ACE INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

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, 2015** 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;

(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, 2015, and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended, in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the Companies Ordinance, 1984; and

(d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

AFFerguson & Co

Chartered Accountants
Engagement Partner: **Salman Hussain**
Dated: April 1, 2016
Karachi

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ACE INSURANCE LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2015

	Note	2015	2014
		(Rupees)	
Share capital and reserves			
Authorised share capital	3	300,000,000	300,000,000
Paid-up share capital	3	300,000,000	300,000,000
Reserves		98,101,874	213,976,137
TOTAL EQUITY		398,101,874	513,976,137
Underwriting provisions			
Provision for outstanding claims (including IBNR)		900,683,293	351,143,911
Provision for premium deficiency		1,930,301	-
Provision for unearned premium		224,210,931	339,243,762
Commission income unearned		9,778,323	20,205,983
		1,136,602,848	710,593,656
Creditors and accruals			
Amounts due to other insurers / reinsurers		302,047,471	72,295,092
Accrued expenses		7,398,906	13,641,771
Other creditors	4	53,303,918	48,883,297
Taxation - provision less payments		-	2,875,116
		362,750,295	137,695,276
TOTAL LIABILITIES		1,499,353,143	848,288,932
TOTAL EQUITY AND LIABILITIES		1,897,455,017	1,362,265,069
CONTINGENCIES AND COMMITMENTS	7		

	Note	2015	2014
		(Rupees)	
Cash and bank deposits	8		
Cash and other equivalents		908,632	792,520
Current and other accounts		50,472,495	60,207,912
Deposits maturing within 12 months		590,000,000	565,000,000
		641,381,127	626,000,432
Investments		-	-
Deferred taxation	9	12,090,039	3,979,687
Current assets - others			
Premiums due but unpaid		130,160,254	236,696,590
Amounts due from other insurers / reinsurers		97,294,691	17,662,045
Reinsurance recoveries against outstanding claims		835,176,702	295,208,040
Deferred commission expense		10,101,737	29,207,880
Prepayments	10	82,661,577	111,784,995
Sundry receivables	11	21,035,013	22,898,513
Taxation - payments less provision		47,796,299	-
		1,224,226,273	713,458,063
Fixed assets	12		
Tangible			
Furniture and fixtures		1,587,045	1,975,444
Office equipment		4,241,485	3,828,955
Motor vehicles		13,725,018	12,717,964
Computers and related accessories		204,030	304,524
		19,757,578	18,826,887
TOTAL ASSETS		1,897,455,017	1,362,265,069

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

Syed Ali Shah

DIRECTOR

ACE INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2015

	Note	Fire and Property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	2015 Aggregate	2014 Aggregate
		(Rupees)						
Revenue account								
Net premium revenue		45,549,539	(5,541,142)	1,698,915	13,546,157	11,225,867	66,479,336	244,938,462
Net claims		(35,786,183)	(717,948)	(1,308,337)	(1,206,292)	(41,457)	(39,060,217)	(10,214,805)
Premium deficiency reserve		-	(1,930,301)	-	-	-	(1,930,301)	-
Expenses	13	(76,245,858)	(1,221,749)	(267,171)	(7,543,643)	(3,215,729)	(88,494,150)	(96,512,853)
Net commission		(8,804,285)	(5,695,186)	(257,912)	4,193,005	3,502,604	(7,061,774)	(14,411,691)
Underwriting result		(75,286,787)	(15,106,326)	(134,505)	8,989,227	11,471,285	(70,067,106)	123,799,113
Investment income							-	-
Other income	14						45,871,344	166,862,592
							(24,195,762)	290,661,705
General and administration expenses	15						(7,514,137)	(7,219,495)
Financial charges	16						(258,455)	(85,860)
Provision for Workers' Welfare Fund							-	(5,856,130)
(Loss) / profit before taxation							(31,968,354)	277,500,220
Taxation	17						24,984	(94,924,270)
(Loss) / profit after taxation							(31,943,370)	182,575,950
Other comprehensive income - not reclassifiable to profit and loss								
Remeasurement of post employment benefit obligations - net of tax							(2,290,441)	(1,068,139)
Total comprehensive (loss) / income for the year							(34,233,811)	181,507,811
Profit and loss appropriation account								
Balance at the commencement of the year							181,511,534	74,483,723
(Loss) / profit after taxation for the year							(31,943,370)	182,575,950
Other comprehensive loss							(2,290,441)	(1,068,139)
Dividends							(90,000,000)	(74,480,000)
Balance of unappropriated profit at the end of the year							57,277,723	181,511,534
(Loss) / earnings per share	19						(1.06)	6.09

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

Syed Ali Shah

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015

	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, 2014	300,000,000	11,450	23,165,367	74,483,723	397,660,540
Cash dividend for the year 2013	-	-	-	(74,480,000)	(74,480,000)
Employee benefit cost under IFRS 2 - Share Based Payment - note 13.2	-	-	9,287,786	-	9,287,786
Profit after taxation for the year	-	-	-	182,575,950	182,575,950
Remeasurement of post employment benefit obligations net of tax	-	-	-	(1,068,139)	(1,068,139)
Balance as at December 31, 2014	300,000,000	11,450	32,453,153	181,511,534	513,976,137
Cash dividend for the year 2014	-	-	-	(90,000,000)	(90,000,000)
Employee benefit cost under IFRS 2 - Share Based Payment - note 13.2	-	-	8,359,548	-	8,359,548
Loss after taxation for the year	-	-	-	(31,943,370)	(31,943,370)
Remeasurement of post employment benefit obligations net of tax	-	-	-	(2,290,441)	(2,290,441)
Balance as at December 31, 2015	300,000,000	11,450	40,812,701	57,277,723	398,101,874

The annexed notes 1 to 33 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, 2015

	2015	2014
	(Rupees)	
OPERATING CASH FLOWS		
a) Underwriting activities		
Premiums received	651,265,146	742,579,250
Reinsurance premiums paid	(412,596,225)	(517,765,402)
Claims paid	(341,150,609)	(391,438,713)
Reinsurance and other recoveries received	328,299,723	316,665,710
Commissions paid	(41,758,774)	(70,399,307)
Commissions received	43,375,483	54,886,419
Net cash generated from underwriting activities	227,434,744	134,527,957
b) Other operating activities		
Income tax paid	(57,727,745)	(106,321,508)
Payment made on account of Workers' Welfare Fund	-	(2,605,709)
General management expenses paid	(103,816,595)	(109,331,207)
Statutory deposit with State Bank of Pakistan	-	-
Net cash used in other operating activities	(161,544,340)	(218,258,424)
Net cash generated from / (used in) operating activities	65,890,404	(83,730,467)
INVESTMENT ACTIVITIES		
Fixed capital expenditure	(8,178,611)	(11,745,596)
Proceeds from disposal of fixed assets	2,854,750	2,586,700
Profit / return received	44,814,152	52,266,426
Net cash generated from investing activities	39,490,291	43,107,530
FINANCING ACTIVITIES		
Dividend paid	(90,000,000)	(74,480,000)
Net cash used in financing activities	(90,000,000)	(74,480,000)
Net increase / (decrease) in cash and cash equivalents during the year	15,380,695	(115,102,937)
Cash and cash equivalents at the beginning of the year	596,000,343	711,103,280
Cash and cash equivalents at the end of the year	611,381,038	596,000,343

The annexed notes 1 to 33 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, 2015

	2015	2014
	----------- (Rupees) -----------	
Reconciliation to Profit and Loss Account		
Operating cash flows	65,890,404	(83,730,467)
Depreciation expense	(4,668,151)	(3,590,994)
Gain on disposal of fixed assets	314,445	155,547
Excess recovery from reinsurer written back	-	114,513,454
Fixed assets written off	(39,464)	(29,044)
Profit / return received	44,814,152	52,266,426
Increase / (decrease) in assets other than cash	493,538,258	(157,572,871)
(Increase) / decrease in liabilities other than running finance	(765,652,679)	307,853,093
Increase / (decrease) in deferred taxation	7,081,314	(230,643)
Decrease / (increase) in unearned premium	84,466,484	(48,890,104)
Decrease in tax payable	50,671,415	11,119,339
Cost associated with employee benefit scheme	(8,359,548)	(9,287,786)
(Loss) / profit after taxation	(31,943,370)	182,575,950

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.

	2015	2014
	----------- (Rupees) -----------	
Cash for the purposes of the Statement of Cash Flows consists of:		
Cash and other equivalents		
Stamps	858,632	742,520
Cash in hand	50,000	50,000
	908,632	792,520
Current and other accounts		
Current accounts	20,472,406	30,207,823
Deposit with State Bank of Pakistan	30,000,089	30,000,089
	50,472,495	60,207,912
Deposits maturing within 12 months		
Fixed and term deposits	590,000,000	565,000,000
Less: Statutory deposit with State Bank of Pakistan	(30,000,089)	(30,000,089)
	611,381,038	596,000,343

The annexed notes 1 to 33 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, 2015

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2015	2014
	(Rupees)									
Direct and Facultative										
Fire and Property Damage	469,334,026	273,707,676	207,336,170	535,705,532	477,188,228	79,899,084	66,931,319	490,155,993	45,549,539	203,917,039
Marine, Aviation and Transport	7,520,517	45,236,857	6,988,729	45,768,645	35,812,761	17,139,570	1,642,544	51,309,787	(5,541,142)	17,884,982
Motor	1,644,578	354,413	300,076	1,698,915	-	-	-	-	1,698,915	1,738,200
Accident and Health	46,435,156	5,395,289	3,002,134	48,828,311	33,606,270	4,094,262	2,418,378	35,282,154	13,546,157	9,599,366
Liability	19,794,533	14,549,527	6,583,822	27,760,238	16,108,699	5,737,571	5,311,899	16,534,371	11,225,867	11,798,875
Total	544,728,810	339,243,762	224,210,931	659,761,641	562,715,958	106,870,487	76,304,140	593,282,305	66,479,336	244,938,462

Note: Premium written includes Rs. 214,145,010 (2014: Rs. 210,912,558) and Rs. 330,583,800 (2014: Rs. 566,961,232) on account of Direct and Assumed Business respectively underwritten inside Pakistan

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

Syed Ullah Shah

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2015

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		2015	2014
	(Rupees)									
Direct and Facultative										
Fire and Property Damage	347,383,117	283,461,794	842,114,607	906,035,930	322,625,423	247,029,618	794,653,942	870,249,747	35,786,183	8,717,916
Marine, Aviation and Transport	2,562,567	35,911,399	34,123,235	774,403	1,146,077	29,283,645	28,194,023	56,455	717,948	7,705,404
Motor	612,337	501,000	1,197,000	1,308,337	-	-	-	-	1,308,337	897,968
Accident and Health	2,314,330	3,825,718	5,694,451	4,183,063	1,645,528	2,034,203	3,365,446	2,976,771	1,206,292	83,076
Liability	4,916,869	27,444,000	17,554,000	(4,973,131)	2,882,695	16,860,574	8,963,291	(5,014,588)	41,457	(7,189,559)
Total	357,789,220	351,143,911	900,683,293	907,328,602	328,299,723	295,208,040	835,176,702	868,268,385	39,060,217	10,214,805

Note : Total claims paid includes Rs. 52,510,350 (2014: Rs. 91,652,714) and Rs. 305,278,870 (2014: Rs. 253,415,424) on account of Direct and Assumed Business respectively paid inside Pakistan.

* This includes claims amounting to Rs. 23,141,855 (2014: 6,503,244) which have been approved for payment as at the balance sheet date but cheques against them have not been issued. These claims have been removed from outstanding claims and shown as part of other creditors (Note 4).

The annexed notes 1 to 33 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, 2015

Class	Commission paid or payable	Deferred commission		Commission expense	Other management expenses (Refer note 2.13 and 13)	Underwriting expense	Commission from reinsurer (Refer note below)	Net underwriting expense	
		Opening	Closing					2015	2014
	(Rupees)								
Direct and Facultative									
Fire and Property Damage	26,374,980	17,805,305	8,988,897	35,191,388	76,245,858	111,437,246	26,387,103	85,050,143	91,556,005
Marine, Aviation and Transport	325,506	8,812,226	620,018	8,517,714	1,221,749	9,739,463	2,822,528	6,916,935	14,888,775
Motor	256,966	946	-	257,912	267,171	525,083	-	525,083	332,173
Accident and Health	13,847,561	1,114,454	116,555	14,845,460	7,543,643	22,389,103	19,038,465	3,350,638	1,870,368
Liability	953,761	1,474,949	376,267	2,052,443	3,215,729	5,268,172	5,555,047	(286,875)	2,277,223
Total	41,758,774	29,207,880	10,101,737	60,864,917	88,494,150	149,359,067	53,803,143	95,555,924	110,924,544

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

The annexed notes 1 to 33 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, 2015

	2015	2014
	----------- (Rupees) -----------	
Income from non-trading investments	-	-

The annexed notes 1 to 33 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.

Subsequent to the year end on January 14, 2016 the ultimate parent company, ACE Limited (U.S.A.) has completed its acquisition of Chubb, thereafter which ACE has adopted the Chubb name globally. ACE Insurance Limited is in the process of changing its name to Chubb Insurance Pakistan Limited.

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 issued by the International Accounting Standards Board (IASB) and are notified under the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, 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 SEC (Insurance) Rules, 2002 or directives issued by the SECP differ with the requirements of these IFRSs, the requirements of the Companies Ordinance, 1984, the Insurance Ordinance, 2000, the SEC (Insurance) Rules, 2002 or the said directives prevail.

2.1.2 Standards, interpretations and amendments to published approved accounting standards that are effective in the current year

There are certain new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2015 but are considered not to be relevant or did not 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, 2016 but are considered not to be relevant or will not have any significant effect on the Company's operations and are therefore, not disclosed 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 2.19, 9 and 17)
- Defined benefit plan (note 2.10.1)
- Useful lives and residual values of fixed assets (note 2.23 and 12)
- Premium deficiency reserve (note 2.7)
- 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; and
(b) For proportional insurance business accepted, evenly over the period of underlying insurance policies.

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.

Claims which have been approved for payment and against which cheques have not been issued are reclassified from provision for outstanding claims and shown as part of other creditors.

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 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.

2.7 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	36%
Marine, aviation and transport	136%
Motor	80%
Accident and Health	-156%
Liability	-113%

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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 "marine, aviation and transport" as at the year end is not 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, a reserve for the same has been made in these financial statements.

2.8 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.

2.9 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.

2.10 Staff retirement benefits

2.10.1 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, 2015 using the Projected Unit Credit Method.

2.10.2 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.

2.10.3 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.

2.11 Employees' compensated absences

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

2.12 Investment and other income

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

2.13 Expenses of management

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

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2.14 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.

2.15 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.

2.16 Financial assets

2.16.1 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.

2.16.2 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.

2.16.3 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.

2.16.4 Impairment against financial assets

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.

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2.16.5 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.

2.16.6 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.

2.17 Premiums due but unpaid

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

2.18 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.

2.19 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 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. Deferred tax is charged or credited to the profit and loss account, except in the case of items credited or charged to equity in which case it is included in equity.

The carrying amount of the deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

2.20 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.

2.21 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.

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2.22 Sundry receivables

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

2.23 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 12 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.

2.24 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.

2.25 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.

2.26 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.

2.27 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.

2.28 Cash and cash equivalents

Cash and cash equivalents comprise 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.

2.28 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 2015	Number of shares 2014		2015 (Rupees)	2014 (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 2015	Number of shares 2014		2015 (Rupees)	2014 (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 (2014: 30,000,000) ordinary shares of Rs. 10 each as at December 31, 2015. The ultimate parent Company is ACE Limited (U.S.A).

4 OTHER CREDITORS AND ACCRUALS

	Note	2015 (Rupees)	2014 (Rupees)
Claims payable	4.1	23,141,855	6,503,244
Federal insurance fee		-	56,405
General sales tax		4,835,818	7,113,985
Payable to defined benefit plan - gratuity fund	4.2	7,305,906	13,523,753
Provision for Workers' Welfare Fund		5,856,130	5,856,130
Risk inspection charges and no claim bonus payable		9,044,404	8,066,814
Commission payable		3,119,805	7,762,966
		53,303,918	48,883,297

4.1 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.

4.2 Defined benefit plan - Gratuity fund

4.2.1 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 fund is governed under the Trust Act, 1882, Trust Deed and Rules of the Fund, the Companies Ordinance, 1984, the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002.

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

Final salary risks

The risk that the final salary at the time of cessation of service is greater than what was assumed. Since, the benefit is calculated on the final salary, the benefit amount 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 not being 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.

4.2.2 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, 2015.

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

	2015	2014
	(Principal actuarial assumptions)	
Discount rate	9.25% p.a	11.50% p.a
Expected rate of increase in salaries	9.25% p.a	11.50% p.a
Rates of employee turnover	Light	Light

	Note	2015	2014
4.2.3 Amounts recognised in the balance sheet		(Rupees)	
Present value of defined benefit obligation	4.2.4	38,495,810	41,188,224
Fair value of plan assets	4.2.5	(31,189,904)	(27,664,471)
Gratuity liability as at December 31		7,305,906	13,523,753
Movement in net defined liability during the year			
Obligation at the beginning of the year		13,523,753	10,724,183
Charge to profit and loss account		3,815,647	3,707,530
Remeasurement of post employment benefit obligations		3,319,479	1,807,324
Contribution to the fund		(13,352,973)	(2,715,284)
Obligation at the end of the year		7,305,906	13,523,753

4.2.4 Movement in the present value of the defined benefit obligation

	2015	2014
Obligation at the beginning of the year	41,188,224	34,022,553
Current service cost	2,268,706	2,314,882
Interest cost	3,349,399	3,995,643
Benefits paid	(11,045,730)	(500,544)
Remeasurements:		
(Gain) / loss from change in financial assumptions	(394,390)	(276,128)
Experience (gains) / losses	3,129,601	1,631,818
	2,735,211	1,355,690
Obligation at the end of the year	38,495,810	41,188,224

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4.2.5 Movement in the fair value of plan assets

	2015	2014
	(Rupees)	
Fair value at the beginning of the year	27,664,471	23,298,370
Interest income	1,802,458	2,602,995
Company's contributions	13,352,973	2,715,284
Benefits paid	(11,045,730)	(500,544)
Remeasurement - return on plan assets excluding amounts included in interest income	(584,268)	(451,634)
Fair value at the end of the year	31,189,904	27,664,471

4.2.6 Amounts recognised in the profit and loss account

	2015	2014
Current service cost	2,268,706	2,314,882
Net interest cost	1,546,941	1,392,648
	3,815,647	3,707,530

4.2.7 Plan assets comprise of:

	2015		2014	
	(Rupees)	%	(Rupees)	%
Term deposit receipts	-	0	26,576,113	96
Cash at bank	31,189,904	100	1,088,358	4
	31,189,904	100	27,664,471	100

4.2.8 The plan assets and defined benefit obligations are based in Pakistan.

4.2.9 Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in Pakistan. The rates assumed are based on the adjusted SLIC 2001 - 2005 mortality tables with one year age set back.

4.2.10 Funding levels are monitored on an annual basis and are based on actuarial recommendations. Gratuity cost comprising the service cost and the net interest cost for the next year works out to Rs. 3.616 million as per the actuarial valuation report of the Fund as of December 31, 2015.

4.2.11 The weighted average duration of defined benefit obligation is 8.70 years.

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

As at December 31, 2015	Between 0-1 year	Between 2-4 years	Between 5-10 years	Over 10 years	Total
			(Rupees)		
Gratuity	18,782,649	1,675,119	9,716,150	471,689,410	501,863,328

4.2.13 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%	(35,459,823)	42,158,533
Expected rate of increase in salaries	1%	42,314,402	(35,271,754)

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.

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4.2.14 The disclosure made in notes 4.2.2 to 4.2.13 are based on the information included in the actuarial valuation report of the Fund as of December 31, 2015.

5 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Company has set up a provident fund for its permanent employees and the contributions are made by the Company to the Fund in accordance with the requirements of Section 227 of the Companies Ordinance, 1984. The total charge against provident fund for the year ended December 31, 2015 is Rs. 3.147 million (2014: Rs. 2.949). Total net assets based on audited financial statements of Provident Fund as at December 31, 2015 were Rs. 46.811 million. The fair value and cost of investments of provident fund as at December 31, 2015 was Rs. 46.068 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**
Khas deposit certificates	23,000	0%
Bank deposits	46,045,134	100%
	46,068,134	100%

6 STAFF STRENGTH	**2015**	**2014**
	(Number of employees)	
Number of employees as at December 31	15	15
Average number of employees during the year	15	15

7 CONTINGENCIES AND COMMITMENTS

7.1 Contingencies

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. 8.643 million 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.

While finalising the assesments for the assesment years 2008 and 2013, the taxation officer has disallowed provision for IBNR aggregating to Rs. 85.184 million and created additional tax demand of Rs. 29.814 million for these years. The Company preferred an appeal against these disallowances of IBNR with Commissioner of Inland Revenue (CIR-A). CIR - A has maintained addition of IBNR to taxable income for both these years. The company has now preferred a further appeal to the Appelate Tribunal Inland revenue (ATIR) which is pending adjudication.

The management is confident that the above matter will be decided in favor of the Company and has accordingly not made any provision for the aforementioned amounts.

7.2 Commitments

There were no commitments outstanding as at December 31, 2015 and 2014.

		Note	2015	2014
8	**CASH AND BANK DEPOSITS**		----------- (Rupees) -----------	
	Cash and other equivalents			
	Stamps		858,632	742,520
	Cash in hand		50,000	50,000
			908,632	792,520
	Current and other accounts			
	Current accounts		20,472,406	30,207,823
	Deposit with the State Bank of Pakistan	8.1	30,000,089	30,000,089
			50,472,495	60,207,912
	Deposits maturing within 12 months			
	Fixed and term deposits	8.2	590,000,000	565,000,000
			641,381,127	626,000,432

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

8.2 These term deposits carry interest at rates ranging from 5.10% to 5.59% (2014: 7.50% to 9.10%) and will mature by March 17, 2016 (2014: March 24, 2015).

		Note	2015	2014
			---------------- (Rupees) ----------------	
9	**DEFERRED TAXATION - NET**			
	Deferred tax debits / (credits) have arisen in respect of:			
	Accelerated tax depreciation		(186,557)	(753,627)
	Defined benefit plan		2,264,831	4,733,314
	Unused tax losses	9.1	10,011,765	-
			12,090,039	3,979,687

9.1 The Company has an aggregate amount of Rs. 32.296 million (December 31, 2014: Rs. Nil) in respect of tax losses as at December 31, 2015. The management has carried out an assessment to assess as to whether the Company would be able to set off the profit earned in future years against the available losses. Based on this assessment the management has recognised deferred tax asset amounting to Rs. 10.012 million (December 31, 2014: Rs. Nil) on full amount of losses. The amount of this benefit has been determined based on the projected financial statements for future periods as the Company expects that it will be able to generate sufficient profits to avail benefit of these tax losses.

		Note	2015	2014
10	**PREPAYMENTS**		----------- (Rupees) -----------	
	Prepaid reinsurance premium ceded	10.1	76,304,140	106,870,487
	Prepaid rent		4,998,309	4,914,508
	Prepaid others		1,359,128	-
			82,661,577	111,784,995

10.1 The above balance includes prepaid reinsurance ceded to ACE Tempest Reinsurance Limited, a group Company, amounting to Rs. 19.732 million (2014: Rs. 72.089 million).

		Note	2015	2014
11	**SUNDRY RECEIVABLES**		----------- (Rupees) -----------	
	Interest accrued on fixed and term deposits		4,009,353	3,266,606
	Deposit against utilities		766,550	766,550
	Advance against purchase of fixed assets		-	2,588,000
	Miscellaneous	11.1	16,259,110	16,277,357
			21,035,013	22,898,513

11.1 The above balance includes an amount of Rs. 8.321 million (2014: Rs. 8.618 million) receivable on account of survey fees. It also includes an amount of Rs. 7.392 million (2014: Rs. 7.368 million) receivable from ACE Limited, ultimate parent Company in respect of dividend paid to employees and taxes withheld on vested shares.

12 FIXED ASSETS

	Furniture and fixtures	Office equipment	Motor vehicles	Computers and related accessories	Total
	(Rupees)				
As at January 1, 2015					
Cost	6,347,714	7,451,014	21,150,504	1,836,412	36,785,644
Accumulated depreciation	(4,372,270)	(3,622,059)	(8,432,540)	(1,531,888)	(17,958,757)
Net book value	1,975,444	3,828,955	12,717,964	304,524	18,826,887
Year ended December 31, 2015					
Opening net book value	1,975,444	3,828,955	12,717,964	304,524	18,826,887
Additions	8,364	1,463,247	6,707,000	-	8,178,611
Disposals / write offs / adjustment					
Cost	-	376,400	3,909,139	-	4,285,539
Accumulated depreciation	-	(336,936)	(1,368,834)	-	(1,705,770)
	-	39,464	2,540,305	-	2,579,769
Depreciation charge for the year	(396,763)	(1,011,253)	(3,159,641)	(100,494)	(4,668,151)
Closing net book value	1,587,045	4,241,485	13,725,018	204,030	19,757,578
As at December 31, 2015					
Cost	6,356,078	8,537,861	23,948,365	1,836,412	40,678,716
Accumulated depreciation	(4,769,033)	(4,296,376)	(10,223,347)	(1,632,382)	(20,921,138)
Net book value	1,587,045	4,241,485	13,725,018	204,030	19,757,578
Depreciation rate % per annum	20	20	20	33	
As at January 1, 2014					
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
Year ended December 31, 2014					
Opening net book value	1,665,159	2,653,100	8,367,771	446,452	13,132,482
Additions	669,075	1,948,521	9,128,000	-	11,745,596
Disposals / write offs / adjustment					
Cost	-	234,999	6,271,452	-	6,506,451
Accumulated depreciation	-	(205,955)	(3,840,299)	-	(4,046,254)
	-	29,044	2,431,153	-	2,460,197
Depreciation charge for the year	(358,790)	(743,622)	(2,346,654)	(141,928)	(3,590,994)
Closing net book value	1,975,444	3,828,955	12,717,964	304,524	18,826,887
As at December 31, 2014					
Cost	6,347,714	7,451,014	21,150,504	1,836,412	36,785,644
Accumulated depreciation	(4,372,270)	(3,622,059)	(8,432,540)	(1,531,888)	(17,958,757)
Net book value	1,975,444	3,828,955	12,717,964	304,524	18,826,887
Depreciation rate % per annum	20	20	20	33	

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13 EXPENSES	Note	2015	2014
		----------- (Rupees) -----------	
Salaries, wages and benefits	13.1 & 13.2	62,184,545	64,472,306
Rent, rates and taxes		9,614,828	9,230,807
Utilities		2,049,179	2,415,485
Repairs and maintenance		2,161,290	3,547,162
Travelling and conveyance		2,022,576	1,154,329
Education and training		1,110,973	1,029,242
Communication		2,375,593	1,873,715
Service charges		487,436	457,669
Registration, subscription and association fees		1,631,191	1,299,043
Printing and stationery		837,032	1,374,209
Agency office expenses		1,028,903	1,056,000
Corporate promotion		526,598	1,740,066
Others		2,464,006	6,862,820
		88,494,150	96,512,853

13.1 This includes an amount of Rs. 6.963 million (2014: Rs. 6.657 million) in respect of staff retirement benefits. Retirement benefits include contribution to defined contribution plan of Rs. 3.147 million (2014: Rs. 2.949 million).

13.2 Share-based payments

As explained in note 2.10.3, certain employees of the Company are provided share-based compensation benefits. These include the following:

13.2.1 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, 2015 and 2014:

	Number of Restricted Stocks	
	2015	2014
Unvested at the beginning of the year	2,050	2,293
Vested during the period	(862)	(1,021)
Granted during the period	407	778
Forfeited during the period	-	-
Unvested at the end of the year	1,595	2,050

The fair value of options granted during the year was USD 114.78 (2014: USD 96.76) 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. 6.297 million (2014: Rs 6.945 million) in respect of equity-settled restricted stock award vested during the year.

13.2.2 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, 2015 and 2014:

	Stock Options	
	2015	2014
Outstanding at the beginning of the year	3,506	2,869
Granted during the year	542	866
Exercised during the year	(389)	(229)
Expired during the year	-	-
Forfeited during the year	-	-
Unvested at the end of the year	3,659	3,506
Exercisable at the end of the year	2,256	1,826
Vested during the year	819	812

	Weighted average exercise price	
	2015	2014
	(US Dollar)	
Outstanding at the beginning of the year	61.78	58.05
Granted during the year	114.78	96.76
Exercised during the year	(61.78)	(58.05)
Expired during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of the year	64.79	61.78
Exercisable at the end of the year	58.47	55.41
Vested during the year	85.78	74.06

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. 2.062 million (2014: Rs. 2.343 million) related to equity-settled non-qualified share options vested during the year. The exercise price of these shares varies from USD 96.76 - USD 73.35 per share. Weighted average remaining contractual life of these options is 2 years and 8 months.

14 OTHER INCOME

	Note	2015	2014
		(Rupees)	
Interest income on fixed and term deposit accounts		35,842,125	56,420,942
Gain on disposal of fixed asset		314,445	155,547
Exchange gain - net		4,064,313	(8,369,355)
Liabilities no longer payable written back		-	2,160,634
Excess recovery from reinsurer written back		-	114,513,454
Others		5,650,461	1,981,370
		45,871,344	166,862,592

15 GENERAL AND ADMINISTRATION EXPENSES

	Note	2015	2014
Depreciation	12	4,668,151	3,590,994
Auditors' remuneration	15.1	714,810	731,597
Fixed assets written off		39,464	29,044
Legal and professional charges		2,091,712	2,867,860
		7,514,137	7,219,495

15.1 Auditors' remuneration

	2015	2014
Audit fee	525,000	525,000
Regulatory audit	63,250	63,250
Out-of-pocket expenses	126,560	143,347
	714,810	731,597

16 FINANCIAL CHARGES

	2015	2014
Bank charges	258,455	85,860
	258,455	85,860

17 TAXATION

	2015	2014
Current - for the year	7,056,330	94,693,627
- for prior year	-	-
	7,056,330	94,693,627
Deferred - for the year	(7,081,314)	230,643
- for prior year	-	-
	(7,081,314)	230,643
	(24,984)	94,924,270

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		2015	2014
17.1	**Relationship between income tax expense and accounting profit**	----------- (Rupees) -----------	
	(Loss) / profit before taxation	(31,968,354)	277,500,220
	Tax at the applicable rate	(10,229,873)	91,575,073
	Effect of prior year adjustment		-
	Permanent difference for share based payments	2,675,055	3,064,969
	Minimum tax effect	7,056,330	-
	Effect of change in tax rate	46,439	102,093
	Others	427,065	182,135
		(24,984)	94,924,270

18 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:

	2015		2014	
	Chief Executive	Directors	Chief Executive	Directors
	------------------------------ (Rupees) ------------------------------			
Short-term employee benefits				
Managerial remuneration (including bonus)	10,630,906	7,453,521	9,139,118	8,249,217
Housing, utilities and others	213,983	-	143,373	-
	10,844,889	7,453,521	9,282,491	8,249,217
Other employee benefits				
Shared-based compensation benefits	4,726,553	932,160 *	5,078,389	1,450,379 *
Post-employment benefits				
Retirement benefits	758,499	157,064 *	682,573	390,619 *
Total	16,329,941	8,542,745	15,043,453	10,090,215
Number of persons	1	2	1	2

* These benefits relate to one director.

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

18.2 During the year the Chief Executive and the Directors of the Company received dividends on shares in the holding Company amounting to Rs. 340,457 and Rs. 86,540 (2014: Rs 313,392 and Rs. 105,033) respectively.

18.3 The managerial remuneration includes the 2014 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. 3 million (2014: 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.

19 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:

	2015	2014
	----------- (Rupees) -----------	
(Loss) / profit after taxation for the year	(31,943,370)	182,575,950
	(Number of shares)	
Weighted average number of shares of Rs.10 each outstanding during the year	30,000,000	30,000,000
	----------- (Rupees) -----------	
Basic (loss) / earnings per share	(1.06)	6.09

19.1 There are no convertible dilutive potential ordinary shares outstanding on December 31, 2015 and 2014.

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20 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.

	2015					
	Fire and property damage	Marine' aviation and transport	Motor	Accident and Health	Liability	Total
	(Rupees)					
Segment assets	1,089,023,652	31,542,607	11,301	7,706,105	20,753,859	1,149,037,524
Unallocated assets	-	-	-	-	-	748,417,493
Total assets	1,089,023,652	31,542,607	11,301	7,706,105	20,753,859	1,897,455,017
Segment liabilities	1,368,553,102	48,411,059	2,592,247	40,756,931	39,039,804	1,499,353,143
Unallocated liabilities	-	-		-	-	-
Total liabilities	1,368,553,102	48,411,059	2,592,247	40,756,931	39,039,804	1,499,353,143
Net assets						398,101,874

	2014					
	Fire and property damage	Marine' aviation and transport	Motor	Accident and Health	Liability	Total
	(Rupees)					
Segment assets	544,939,834	83,254,775	553,730	19,350,008	37,546,695	685,645,042
Unallocated assets	-	-	-	-	-	676,620,027
Total assets	544,939,834	83,254,775	553,730	19,350,008	37,546,695	1,362,265,069
Segment liabilities	678,568,787	97,867,295	1,148,411	17,572,652	50,256,671	845,413,816
Unallocated liabilities	-	-		-	-	2,875,116
Total liabilities	678,568,787	97,867,295	1,148,411	17,572,652	50,256,671	848,288,932
Net assets						513,976,137

21 FINANCIAL INSTRUMENTS BY CATEGORY

21.1 Financial assets and financial liabilities

Financial assets

Loans and receivables

	2015	2014
	(Rupees)	
Cash and bank deposits		
Cash and other equivalents	50,000	50,000
Current and other accounts	50,472,495	60,207,912
Deposits maturing within 12 months	590,000,000	565,000,000
	640,522,495	625,257,912
Current assets - others		
Premiums due but unpaid	130,160,254	236,696,590
Amounts due from other insurers / reinsurers	97,294,691	17,662,045
Reinsurance recoveries against outstanding claims	835,176,702	295,208,040
Sundry receivables	20,268,463	27,131,963
	1,082,900,110	576,698,638
	1,723,422,605	1,201,956,550

	2015	2014
	(Rupees)	
Financial liabilities		
Amortised cost		
Provision for outstanding claims (including IBNR)	900,683,293	351,143,911
Amounts due to other insurers / reinsurers	302,047,471	72,295,092
Accrued expenses	7,398,906	13,641,771
Other creditors and accruals	35,306,064	22,333,024
	1,245,435,734	459,413,798

22 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.

22.1 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.

22.1.1 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, Bangladeshi Taka and Sri Lankan Rupee. The details of balances are as follows:

	2015	2014
	USD	
Premium due but unpaid	481,860	1,819,527
Net foreign currency exposure	481,860	1,819,527
	BDT	
Premium due but unpaid	4,197,566	9,611,258
Net foreign currency exposure	4,197,566	9,611,258
	LKR	
Premium due but unpaid	20,605	-
Net foreign currency exposure	20,605	-

At December 31, 2015, if the Pakistani Rupee had weakened / strengthened by 1% against the US Dollar, Bangladeshi Taka and Sri Lankan Rupee with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs. 0.561 million (2014: Rs 1.955 million).

22.1.2 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.

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

	2015							
	Interest rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
		(Rupees)						
Financial assets								
Cash and bank deposits	5.10% to 5.59%	590,000,000	-	590,000,000	50,522,495	-	50,522,495	640,522,495
Other assets								
Premium due but unpaid		-	-	-	130,160,254	-	130,160,254	130,160,254
Amount due from other insurers / reinsurers		-	-	-	97,294,691	-	97,294,691	97,294,691
Reinsurance recoveries against outstanding claims		-	-	-	835,176,702	-	835,176,702	835,176,702
Sundry receivables		-	-	-	20,268,463	-	20,268,463	20,268,463
		-	-	-	1,082,900,110	-	1,082,900,110	1,082,900,110
		590,000,000	-	590,000,000	1,133,422,605	-	1,133,422,605	1,723,422,605
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	900,683,293	-	900,683,293	900,683,293
Amounts due to other insurers / reinsurers		-	-	-	302,047,471	-	302,047,471	302,047,471
Accrued expenses		-	-	-	7,398,906	-	7,398,906	7,398,906
Other creditors and accruals		-	-	-	35,306,064	-	35,306,064	35,306,064
		-	-	-	1,245,435,734	-	1,245,435,734	1,245,435,734
		590,000,000	-	590,000,000	(112,013,129)	-	(112,013,129)	477,986,871

	2014							
	Interest rates	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
		(Rupees)						
Financial assets								
Cash and bank deposits	7.50% to 9.10%	565,000,000	-	565,000,000	60,257,912	-	60,257,912	625,257,912
Other assets								
Premium due but unpaid		-	-	-	236,696,590	-	236,696,590	236,696,590
Amount due from other insurers / reinsurers		-	-	-	17,662,045	-	17,662,045	17,662,045
Reinsurance recoveries against outstanding claims		-	-	-	295,208,040	-	295,208,040	295,208,040
Sundry receivables		-	-	-	27,131,963	-	27,131,963	27,131,963
		-	-	-	576,698,638	-	576,698,638	576,698,638
		565,000,000	-	565,000,000	636,956,550	-	636,956,550	1,201,956,550
Financial liabilities								
Provision for outstanding claims (including IBNR)		-	-	-	351,143,911	-	351,143,911	351,143,911
Amounts due to other insurers / reinsurers		-	-	-	72,295,092	-	72,295,092	72,295,092
Accrued expenses		-	-	-	13,641,771	-	13,641,771	13,641,771
Other creditors and accruals		-	-	-	22,333,024	-	22,333,024	22,333,024
		-	-	-	459,413,798	-	459,413,798	459,413,798
		565,000,000	-	565,000,000	177,542,752	-	177,542,752	742,542,752

22.1.3 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, 2015.

22.1.4 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, 2015 that would expose it to price risk.

22.2 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 1,735 million (2014: 1,202 million) except Rs. 0.05 million (2014: 0.05 million) are subject to credit risk.

Out of the total financial assets, bank balances of Rs. 640.522 million have been placed with banks having credit rating of A and above is outstanding as at December 31, 2015. Outstanding balances on account of premium due but unpaid as at December 31, 2015 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.

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

	2015	2014
	(Rupees)	
Upto 30 days	34,896,787	8,197,054
31 to 180 days	7,948,505	74,150,787
Over 180 days	14,949,732	4,219,544
	57,795,024	86,567,385

22.2.2 Out of the total amount of premium outstanding as at December 31, 2015 of Rs. 130.160 million (2014: Rs. 236.697 million), Rs.72.365 (2014: Rs. 150.130 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.

22.2.3 Sector wise analysis of premiums due but unpaid

	2015	2014
	(Rupees)	
Financial sector	4,243,942	963,413
Pharmaceuticals	78,402	1,475,604
Chemicals	3,493,930	4,163,284
Fertilizer	19,559,533	29,539,653
Oil and Gas	262,103	16,009,944
Energy	64,622,607	158,422,232
Construction	2,306,436	1,112,115
Distribution	6,975,087	-
Industrial Material And Mining	-	822,071
Telecommunication	9,450,803	435,728
Miscellaneous	19,167,411	23,752,546
	130,160,254	236,696,590

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

	2015		
	Amount due from other insurers / reinsurers	Reinsurance recoveries against outstanding claims	Aggregate
	(Rupees)		
A or above	95,184,484	699,007,702	794,192,186
Others	2,110,207	-	2,110,207
Unrated	-	136,169,000	136,169,000
Total	97,294,691	835,176,702	932,471,393

	2014		
	Amount due from other insurers / reinsurers	Reinsurance recoveries against outstanding claims	Aggregate
	(Rupees)		
A or above	14,744,564	157,497,040	172,241,604
Others	2,917,481	-	2,917,481
Unrated	-	137,711,000	137,711,000
Total	17,662,045	295,208,040	312,870,085

22.3 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.

	2015			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Provision for outstanding claims	900,683,293	900,683,293	900,683,293	-
Amounts due to other insurers / reinsurers	302,047,471	302,047,471	302,047,471	-
Accrued expenses	7,398,906	7,398,906	7,398,906	-
Other creditors and accruals	35,306,064	35,306,064	35,306,064	-
	1,245,435,734	1,245,435,734	1,245,435,734	-

	2014			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	(Rupees)			
Provision for outstanding claims	351,143,911	351,143,911	351,143,911	-
Amounts due to other insurers / reinsurers	72,295,092	72,295,092	72,295,092	-
Accrued expenses	13,641,771	13,641,771	13,641,771	-
Other creditors and accruals	22,333,024	22,333,024	22,333,024	-
	459,413,798	459,413,798	459,413,798	-

23 INSURANCE RISK / RISK MANAGEMENT PRACTICES

23.1 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:

	2015		
	Maximum gross exposure	Reinsurance cover	Highest net liability
	Rupees in million		
Earthquake	29,319	29,290	29
Flood / windstorm	13,866	13,860	6

	2014		
	Maximum gross exposure	Reinsurance cover	Highest net liability
	Rupees in million		
Earthquake	27,624	27,601	23
Flood / windstorm	32,339	32,327	12

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23.2 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.

23.3 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) 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.

23.4 Uncertainty in the estimation of future claims payment

An estimated amount of the claim is recorded immediately on intimation to the Company. The estimation of the amount is based on the amount notified by the policy holder, management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. The estimation of provision of claims incurred but not reported (IBNR) is determined on the basis of actuarial recommendation for all classes of business.

The Company takes all reasonable measures to identify and account for the factors affecting the amount and timing of claim settlements. However, uncertainty prevails with estimated claim liabilities and it is likely that final settlement of these liabilities may be different from recognised amounts.

24 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.

25 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	
	2015	2014	2015	2014
10% increase in net claims (i.e. loss)	(Rupees)			
Fire and property damage	(3,578,618)	(871,792)	(2,433,460)	(566,665)
Marine, aviation and transport	(71,795)	(770,540)	(48,821)	(500,851)
Motor	(130,834)	(89,797)	(88,967)	(58,368)
Accident and health	(120,629)	(8,308)	(82,028)	(5,400)
Liability	(4,146)	718,956	(2,819)	467,321
	(3,906,022)	(1,021,481)	(2,656,095)	(663,963)
10% decrease in net claims (i.e. loss)				
Fire and property damage	3,578,618	871,792	2,433,460	566,665
Marine, aviation and transport	71,795	770,540	48,821	500,851
Motor	130,834	89,797	88,967	58,368
Accident and health	120,629	8,308	82,028	5,400
Liability	4,146	(718,956)	2,819	(467,321)
	3,906,022	1,021,481	2,656,095	663,963

26 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, 2015 which pertain to years prior to the year ended December 31, 2010.

Analysis on gross basis	2010	2011	2012	2013	2014	2015	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	230,028,721	868,149,162	2,461,695,009
One year later	764,911,427	79,406,275	198,594,707	486,673,105	307,305,049	-	1,836,890,563
Two years later	764,911,427	28,989,126	198,594,707	437,468,820	-	-	1,429,964,080
Three years later	764,911,427	28,989,126	-	-	-	-	793,900,553
Four years later	764,911,427	-	-	-	-	-	764,911,427
Five years later	755,395,690	-	-	-	-	-	755,395,690
Estimate of cumulative claims	755,395,690	28,989,126	198,594,707	437,468,820	307,305,049	868,149,162	2,595,902,554
Cumulative payments to date	755,395,690	28,989,126	198,594,707	429,706,538	245,562,564	224,187,322	1,882,435,947
Liability recognised in the balance sheet for the respective periods	-	-	-	7,762,282	61,742,485	643,961,840	713,466,607

27 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.

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28 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

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

29 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.

Related parties comprise of subsidiary, related group companies, directors of the Company, key management personnel, major shareholders, post employment benefit plans and other related parties. The Company in the normal course of business carries out transactions with various related parties at agreed / commercial terms and conditions. Remuneration of key management personnel is disclosed in note 18.

Amounts due to / from and other significant transactions, other than those disclosed else where in these financial statements, are as follows:

	ACE INA International Holdings Limited (U.S.A.)		Other related parties		Total	
	2015	2014	2015	2014	2015	2014
	(Rupees)					
BALANCES						
Amounts due to other insurers / reinsurers	-	-	292,017,741	59,928,472	292,017,741	59,928,472
Payable to defined benefit plan - gratuity fund	-	-	7,305,906	13,523,753	7,305,906	13,523,753
Premiums due but unpaid						
- ACE American Insurance Company Bahrain	-	-	9,020,528	17,075,985	9,020,528	17,075,985
Amounts due from other insurers / reinsurers						
- ACE American Insurance Company Bahrain	-	-	46,450,356	-	46,450,356	-
Reinsurance recoveries against outstanding claims						
- ACE Tempest Reinsurance Limited	-	-	576,784,909	154,655,925	576,784,909	154,655,925
- ACE INA Overseas Insurance Company	-	-	186,100	2,286,890	186,100	2,286,890
Prepaid reinsurance premium ceded	-	-	73,918,732	73,594,831	73,918,732	73,594,831
Sundry receivables						
- ACE Limited (ultimate parent Company)	-	-	7,391,869	7,368,168	7,391,869	7,368,168
- ACE American Insurance Company Bahrain	-	-	430,523	717,242	430,523	717,242
TRANSACTIONS						
Reinsurance premium ceded	-	-	552,218,470	404,317,196	552,218,470	404,317,196
Claims ceded	-	-	862,265,662	93,070,143	862,265,662	93,070,143
Commission on cession	-	-	52,792,421	40,076,412	52,792,421	40,076,412
Remuneration of key management personnel						
- Managerial remuneration	-	-	21,258,965	17,531,708	21,258,965	17,531,708
- Share based compensation benefits	-	-	6,164,207	6,528,768	6,164,207	6,528,768
- Retirement benefits	-	-	1,193,763	1,073,192	1,193,763	1,073,192
Contribution to gratuity fund	-	-	13,352,973	2,715,284	13,352,973	2,715,284
Contribution to provident fund	-	-	3,146,679	2,949,147	3,146,679	2,949,147
Dividend paid	90,000,000	74,480,000	-	-	90,000,000	74,480,000

30 NON-ADJUSTING EVENT

The Board of Directors has proposed a final stock dividend for the year ended December 31, 2015 of Rs. 1.667 per share (2014: Cash dividend of Rs. 3 per share) amounting to Rs. 50 million (2014: Rs. 90 million) in its meeting held on 21/3/16 for the approval of the members at the annual general meeting to be held on 22/4/16. The financial statements for the year ended December 31, 2015 do not include the effect of these appropriations which will be accounted for in the financial statements for the year ended December 31, 2016.

31 CORRESPONDING FIGURES

Comparative information has been re-classified, re-arranged or additionally incorporated in these financial statements, wherever necessary to facilitate comparison and to conform with changes in presentation in the current year. No significant reclassifications were made during the year except for the following:

Reclassified from	Classified to	Amount Rupees
Sundry receivables	Taxation - provision less payments	5,000,000

32 DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on 21 MAR 2016 by the Board of Directors of the Company.

33 GENERAL

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

PRINCIPAL OFFICER & CHAIRPERSON | DIRECTOR | DIRECTOR