREMIUMS DUE BUT UNPAID

These are recognised at cost, which is the fair value of the consideration given less provision for doubtful debts, if any.

The Power of Insurance

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Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements
For The Year Ended 31 December 2013

4.13 REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS

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

4.14 DEFERRED COMMISSION EXPENSE

It represents the portion of commission expense relating to the unexpired period of insurance contract and is recognised as an asset. It is calculated in accordance with the pattern of its related unearned premium income.

4.15 PREPAID REINSURANCE PREMIUM CEDED

It represents the portion of reinsurance premium ceded relating to the unexpired period of reinsurance coverage and is recognised as a prepayment. It is calculated in accordance with the pattern of its related unearned premium income.

4.16 FIXED ASSETS

TANGIBLE

These are stated at cost, signifying historical cost, less accumulated depreciation and any identified impairment loss.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its tangible fixed assets as at 31 December 2013 has not required any adjustment.

Depreciation on all fixed assets is charged to profit and loss account on the straight line method so as to write off depreciable amount of an asset over its useful life at the rates stated in note 19. The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to fixed assets is charged from the month in which an asset is acquired or capitalised, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that fixed assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is charged to profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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.

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INTANGIBLE

Expenditure incurred to acquire computer software are capitalised as intangible assets and stated at cost less accumulated amortisation and any identified impairment loss. Intangible assets are amortised at the rate specified in note 20.

Amortisation on additions to intangible assets is charged from the month in which an asset is acquired or capitalised, while no amortisation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that intangible asset may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. Where an impairment loss is recognised, the amortisation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.17 FINANCIAL INSTRUMENTS

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

Financial instruments carried on the balance sheet include cash and bank deposits, investments, premiums due but unpaid, amounts due from other insurers/reinsurers, accrued investment income, salvage recoveries accrued, reinsurance recoveries against outstanding claims, sundry receivables, provision for outstanding claims, amounts due to other insurers/reinsurers, accrued expenses and sundry creditors. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.18 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

4.19 REVENUE RECOGNITION

PREMIUM INCOME

Premium income under a policy is recognised over the period of insurance from the date of issuance on the following basis :

(a) For business other than marine cargo business, evenly over the period of the policy,

(b) For marine cargo business, immediately after the commencement of voyage; and

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

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ADMINISTRATIVE SURCHARGE

This represents documentation and other charges recovered by the Company from policy holders in respect of polices issued, at a rate of 5% of the premium restricted to a maximum of following limits:

Class	Rupees
Fire	3,000
Marine	3,000
Motor	3,000
Miscellaneous	5,000
Health	5,000

Premium written includes administrative surcharge amounting to Rs. 18.8 million.

DIVIDEND INCOME AND BONUS SHARES

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

Gain /(loss) on sale of investments is taken to the profit and loss account in the year of sale as per trade date.

INCOME ON HELD TO MATURITY INVESTMENTS

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

MISCELLANEOUS INCOME

Other revenues are recognised on accrual basis.

4.20 REINSURANCE CEDED

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

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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

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

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

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

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4.21 CLAIMS EXPENSE

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

4.22 COMMISSION

COMMISSION EXPENSE

Commission expense incurred in obtaining and recording insurance policies is deferred and recognised as an asset on the attachment of the related risks. This expense is charged to the profit and loss account based on the pattern of recognition of related premium revenue.

COMMISSION INCOME

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

4.23 IMPAIRMENT

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

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income / expense currently. During the year, there being no impairment of financial assets, therefore, no provision has been made in the accounts.

4.24 FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are recognised in the profit and loss account. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

4.25 MANAGEMENT EXPENSES

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

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4.26 SEGMENT REPORTING

A business segment is a distinguishable component of the Company that is engaged in providing services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting of operating results using the classes of business as specified under the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002. The reported operating segments are also consistent with the internal reporting framework provided to Board of Directors who are responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

Based on its classification of insurance contracts issued, the Company has five primary business segments for reporting purposes namely fire, marine, motor, health and miscellaneous. The nature and business activities of these segments are disclosed in note 4.1.

As the operation of the Company are predominantly carried out in Pakistan, information relating to geographical segment is not considered relevant.

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

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

4.27 SALVAGE RECOVERIES

Salvage recoveries are recognised on estimated basis and are in line with the recognition of related claim expenses.

4.28 ZAKAT

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

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5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2013	2012		2013	2012
(Number of shares)			(Rupees in thousand)	
30,000,000	30,000,000	Ordinary shares of Rs 10 each fully paid in cash	300,000	300,000

8,998,695 (2012: 8,998,695) ordinary shares of the Company are held by Bank Alfalah Limited, an associated undertaking as at 31 December 2013.

6. DEFERRED TAXATION

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

		2013	2012
		(Rupees in thousand)	
7. ACCRUED EXPENSES			
Accrued expenses		36,810	31,267
Bonus payable		23,766	19,131
EOBI payable		57	94
		60,633	50,492
8. OTHER CREDITORS AND ACCRUALS			
Agent commission payable		25,167	20,743
Federal Insurance Fee		1,565	871
Federal Excise Duty		23,375	14,207
Gratuity payable	- note 18.1	2,564	-
Workers' Welfare Fund payable		2,511	-
Others		8,091	4,258
		63,253	40,079
8.1 Workers' Welfare Fund payable			
Opening balance		-	-
Provision for the year	- note 23.	2,511	-
Payment		-	-
Balance as at 31 December		2,511	-

8.1.1 The Finance Act 2008 introduced an amendment to the Workers' Welfare Fund Ordinance, 1971 (WWF Ordinance). As a result of this amendment it may be construed that all insurance companies have been brought within the scope of WWF Ordinance.

During the year ended 31 December 2012, the Honorable Lahore High Court (LHC) in Constitutional Petition relating to the amendments brought to WWF Ordinance, 1971 through Finance Act, 2006 and the Finance Act 2008, had declared the said amendments as unlawful and unconstitutional. In March 2013, a larger bench of the Honorable Sindh High Court (SHC) passed an order declaring that the amendments introduced in the WWF Ordinance, 1971 through the Finance Act, 2006 and Finance Act, 2008 do not suffer from any constitutional or legal infirmity. However, the SHC has not addressed the other amendments made in the WWF Ordinance 1971 about applicability of WWF to the insurance companies which is still pending before the Court. Without prejudice to the above, the Management of the Company, as matter of abundant caution, has decided to made the provision for WWF amounting to Rs 2,511 thousand for the current year in these financial statements.

	2013	2012
9. DEPOSITS AND OTHER PAYABLES	(Rupees in thousand)	
Retention money	116	564
Cash margin	4,570	2,826
	4,686	3,390

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10. CONTINGENCIES AND COMMITMENTS

10.1 CONTINGENCIES

There are no contingencies at year end. (2012: Nil)

10.2 COMMITMENTS

The amount of future payments under operating leases and the period in which these payments will become due are as follows:

	2013	2012
	(Rupees in thousand)	
Not later than one year	**10,244**	13,069
Later than one year and not later than five years	**43,100**	45,337
Later than five years	**930**	10,419
	54,274	68,825

11. CASH AND OTHER EQUIVALENTS

	2013	2012
Cash in hand	**211**	1,222
Stamps in hand	**193**	106
	404	1,328

12. CURRENT AND OTHER ACCOUNTS

	2013	2012
Current accounts	**31,557**	73,044
Saving accounts	**70,442**	85,884
	101,999	158,928

The balance in saving accounts bear mark-up at the rate of 6.0% to 8.5% per annum. (2012: 8.5% to 11% per annum).

13. DEPOSITS MATURING WITHIN 12 MONTHS

		2013	2012
		(Rupees in thousand)	
Term Deposits Receipt	- note 13.1	**2,000**	2,000
Impairment	- note 13.2	**(2,000)**	-
		-	2,000

13.1 This represents Term Deposit Receipts (TDR) with banks and bears mark-up at the rate of 13.5% per annum in 2012.

13.2 Impairment has been charged due to uncertainty surrounding the recoverability of the investment.

14. LOAN - secured considered good

2013 (Rupees in thousand)

	Opening	Loan paid	Loan received	Closing
Executives	**519**	**1,620**	**(1,361)**	**778**
Others	**1,608**	**3,658**	**(3,178)**	**2,088**
	2,127	**5,278**	**(4,539)**	**2,866**

2012 (Rupees in thousand)

	Opening	Loan paid	Loan received	Closing
Executives	458	730	(669)	519
Others	1,107	3,704	(3,203)	1,608
	1,565	4,434	(3,872)	2,127

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			2013	2012
			(Rupees in thousand)	
15.	**INVESTMENTS**			
	The investments comprise of the following:			
	Held to maturity	- note 15.1	**33,071**	31,683
	Available for sale - quoted	- note 15.2	**48,797**	7,950
	Held for trading	- note 15.3	**703,886**	661,994
			785,754	701,627
15.1	**HELD TO MATURITY**			
	Statutory deposits	- note 15.1.1	**32,000**	32,000
	Unamortized premium / (discount) on investment bonds		**1,071**	(317)
			33,071	31,683

15.1.1 STATUTORY DEPOSITS

	Maturity	Effective Yield %		
Pakistan Investment Bonds	June, 2017	9.81%	**24,000**	24,000
	August, 2016	10.70%	**3,000**	3,000
	July, 2015	13.85%	**5,000**	5,000
			32,000	32,000

This represents Pakistan Investment Bond held with State Bank of Pakistan as statutory deposit. Market value as at 31 December 2013 is Rs 31.9 million (2012: Rs 32.2 million).

15.2 AVAILABLE FOR SALE - QUOTED

2013	2012	Company's name	Face value per share	2013	2012
Number of Shares			Rupees	(Rupees in thousand)	
Investment in associated undertaking					
400,000	9,658	*Bank Alfalah Limited	10	**8,013**	100
Market value as at 31 December				**10,816**	162
Investment in others					
500	47,500	Hub Power Company Limited	10	**23**	1,850
74,000	86,000	Kot Addu Power Company Limited	10	**3,640**	4,189
24,000	-	Bank Al-Habib Limited	10	**661**	-
10,000	-	Lucky Cement Limited	10	**2,239**	-
27,500	-	Nishat Chunian Limited	10	**1,451**	-
100,000	-	NIB Bank Limited	10	**260**	-
30,000	-	Nishat Mills Limited	10	**2,998**	-
9,900	-	Oil and Gas Development Company	10	**2,300**	-
10,000	-	Pakistan Oil Fields Limited	10	**4,808**	-
34,000	-	Pakistan Petroleum Limited	10	**6,161**	-
30,000	-	Pakistan State Oil	10	**10,266**	
50,000	55,000	DG Khan Company	10	**4,196**	2,517
56,500	6,500	Nishat Power Limited	10	**1,781**	108
				40,784	8,464
Impairment in value of available for sale investments				-	(614)
				40,784	7,850
Market value as at 31 December				**45,242**	9,525
Total available for sale - qouted				**48,797**	**7,950**
Total market value as at 31 December				**56,058**	**9,687**

* 300,000 shares are pledged with National Clearing Company of Pakistan Limited (NCCPL), as exposure margin.

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

15.3 HELD FOR TRADING

2013	2012	Company's name	Face value per unit / share	2013	2012
Number of Units / Shares			Rupees	(Rupees in thousand)	
Investment in associated undertaking					
149,350	157,923	Alfalah GHP Cash Fund	500	**74,753**	79,070
Investment in others					
559,899	751,246	MCB Cash Management Optimizer Fund	100	**55,999**	75,328
693,779	-	MCB Dynamic Allocation Fund	100	**51,599**	-
149,431	142,602	Atlas Money Market Fund	500	**75,126**	72,021
349,092	348,317	IGI Money Market Fund	100	**35,098**	35,060
553,780	734,310	UBL Liquidity Plus Fund	100	**55,696**	73,635
-	817,981	Pakistan Cash Management Fund	50	-	41,010
768,183	782,788	Askari Sovereign Cash Fund	100	**77,432**	78,693
7,664,390	7,587,483	ABL Cash Fund	10	**76,703**	75,973
-	665	Metro Bank Perpetual Scheme	50	-	33
778,820	291,942	Faysal Money Market Fund	100	**79,222**	30,048
740,044	741,976	HBL Money Market Fund	100	**74,811**	75,095
4,337,458	2,595,036	NAFA Money market fund	10	**43,426**	26,038
31,500	-	Hub Power Company Limited	10	**1,913**	-
20,500	-	Nishat Chunian Power Limited	10	**713**	-
4,200	-	Pakistan State Oil	10	**1,395**	-
				629,133	582,924
Total - held for trading				**703,886**	661,994

16. PREMIUMS DUE BUT UNPAID

		2013	2012
Unsecured			
- Considered good		**254,286**	171,398
- Considered doubtful		**9,856**	9,856
		264,142	181,254
Less: Provision for doubtful receivables	- note16.1	**(9,856)**	(9,856)
		254,286	171,398

16.1 PROVISION FOR DOUBTFUL RECEIVABLES

		2013	2012
Balance as at 01 January		**9,856**	8,856
Provision made during the year	- note 21	**-**	1,000
Balance as at 31 December		**9,856**	9,856

17. AMOUNTS DUE FROM OTHER INSURERS/REINSURERS

These are unsecured and considered good.

18. SUNDRY RECEIVABLES

		2013	2012
Security deposits		**5,195**	2,185
Receivable from gratuity fund	- note 18.1	**-**	206
Receivable from provident fund	- note 18.2	**-**	1,203
Insurance claim receivable		**212**	1,015
Other advances		**4,382**	2,764
		9,789	7,373

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements
For The Year Ended 31 December 2013

18.1 GRATUITY PAYABLE / (RECEIVABLE)

	2013	2012
	(Rupees in thousand)	*Restated*
The amounts recognised in the balance sheet are as follows:		
Present value of defined benefit obligation	**24,259**	16,788
Fair value of plan assets	**(21,705)**	(16,994)
Liability / (Asset) as at 31 December	**2,554**	(206)
Net obligation as at 01 January	**(206)**	(1,429)
Charge to profit and loss account	**3,975**	3,441
Benefit payment on behalf of fund	**-**	(738)
Other comprehensive income	**2,332**	1,655
Company contribution	**(4,285)**	(3,135)
Refund to Alfalah Insurance	**738**	-
	2,554	(206)

18.1.1 The movement in the present value of defined benefit obligation is as follows:

	2013	2012
Present value of defined benefit obligation as at 01 January	16,788	10,858
Service cost	**3,998**	3,515
Interest cost	1,932	1,311
Benefits paid	**(397)**	(738)
Experience adjustments	**1,938**	1,842
Present value of defined benefit obligation as at 31 December	**24,259**	16,788

18.1.2 The movement in fair value of plan assets is as follows:

	2013	2012
Fair value as at 01 January	**16,994**	12,286
Expected return on plan assets	**1,955**	1,385
Company contributions	**4,285**	3,136
Refund to Alfalah Insurance	**(738)**	-
Benefit payment on behalf of fund	**-**	738
Benefit paid	**(397)**	(738)
Return on plan assets excluding interest income	**(384)**	187
Fair value as at 31 December	**21,705**	16,994

18.1.3 Plan assets are comprised as follows:

	2013		2012	
	Fair Value (Rupees in thousand)	Percentage	Fair Value (Rupees in thousand)	Percentage
Investment in units of mutual funds	**471**	**2%**	862	5%
Cash at bank	**21,234**	**98%**	16,558	95%
	21,705		17,420	

	2013	2012
	(Rupees in thousand)	
18.1.4 Actual return on plan assets		
Expected return on assets	**1,955**	1,385
Actuarial gain / (loss)	**(384)**	187
	1,561	1,572

18.1.5 Charge to profit and loss account:

	2013	2012
Current service cost	**3,998**	3,516
Net Interest	**(23)**	(74)
Expense for the year	**3,975**	3,442

18.1.6 Remeasurements recognized in other comprehensive income, expense / (income) during the year

	2013	2012
Experience adjustments	**1,938**	1,842
Return on plan assets excluding interest income	**384**	(187)
	2,332	1,655

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

18.1.7 Sensitivity analysis on significant actuarial assumptions: Actuarial liability

	2013 (Rupees in thousand)
Discount rate +0.5%	**(1,074)**
Discount rate -0.5%	**1,172**
Future salary increases +0.5%	**1,229**
Future salary increases -0.5%	**(1,135)**

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

As at 31 December	2013	2012 Restated	2011	2010	2009
			(Rupees in thousand)		
Present value of defined benefit obligation	**24,259**	16,788	10,858	7,559	8,715
Fair value of plan assets	**(21,705)**	(16,994)	(12,286)	(9,966)	(5,700)
(Deficit)/Surplus	**2,554**	(206)	(1,428)	(2,407)	3,015
Experience adjustment on obligation	**7.99%**	10.97%	-3.53%	-50.41%	-15.80%
Experience adjustment on plan assets	**1.82%**	-1.10%	5.71%	-0.30%	5.86%

18.2 PROVIDENT FUND TRUST

	2013	2012
	(Rupees in thousand)	
Size of the fund	**40,912**	29,760
Cost of investment made	**41,564**	31,423
Percentage of investments made (based on fair value)	**103%**	107%
Fair value of investments	**42,144**	31,906

18.2.1 Break-up of investments

Investments out of provident fund have been in accordance with the provisions of section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose. The break-up of investments is as follows:

	2013	2012
	(Rupees in thousand)	
Listed securities / mutual funds	**1,322**	1,225
Interest bearing bank accounts	**40,822**	30,681
	42,144	31,906

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ALFALAH INSURANCE COMPANY

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Notes to and Forming Part of The Financial Statements
For The Year Ended 31 December 2013

19. TANGIBLE

(Rupees in thousand)

	Cost as at 01 January 2013	Additions	Disposals / Adjustments	Cost as at 31 December 2013	Accumulated depreciation as at 01 January 2013	Depreciation charge for the year	Accumulated Depreciation on Disposal / Adjustments	Accumulated depreciation as at 31 December 2013	Book value as at 31 December 2013	Depreciation rates
Furniture, fixtures and office equipment										
Furniture and fixtures	16,219	702	(378)	16,534	5,450	1,632	(211)	6,877	9,657	10%
Office equipment	14,271	425	(808)	13,888	8,744	1,875	(758)	9,861	4,027	20%
Computer equipment	23,129	6,446	(1,150)	28,425	14,701	4,345	(1,135)	17,911	10,514	25%
	53,619	7,573	(2,336)	58,847	28,901	7,852	(2,104)	34,649	24,198	
Building on leasehold land	50,235	-	-	50,235	18,529	5,023	-	23,552	26,683	10%
Motor vehicles	51,112	14,379	(8,620)	56,871	24,902	8,215	(5,951)	24,166	32,705	20%
2013	154,967	21,952	(10,956)	165,963	72,332	18,090	(8,055)	82,367	83,586	

	Cost as at 01 January 2012	Additions	Disposals / Adjustments	Cost as at 31 December 2012	Accumulated depreciation as at 01 January 2012	Depreciation charge for the year	Accumulated Depreciation on Disposal / Adjustments	Accumulated depreciation as at 31 December 2012	Book value as at 31 December 2012	Depreciation rates
Furniture, fixtures and office equipment										
Furniture and fixtures	12,611	3,865	(266)	16,210	4,082	1,529	(165)	5,456	10,754	10%
Office equipment	14,327	4,069	(4,125)	14,271	9,127	2,956	(3,369)	8,744	5,527	20%
Computer equipment	18,115	5,083	(60)	23,129	12,027	2,638	(24)	14,701	8,428	25%
	45,053	13,020	(4,462)	53,610	25,246	7,213	(3,558)	28,901	24,739	
Building on leasehold land	46,390	6,865	(3,023)	50,235	16,646	4,906	(3,023)	18,529	31,736	10%
Motor vehicles	43,471	9,275	(1,637)	51,112	20,938	5,159	(1,195)	24,902	26,210	20%
2012	134,914	28,165	(9,122)	154,957	62,850	17,278	(7,776)	72,332	82,625	

19.1 The depreciation charge for the year has been charged to the management expenses and general and administrative expenses as referred to in note 21 and 23.

19.2 Disposals include disposals of two motor vehicles to employees of the Company, as per the Company's policy, having book value and sale proceeds amounting to Rs.(000) 349 and Rs.(000) 1,125 respectively.

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

20. INTANGIBLE

(Rupees in thousand)

2013	Cost as at 01 January 2013	Additions	Cost as at 31 December 2013	Accumulated amortisation as at 01 January 2013	Amortisation charge for the year	Accumulated amortisation as at 31 December 2013	Book value as at 31 December 2013	Amortisation rate
Software	11,442	1,137	12,579	6,563	2,014	8,577	4,002	25%

(Rupees in thousand)

2012	Cost as at 01 January 2012	Additions	Cost as at 31 December 2012	Accumulated amortisation as at 01 January 2012	Amortisation charge for the year	Accumulated amortisation as at 31 December 2012	Book value as at 31 December 2012	Amortisation rate
Software	9,106	2,336	11,442	4,772	1,791	6,563	4,879	25%

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

ALFALAH INSURANCE COMPANY

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Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

21. MANAGEMENT EXPENSES

		2013	2012
		(Rupees in thousand)	
			Restated
Salaries, wages and other benefits		102,822	93,625
Staff retirement benefits	- note 23.2	6,499	5,354
Tracker expenses		43,087	29,795
Rent, rates and taxes		9,616	9,561
Communication and utility expenses		10,476	9,764
Printing and stationery		6,472	6,852
Generator expense		3,245	5,342
Travelling and conveyance		4,375	5,404
Inspection fee		920	1,761
Provision for doubtful debts	- note 16.1	-	1,000
Fees and subscription		3,594	4,459
Training and development		580	820
Depreciation on tangible assets	- note 19	5,528	6,202
Vehicles running and maintenance expenses		8,363	8,026
Sundry expenses		8,824	7,968
		214,401	195,933

22. OTHER INCOME

This represents gain/(loss) arising on disposal of fixed assets, liabilities written back and exchange gain/(loss) arising on foreign currency transactions.

23. GENERAL AND ADMINISTRATION EXPENSES

		2013	2012
		(Rupees in thousand)	
			Restated
Salaries, wages and other benefits		37,378	32,004
Staff retirement benefits	- note 23.2	2,698	2,512
Depreciation on tangible assets	- note 19	12,562	11,076
Amortization of intangible assets	- note 20	2,014	1,791
Vehicles running and maintenance expenses		6,500	6,222
Repair and maintenance		6,163	6,806
Insurance expense		4,492	3,744
Rent expense		8,625	7,237
Legal and professional		2,478	6,715
Advertisement expenses		2,825	1,602
Auditors' remuneration	- note 23.1	956	953
Workers' welfare fund	- note 8.1	2,511	-
		89,202	80,662

23.1 AUDITORS' REMUNERATION

	2013	2012
Statutory audit fee	477	450
Half yearly review	212	200
Statutory returns	106	100
Certification and sundry services	80	75
Out of pocket expenses	81	128
	956	953

23.2 STAFF RETIREMENT BENEFITS

Staff retirement benefits comprises of provident fund and gratuity amounting to Rs. 5.2 million and Rs. 3.9 million respectively.

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

		2013	2012
		(Rupees in thousand)	
24. TAXATION			
Current Tax			
Current year		22,067	8,779
Prior years		518	-
		22,585	8,779
Deferred Tax			
Relating to reversal and origination of temporary differences		(2,332)	1,085
Income resulting from reduction in tax rate		210	-
		(2,122)	1,085
	- note 24.1	20,463	9,864

24.1 TAX CHARGE RECONCILIATION

	2013	2012
A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rate		
Accounting profit	123,040	107,955
Tax at the applicable rate of 34% (2012: 35%)	41,833	37,784
Tax effect of amounts that are:		
- Exempt for tax purposes	(20,922)	(27,317)
- Chargeable to tax at different rates	(966)	(603)
Prior year current tax	518	-
	(21,370)	(27,920)
Tax expense	20,463	9,864

25. EARNINGS PER SHARE - BASIC AND DILUTED

		2013	2012 *Restated*
Net profit for the year	**Rupees in thousand**	102,577	98,022
Weighted average number of ordinary shares issued and paid at the end of the year	**Number of shares**	30,000,000	30,000,000
Earnings per share - basic and diluted	**Rupees per share**	3.42	3.27

26. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE AND KEY MANAGEMENT PERSONNEL

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

	2013		
	Directors	Chief Executive	Key Management Personnel
	(Rupees in thousand)		
Managerial remuneration	-	13,440	22,167
Contribution to post employment benefits	-	1,343	2,078
Bonus	-	5,392	3,933
Leave fare assistance	-	336	554
	-	20,511	28,732
Number of persons	6	1	10

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

	2012		
	Directors	Chief Executive	Key Management Personnel
	(Rupees in thousand)		
Managerial remuneration	-	12,000	17,905
Contribution to post employment benefits	-	1,200	1,790
Bonus	-	4,000	3,464
Leave fare assistance	-	300	462
	-	17,500	23,621
Number of persons	6	1	8

In addition, the Chief Executive of the Company was also provided with two Company maintained cars and maintained semi furnished accomodation. No fee was paid to directors for attending meetings.

27. NUMBER OF EMPLOYEES

The number of employees in the company is as follows:

	2013	2012
Average number of employees during the year	**198**	191
As at 31 December	**198**	197

28. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise associated undertakings, other related Companies, directors of the Company and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Remuneration of directors, chief executive and key management personnel is disclosed in note 26. Amounts due to/from and other significant transactions with related parties are as follows:

		2013	2012
		(Rupees in thousand)	
Transactions during the period			*Restated*
Relationship	**Nature of transactions**		
Associated undertakings and other related parties	Insurance premium	**604,134**	510,693
	Net premium received	**700,953**	645,597
	Claims paid	**376,640**	421,083
	Interest income	**9,236**	7,975
	Dividend received	**19**	2,624
	Rent paid	**1,664**	1,597
	Rent expense	**1,894**	1,597
	License fees and connection charges	**2,933**	3,464
Key management personnel	Premium written	**268**	100
	Claims paid	**-**	114
	Receipt from sale of motor vehicle	**675**	-
Post employment benefit plans	Expense charged	**9,197**	7,867
Period end balances			
Associated undertakings and other related parties	Premium receivable - note 30.1.1.3	**161,957**	90,980
	Provision for outstanding claims	**227,984**	501,278
Key management personnel	Premium receivable	**388**	96
	Provision for outstanding claims	**5**	-

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

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

29. SEGMENT REPORTING

Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirement of Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002. The following table presents information regarding segment assets, liabilities as at 31 December 2013 and 31 December 2012, unallocated capital expenditure and non-cash expenses during the year.

(Rupees in thousand)

	Fire and property damage		Marine, aviation and transport		Motor		Health		Miscellaneous		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Segment assets	479,686	598,598	48,984	36,801	56,136	30,752	213,876	75,190	41,298	267,643	839,880	1,016,511
Unallocated corporate assets											998,029	975,768
Consolidated total assets											1,837,909	1,992,279
Segment liabilities	358,689	692,516	45,026	36,175	236,474	189,358	328,704	153,376	151,966	332,398	1,110,859	1,395,813
Unallocated corporate liabilities											140,194	113,855
Consolidated total liabilities											1,251,053	1,509,668
Unallocated capital expenditure											23,089	31,582
Unallocated depreciation and amortization											20,194	19,089

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30. RISK MANAGEMENT

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholder from the events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management system in place.

The Company's risk management function is carried out by the Board of Directors (the Board), with its associated committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to the Chief Executive Officer and senior managers.

The Board of Directors meets regularly to approve any commercial, regulatory and organizational decisions. The Chief Executive Officer under the authority delegated from the Board of Directors defines the Company's risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirement.

The risk faced by the Company and the way these risks are mitigated by management are summarised below :

a) Financial risk, categorized into ;	
- Credit risk	- note 30.1.1
- Liquidity risk	- note 30.1.2
- Market risk	- note 30.1.3
b) Capital adequacy risk	- note 30.2
c) Insurance risk	- note 30.3

30.1 Financial risk

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

The Company's principal financial risk instruments are financial investments, receivables arising from insurance and reinsurance contracts, statutory deposits and cash and cash equivalents. The Company's does not enter into any derivative transactions.

The Company's financial risk focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance. Financial risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous period in the manner described in notes below.

30.1.1 Credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring the following:

a) Credit worthiness of counter party;
b) Sector wise concentration of counter party; and
c) Aging analysis of counter party.

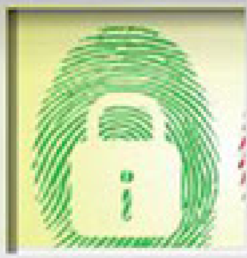
The carrying amount of financial assets which represents the maximum credit exposure, as specified below:

Financial assets		2013	2012
		(Rupees in thousand)	
Bank balances	-note 30.1.1.1	**101,999**	160,928
Premium due but unpaid	-note 30.1.1.3	**264,142**	181,254
Amount due from other insurers / reinsurers	-note 30.1.1.4	**86,836**	68,289
Accrued investment income		**1,738**	135
Reinsurance recoveries against outstanding claims	-note 30.1.1.4	**218,933**	502,884
Sundry receivables	-note 30.1.1.5	**9,789**	7,452
		683,437	920,942

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

	Rating Short term	Long term	Rating Agency	2013	2012
				(Rupees in thousand)	
Bank Alfalah Limited	A1+	AA	PACRA	**93,176**	153,415
HSBC Bank Middle East Limited	P1	A1	MOODY'S	**259**	259
Habib Bank Limited	A-1+	AAA	JCR-VIS	**5,562**	5,254
The Bank of Punjab	A1+	AA-	PACRA	**3,001**	-
Silk Bank Limited	A-2	A-	JCR-VIS	**1**	-
Trust Investment Bank Limited	-	-	PACRA	**-**	2,000
				101,999	160,928

Guarding the Castle of Dreams



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ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30.1.1.2 The credit quality of Company's investments can be assessed with reference to external credit rating which is as follows :

Company/Asset Management Company Name	Rating	Rating Agency	2013	2012
			(Rupees in thousand)	
MCB Cash Management Optimizer Fund	AA(f)	PACRA	**55,999**	75,361
MCB Dynamic Allocation Fund	4-STAR	PACRA	**51,599**	
NBP Fullerton Asset Management Limited	AM2	PACRA	**43,426**	26,038
Alfalah GHP Investment Management Limited	AM3	PACRA	**74,753**	79,070
Atlas Asset Management Limited	AM2-	PACRA	**75,126**	72,021
IGI Money Market Fund	AA(f)	PACRA	**35,098**	35,060
UBL Liquidity Plus Fund	AA+(f)	JCR-VIS	**55,696**	73,835
Arif Habib Investments Limited	AM2	PACRA	**-**	41,010
Askari Investment Management Limited	AM3+	PACRA	**77,432**	78,893
ABL Asset Management Company Limited	AM2	JCR-VIS	**76,703**	75,973
Faysal Asset Management Limited	AA3+	JCR-VIS	**79,222**	30,048
HBL Asset Management Limited	AM2-	JCR-VIS	**74,811**	75,095
Hub Power Company Limited	AA+	PACRA	**1,936**	1,405
Kot Addu Power Company Limited	AA+	JCR-VIS	**3,640**	3,820
Bank Alfalah Limited	AA	PACRA	**8,013**	100
DG Khan Company	N/A	-	**4,196**	2,517
Bank Al-Habib Limited	AA+	PACRA	**661**	-
Lucky Cement Limited	N/A	-	**2,229**	-
Nishat Chunian Limited	A-	JCR-VIS	**1,451**	-
NIB Bank Limited	AA-	PACRA	**260**	-
Nishat Mills Limited	AA-	PACRA	**2,998**	-
Oil and Gas Development Company	AAA	JCR-VIS	**2,300**	-
Pakistan Oil Fields Limited	N/A	-	**4,808**	-
Pakistan Petroleum Limited	N/A	-	**6,151**	-
Pakistan State Oil	AA+	PACRA	**11,661**	-
Nishat Power Limited	A+	PACRA	**2,494**	108
			752,683	660,944

30.1.1.3 The management monitors exposure to credit risk in premium receivable arising from insurance and reinsurance contracts, through regular review of credit exposure and prudent estimates of provision for doubtful receivables. The provision for doubtful receivables amounting to Rs. 9.856 million (2012: Rs. 0.656 million) is shown in note 16.1. The figures shown below are exclusive of any provisions made during the year. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in entities of sound financial standing, covering various industrial sector segments.

Sector wise analysis of premiums due but unpaid is as follows :

	2013	2012
	(Rupees in thousand)	
Financial institutions	**93,398**	80,016
Telecom sector	**78,719**	13,068
Foods & beverages	**8,512**	7,981
Personal Goods	**15,357**	12,376
Health	**3,308**	2,611
Textile	**9,216**	18,257
Miscellaneous	**55,632**	46,345
	264,142	181,254

The aging analysis of premium due but unpaid can be assessed with the following age analysis :

	2013			2012		
	(Rupees in thousand)					
	Related parties	Others	Total	Related parties	Others	Total
The age analysis of receivables is as follows:						
Upto 1 year	**160,706**	**94,520**	**255,226**	84,522	82,514	167,036
1-2 years	**1,237**	**4,360**	**5,597**	347	7,424	7,771
2-3 years	**-**	**3,168**	**3,168**	2,586	274	2,860
Over 3 years	**14**	**137**	**151**	3,525	62	3,587
	161,957	**102,185**	**264,142**	90,980	90,274	181,254

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30.1.1.4 The credit quality of amount due from other insurers / reinsurers and reinsurance recoveries against outstanding claims can be assessed with reference to external ratings as follows:

	Amount due from other insurers/ reinsurers	Reinsurance recoveries against outstanding claims	Total
			(Rupees in thousand)
As at 31 December 2013			
A- or above (including PRCL)	86,712	218,933	305,645
BBB and BBB+	124	-	124
	86,836	218,933	305,769
As at 31 December 2012			
A- or above (including PRCL)	62,449	502,884	565,333
BBB and BBB+	5,840	-	5,840
	68,289	502,884	571,173

The credit risk of reinsurance recoveries against outstanding claims can be assessed with the following age analysis, estimated in a manner consistent with the provision for outstanding claims, in accordance with the reinsurance contracts.

(Rupees in thousand)

The age analysis of reinsurance against outstanding claims is shown below:	Reinsurance recoveries against outstanding claims	Provision for outstanding claims
Upto 1 year	147,943	301,027
1-2 years	31,603	42,067
2-3 years	13,441	16,508
Over 3 years	25,946	28,875
	218,933	388,477

30.1.1.5 Sundry receivable includes security deposits, advance to employees and receivable from Provident Fund which does not carry significant credit risk.

30.1.1.6 Salvage recoveries accrued does not carry significant credit risk.

30.1.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of adequate funds through committed credit facilities. The Company finances its operations through equity and working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk.

On the balance sheet date, Company has cash & bank deposits and readily marketable securities with insignificant change in value of Rs 102.403 million (2012: Rs 162.258 million) and Rs 703.898 million (2012: Rs 661.994 million) respectively.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to contractual maturity dates. The amounts disclosed in the table are the contractual undiscounted cash flows.

2013	Carrying amount	Contractual cash flows	Maturity upto one year	Maturity after one year
				(Rupees in thousand)
Provision for outstanding claims	393,782	393,782	393,782	-
Amounts due to other insurers/reinsurers	142,414	142,414	142,414	-
Accrued expenses	60,576	60,576	60,576	-
Other creditors and accruals	35,812	35,812	35,812	-
Deposits and other accounts	4,686	4,686	4,686	-
	637,270	637,270	637,270	-

2012	Carrying amount	Contractual cash flows	Maturity upto one year	Maturity after one year
				(Rupees in thousand)
Provision for outstanding claims	650,048	650,048	650,048	-
Amounts due to other insurers/reinsurers	241,593	241,593	241,593	-
Accrued expenses	50,398	50,398	50,398	-
Other creditors and accruals	25,001	25,001	25,001	-
Deposits and other accounts	3,390	3,390	3,390	-
	970,430	970,430	970,430	-

30.1.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of change in market prices such as interest rates, foreign exchange rates and equity prices.

The Company is exposed to market risk with respect to its bank balances deposits and investments.

The Company limits market risk by maintaining a diversified portfolio of money market and equity market and by continuous monitoring of developments in respective markets. The company has formulated a liquidity-risk based investment policy approved by the Board of Directors which contains various guidelines for investment of surplus funds in money market and equity market.

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

a) **Interest rate risk**

Interest 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 rates. Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instrument exposes the Company to fair value interest risk.

Sensitivity to interest rate risk arises from mismatches of financial assets and liabilities that mature or re-price in a given period. The Company manages these mismatches through risk management strategies where significant changes in gap position can be adjusted.

At the balance sheet date, the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

(Rupees in thousand)

	2013 Effective interest rate %	Carrying amounts Maturity upto one year		Carrying amounts Maturity after one year	
		2013	2012	2013	2012
Financial assets					
Bank balances	8.00% to 8.50%	**70,442**	87,884	-	-
Investments					
Money market funds	7.54% to 8.20%	**699,865**	661,994	-	-
PIB's	9.50% to 11.50%	-	26,930	**33,071**	4,753

Sensitivity analysis

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate will not effect fair value of any financial instrument. For cash flow sensitivity analysis of variable rate instruments a hypothetical change of 100 basis points in interest rates at the reporting date would have decreased/(increased) profit for the year by the amounts shown below.

It is assumed that the changes occur immediately and uniformly to each category of instrument containing interest rate risk. Variations in market interest rates could produce significant changes at the time of early repayments. For these reasons, actual results might differ from those reflected in the details specified below. The analysis assumes that all other variables remain constant.

(Rupees in thousand)

	Increase	Decrease
Impact on profit and loss	by 100 bps	
As at 31 December 2013		
Cash flow sensitivity-variable rate financial assets	**13,260**	**(13,260)**
As at 31 December 2012		
Cash flow sensitivity-variable rate financial assets	7,734	(7,734)

b) **Price risk**

Price risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest/mark-up rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instruments traded in the market. Company is exposed to price risk since it has investments amounting to Rs 732.081 million (2012: Rs 669,994 million) at the balance sheet date. However the company has no significant concentration of price risk.

The carrying amount of investments subject to price risk are based on quoted market prices as of the balance sheet date except for available for sale equity instruments which are stated at lower of cost or market value (market value being taken as lower if fall is other than temporary) in accordance with the requirements of the S.R.O. 938 issued by the SECP, in December 2002.

The Company's strategy is to hold its strategic equity investments for long period of time. Thus, Company's management is not concerned with short term price fluctuations with respect to its strategic investments provided that the underlying business, economic and management characteristics of the investee remain favorable.

Sensitivity analysis

The table below summarizes Company's equity price risk as of 31 December 2013 and 2012 and shows the effects of a hypothetical 10% increase and a 10% decrease in market prices as at the year end. The selected hypothetical change does not reflect what could be considered to be the best or worst case scenarios.

The impact of hypothetical change on held for trading portfolio would be as follows:

(Rupees in thousand)

	Fair value	Hypothetical price change	Estimated fair value after hypothetical changes in price	Hypothetical increase/(decrease) in equity	Hypothetical increase/(decrease) in profit before tax
31 Dec 2013	**703,886**	**10% increase**	**774,275**	**70,389**	**70,389**
		10% decrease	**633,497**	**(70,389)**	**(70,389)**
31 Dec 2012	661,994	10% increase	728,193	66,199	66,199
		10% decrease	595,795	(66,199)	(66,199)

c) **Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. The Company's exposure to exchange rate fluctuation risk is insignificant as it hold liabilities of US $ 20,000 as at 31 December 2013 (2012: US $ 388,142.43).

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements
For The Year Ended 31 December 2013

30.2 Capital adequacy risk

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

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares. The Company currently meets minimum paid up capital requirements as required by SECP.

30.3 Insurance risk

The Company's insurance activities are primarily concerned with the pricing, acceptance and management of risks from its customers. In accepting risks the Company is committing to the payment of claims and therefore these risks must be understood and controlled. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the Company's success. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The company is facing three kinds of risk in its insurance activities, namely :

- Premium Risk -note 30.3.1
- Claim Risk -note 30.3.2
- Reinsurance Risk -note 30.3.3

30.3.1 Premium Risk

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Pricing is generally based upon risk quality, historical claims frequencies, claims averages, adjusted for inflation and imposition of deductibles. Risk inspections surveys are also conducted before acceptance of larger risks. Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria. For example, The Company does not offer health insurance to walk-in individual customers. Health insurance is generally offered to corporate customers with a large population to be covered under the policy.

The Company manages the insurance risk arising from the geographical concentration of risk with the help of various MIS reports generated from the IT system. For this purpose all critical underwriting information including address lookups and geocoding is punched into the IT system. For example, for catastrophic aggregates, the IT system assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardizing Target Accumulations) codes with reference to the accumulation of sum insured in force at any particular location against natural perils. For Marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea/air/inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are fed into the IT system.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk.

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

	Gross sum insured		Net sum insured	
	2013	2012	**2013**	2012
Fire	**70%**	71%	**31%**	46%
Marine	**15%**	15%	**14%**	16%
Motor	**2%**	2%	**11%**	13%
Health	**9%**	7%	**41%**	21%
Miscellaneous	**4%**	5%	**3%**	4%
	100%	100%	**100%**	100%

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

	Gross premium written		Net premium written	
	2013	2012	**2013**	2012
Fire	**30%**	30%	**7%**	7%
Marine	**6%**	6%	**2%**	3%
Motor	**25%**	21%	**46%**	45%
Health	**19%**	22%	**38%**	36%
Miscellaneous	**20%**	21%	**7%**	9%
	100%	100%	**100%**	100%

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30.3.2 Claim Risk

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and can be characterised under a number of specific headings, such as;

- Uncertainty as to whether an event has occurred which would give rise to an insured loss.
- Uncertainty as to the extent of policy coverage and limits applicable.
- Uncertainty as to the amount of insured loss suffered by a policyholder as a result of the event occurring.
- Uncertainty over the timing of a settlement to a policyholder for a loss suffered.

Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these uncertainties and in case of any change in estimation due to further development on uncertainty or change on assumptions, Company account for that change immediately.

Claims provisions are determined based upon previous claims experience, knowledge of events and the terms and conditions of the relevant policies and on interpretation of circumstances. Particularly relevant is experience with similar cases and historical claims payment trends. It should be emphasised that corroborative evidence obtained from as wide a range of sources as possible also contribute to form the overall estimate. Large claims impacting each relevant business class are generally assessed separately, being measured at the face value of the surveyor's estimates.

Company has reasonably accounted for claims that have occurred by the end of the reporting period but remain unsettled and for those that may have occurred but have not yet been notified to the company and those that are not yet apparent to the insured. The Company's policy for accounting of its claims has been disclosed in note 4.2 to the financial statements.

Sensitivity analysis

The risks associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company makes various assumptions and techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The Company considers that the liability for insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

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

(Rupees in thousand)

	Net impact of increase / decrease in average claims by 10% on			
	Underwriting result		Shareholders' Equity	
	2013	2012	**2013**	2012
Fire	**2,007**	1,960	**1,325**	1,274
Marine	**785**	193	**518**	125
Motor	**9,630**	10,835	**6,356**	7,043
Health	**17,534**	11,755	**11,572**	7,641
Miscellaneous	**1,783**	1,494	**1,177**	971
	31,739	26,237	**20,948**	17,054

Claims development tables

The following table shows the development of fire and miscellaneous claims over a period of time. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments. For other classes of business the uncertainty about the amount and timings of claims payment is usually resolved within a year. Further, claims with significant uncertainties are not outstanding as at 31 December 2013.

(Rupees in thousand)

	Accident year							
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**Total**
Estimate of ultimate claims cost								
At end of accident year	113,389	139,061	202,514	516,129	203,636	736,572	219,715	2,131,016
One year later	87,887	123,462	160,344	399,828	147,542	533,793	-	1,452,856
Two years later	83,574	131,215	148,697	370,839	138,431	-	-	872,776
Three years later	84,612	129,462	145,420	368,407	-	-	-	727,901
Four years later	83,615	119,032	145,085	-	-	-	-	348,632
Five years later	78,823	119,867	-	-	-	-	-	198,690
Six years later	78,823	-	-	-	-	-	-	78,823
Estimate of cumulative claims	78,823	119,867	145,085	368,407	138,431	533,793	219,715	1,604,121
Cumulative payments to date	(75,480)	(110,753)	(140,012)	(345,008)	(130,508)	(479,239)	(64,450)	(1,345,450)
Liability recognised	**3,343**	**9,114**	**5,073**	**23,399**	**7,923**	**54,554**	**155,265**	**258,671**

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

	Gross claim expense		Net claim expense	
	2013	2012	**2013**	2012
Fire	**-4%**	57%	**6%**	7%
Marine	**38%**	2%	**2%**	1%
Motor	**22%**	12%	**30%**	41%
Health	**39%**	14%	**55%**	45%
Miscellaneous	**5%**	15%	**6%**	6%
	100%	100%	**99%**	100%

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30.3.3 Reinsurance risk

The Company purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure of the Company to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the Company's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance vary by product line. The Company also arranges the local and foreign facultative reinsurance as part of its risk management strategy.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. Company's strategy is to seek reinsurers with the best combination of financial strength, price and capacity. In compliance of the regulatory requirement, the reinsurance agreements are duly submitted with SECP on an annual basis.

31. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 2 March, 2014 by the Board of Directors of the Company.

32. CORRESPONDING FIGURES

The corresponding figures have been rearranged, wherever necessary, for better presentation. However, no significant reclassification has been made during the period, except for the following:

(Rupees in thousand)

Statement	Reclassified from	Reclassified to	Amount
Profit and loss account	**Management expenses** Salaries, wages and other benefits	**General and administrative expenses** Salaries, wages and other benefits	5,396
Profit and loss account	**Management expenses** Staff retirement benefits	**General and administrative expenses** Staff retirement benefits	319
Profit and loss account	**Management expenses** Rent, rates and taxes	**General and administrative expenses** Rent expense	2,545
Profit and loss account	**General and administrative expenses** Depreciation on tangible assets	**Management expenses** Depreciation on tangible assets	6,202
Profit and loss account	**General and administrative expenses** Vehicles running and maintenance expenses	**Management expenses** Vehicles running and maintenance expenses	6,026
Profit and loss account	**General and administrative expenses** Insurance expense	**Management expenses** Salaries, wages and other benefits	2,983

33. GENERAL

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

Chairman

Director

Director

Principal Officer and
Chief Executive

Alfalah Insurance Company Limited

Notice of 8th Annual General Meeting

Notice is hereby given that 8th Annual General Meeting of the Shareholders of Alfalah Insurance Company Limited (the "Company") will be held on April 29, 2014 at 11:00 a.m. at the registered office of the Company located at 5 – Saint Mary Park, Gulberg III, Lahore to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the 2nd Extra Ordinary General Meeting held on August 15, 2013.

2. To receive, consider and adopt the Annual Audited Financial Statements of the Company together with the Directors' and Auditors' report thereon for the year ended December 31, 2013.

3. To appoint auditors for the year ending December 31, 2014 and to fix their remuneration.

SPECIAL BUSINESS

4. To consider and, if though fit, pass the following Special Resolution with or without modification(s):-

   "RESOLVED THAT pursuant to the requirements of Section 208 of the Companies Ordinance, 1984 Alfalah Insurance Company Limited ("the Company") be and is hereby authorized to make equity investment upto an aggregate limit of Rs.15 million (Rupees fifteen million only) in the shares of Bank Alfalah Limited, an Associated Company."

   "FURTHER RESOLVED THAT the Chief Executive and Company Secretary of the Company be and are hereby jointly empowered and authorized to undertake the decision of said investment of shares as and when deemed appropriate and necessary in the best interest of the Company and its shareholders."

   "FURTHER RESOLVED THAT Company Secretary of the Company be and is hereby authorized to take any and all actions as deemed necessary for fulfilling the legal, corporate and procedural formalities and file all necessary documents / returns as he deems necessary in this regards and the matters ancillary thereto."

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

A Statement under Section 160(1) (b) of the Companies Ordinance, 1984, along with the information required under Clause (a) of sub-regulation (1) of Regulation 3 of Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2012 is annexed to the notice of the meeting send to the shareholders.

Date: April 07, 2014
Lahore

By order of the Board
Adnan Waheed
Company Secretary

Alfalah Insurance Company Limited

Notice of 8th Annual General Meeting

Notes

1) The Share Transfer Books of the Company will be closed from April 19, 2014 to April 29, 2014 both days inclusive.

2) A member entitled to attend and vote at the Annual General Meeting is entitled to appoint another person as a proxy to attend and vote instead of him/her.

3) Every proxy shall be appointed in writing under the hand of the appointer or by an agent duly authorized under a Power of Attorney or if such appointer is a company or corporation under the Common Seal of the company or corporation or the hand of its Attorney who may be the appointer.

4) The instrument of proxy in order to be effective must reach the Company's registered address at 5-Saint Mary Park, Gulberg III, Lahore not less than 48 hours before the time for holding of the Meeting.

5) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

6) The signature on the instrument of proxy must conform to the specimen signature recorded with the Company.

7) The proxy shall produce his/her original NIC or original passport at the time of the Meeting.

8) Shareholders are requested to notify change in their address, if any, to the Company Secretary.

EXPLANATORY STATEMENT REQUIRED UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the Special business to be transacted at the Annual General Meeting of the Company to be held on April 29, 2014.

INVESTMENT IN BANK ALFALAH LIMITED

Owned and operated by the Abu Dhabi Group, Bank Alfalah Limited incorporated as a public limited company on June 21, 1992 under the Companies Ordinance 1984 and commenced banking operations from November 1, 1997.

The Bank provides financial solutions to consumers, corporations, institutions and governments through a broad spectrum of products and services, including corporate and investment banking, consumer banking and credit, commercial, SME, agri-finance, Islamic and asset financing through a network of over 550 branches in more than 190 cities in Pakistan.

The Company currently holds investment of Rs. 10.859 million and will consider further investment at a suitable time on availability of shares at a favorable price and after taking into consideration the latest financial position of the investee Company.

The Directors have carried out due diligence for the proposed investment which shall be available for inspection of members in the general meeting along with latest audited accounts of the associated Company.

ALFALAH INSURANCE COMPANY

Alfalah Insurance Company Limited

INFORMATION REQUIRED UNDER CLAUSE (A) OF SUB-REGULATION (1) OF REGULATION 3 OF COMPANIES (INVESTMENT IN ASSOCIATED COMPANIES OR ASSOCIATED UNDERTAKINGS) REGULATION, 2012 IS AS UNDER;

Sr. No	Requirement	Information about the investee undertaking
(i)	Name of the associated company or associated undertaking along with criteria based on which the associated relationship is established.	Bank Alfalah Limited being associated on the basis of holding 30% share of total equity of Alfalah Insurance Company and common directorship.
(ii)	Purpose, benefits and period of investment.	To enable the company to benefit from the dividend income and prospective capital gain. It is short to medium term routine equity investment during ordinary course of business in accordance with the investment policy of the Company.
(iii)	Maximum amount of investment.	Investment upto Rs 15 million in shares of the investee company, which will be made from time to time.
(iv)	Maximum price at which securities will be acquired.	Market value at the date of purchase of ordinary shares.
(v)	Maximum number of securities to be acquired.	Equivalent to the amount of investment.
(vi)	Number of securities and percentage thereof held before and after the proposed investment.	500,000 shares (0.037%) held to date i.e. before proposed investment. Number of Shares and percentage after proposed investment will depend on the prevailing prices at the time of actual acquisition of shares which could vary with the market price at which shares are purchased in future.
(vii)	In case of investment in listed securities, average of the preceding twelve weekly average price of the security intended to be acquired.	Average market price for last 12 weeks was Rs 27.60.
(viii)	in case of investment in unlisted securities, fair market value of such securities determined in terms of regulation 6(1).	Not applicable.
(ix)	Break-up value of securities intended to be acquired on the basis of the latest audited financial statements.	The breakup value of shares of Bank Alfalah Limited as at December 31, 2013 was Rs 23.64 per share.
(x)	Earnings per share of the associated company or associated undertaking for the last three years.	2013: Rs 3.47 per share 2012: Rs 3.38 per share 2011: Rs 2.60 per share.
(xi)	Sources of fund from which securities will be acquired.	Investment will be made out of the Company's total available funds.
(xii)	Where the securities are intended to be acquired using borrowed funds,- (I) justification for investment through borrowings; and (II) detail of guarantees and assets pledged for obtaining such funds.	Not applicable.

Alfalah Insurance Company Limited

Sr. No	Requirement	Information about the investee undertaking
(xiii)	Salient features of the agreement(s), if any, entered into with its associated company or associated undertaking with regards to the proposed investment.	Not applicable.
(xiv)	Direct or indirect interest of directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration.	H.H. Sheikh Hamdan Bin Mubarak Al Nahayan, Mr. Khalid Mana Saeed Al Otaiba, and Mr. Atif Bajwa Directors of the Company are also directors of Bank Alfalah Limited. They are interested in this business to the extent of their investment in this Company. The interest of the other directors is the same as that of the shareholders and the Company.
(xv)	Any other important details necessary for the mem bers to understand the transaction.	None.
(xvi)	In case of investment in securities of a project of an associated company or associated undertaking that has not commenced operations, in addition to the information referred to above, the following further information, is required, namely,- (I) description of the project and its history since conceptualization; (II) starting and expected dated of completion of work; (III) time by which such project shall become commer cially operational; and (IV) expected time by which the project shall start paying return on investment	Not applicable.

STATUS OF PREVIOUS APPROVALS FOR INVESTMENTS IN ASSOCIATED COMPANY;

As required under the clause 4 (2) Companies (Investment in Associated Companies or Associated Undertakings) Regulation, 2012, the status of the investment in associated company against approval obtained by the Company in last Annual General Meeting held on April 15, 2013 is as under:

BANK ALFALAH LIMITED

Approval was given by the shareholders in respect of investment of Rs. 30 million in the ordinary shares of Bank Alfalah Limited. This investment was to be made during ordinary course of business from time to time in accordance with the investment policy of the Company. Company has partially utilized this limit aggregating to Rs. 12.862 million so far and the remaining limit has been lapsed in accordance with clause 8 of the Companies (Investment in Associated Companies or Associated Undertakings) Regulation, 2012.

Material changes in financial statements of this company since date of the resolution passed for approval in investment are as follows:

a) Book value per share excluding revaluation of shares

2013 Rs. 23.64
2012 Rs. 19.04

b) Basic earnings per shares

2013 Rs. 3.47
2012 Rs. 3.38

Notes

Alfalah Insurance Company Limited

Notes to and Forming Part of The Financial Statements For The Year Ended 31 December 2013

30.2 Capital adequacy risk

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

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares. The Company currently meets minimum paid up capital requirements as required by SECP.

30.3 Insurance risk

The Company's insurance activities are primarily concerned with the pricing, acceptance and management of risks from its customers. In accepting risks the Company is committing to the payment of claims and therefore these risks must be understood and controlled. Disciplined underwriting, encompassing risk assessment, risk management, pricing and exposure control is critical to the Company's success. The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The company is facing three kinds of risk in its insurance activities, namely :

- Premium Risk -note 30.3.1
- Claim Risk -note 30.3.2
- Reinsurance Risk -note 30.3.3

30.3.1 Premium Risk

The underwriting strategy aims to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Pricing is generally based upon risk quality, historical claims frequencies, claims averages, adjusted for inflation and imposition of deductibles. Risk inspections surveys are also conducted before acceptance of larger risks. Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria. For example, The Company does not offer health insurance to walk-in individual customers. Health insurance is generally offered to corporate customers with a large population to be covered under the policy.

The Company manages the insurance risk arising from the geographical concentration of risk with the help of various MIS reports generated from the IT system. For this purpose all critical underwriting information including address lookups and geocoding is punched into the IT system. For example, for catastrophic aggregates, the IT system assigns precise geographic CRESTA (Catastrophe Risk Evaluating and Standardizing Target Accumulations) codes with reference to the accumulation of sum insured in force at any particular location against natural perils. For Marine risks, complete underwriting details, besides sums insured and premiums, like vessel identification, voyage input (sea/air/inland transit), sailing dates, origin and destination of the shipments, per carry limits, etc. are fed into the IT system.

The Company also monitors concentration of risk by evaluating multiple risks covered in the same geographical location. For fire and property risk a particular building and neighbouring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk.

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

	Gross sum insured		Net sum insured	
	2013	2012	**2013**	2012
Fire	**70%**	71%	**31%**	46%
Marine	**15%**	15%	**14%**	16%
Motor	**2%**	2%	**11%**	13%
Health	**9%**	7%	**41%**	21%
Miscellaneous	**4%**	5%	**3%**	4%
	100%	100%	**100%**	100%

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

	Gross premium written		Net premium written	
	2013	2012	**2013**	2012
Fire	**30%**	30%	**7%**	7%
Marine	**6%**	6%	**2%**	3%
Motor	**25%**	21%	**46%**	45%
Health	**19%**	22%	**38%**	36%
Miscellaneous	**20%**	21%	**7%**	9%
	100%	100%	**100%**	100%

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