ACE INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

pwc

A. F. FERGUSON & CO.

AUDITORS' REPORT TO THE MEMBERS OF ACE INSURANCE LIMITED

We have audited the annexed financial statements comprising of:

(i) balance sheet;
(ii) profit and loss account;
(iii) statement of changes in equity;
(iv) statement of cash flows;
(v) statement of premiums;
(vi) statement of claims;
(vii) statement of expenses; and
(viii) statement of investment income.

of **ACE Insurance Limited** as at **December 31, 2013** together with the notes forming part thereof, for the year then ended.

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

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

In our opinion:

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

(b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the Companies Ordinance, 1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied except for the change as stated in note 2.1.2 to the 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 December 31, 2013, and of the profit, its cash flows and changes in equity for the year then ended, in accordance with the 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) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

AF&Co

Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: March 24, 2014
Karachi

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ACE INSURANCE LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2013

	Note	2013	2012 (Rupees) Restated	2011 Restated
Share capital and reserves				
Authorised share capital	3	300,000,000	300,000,000	300,000,000
Paid-up share capital	3	300,000,000	300,000,000	300,000,000
Reserves		97,660,540	101,165,235	87,719,062
TOTAL EQUITY		397,660,540	401,165,235	387,719,062
Underwriting provisions				
Provision for outstanding claims (including IBNR)		592,372,876	323,854,478	482,551,647
Provision for unearned premium		276,991,727	307,705,636	271,642,111
Commission income unearned		7,345,541	11,434,675	14,132,597
		876,710,144	642,994,789	768,326,355
Creditors and accruals				
Amounts due to other insurers / reinsurers	4	104,312,547	140,444,514	209,805,174
Accrued expenses		12,512,046	13,709,114	11,538,576
Other creditors and accruals	5	210,186,267	146,702,686	137,096,639
Taxation - payments less provision		13,994,455	10,710,757	14,341,996
		341,005,315	311,567,071	372,782,385
TOTAL LIABILITIES		1,217,715,459	954,561,860	1,141,108,740
TOTAL EQUITY AND LIABILITIES		1,615,375,999	1,355,727,095	1,528,827,802
CONTINGENCIES AND COMMITMENTS	8			

	Note	2013	2012 (Rupees) Restated	2011 Restated
Cash and bank deposits	9			
Cash and other equivalents		89,865	95,169	100,000
Current and other accounts		61,013,504	57,220,599	47,873,727
Deposits maturing within 12 months		680,000,000	705,000,000	790,000,000
		741,103,369	762,315,768	837,973,727
Investments		-	-	-
Deferred tax asset	10	3,471,145	1,426,558	290,311
Other assets				
Premiums due but unpaid		201,402,050	193,463,969	197,721,040
Amounts due from other insurers / reinsurers		15,959,322	7,280,651	1,431,069
Reinsurance recoveries against outstanding claims	11	518,249,382	235,950,608	361,979,664
Deferred commission expense		15,246,241	5,315,137	8,155,468
Prepayments	12	93,508,556	125,455,505	95,393,847
Sundry receivables	13	13,303,452	8,378,404	9,425,999
		857,669,003	575,844,274	674,107,087
Fixed assets	14			
Tangible				
Furniture and fixtures		1,665,159	1,890,859	1,339,603
Office equipment		2,653,100	3,209,721	2,324,185
Motor vehicles		8,367,771	10,406,487	11,802,656
Computers and related accessories		446,452	633,428	990,233
		13,132,482	16,140,495	16,456,677
TOTAL ASSETS		1,615,375,999	1,355,727,095	1,528,827,802

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2013

	Note	Fire and Property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	2013 Aggregate	2012 Aggregate Restated
		(Rupees)						
Revenue account								
Net premium revenue		121,440,901	(5,481,961)	1,921,944	9,946,070	24,228,698	152,055,652	116,278,561
Net claims		(23,396,861)	9,971,156	2,131,108	1,088,452	(18,920,675)	(29,126,820)	(4,151,642)
Expenses	15	(66,181,042)	(1,310,892)	(249,257)	(4,645,983)	(4,930,589)	(77,317,763)	(73,932,432)
Net commission		10,280,779	1,028,248	(94,040)	2,509,464	1,193,230	14,917,681	29,392,855
Underwriting result		42,143,777	4,206,551	3,709,755	8,898,003	1,570,664	60,528,750	67,587,342
Investment income							-	-
Other income	16						73,903,023	84,123,734
							134,431,773	151,711,076
General and administration expenses	17						(5,784,874)	(5,646,200)
Financial charges	18						(164,573)	(57,238)
Provision for Workers' Welfare Fund							(2,752,877)	(3,090,649)
Profit before taxation							125,729,449	142,916,989
Taxation	19						(45,224,582)	(53,474,065)
Profit after taxation							80,504,867	89,442,924
Other comprehensive income - not reclassifiable to profit and loss								
Remeasurement of post employment benefit obligations - net of tax							(2,919,814)	(1,112,007)
Total comprehensive income for the year							77,585,053	88,330,917
Profit and loss appropriation account								
Balance at the commencement of the year							85,998,670	80,167,734
Profit after taxation for the year							80,504,867	89,442,924
Other comprehensive income							(2,919,814)	(1,112,007)
Dividends							(89,100,000)	(82,499,981)
Balance of unappropriated profit at the end of the year							74,483,723	85,998,670
Earnings per share	21						2.68	2.98

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON DIRECTOR DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

	Paid-up share capital	Capital reserve / advance against future issue of shares	Share based payment contribution reserve	Revenue reserve - Unappropriated profit	Total
			(Rupees)		
Balance as at January 1, 2012	300,000,000	11,450	7,539,878	83,453,166	391,004,494
Effect of change in accounting policy with respect to accounting for actuarial gains and losses applied retrospectively - net of tax - referred in note 2.1.2.2	-	-	-	(3,285,432)	(3,285,432)
Balance as at January 1, 2012 - (restated)	300,000,000	11,450	7,539,878	80,167,734	387,719,062
Cash dividend for the year 2011	-	-	-	(82,499,981)	(82,499,981)
Employee benefit cost under IFRS 2 - Share Based Payment - note 15.2	-	-	7,615,237	-	7,615,237
Profit after taxation for the year	-	-	-	89,442,924	89,442,924
Remeasurement of post employment benefit obligations net of tax	-	-	-	(1,112,007)	(1,112,007)
Balance as at December 31, 2012 - (restated)	300,000,000	11,450	15,155,115	85,998,670	401,165,235
Cash dividend for the year 2012	-	-	-	(89,100,000)	(89,100,000)
Employee benefit cost under IFRS 2 - Share Based Payment - note 15.2	-	-	8,010,252	-	8,010,252
Profit after taxation for the year	-	-	-	80,504,867	80,504,867
Remeasurement of post employment benefit obligations net of tax	-	-	-	(2,919,814)	(2,919,814)
Balance as at December 31, 2013	300,000,000	11,450	23,165,367	74,483,723	397,660,540

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The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON | DIRECTOR | DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012 Restated
	(Rupees)	
OPERATING CASH FLOWS		
a) Underwriting activities		
Premiums received	572,005,149	606,900,971
Reinsurance premiums paid	(471,465,179)	(555,946,719)
Claims paid	(236,714,582)	(246,180,110)
Reinsurance and other recoveries received	239,076,373	206,564,878
Commissions paid	(37,482,850)	(19,114,579)
Commissions received	38,380,293	48,649,843
Net cash generated from underwriting activities	103,799,204	40,874,284
b) Other operating activities		
Income tax paid	(42,579,235)	(57,770,644)
Payment made on account of Workers' Welfare Fund	(3,090,649)	(2,819,089)
General management expenses paid	(64,196,327)	(56,619,576)
Statutory deposit with State Bank of Pakistan	411	-
Net cash used in other operating activities	(109,865,800)	(117,209,309)
Net cash used in operating activities	(6,066,596)	(76,335,025)
INVESTMENT ACTIVITIES		
Fixed capital expenditure	(806,998)	(4,112,576)
Proceeds from disposal of fixed assets	560,345	648,000
Profit / return received	74,201,261	86,641,623
Net cash generated from investing activities	73,954,608	83,177,047
FINANCING ACTIVITIES		
Dividend paid	(89,100,000)	(82,499,981)
Net cash used in financing activities	(89,100,000)	(82,499,981)
Net decrease in cash and cash equivalents during the year	(21,211,988)	(75,657,959)
Cash and cash equivalents at the beginning of the year	732,315,268	807,973,227
Cash and cash equivalents at the end of the year	711,103,280	732,315,268

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON　　DIRECTOR　　DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
	----------- (Rupees)	-----------
		Restated
Reconciliation to Profit and Loss Account		
Operating cash flows	(6,066,596)	(76,335,025)
Depreciation expense	(3,419,945)	(3,802,467)
Gain on disposal of fixed assets	165,279	21,709
Profit / return received	74,201,261	86,641,623
Decrease in statutory deposit with the State Bank of Pakistan	(411)	-
Increase in assets other than cash	313,771,675	(128,697,476)
Increase in liabilities other than running finance	(286,257,760)	220,562,080
Decrease in deferred tax liability	638,351	665,340
Decrease in unearned premium	(1,233,037)	(5,628,862)
Decrease / (increase) in tax payable	(3,283,698)	3,631,239
Cost associated with employee benefit scheme	(8,010,252)	(7,615,237)
Profit after taxation for the year	80,504,867	89,442,924

Definition of cash

Cash comprises of cash in hand, stamps, bank balances and other deposits which are readily convertible to cash and which are used in the cash management function on a day-to-day basis. However, deposit with State Bank of Pakistan has been excluded therefrom.

	2013	2012
	----------- (Rupees)	-----------
Cash for the purposes of the Statement of Cash Flows consists of:		
Cash and other equivalents		
Stamps	39,865	45,169
Cash in hand	50,000	50,000
	89,865	95,169
Current and other accounts		
Current accounts	31,013,415	27,220,099
Deposit with State Bank of Pakistan	30,000,089	30,000,500
	61,013,504	57,220,599
Deposits maturing within 12 months		
Fixed and term deposits	680,000,000	705,000,000
Less: Statutory deposit with State Bank of Pakistan	(30,000,089)	(30,000,500)
	711,103,280	732,315,268

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2013

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2013	2012
	(Rupees)									
Direct and Facultative										
Fire and Property Damage	496,409,176	290,056,301	262,909,545	523,555,932	375,962,199	112,085,046	85,932,214	402,115,031	121,440,901	79,317,279
Marine, Aviation and Transport	9,832,706	568,787	620,668	9,780,825	14,842,280	937,593	517,087	15,262,786	(5,481,961)	5,357,067
Motor	1,869,620	454,425	402,101	1,921,944	-	-	-	-	1,921,944	1,572,280
Accident and Health	34,848,485	4,207,911	3,940,888	35,115,508	24,981,204	2,996,264	2,808,030	25,169,438	9,946,070	11,900,555
Liability	36,983,243	12,418,212	9,118,525	40,282,930	10,868,858	9,436,599	4,251,225	16,054,232	24,228,698	18,131,380
Total	579,943,230	307,705,636	276,991,727	610,657,139	426,654,541	125,455,502	93,508,556	458,601,487	152,055,652	116,278,561

Note: Premium written includes Rs 228,660,530 (2012: Rs. 237,564,670) and Rs. 351,282,700 (2012: Rs. 365,079,230) on account of Direct and Assumed Business respectively underwritten inside Pakistan.

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2013

Class	Total 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 claims expense	
		Opening	Closing			Opening	Closing		2013	2012
	(Rupees)									
Direct and Facultative										
Fire and Property Damage	248,946,311	270,953,078	521,612,381	499,605,614	214,584,343	209,908,530	471,532,940	476,208,753	23,396,861	(6,466,214)
Marine, Aviation and Transport	11,852,687	14,323,000	5,412,191	2,941,878	9,748,003	635,000	3,800,031	12,913,034	(9,971,156)	2,471,976
Motor	374,639	3,863,820	1,359,544	(2,129,637)	-	192,000	193,471	1,471	(2,131,108)	1,019,024
Accident and Health	8,707,561	15,202,182	12,648,399	6,153,778	6,113,910	9,214,727	10,343,047	7,242,230	(1,088,452)	4,594,820
Liability	12,102,371	19,512,398	51,340,361	43,930,334	8,630,117	16,000,351	32,379,893	25,009,659	18,920,675	2,532,036
Total	281,983,569	323,854,478	592,372,876	550,501,967	239,076,373	235,950,608	518,249,382	521,375,147	29,126,820	4,151,642

Note : Total claims paid includes Rs. 37,453,216 (2012: Rs. 44,198,002) and Rs. 244,530,353 (2012: Rs. 199,926,991) on account of Direct and Assumed Business respectively paid inside Pakistan.

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

Class	Commission paid or payable	Deferred commission		Commission expense	Other management expenses (Refer note 2.14 and 15)	Underwriting expense	Commission from reinsurer (Refer note below)	Net underwriting expense	
		Opening	Closing					2013	2012
	(Rupees)								Restated
Direct and Facultative									
Fire and Property Damage	26,105,108	3,851,121	13,825,857	16,130,372	66,181,042	82,311,414	26,411,151	55,900,263	25,861,109
Marine, Aviation and Transport	405,747	(103,071)	25,612	277,064	1,310,892	1,587,956	1,305,312	282,644	2,315,903
Motor	90,611	22,917	19,488	94,040	249,257	343,297	-	343,297	1,080,179
Accident and Health	9,796,901	1,398,844	1,107,896	10,087,849	4,645,983	14,733,832	12,597,313	2,136,519	6,616,289
Liability	1,084,483	145,326	267,388	962,421	4,930,589	5,893,010	2,155,651	3,737,359	8,666,097
Total	37,482,850	5,315,137	15,246,241	27,551,746	77,317,763	104,869,509	42,469,427	62,400,082	44,539,577

Note: Commission from reinsurer is arrived at after taking the impact of opening and closing unearned commission.

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013

	2013	2012
	---------- (Rupees) ----------	
Income from non-trading investments	-	-

The annexed notes 1 to 35 form an integral part of these financial statements.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

1 STATUS AND NATURE OF BUSINESS

ACE Insurance Limited is a wholly owned subsidiary of ACE INA International Holdings, Ltd. U.S.A. The Company was incorporated in Pakistan as a Public Limited Company on August 6, 2001 under the Companies Ordinance, 1984. The Company is engaged in general insurance business.

The registered office of the Company is located at 6th Floor, NIC Building, Abbasi Shaheed Road, Off: Shahrah-e-Faisal, Karachi, Pakistan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

These financial statements have been prepared in accordance with the format of financial statements prescribed under the Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002].

2.1.1 Statement of compliance

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

2.1.2 Other standards, interpretations and amendments to published approved accounting standards that are effective in the current year and other changes in accounting policies

2.1.2.1 IAS 1, 'Presentation of Financial Statements' has been amended effective January 1, 2013. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to the profit or loss subsequently (reclassification adjustments). The specified change has been made in the profit and loss account for the year.

2.1.2.2 IAS 19 (revised) 'Employee benefits' which became effective for annual periods beginning on or after January 1, 2013 amends accounting for employee benefits. The standard requires immediate recognition of past service cost and also replaces the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on the net defined benefit asset or liability and the discount rate, measured at the beginning of the year. Further, a new term "remeasurements" has been introduced. This is made up of actuarial gains and losses and the difference between actual investment returns and the return implied by the net interest cost. The standard requires "remeasurements" to be recognised in the Balance Sheet immediately, with a charge or credit to Other Comprehensive Income in the periods in which they occur.

During the year the Company has changed its accounting policy to comply with the changes made in IAS 19. As per the previous policy actuarial gains and losses in excess of the corridor limit (10% of the higher of fair value of assets and present value of obligation at the beginning of the period) were recognised in the profit and loss account over the future expected average remaining working lives of the employees.

The change in accounting policy has been accounted for retrospectively in accordance with the requirements of IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors' and comparative figures have been restated. Further, as required under IAS 1, 'Presentation of Financial Statements', the Company has presented a third balance sheet as at the beginning of the preceding period as a result of the change in accounting policy.

The Company's financial statements are affected only by the 'remeasurements' relating to prior years. The effects for the current and prior years on the financial statements have been summarised below:

	2013	2012	2011
		(Rupees)	
Impact on balance sheet			
Increase in other creditors and accruals	10,724,183	6,399,960	5,054,511
(Decrease) / Increase in deferred taxation liability	(3,646,222)	(2,239,986)	(1,769,079)
Increase in taxation - payments less provision	83,113	83,113	-

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	Year ended 2013	2012
	---------- (Rupees) ----------	
Impact on profit and loss account		
Decrease in salaries, wages and benefits	-	237,465
(Increase) in taxation	-	(83,113)
Increase in profit after taxation	-	154,352
Decrease in other comprehensive income		
Remeasurement of post employment benefit obligation - net of tax	2,919,814	1,112,007

The impact of restatement has no material impact on the EPS of the Company.

	For the year ended December 31, 2012
	--- (Rupees) ---
Impact on statement of changes in equity	
Cumulative decrease in unappropriated profit at January 1, 2012	3,285,432
Decrease in total comprehensive income for the year ended December 31, 2012	1,112,007
Cumulative decrease in unappropriated profit at January 1, 2013	4,397,439

2.1.2.3 There are certain other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2013 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

2.1.3 Standards, interpretations and amendments to published approved accounting standards that are not yet effective:

There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after January 1, 2014 but are considered not to be relevant or do not have any significant effect on the Company's operations and therefore not detailed in these financial statements.

2.1.4 Accounting convention

These financial statements have been prepared under the historical cost convention except for certain staff retirement benefits which are carried at present value.

2.1.5 Critical accounting estimates and judgments

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

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

- Provision for outstanding claims including IBNR (note 2.5)
- Provision for taxation and deferred tax (note 2.20)
- Defined benefit plan (note 2.11.1)
- Useful lives and residual values of fixed assets (note 2.24)
- Premium deficiency reserve (note 2.8)
- Reinsurance recoveries against outstanding claims (note 2.5.1)

2.2 Insurance contracts

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

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

The Company neither issues investment contracts nor does it issue insurance contracts with discretionary participation features (DPF).

Insurance contracts are classified into five main categories. These categories are fire and property damage, marine, aviation and transport, motor, accident and health and liability.

(a) The perils covered under fire and property damage insurance include damages caused by fire, riot and strike, explosion, earthquake, atmospheric damage, flood, electric fluctuation, terrorism, burglary, loss of cash in safe and cash in transit, money, engineering losses and other covers.

(b) Marine, aviation and transport insurance provides coverage against cargo risk, war risk and damages occurring in ocean marine transit and inland transit.

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

(d) Accident and Health insurance provides coverage for Accidental Death and disability as a result of accident, Medical Expenses attributable to sickness or infirmity and Travel Insurance.

(e) Liability insurance provides cover for legal liability incurred by policy holders as a result of their business activities.

2.3 Premium

Premium received / receivable under a policy is recognised as written from the date of attachment of the policy to which it relates. Premium income under a policy is recognised over the period of insurance from inception to expiry as follows:

(a) For direct business, evenly over the period of the policy;
(b) For proportional reinsurance business accepted, evenly over the period of underlying insurance policies; and
(c) For non-proportional reinsurance business accepted, in accordance with pattem of reinsurance service.

Premium income also includes administrative surcharge that represents documentation and other charges recovered by the Company from policy holders in respect of policies issued, at the rate of 5% of the premium written restricted to a maximum of Rs. 2,000 per policy. Administrative surcharge is recognised as premium at the time the policies are written.

Receivables under insurance contracts are recognised when due, at the fair value of the consideration receivable less provision for doubtful debts, if any. If there is objective evidence that the company will not be able to collect all amounts due according to original terms of receivable, the Company reduces the carrying amount of the receivable accordingly and recognises that impairment loss in the profit and loss account.

2.4 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 insurance business being reinsured.

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

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

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

The portion of reinsurance premium not recognised as an expense is shown as a prepayment.

The Company assesses its reinsurance assets for impairment on the 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.

2.5 Provision for outstanding claims including Incurred but not reported (IBNR)

A liability for outstanding claims is recognised in respect of all claims incurred as at the balance sheet date, which represents the estimates of the claims intimated or assessed before the end of the accounting year and measured at the undiscounted value of expected future payments.

Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for IBNR is determined and recognised in accordance with valuation carried out by an appointed actuary. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of setting claims already notified to the Company, where information about the claim event is available. IBNR claim costs may not be apparent to the insurer until many years after the event that gives rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty for estimating these liabilities.

2.5.1 Reinsurance recoveries against outstanding claims

Reinsurance recoveries against outstanding claims are recognised as an asset when the amount is reasonably expected to be received and measured at the amount expected to be received.

2.6 Salvage and subrogation reimbursements

Some insurance contracts permit the Company to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Company may also have the right to pursue third parties for payment of some or all costs (for example, subrogation).

Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims and salvage property is recognised in other assets when the liability is settled. The allowance is the amount that can reasonably be recovered from the disposal of the damaged property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from action against the liable third party.

2.7 Provision for unearned premium

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage. The Company recognises unearned portion of premium income as a liability, calculated as a proportion of the gross premium of individual policies, determined as the ratio of the unexpired period to the total period of the policy, both measured to the nearest day, in accordance with the option given in SEC (Insurance) Rules, 2002.

2.8 Premium deficiency reserve

The Company is required as per SEC (Insurance) Rules, 2002 to maintain a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the 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 profit and loss account for the year.

For this purpose, loss ratios for each class are estimated based on historical claim development. Judgment is used in assessing the extent to which past trends may not apply in future or the effects of one-off claims. Further, actuarial valuation has been carried out to determine the amount of premium deficiency reserve in respect of Accident and Health insurance as required by SRO 16 (I) / 2012 issued by Securities and Exchange Commission of Pakistan on 9 January 2012. If these ratios are adverse, premium deficiency is determined. The loss ratios estimated on these basis for the unexpired portion are as follows:

Fire and property damage	10%
Marine, aviation and transport	100%
Motor	-18%
Accident and Health	-12%
Liability	40%

Based on an analysis of combined operating ratio for the expired period of each reportable segment, the management considers that the unearned premium reserve for all classes of business as at the year end is adequate to meet the expected future liability after reinsurance, from 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.

2.9 Unearned commission income

Commission income and other forms of revenue (apart from recoveries) from reinsurers are deferred and recognised as a liability and are recognised in the profit and loss account as revenue in accordance with the pattern of recognition of reinsurance premiums.

2.10 Other creditors and accruals

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 goods and services received, whether or not billed to the Company.

2.11 Staff retirement benefits

2.11.1 Defined benefit plan

The Company operates an approved gratuity fund (defined benefit plan) for all permanent employees to which the Company makes contributions on the basis of recommendations made by an actuary.

All permanent employees of the Company participate in an approved funded defined gratuity plan. Contributions to the fund are made based on actuarial recommendations . The most recent actuarial valuation was carried out for the year ended December 31, 2013 using the Projected Unit Credit Method. In pursuance to the amendment in IAS-19, 'Employee Benefits' as described in note 2.1.2.2, the Company has changed its accounting policy to recognise actuarial gains or losses arising on each valuation date in 'other comprehensive income'.

2.11.2 Defined contribution plan

The Company operates a funded contributory provident fund (defined contribution plan) for all permanent employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 10% of basic salary. The Company has no further payment obligation once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

2.11.3 Share-based compensation benefits

Certain employees of the Company are eligible to participate in ACE Limited share based compensation plans. These plans provide for awards of ACE Limited stock options and restricted stocks to be granted by ACE Limited to the eligible employees of the Company. Equity settled share based payments are measured at fair value at the grant date. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. The provision of stock by ACE Limited for the settlement of share based compensation plans is accounted for as a capital contribution from ACE Limited.

2.12 Employees' compensated absences

The Company accounts for the liability in respect of employees' compensated absences in the period in which they are earned.

2.13 Investment and other Income

Income on term deposit accounts and bank deposits is recognised on an accrual basis.

2.14 Expenses of management

Expenses of management have been allocated to various classes of business on the basis of gross premium written as deemed equitable by management. Allocation to each segment is based on the nature of the expense and its correlation to each segment. The Company has revised the basis of allocation of expenses during the current year. This estimate has been revised to achieve a more equitable allocation of expenses. Previously, management expenses had been allocated to various classes of business on the basis of net premium written. This change in basis of allocation has no impact on balance sheet and profit after taxation for the current and prior year.

2.15 Provisions

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

2.16 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term highly liquid investments.

2.17 Financial assets

2.17.1 Classification

The Company classifies its financial assets into the following categories: 'at fair value through profit or loss', 'available for sale', 'held to maturity' and 'loans and receivables'. The classification is determined at initial recognition and depends on the purpose for which the financial assets were acquired.

At fair value through profit or loss

A financial asset is classified into the 'financial assets at fair value through profit or loss' category at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking, or if so designated by the management.

Available for sale

These are non-derivative financial assets, which are intended to be held for an indefinite period of time which may be sold in response to the needs for liquidity or changes in price.

Held to maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity, in respect of which the Company has the positive intention and ability to hold to maturity.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

2.17.2 Initial recognition and measurement

Investments other than those categorised into 'financial assets at fair value through profit or loss' category are initially recognised at fair value which includes transaction costs which are directly attributable to the acquisition of the securities. Investments classified as 'financial assets at fair value through profit or loss' are initially recognised at fair value and transaction costs are expensed in the profit and loss account. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are recognised at the trade date. Trade date is the date when the Company commits to purchase or sell the investment.

2.17.3 Subsequent measurement

Investments classified as 'financial assets at fair value through profit or loss' are subsequently measured at their fair values and gains and losses arising from changes in fair value are included in the profit and loss account. Available for sale investments are subsequently measured at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the SEC (Insurance) Rules, 2002. In case of quoted equity securities, the market value is determined by using Stock Exchange quotations at the balance sheet date. However, in case of Government securities the market value is determined using Reuters rates. Investments classified as held to maturity are subsequently measured at amortised cost less any impairment losses, taking into account any discount or premium on acquisition by using the effective interest rate method.

2.17.4 Impairment against financial assets

The Company assesses at each balance sheet date whether there is an objective evidence that the financial asset or a group of financial assets is impaired. If any such evidence exists for 'available for sale' financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss account, as the case may be, is taken to the profit and loss account. For financial assets classified as 'loans and receivables', a provision for impairment is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash outflows, discounted at the original effective interest rate.

2.17.5 Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.17.6 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liabilities simultaneously.

2.18 Premiums due but unpaid

These are recognised at cost, which is the fair value of the consideration receivable, less provision for impairment, if any.

2.19 Amounts due from / to other insurers / reinsurers

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

2.20 Taxation

Tax charge for the period comprises current and deferred taxation. Tax charge is recognised in the profit and loss account, except to the extent that it relates to the items recognised directly in the equity, in which case it is recognised in equity.

Current

Provision for current taxation is based on taxable income for the year determined in accordance with the prevailing laws for taxation on income earned. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the period at the enacted rates. The charge for current tax also include adjustments where necessary, relating to prior years which arise from assessment framed / finalised during the year.

Deferred

Deferred taxation is recognised using the balance sheet liability method on all major temporary differences arising between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised. Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.21 Deferred commission expense

Commission expense and costs incurred in obtaining and recording policies are deferred and recognised as an asset and are recognised in the profit and loss account as expenses in accordance with the pattern of recognition of premium income.

2.22 Prepaid reinsurance premium ceded

Prepaid reinsurance represents the portion of reinsurance premium which is not yet recognised as an expense. Re-insurance premium is recognised as an expense as follows:

(a) For proportional reinsurance business, evenly over the period of the underlying policies; and
(b) For non-proportional reinsurance business, evenly over the period of indemnity.

2.23 Sundry receivables

These are recognised at cost, which is the fair value of the consideration receivable less impairment, if any.

2.24 Fixed assets

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance expenditure are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is charged to the profit and loss account applying the reducing balance method at the rates specified in note 14 to the financial statements. Depreciation is charged on additions from the month of acquisition, and on disposals upto the month of disposal.

An item of fixed assets is derecognised upon disposal and when no economic benefits are expected from its use or disposal.

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate.

Gains and losses on disposal of fixed assets are taken to the profit and loss account in the period in which they arise.

2.25 Impairment

The carrying amount of assets are reviewed at each balance sheet date for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. If any such indication exists, and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The resulting impairment loss is taken to the profit and loss account.

2.26 Foreign currency translation

Transactions in foreign currencies are translated into reporting currency at the rates of exchange prevailing on the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into reporting currency equivalents using year-end spot foreign exchange rates. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency translations are taken to the profit and loss account.

2.27 Functional and presentation currency

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

2.28 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting 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 provided to the Chief Executive Officer who is responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

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

Investment and income taxes are managed on an overall basis and are, therefore, not allocated to any segment. The accounting policies of operating segments 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 cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

2.29 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are declared and approved by the Company's shareholders.

3 SHARE CAPITAL

3.1 Authorised share capital

Number of shares 2013	Number of shares 2012		2013 (Rupees)	2012 (Rupees)
30,000,000	30,000,000	Ordinary shares of Rs. 10 each	300,000,000	300,000,000

3.2 Paid-up share capital

Issued, subscribed and fully paid-up:

Number of shares 2013	Number of shares 2012		2013 (Rupees)	2012 (Rupees)
30,000,000	30,000,000	Issued for cash	300,000,000	300,000,000
30,000,000	30,000,000		300,000,000	300,000,000

ACE INA International Holdings Limited (U.S.A.), and its nominee directors, collectively hold 30,000,000 (2012: 30,000,000) ordinary shares of Rs. 10 each as at December 31, 2013. The ultimate parent Company is ACE Limited (U.S.A).

	2013 (Rupees)	2012 (Rupees)
4 AMOUNTS DUE TO OTHER INSURERS / REINSURERS	104,312,547	140,444,514

This amount includes an amount of Rs. 49.677 million (2012: Rs. 88.062 million) payable to ACE Tempest Reinsurance Limited, a group Company, in respect of treaty arrangements.

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5	OTHER CREDITORS AND ACCRUALS	Note	2013	2012	2011
			(Rupees)		
				Restated	Restated
	Claims payable	5.1	52,873,819	7,604,832	10,400,309
	Federal insurance fee		61,811	677,443	8,788
	General sales tax		7,967,508	12,182,775	2,226,140
	Payable to defined benefit plan - gratuity fund	5.2	10,724,183	6,399,960	5,054,511
	Excess recovery from reinsurer		114,513,454	114,513,454	116,559,235
	Provision for Workers' Welfare Fund		2,752,877	3,090,649	2,819,089
	Risk inspection charges and no claim bonus payable		15,545,552	-	-
	Miscellaneous		5,747,063	2,233,573	28,567
			210,186,267	146,702,686	137,096,639

5.1 This represents claims sent for payment but for which cheque has not yet been issued as at the balance sheet date. Accordingly, these have not been made part of provision for outstanding claims.

5.2 Defined benefit plan - Gratuity fund

5.2.1 Salient features

The Company offers an approved gratuity fund for all employees. Annual contributions are made to the fund on the basis of actuarial recommendations. The gratuity is governed under the Trust Act, 1882, Trust Deed and Rules of the Fund, Companies Ordinance, 1984, the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002.

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

Final salary risks

The risk that the final salary at the time of cessation of service is greater than what we assumed. Since, the benefit is calculated on the final salary, the benefit amount increases accordingly.

Withdrawal risks

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

Investment risks

The risk of investment underperforming and being not sufficient to meet the liabilities.

Mortality risks

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

5.2.2 Valuation results

An actuarial valuation is carried out every year to determine the liability of the Company in respect of the benefit and the latest valuation was carried out as at December 31, 2013.

The projected unit credit method, as allowed under the International Accounting Standards 19 - 'Employee Benefits', was used for actuarial valuation based on the following significant assumptions:

	2013	2012
	(Principal actuarial assumptions)	
Discount rate	13.00% p.a	11.5% p.a
Expected rate of increase in salaries	13.00% p.a	11.5% p.a

5.2.3 Amounts recognised in the balance sheet	2013	2012	2011
	(Rupees)		
		Restated	Restated
Present value of defined benefit obligation	34,022,553	25,861,212	22,049,341
Fair value of plan assets	(23,298,370)	(19,461,252)	(16,994,830)
Gratuity liability as at December 31	10,724,183	6,399,960	5,054,511

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Movement in liability during the year	2013	2012
	(Rupees)	Restated
Obligation at the beginning of the year	6,399,960	5,054,511
Charge to profit and loss account	2,335,062	2,510,012
Remeasurement of post employment benefit obligations	4,326,050	1,582,914
Contribution to the fund during the year	(2,336,889)	(2,747,477)
Obligation at the end of the year	10,724,183	6,399,960

5.2.4 Movement in the present value of the defined benefit obligation

	2013	2012
Obligation at the beginning of the year	25,861,212	22,049,341
Current service cost	1,603,604	1,448,645
Interest cost	2,426,398	2,824,743
Benefits paid	-	(1,712,700)
Remeasurements:		
(Gain) / loss from change in demographic assumptions	-	-
(Gain) / loss from change in financial assumptions	226,565	-
Experience (gains) / losses	3,904,774	1,251,183
	4,131,339	1,251,183
Obligation at the end of the year	34,022,553	25,861,212

5.2.5 Movement in the fair value of plan assets

	2013	2012
Fair value at the beginning of the year	19,461,252	16,994,830
Interest income	1,694,940	1,763,376
Company's contributions	2,336,889	2,747,477
Benefits paid	-	(1,712,700)
Remeasurement - return on plan assets excluding amounts included in interest income	(194,711)	(331,731)
Fair value at the end of the year	23,298,370	19,461,252

5.2.6 Amounts recognised in the profit and loss account

	2013	2012
Current service cost	1,603,604	1,448,645
Net interest cost	731,458	1,061,367
	2,335,062	2,510,012

5.2.7 Plan assets comprise of:	2013		2012	
	(Rupees)	%	(Rupees)	%
Term deposit receipts	19,673,938	84	16,339,520	84
Cash at bank	3,624,432	16	3,121,732	16
	23,298,370	100	19,461,252	100

5.2.8 The expected return on plan assets was taken as 13% (2012: 11.5%), which is representative of yields on term deposits with banks.

5.2.9 Based on actuarial advice, the company intends to charge an amount of Rs. 3.708 million (2012: Rs. 2.335 million) in the financial statements for the year ending December 31, 2014.

5.2.10 The weighted average duration of defined benefit obligation is 7.05 years.

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

As at December 31, 2013	Between 0-1 year	Between 2-4 years	Between 5-10 years	Over 10 years	Total
	(Rupees)				
Gratuity	9,095,680	16,891,487	4,070,421	747,393,894	777,451,482

5.2.12 Sensitivity analysis

The impact of 1% change in following variables on defined benefit obligation is as follows:

	Change in assumption	Increase in assumption	Decrease in assumption
		(Rupees)	
Discount rate	1%	(31,972,703)	36,467,190
Expected rate of increase in salaries	1%	36,604,671	(31,814,227)

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

6 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Company has set up a provident fund for its permanent employees and the contributions were made by the Company to the Trust in accordance with the requirement of Section 227 of the Companies Ordinance, 1984. The total charge against provident fund for the year ended December 31, 2013 is Rs. 2.421 million (2012: Rs.1.847). Total net assets based on audited financial statements of Provident Fund as at December 31, 2013 was Rs. 37.959 million out of which 82.25% was invested in different financial instruments categories as provided in Section 227 of the Companies Ordinance, 1984 and rules formulated for the purpose. The fair value and cost of investments of provident fund as at December 31, 2013 was Rs. 31.223 million. The above investments out of provident fund have been made in accordance with the requirement of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

Break up of Investments	-- (Rupees)--	% of size of Fund's Investment
Bank deposits	31,223,000	100%

7 STAFF STRENGTH

	2013	2012
	(Number of employees)	
Number of employees as at December 31, 2013	16	16
Average number of employees during the year	16	16

8 CONTINGENCIES AND COMMITMENTS

8.1 Contingencies

The Finance Act, 1999 inserted Clause (c) to Rule 5 of the Fourth Schedule to the Income Tax Ordinance, 1979, whereby deduction of expenditure in excess of limits laid down in Section 40C of the Insurance Act, 1938, read with Rule 40 of the Insurance Rules, 1958, was not permissible for tax purposes unless duly condoned by the Controller of Insurance under Section 40C(1). Subsequently, the Insurance Act, 1938 and the Insurance Rules, 1958 were repealed with effect from August 19, 2000 by the Insurance Ordinance, 2000 which does not contain any limit barring the allowability of management expenses.

As a result, management expenses in excess of limits laid down under Rule 40 of the Insurance Rules, 1958 were disallowed, with effect from the assessment year 1999-2000, though the excesses were duly condoned by the Controller of Insurance.

While finalising the assessment for the assessment years 1999-2000 to 2002-2003, the taxation officer has added back management expenses in excess of the limits laid down in the Insurance Rules, 1958 read with section 40C of the Insurance Act, 1938 by taking recourse to the provisions of Rule 5(c) of the Fourth Schedule to the repealed Income Tax Ordinance, 1979. The gross amount added back in respect of these assessment years amounted to Rs. 46.255 million which were disputed by the Company and appeals were filed against them. The add back in respect of the year 2002-2003 amounting to Rs. 14.395 million has been deleted and the matter has been decided in favour of the Company. In respect of assessment years 1999-2000 and 2000-2001 the add backs made by the Tax officer aggregating to Rs. 22.393 million have been maintained by the Income Tax Appellate Tribunal (ITAT) and the Company's appeals are currently pending in the High Court of Sindh. As regards assessment year 2001-2002, the add back amounting to Rs. 9.465 million has been set aside by the ITAT but the set aside proceedings have not commenced so far. No provision has been made in these financial statements in respect of additional tax liability of Rs. 8.644 million which may arise on account of these add backs as (a) the issue is being contested in appeals, (b) excess management expenses were being regularly condoned by the Controller of Insurance under Section 40C (1) of the Insurance Act, 1938 and (c) the new Insurance Ordinance, 2000 provides no limitation on management expenses.

If the matter referred to above is decided in favour of the Company, an assessed tax loss of Rs. 12.667 million will arise to the Company which should be available for setting off against the profits for the following years. Pending finalisation of its appeals, the Company has not recognised the tax benefits of this loss amounting to approximately Rs. 5.447 million in these financial statements.

8.2 Commitments

There were no commitments outstanding as at December 31, 2013 and 2012.

		Note	2013	2012
9	**CASH AND BANK DEPOSITS**		(Rupees)	
	Cash and other equivalents			
	Stamps		39,865	45,169
	Cash in hand		50,000	50,000
			89,865	95,169
	Current and other accounts			
	Current accounts		31,013,415	27,220,099
	Deposit with the State Bank of Pakistan	9.1	30,000,089	30,000,500
			61,013,504	57,220,599
	Deposits maturing within 12 months			
	Fixed and term deposits	9.2	680,000,000	705,000,000
			741,103,369	762,315,768

9.1 These have been deposited with the State Bank of Pakistan as statutory deposit, in accordance with Section 29 of the Insurance Ordinance, 2000.

9.2 These term deposits carry interest at rates ranging from 7.85% to 9.10% (2012: 7.15% to 8.80%) and will mature by March 24, 2014 (2012: March 28, 2013).

		2013	2012	2011
			(Rupees)	
10	DEFERRED TAX ASSET - NET		Restated	Restated
	Deferred tax debits / (credits) have arisen in respect of:			
	Accelerated tax depreciation	(175,077)	(813,428)	(1,478,768)
	Defined benefit plan	3,646,222	2,239,986	1,769,079
		3,471,145	1,426,558	290,311

		2013	2012
		(Rupees)	
11	REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS	518,249,382	235,950,608

The above balance includes claims receivable from ACE Tempest Reinsurance Limited, a group Company, amounting to Rs 386.493 million (2012: Rs. 235.951 million).

		Note	2013	2012
12	PREPAYMENTS		(Rupees)	
	Prepaid reinsurance premium ceded	12.1	93,508,556	125,455,502
	Prepaid rent		-	3
			93,508,556	125,455,505

12.1 The above balance includes prepaid reinsurance ceded to ACE Tempest Reinsurance Limited, a group Company, amounting to Rs. 52.618 million (2012: Rs. 65.216 million).

		Note	2013	2012
13	SUNDRY RECEIVABLES		(Rupees)	
	Interest accrued on fixed and term deposits		3,486,609	3,950,126
	Advance against expenses		446,550	439,050
	Advance against purchase of fixed assets		2,534,580	-
	Miscellaneous	13.1	6,835,713	3,989,228
			13,303,452	8,378,404

13.1 The above balance includes an amount of Rs. 4.953 million (2012: Rs. 2.634 million) receivable from ACE Limited, Parent Company in respect of dividend paid to employees.

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14 FIXED ASSETS

	Furniture and fixtures	Office equipment	Motor vehicles	Computers and related accessories	Total
	(Rupees)				
As at January 1, 2013					
Cost	5,604,389	5,870,900	18,245,751	2,731,907	32,452,947
Accumulated depreciation	(3,713,530)	(2,661,179)	(7,839,264)	(2,098,479)	(16,312,452)
Net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
Year ended December 31, 2013					
Opening net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
Additions	205,550	153,243	48,205	400,000	806,998
Disposals / write offs / adjustment					
Cost	131,300	286,651	-	1,295,495	1,713,446
Accumulated depreciation	(102,954)	(262,833)	-	(952,593)	(1,318,380)
	28,346	23,818	-	342,902	395,066
Depreciation charge for the year	(402,904)	(686,046)	(2,086,921)	(244,074)	(3,419,945)
Closing net book value	1,665,159	2,653,100	8,367,771	446,452	13,132,482
As at December 31, 2013					
Cost	5,678,639	5,737,492	18,293,956	1,836,412	31,546,499
Accumulated depreciation	(4,013,480)	(3,084,392)	(9,926,185)	(1,389,960)	(18,414,017)
Net book value	1,665,159	2,653,100	8,367,771	446,452	13,132,482
Depreciation rate % per annum	20	20	20	33	
As at January 1, 2012					
Cost	4,659,189	4,351,524	17,681,716	2,731,907	29,424,336
Accumulated depreciation	(3,319,586)	(2,027,339)	(5,879,060)	(1,741,674)	(12,967,659)
Net book value	1,339,603	2,324,185	11,802,656	990,233	16,456,677
Year ended December 31, 2012					
Opening net book value	1,339,603	2,324,185	11,802,656	990,233	16,456,677
Additions	945,200	1,519,376	1,648,000	-	4,112,576
Disposals / write offs / adjustment					
Cost	-	-	1,083,965	-	1,083,965
Accumulated depreciation	-	-	(457,674)	-	(457,674)
	-	-	626,291	-	626,291
Depreciation charge for the year	(393,944)	(633,840)	(2,417,878)	(356,805)	(3,802,467)
Closing net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
As at December 31, 2012					
Cost	5,604,389	5,870,900	18,245,751	2,731,907	32,452,947
Accumulated depreciation	(3,713,530)	(2,661,179)	(7,839,264)	(2,098,479)	(16,312,452)
Net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
Depreciation rate % per annum	20	20	20	33	

15	EXPENSES	Note	2013	2012
			-------- (Rupees) --------	
				Restated
	Salaries, wages and benefits	15.1 & 15.2	52,815,400	47,187,371
	Rent, rates and taxes		6,639,680	7,264,962
	Utilities		739,599	698,769
	Repairs and maintenance		1,997,151	2,178,088
	Travelling and conveyance		1,299,621	1,576,471
	Education and training		3,208,391	6,794,968
	Communication		2,009,838	1,791,773
	Service charges		514,639	1,135,100
	Registration, subscription and association fees		723,417	738,824
	Printing and stationery		1,377,867	1,184,792
	Agency office expenses		973,333	876,533
	Corporate promotion		508,830	434,200
	Others		4,509,997	2,070,581
			77,317,763	73,932,432

15.1 This includes an amount of Rs. 4.940 million (2012: Rs. 4.684 million) in respect of staff retirement benefits. Retirement benefits include contribution to defined contribution plan of Rs. 2.421 million (2012: Rs. 1.936 million).

15.2 **Share-based payments**

As explained in note 2.11.3, certain employees of the Company are provided share-based compensation benefits. These include the following:

15.2.1 **Restricted Stock**

The restricted stock is granted with a 4-year vesting period, based on a graded vesting schedule. The restricted stock vests in equal annual installments over the respective vesting period, which is also the requisite service period. The restricted stocks are granted at closing market price on the date of grant and are equity settled.

The following table shows changes in the restricted stock grants for the years ended December 31, 2013 and 2012:

	Number of Restricted Stocks	
	2013	2012
Unvested at the beginning of the year	2,809	3,360
Vested during the period	(1,282)	(1,438)
Granted during the period	766	887
Forfeited during the period	-	-
Unvested at the end of the year	2,293	2,809

The fair value of options granted during the year was USD 85.39 (2012: USD 73.35) which was measured on the basis of observable market price of the date on which the restricted stock options were granted.

The Company recognised an expense of Rs. 5.997 million (2012: Rs 5.709 million) in respect of equity-settled restricted stock award vested during the year.

15.2.2 **Non-Qualified Stock Options**

The non-qualified stock options are granted at an option price per share of 100 percent of the fair market value of the ACE Limited's ordinary share on the date of grant. Stock options are granted with a 3-year grant vesting period and 10-year term. The stock option vests in equal installments over the respective vesting period, which is also the requisite service period.

The following table shows changes in the stock option grants for the years ended December 31, 2013 and 2012:

	Stock Options	
	2013	2012
Outstanding at the beginning of the year	2,881	2,142
Granted during the year	851	739
Exercised during the year	(863)	
Expired during the year	-	-
Forfeited during the year	-	-
Unvested at the end of the year	2,869	2,881
Exercisable at the end of the year	1,243	1,184
Vested during the year	922	1,181

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	Weighted average exercise price	
	2013	2012
	---------- (US Dollar) ----------	
Outstanding at the beginning of the year	54.84	52.75
Granted during the year	85.39	73.35
Exercised during the year	(54.84)	-
Expired during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of the year	58.05	54.84
Exercisable at the end of the year	53.07	34.09
Vested during the year	60.46	48.38

The fair value of non-qualified stock options are estimated on the date of grant using a stock valuation model. The Company has recognised an expense of Rs. 2.013 million (2012: Rs. 1.906 million) related to equity-settled non-qualified share options vested during the year. The exercise price of these shares varies from USD 85.39 - USD 63.28 per share. Weighted average remaining contractual life of these options is 2 years and 8 months.

		Note	2013	2012
16	**OTHER INCOME**		---------- (Rupees) ----------	
	Interest income on fixed and term deposit accounts		56,459,744	72,241,496
	Gain on disposal of fixed asset		165,279	21,709
	Exchange gain - net		4,849,357	10,602,791
	Liabilities no longer payable written back		8,939,979	-
	Others		3,488,664	1,257,738
			73,903,023	84,123,734
17	**GENERAL AND ADMINISTRATION EXPENSES**			
	Depreciation	14	3,419,945	3,802,467
	Auditors' remuneration	17.1	652,500	413,743
	Legal and professional charges		1,712,429	1,429,990
			5,784,874	5,646,200
17.1	**Auditors' remuneration**			
	Audit fee		525,000	288,500
	Regulatory audit		57,500	57,500
	Out-of-pocket expenses		70,000	67,743
			652,500	413,743
18	**FINANCIAL CHARGES**			
	Bank charges		164,573	57,238
			164,573	57,238

		2013	2012
		---------- (Rupees) ----------	
19	**TAXATION**		Restated
	Current - for the year	45,862,933	53,087,745
	- for prior year	-	1,051,660
		45,862,933	54,139,405
	Deferred - for the year	(638,351)	386,320
	- for prior year	-	(1,051,660)
		(638,351)	(665,340)
		45,224,582	53,474,065

19.1 Relationship between income tax expense and accounting profit

	2013	2012
Profit before taxation	125,729,449	142,916,989
Tax at the applicable rate	(42,748,013)	(50,020,946)
Effect of prior year adjustment	-	(1,051,660)
Permanent difference for share based payments	(2,723,486)	(2,665,333)
Reduction in opening deferred tax resulting from reduction in tax rate	23,241	-
Others	223,676	263,874
	(45,224,582)	(53,474,065)

20 REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

Aggregate amounts charged in the financial statements for the year for remuneration, including benefits to the key management personnel of the Company namely the Chief Executive and Directors of the Company are as follows:

	2013		2012	
	Chief Executive	Directors	Chief Executive	Directors
	(Rupees)			
Short-term employee benefits				
Managerial remuneration (including bonus)	7,737,242	7,360,972	6,914,204	6,884,348
Housing, utilities and others	163,802	-	174,612	-
	7,901,044	7,360,972	7,088,816	6,884,348
Other employee benefits				
Shared-based compensation benefits	4,749,841	1,421,270*	4,628,379	1,397,934*
Post-employment benefits				
Retirement benefits	593,541	339,010*	514,140	290,076*
Total	13,244,426	9,121,252	12,231,335	8,572,358
Number of persons	1	2	1	2

* These benefits relate to one director.

20.1 The Company also provides key management personnel with facilities such as Company maintained cars, reimbursement of medical bills and monthly subscription of club facilities.

20.2 During the year the Chief Executive and the Directors of the Company received dividends on shares in the holding Company amounting to Rs. 291,665 and Rs. 136,831 (2012: Rs 313,604 and Rs. 211,196) respectively.

20.3 The managerial remuneration includes the 2012 bonus paid in the current year. An estimated accrual in respect of the above bonus was made in the last year financial statements. For the current year, an amount of Rs. 4.5 million (2012: Rs. 5 million) has been accrued on an estimated basis. Individual entitlements in respect of this accrual will be determined next year and will then be disclosed accordingly.

21 EARNINGS PER SHARE - BASIC AND DILUTED

Earnings per share has been computed by dividing profit after taxation for the year by the weighted average number of shares outstanding during the year as follows:

	2013	2012
	(Rupees)	
		Restated
Profit after taxation for the year	80,504,867	89,442,924
	(Number of shares)	
Weighted average number of shares of Rs.10 each outstanding during the year	30,000,000	30,000,000
	(Rupees)	
Basic earnings per share	2.68	2.98

21.1 There are no convertible dilutive potential ordinary shares outstanding on December 31, 2013 and 2012.

22 SEGMENT REPORTING

Each class of business has been identified as reportable segment. Class of business wise revenue and results have been disclosed in the profit and loss account prepared in accordance with the requirements of the Insurance Ordinance, 2000 and the SEC (Insurance) Rules, 2002.

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

	2013					
	Fire and property damage	Marine' aviation and transport	Motor	Accident and Health	Liability	Total
	(Rupees)					
Segment assets	768,731,258	8,253,560	956,577	28,119,502	51,608,106	857,669,003
Unallocated assets	-	-	-	-	-	757,706,996
Total assets	768,731,258	8,253,560	956,577	28,119,502	51,608,106	1,615,375,999
Segment liabilities	1,069,760,755	11,616,084	2,815,862	37,641,649	81,886,654	1,203,721,004
Unallocated liabilities	-	-		-	-	13,994,455
Total liabilities	1,069,760,755	11,616,084	2,815,862	37,641,649	81,886,654	1,217,715,459
Net assets						397,660,540

	2012 (Restated)					
	Fire and property damage	Marine' aviation and transport	Motor	Accident and Health	Liability	Total
	(Rupees)					
Segment assets	468,494,116	11,104,024	3,042,609	35,012,578	58,190,944	575,844,271
Unallocated assets	-	-	-	-	-	779,882,824
Total assets	468,494,116	11,104,024	3,042,609	35,012,578	58,190,944	1,355,727,095
Segment liabilities	774,654,604	28,980,569	8,386,324	51,724,379	80,105,227	943,851,103
Unallocated liabilities	-	-		-	-	10,710,757
Total liabilities	774,654,604	28,980,569	8,386,324	51,724,379	80,105,227	954,561,860
Net assets						401,165,235

23 FINANCIAL INSTRUMENTS BY CATEGORY

23.1 Financial assets and financial liabilities

Financial assets	2013	2012
	(Rupees)	
Loans and receivables		
Cash and bank deposits		
Cash and other equivalents	50,000	50,000
Current and other accounts	61,013,504	57,220,599
Deposits maturing within 12 months	680,000,000	705,000,000
	741,063,504	762,270,599
Current assets - others		
Premiums due but unpaid	201,402,050	193,463,969
Amounts due from other insurers / reinsurers	15,959,322	7,280,651
Reinsurance recoveries against outstanding claims	518,249,382	235,950,608
Sundry receivables	12,677,379	7,931,994
	748,288,133	444,627,222
	1,489,351,637	1,206,897,821

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	2013	2012
	(Rupees)	
Financial liabilities		
Amortised cost		
Provision for outstanding claims (including IBNR)	592,372,876	323,854,478
Amounts due to other insurers / reinsurers	104,312,547	140,444,514
Accrued expenses	12,512,046	13,709,114
Other creditors and accruals	188,679,888	124,351,859
	897,877,357	602,359,965

24 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company's activities expose it to a variety of financial risks namely market risk, credit risk and concentration of credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

24.1 Market risk

Market risk is the risk that the value of a financial instrument may fluctuate as a result of changes in market interest rates or the market price of securities due to a change in credit rating of the issuer of the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.

The Company manages market risk by monitoring exposure on marketable securities by following the internal risk management policies and regulations laid down by the Securities and Exchange Commission of Pakistan.

Market risk comprises of three types of risk namely foreign currency risk, interest rate risk and price risk.

24.1.1 Foreign currency risk

Foreign 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. The Company's principal transactions are carried out in Pakistani rupees and its exposure to foreign exchange arise primarily with respect to US dollars and Bangladeshi Taka. The details of balances are as follows:

	2013	2012
	USD	
Premium due but unpaid	792,152	1,131,902
Net foreign currency exposure	792,152	1,131,902
	BDT	
Premium due but unpaid	18,221,709	9,925,467
Net foreign currency exposure	18,221,709	9,925,467

At December 31, 2013, if the Pakistani Rupee had weakened / strengthened by 1% against the US Dollar and Bangladeshi Taka with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs.1.084 million (2012: Rs 1.227 million).

24.1.2 Interest rate risk

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

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

	Interest rates	Interest / mark-up bearing: Maturity upto one year	Interest / mark-up bearing: Maturity after one year	Interest / mark-up bearing: Sub total	Non-Interest / mark-up bearing: Maturity upto one year	Non-Interest / mark-up bearing: Maturity after one year	Non-Interest / mark-up bearing: Sub total	Total
2013				(Rupees)				
Financial assets								
Cash and bank deposits	7.85% to 9.10%	680,000,000	-	680,000,000	61,063,504	-	61,063,504	741,063,504
Other assets								
Premium due but unpaid		-	-	-	201,402,050	-	201,402,050	201,402,050
Amount due from other insurers / reinsurers		-	-	-	15,959,322	-	15,959,322	15,959,322
Reinsurance recoveries against outstanding claims		-	-	-	518,249,382	-	518,249,382	518,249,382
Sundry receivables		-	-	-	12,677,379	-	12,677,379	12,677,379
		-	-	-	748,288,133	-	748,288,133	748,288,133
		680,000,000	-	680,000,000	809,351,637	-	809,351,637	1,489,351,637
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	592,372,876	-	592,372,876	592,372,876
Amounts due to other insurers / reinsurers		-	-	-	104,312,547	-	104,312,547	104,312,547
Accrued expenses		-	-	-	12,512,046	-	12,512,046	12,512,046
Other creditors and accruals		-	-	-	188,679,888	-	188,679,888	188,679,888
		-	-	-	897,877,357	-	897,877,357	897,877,357
		680,000,000	-	680,000,000	(88,525,720)	-	(88,525,720)	591,474,280

	Interest rates	Interest / mark-up bearing: Maturity upto one year	Interest / mark-up bearing: Maturity after one year	Interest / mark-up bearing: Sub total	Non-Interest / mark-up bearing: Maturity upto one year	Non-Interest / mark-up bearing: Maturity after one year	Non-Interest / mark-up bearing: Sub total	Total
2012				(Rupees)				
Financial assets								
Cash and bank deposits	7.15% - 8.80%	705,000,000	-	705,000,000	57,270,599	-	57,270,599	762,270,599
Other assets								
Premium due but unpaid		-	-	-	193,463,969	-	193,463,969	193,463,969
Amount due from other insurers / reinsurers		-	-	-	7,280,651	-	7,280,651	7,280,651
Reinsurance recoveries against outstanding claims		-	-	-	235,950,608	-	235,950,608	235,950,608
Sundry receivables		-	-	-	7,931,994	-	7,931,994	7,931,994
		-	-	-	444,627,222	-	444,627,222	444,627,222
		705,000,000	-	705,000,000	501,897,821	-	501,897,821	1,206,897,821
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	323,854,478	-	323,854,478	323,854,478
Amounts due to other insurers / reinsurers		-	-	-	140,444,514	-	140,444,514	140,444,514
Accrued expenses		-	-	-	13,709,114	-	13,709,114	13,709,114
Other creditors and accruals		-	-	-	124,351,859	-	124,351,859	124,351,859
		-	-	-	602,359,965	-	602,359,965	602,359,965
		705,000,000	-	705,000,000	(100,462,144)	-	(100,462,144)	604,537,856

24.1.3 Sensitivity analysis

(a) Sensitivity analysis for variable rate instruments

Presently, the Company does not hold any variable rate instrument.

(b) Sensitivity analysis for fixed rate instruments

The Company holds Term Deposit Receipts (TDRs) which are classified as cash and cash equivalents. These carry fixed interest rates and therefore any change in the interest rates will not affect the total assets of the Company and profit after taxation for the year ended December 31, 2013.

24.1.4 Price Risk

Price risk is the risk that arises due to increase / decrease in market prices. The Company does not hold any investment at December 31, 2013 that would expose it to price risk.

24.2 Credit risk and concentration of credit risk exposure

Credit risk is the risk, which arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counter parties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

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Credit risks arise from bank deposits in current and other accounts, premium due but unpaid, amount due from other insurers / reinsurers and for commission and claim recoveries from reinsurers. The total financial assets of Rs 1,489 million except Rs. 0.05 million (2012: 0.05 million) are subject to credit risk.

Out of the total financial assets, bank balances of Rs. 741.103 million have been placed with banks having credit rating of A and above and premium due but unpaid of Rs.10.152 million having credit rating of AA and above is outstanding as at December 31, 2013. Other outstanding balances on account of premium due but unpaid as at December 31, 2013 pertains to companies and individuals having no rating.

The management monitors exposures to credit risk through regular review of credit exposure and prudent estimates of provisions for doubtful receivables. Due to the Company's long outstanding business relationships with its counterparties and after giving due consideration to their sound financial standing, the management does not expect non–performance by these counter parties on their obligations to the Company.

24.2.1 An analysis of the age of premiums due but unpaid that are past due but not impaired are as under:

	2013 (Rupees)	2012 (Rupees)
Upto 30 days	15,738,828	8,946,064
31 to 180 days	7,886,997	25,557,448
Over 180 days	5,688,585	2,754,585
	29,314,410	37,258,097

24.2.2 Out of the total amount of premium outstanding as at December 31, 2013 of Rs. 201.402 million (2012: Rs. 193.464 million), Rs.172.088 (2012: Rs. 156.206 million) pertains to policies which were effective in the current year but premium on account of these policies is not yet due in the current year due to agreed contractual terms.

24.2.3 Sector wise analysis of premiums due but unpaid

	2013	2012
	------------(Rupees)-----------	
Financial sector	6,178,357	6,141,584
Pharmaceuticals	1,066,265	-
Chemicals	3,624,561	15,240,928
Fertilizer	32,571,871	45,889,792
Oil And Gas	26,169,386	26,872,881
Energy	91,457,538	61,955,035
Construction	7,228,514	8,710,873
Distribution	-	699,739
Industrial Material And Mining	418,008	2,834,763
Telecommunication	24,176,110	19,011,567
Miscellaneous	8,511,440	6,106,807
	201,402,050	193,463,969

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

	2013			
	Amount due from other insurers / reinsurers	Reinsurance recoveries against outstanding claims	Other reinsurance assets	Aggregate
	(Rupees)			
A or above	10,152,650	518,249,382	52,618,431	581,020,463
BBB	-	-	-	-
Others	5,806,672	-	40,890,125	46,696,797
Total	15,959,322	518,249,382	93,508,556	627,717,260

	2012			
	Amount due from other insurers / reinsurers	Reinsurance recoveries against outstanding claims	Other reinsurance assets	Aggregate
	(Rupees)			
A or above	7,280,651	235,950,608	125,455,502	368,686,761
BBB	-	-	-	-
Others	-	-	-	-
Total	7,280,651	235,950,608	125,455,502	368,686,761

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24.3 **Liquidity risk**

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

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

	2013			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Provision for outstanding claims	592,372,876	592,372,876	592,372,876	-
Amounts due to other insurers / reinsurers	104,312,547	104,312,547	104,312,547	-
Accrued expenses	12,512,046	12,512,046	12,512,046	-
Other creditors and accruals	188,679,888	188,679,888	188,679,888	-
	897,877,357	897,877,357	897,877,357	-

	2012			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Provision for outstanding claims	323,854,478	323,854,478	323,854,478	-
Amounts due to other insurers / reinsurers	140,444,514	140,444,514	140,444,514	-
Accrued expenses	13,709,114	13,709,114	13,709,114	-
Other creditors and accruals	124,351,859	124,351,859	124,351,859	-
	602,359,965	602,359,965	602,359,965	-

25 INSURANCE RISK / RISK MANAGEMENT PRACTICES

25.1 Insurance and reinsurance risk

The Company accepts the insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The Company is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Company manages its risk via its underwriting and reinsurance strategy within an overall risk management framework and proactive claims handling. Exposures are managed by having documented underwriting limits and criteria. Outward reinsurance contracts are entered to mitigate the effect of potential loss to the Company from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital.

Reinsurance ceded does not relieve the Company from its obligation to policy holders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligation under the reinsurance agreements.

As is common with other insurance companies, in order to minimise the financial exposure arising from large claims, the Company, in the normal course of business, enters into agreement with other parties for reinsurance purposes. To minimise its exposure to significant losses from reinsurer insolvencies, the Company obtains reinsurance cover only from companies with sound financial position.

The greatest likelihood of significant losses on the contracts underwritten by the Company mainly arises from earthquake or flood. The Company's estimated exposure on account of such perils and maximum re-insurance cover against those perils are summarised below:

	2013		
	Gross aggregate exposure	Maximum re-insurance cover	Net
	Rupees in million		
Earthquake	26,065	53,155	(27,090)
Flood / windstorm	30,755	53,155	(22,400)

	2012		
	Gross aggregate exposure	Maximum re-insurance cover	Net
	Rupees in million		
Earthquake	19,394	53,755	(34,361)
Flood / windstorm	26,047	53,755	(27,708)

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25.2 Geographical concentration of insurance risk

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

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

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

A risk management solution is implemented to help assess and plan for risk in catastrophic scenarios. It provides a way to better visualize the risk exposures so the Company determines the appropriate amount of reinsurance coverage to protect the business portfolio.

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

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

25.3 Frequency and severity of claims

For the Company's insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes and typhoons) and their consequences. The Company has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event.

Claims on general insurance contracts are payable on a claim occurrence basis. The company is liable for all insured events that occur during the term of the insurance contract including the event reported after the expiry of the insurance contract term.

The Company's insurance contracts are subdivided into risk segments fire and property damage, marine aviation and transport, motor, accident and health and liability. The Company manages these risk segments through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

26 REINSURANCE ARRANGEMENTS

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

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

27 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.

	Pre tax profit		Shareholders' equity	
	2013	2012	2013	2012
10% increase in net claims (i.e. loss)	(Rupees)			
Fire and property damage	(2,339,686)	646,621	(1,520,796)	420,304
Marine, aviation and transport	997,116	(247,198)	648,125	(160,679)
Motor	213,111	(101,902)	138,522	(66,236)
Accident and health	108,845	(459,482)	70,749	(298,663)
Liability	(1,892,068)	(253,204)	(1,229,844)	(164,583)
	(2,912,682)	(415,165)	(1,893,244)	(269,857)
10% decrease in net claims (i.e. loss)				
Fire and property damage	2,339,686	(646,621)	1,520,796	(420,304)
Marine, aviation and transport	(997,116)	247,198	(648,125)	160,679
Motor	(213,111)	101,902	(138,522)	66,236
Accident and health	(108,845)	459,482	(70,749)	298,663
Liability	1,892,068	253,204	1,229,844	164,583
	2,912,682	415,165	1,893,244	269,857

28 CLAIMS DEVELOPMENT TABLE

The following table shows the development of fire and property damage 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 claim payments. For other classes of business the uncertainty about the amount and timings of claim payments is usually resolved within a year. Further, there are no material claims that are outstanding as at December 31, 2013 which pertain to years prior to the year ended December 31, 2010.

Analysis on gross basis	2010	2011	2012	2013	Total
	(Rupees)				
Accident year					
Estimate of ultimate claims cost:					
At end of accident year	666,960,030	79,406,275	130,477,716	486,673,105	1,363,517,126
One year later	764,911,427	79,406,275	198,594,707	-	1,042,912,409
Two years later	764,911,427	28,989,126	-	-	793,900,553
Three years later	764,911,427	-	-	-	764,911,427
Estimate of cumulative claims	764,911,427	28,989,126	198,594,707	486,673,105	1,479,168,365
Cumulative payments to date	698,995,263	27,588,875	155,336,610	96,051,434	977,972,182
Liability recognised in the balance sheet for the respective periods	65,916,164	1,400,251	43,258,097	390,621,671	501,196,183

29 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are:

- to comply with the minimum paid-up capital requirements as prescribed by the Securities and Exchange Commission of Pakistan (SECP);
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for share holders and benefits for the other stakeholders;
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk; and
- to maintain a strong capital base to support the sustained development of its business.

The current requirement for regulatory capital is Rs 300 million. The Company complies with this requirement.

30 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction. Consequently, differences may arise between the carrying values and the fair value estimates.

However, the fair value of all the financial instruments is expected not to be significantly different from their carrying values.

31 TRANSACTIONS WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, subsidiary company, associated companies with or without common directors, retirement benefit funds, directors, and key management personnel and their close family members.

The Company has related party relationships with its employee benefit plans, key management personnel, its holding Company (ACE INA International Holdings Limited, U.S.A) and related group companies. Amounts due from and payable to related parties are disclosed in the relevant notes and are entered in the normal course of business. Material transactions with its holding company and other group companies are given below:

	2013	2012
	---------- (Rupees) ----------	
Reinsurance premium ceded	351,637,356	397,748,420
Commission on cession	38,380,293	48,649,843
Claims ceded	440,367,144	72,735,822
Dividend paid	89,100,000	82,499,981

Transactions with key management personnel are disclosed in note 20 to the financial statements and transactions and balances with the employees' defined benefit plan are disclosed in note 5.1 to the financial statements.

32 NON-ADJUSTING EVENT

The Board of Directors of the Company in their meeting held on 24 MAR 2014 have approved payment of Rs.7448 million as dividend to ACE INA International Holdings Limited USA out of the reserves of the Company. The financial statements for the year ended December 31, 2013 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2014.

33 DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on 24 MAR 2014 by the Board of Directors of the Company.

34 CORRESPONDING FIGURES

Corresponding figures have been restated / rearranged and reclassified, wherever necessary, for the purpose of comparison There have been no significant reclassifications / restatements in the financial statements except for the following:

- The Company has applied the amendment to IAS 19 (revised): 'Employee Benefits' retrospectively in accordance with the transition provisions of the standard as disclosed in note 2.1.2.2 to these financial statements.

35 GENERAL

Figures in these financial statements have been rounded off to the nearest Rupee.

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR