ACE INSURANCE LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

pwc **A. F. FERGUSON & CO.**

AUDITORS' REPORT TO THE MEMBERS OF ACE INSURANCE LIMITED

We have audited the annexed financial statements comprising of:

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

of **ACE Insurance Limited** as at **December 31, 2014** 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, 2014, 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).

AFF&Co

Chartered Accountants
Engagement Partner: **Rashid A. Jafer**
Dated: March 24, 2015
Karachi

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ACE INSURANCE LIMITED
BALANCE SHEET
AS AT DECEMBER 31, 2014

	Note	2014	2013
		(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		213,976,137	97,660,540
TOTAL EQUITY		513,976,137	397,660,540
Underwriting provisions			
Provision for outstanding claims (including IBNR)		351,143,911	592,372,876
Provision for unearned premium		339,243,762	276,991,727
Commission income unearned		20,205,983	7,345,541
		710,593,656	876,710,144
Creditors and accruals			
Amounts due to other insurers / reinsurers	4	72,295,092	104,312,547
Accrued expenses		13,641,771	12,512,046
Other creditors and accruals	5	48,883,297	210,186,267
Taxation - provision less payments		7,875,116	13,994,455
		142,695,276	341,005,315
TOTAL LIABILITIES		853,288,932	1,217,715,459
TOTAL EQUITY AND LIABILITIES		1,367,265,069	1,615,375,999
CONTINGENCIES AND COMMITMENTS	8		

	Note	2014	2013
		(Rupees)	
Cash and bank deposits	9		
Cash and other equivalents		792,520	89,865
Current and other accounts		60,207,912	61,013,504
Deposits maturing within 12 months		565,000,000	680,000,000
		626,000,432	741,103,369
Investments		-	-
Deferred taxation	10	3,979,687	3,471,145
Current assets - others			
Premiums due but unpaid		236,696,590	201,402,050
Amounts due from other insurers / reinsurers		17,662,045	15,959,322
Reinsurance recoveries against outstanding claims	11	295,208,040	518,249,382
Deferred commission expense		29,207,880	15,246,241
Prepayments	12	111,784,995	93,508,556
Sundry receivables	13	27,898,513	13,303,452
		718,458,063	857,669,003
Fixed assets	14		
Tangible			
Furniture and fixtures		1,975,444	1,665,159
Office equipment		3,828,955	2,653,100
Motor vehicles		12,717,964	8,367,771
Computers and related accessories		304,524	446,452
		18,826,887	13,132,482
TOTAL ASSETS		1,367,265,069	1,615,375,999

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2014

	Note	Fire and Property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	2014 Aggregate	2013 Aggregate
		(Rupees)						
Revenue account								
Net premium revenue		203,917,039	17,884,982	1,738,200	9,599,366	11,798,875	244,938,462	152,055,652
Net claims		(8,717,916)	(7,705,404)	(897,968)	(83,076)	7,189,559	(10,214,805)	(29,126,820)
Expenses	15	(75,965,322)	(10,631,547)	(209,746)	(4,593,867)	(5,112,371)	(96,512,853)	(77,317,763)
Net commission		(15,590,683)	(4,257,228)	(122,427)	2,723,499	2,835,148	(14,411,691)	14,917,681
Underwriting result		103,643,118	(4,709,197)	508,059	7,645,922	16,711,211	123,799,113	60,528,750
Investment income							-	-
Other income	16						166,862,592	74,001,846
							290,661,705	134,530,596
General and administration expenses	17						(7,219,495)	(5,883,697)
Financial charges	18						(85,860)	(164,573)
Provision for Workers' Welfare Fund							(5,856 130)	(2,752,877)
Profit before taxation							277,500,220	125,729,449
Taxation	19						(94,924,270)	(45,224,582)
Profit after taxation							182,575,950	80,504,867
Other comprehensive income - not reclassifiable to profit and loss								
Remeasurement of post employment benefit obligations - net of tax							(1,068,139)	(2,919,814)
Total comprehensive income for the year							181,507,811	77,585,053
Profit and loss appropriation account								
Balance at the commencement of the year							74,483,723	85,998,670
Profit after taxation for the year							182,575,950	80,504,867
Other comprehensive income							(1,068,139)	(2,919,814)
Dividends							(74,480,000)	(89,100,000)
Balance of unappropriated profit at the end of the year							181,511,534	74,483,723
Earnings per share	21						6.09	2 68

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014

	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, 2013	300,000,000	11,450	15,155,115	85,998,670	401,165,235
Cash dividend for the year 2012	-	-	-	(89,100,000)	(89,100,000)
Employee benefit cost under IFRS 2 - Share Based Payment - note 15.2	-	-	8,010,252	-	8,010,252
Profit after taxation for the year	-	-	-	80,504,867	80,504,867
Remeasurement of post employment benefit obligations net of tax	-	-	-	(2,919,814)	(2,919,814)
Balance as at December 31, 2013	300,000,000	11,450	23,165,367	74,483,723	397,660,540
Cash dividend for the year 2013	-	-	-	(74,480,000)	(74,480,000)
Employee benefit cost under IFRS 2 - Share Based Payment - note 15 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

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	----------- (Rupees) -----------	
OPERATING CASH FLOWS		
a) Underwriting activities		
Premiums received	742,579,250	572,005,149
Reinsurance premiums paid	(517,765,402)	(471,465,179)
Claims paid	(391,438,713)	(236,714,582)
Reinsurance and other recoveries received	316,665,710	239,076,373
Commissions paid	(70,399,307)	(37,482,850)
Commissions received	54,886,419	38,380,293
Net cash generated from underwriting activities	134,527,957	103,799,204
b) Other operating activities		
Income tax paid	(101,321,508)	(42,579,235)
Payment made on account of Workers' Welfare Fund	(2,605,709)	(3,090,649)
General management expenses paid	(114,331,207)	(64,196,327)
Statutory deposit with State Bank of Pakistan	-	411
Net cash used in other operating activities	(218,258,424)	(109,865,800)
Net cash used in operating activities	(83,730,467)	(6,066,596)
INVESTMENT ACTIVITIES		
Fixed capital expenditure	(11,745,596)	(806,998)
Proceeds from disposal of fixed assets	2,586,700	560,345
Profit / return received	52,266,426	74,201,261
Net cash generated from investing activities	43,107,530	73,954,608
FINANCING ACTIVITIES		
Dividend paid	(74,480,000)	(89,100,000)
Net cash used in financing activities	(74,480,000)	(89,100,000)
Net decrease in cash and cash equivalents during the year	(115,102,937)	(21,211,988)
Cash and cash equivalents at the beginning of the year	711,103,280	732,315,268
Cash and cash equivalents at the end of the year	596,000,343	711,103,280

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

PRINCIPAL OFFICER & CHAIRPERSON — DIRECTOR — DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	----------- (Rupees) -----------	
Reconciliation to Profit and Loss Account		
Operating cash flows	(83,730,467)	(6,066,596)
Depreciation expense	(3,590,994)	(3,419,945)
Gain on disposal of fixed assets	155,547	264,102
Excess recovery from reinsurer written back	114,513,454	-
Fixed assets written off	(29,044)	(98,823)
Profit / return received	52,266,426	74,201,261
Decrease in statutory deposit with the State Bank of Pakistan	-	(411)
Increase in assets other than cash	(152,572,871)	313,771,675
Increase in liabilities other than running finance	307,853,093	(286,257,760)
Decrease in deferred tax liability	(230,643)	638,351
Decrease in unearned premium	(48,890,104)	(1,233,037)
Decrease / (increase) in tax payable	6,119,339	(3,283,698)
Cost associated with employee benefit scheme	(9,287,786)	(8,010,252)
Profit after taxation	182,575,950	80,504,867

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.

	2014	2013
	----------- (Rupees) -----------	
Cash for the purposes of the Statement of Cash Flows consists of:		
Cash and other equivalents		
Stamps	742,520	39,865
Cash in hand	50,000	50,000
	792,520	89,865
Current and other accounts		
Current accounts	30,207,823	31,013,415
Deposit with State Bank of Pakistan	30,000,089	30,000,089
	60,207,912	61,013,504
Deposits maturing within 12 months		
Fixed and term deposits	565,000,000	680,000,000
Less: Statutory deposit with State Bank of Pakistan	(30,000,089)	(30,000,089)
	596,000,343	711,103,280

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

PRINCIPAL OFFICER & CHAIRPERSON DIRECTOR DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF PREMIUMS
FOR THE YEAR ENDED DECEMBER 31, 2014

Class	Premiums written	Unearned premium reserve		Premiums earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2014	2013
	(Rupees)									
Direct and Facultative										
Fire and Property Damage	612,264,907	262,909,545	273,707,676	601,466,776	391,516,607	85,932,214	79,899,084	397,549,737	203,917,039	121,440,901
Marine, Aviation and Transport	85,688,090	620,668	45,236,857	41,071,901	39,809,402	517,087	17,139,570	23,186,919	17,884,982	(5,481,961)
Motor	1,690,512	402,101	354,413	1,738,200	-	-	-	-	1,738,200	1,921,944
Accident and Health	37,025,622	3,940,888	5,395,289	35,571,221	27,258,087	2,808,030	4,094,262	25,971,855	9,599,366	9,946,070
Liability	41,204,659	9,118,525	14,549,527	35,773,657	25,461,128	4,251,225	5,737,571	23,974,782	11,798,875	24,228,698
Total	777,873,790	276,991,727	339,243,762	715,621,755	484,045,224	93,508,556	106,870,487	470,683,293	244,938,462	152,055,652

Note. Premium written includes Rs. 210,912,558 (2013: Rs 228,660,530) and Rs. 566,961,232 (2013 Rs. 351,282,700) on account of Direct and Assumed Business respectively underwritten inside Pakistan.

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF CLAIMS
FOR THE YEAR ENDED DECEMBER 31, 2014

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		2014	2013
	---------- (Rupees) ----------									
Direct and Facultative										
Fire and Property Damage	254,970,384	521,612,381	283,461,794	16,819,797	232,605,203	471,532,940	247,029,618	8,101,881	8,717,916	23,396,861
Marine, Aviation and Transport	85,335,389	5,412,191	35,911,399	115,834,597	82,645,579	3,800,031	29,283,645	108,129,193	7,705,404	(9,971,156)
Motor	1,563,041	1,359,544	501,000	704,497	-	193,471	-	(193,471)	897,968	(2,131,108)
Accident and Health	2,011,841	12,648,399	3,825,718	(6,810,840)	1,414,928	10,343,047	2,034,203	(6,893,916)	83,076	(1,088,452)
Liability	1,187,483	51,340,361	27,444,000	(22,708,878)	-	32,379,893	16,860,574	(15,519,319)	(7,189,559)	18,920,675
Total	345,068,138	592,372,876	351,143,911	103,839,173	316,665,710	518,249,382	295,208,040	93,624,368	10,214,805	29,126,820

Note Total claims paid includes Rs. 91,652,714 (2013. Rs 37,453,216) and Rs. 253,415,424 (2013 Rs 244,530,353) on account of Direct and Assumed Business respectively paid inside Pakistan.

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014

Class	Commission paid or payable	Deferred commission		Commission expense	Other management expenses (Refer note 2.14 and 15)	Underwriting expense	Commission from reinsurer (Refer note below)	Net underwriting expense	
		Opening	Closing					2014	2013
	(Rupees)								
Direct and Facultative									
Fire and Property Damage	42,901,364	13,825,857	17,805,305	38,921,916	75,965,322	114 887,238	23,331,233	91,556,005	55,900,263
Marine, Aviation and Transport	15,273,775	25,612	8,812,226	6,487,161	10,631,547	17 118,708	2,229,933	14,888,775	282,644
Motor	103,885	19,488	946	122,427	209,746	332.173	-	332,173	343,297
Accident and Health	9,547,501	1,107,896	1,114,454	9,540,943	4,593,867	14,134,810	12,264,442	1,870,368	2,136,519
Liability	2,572,782	267,388	1,474,949	1,365,221	5,112,371	6,477,592	4,200,369	2,277,223	3,737,359
Total	70,399,307	15,246,241	29,207,880	56,437,668	96,512,853	152,950,521	42,025,977	110,924,544	62,400,082

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

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

PRINCIPAL OFFICER & CHAIRPERSON

DIRECTOR

DIRECTOR

ACE INSURANCE LIMITED
STATEMENT OF INVESTMENT INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014

	2014	2013
	----------- (Rupees) -----------	
Income from non-trading investments	-	-

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

PRINCIPAL OFFICER & CHAIRPERSON | DIRECTOR | DIRECTOR

1 STATUS AND NATURE OF BUSINESS

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as 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, 2014 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, 2015 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.

Alto

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

- Provision for outstanding claims including IBNR (note 2.5)
- Provision for taxation and deferred tax (note 2.20 and 19)
- Defined benefit plan (note 2.11.1)
- Useful lives and residual values of fixed assets (note 2.24 and 14)
- Premium deficiency reserve (note 2.8)
- Reinsurance recoveries against outstanding claims (note 2.5.1)

2.2 Insurance contracts

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

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

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

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

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

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

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

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

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

2.3 Premium

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

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

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

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

2.4 Reinsurance ceded

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

Alleo

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

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

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

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

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

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

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

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

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

2.5.1 Reinsurance recoveries against outstanding claims

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

2.6 Salvage and subrogation reimbursements

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

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

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

2.7 Provision for unearned premium

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

2.8 Premium deficiency reserve

The Company is required as per SEC (Insurance) Rules, 2002 to maintain a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the balance sheet date in respect of the unexpired policies in that class of business at the balance sheet date. The movement in the premium deficiency reserve is recorded as an expense / income in profit and loss account for the year.

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

Fire and property damage	13%
Marine, aviation and transport	-45%
Motor	82%
Accident and Health	-57%
Liability	74%

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

2.9 Unearned commission income

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

2.10 Other creditors and accruals

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

2.11 Staff retirement benefits

2.11.1 Defined benefit plan

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

All permanent employees of the Company participate in an approved funded defined gratuity plan. Contributions to the fund are made based on actuarial recommendations . The most recent actuarial valuation was carried out for the year ended December 31, 2014 using the Projected Unit Credit Method

2.11.2 Defined contribution plan

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

2.11.3 Share-based compensation benefits

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

2.12 Employees' compensated absences

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

2.13 Investment and other income

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

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2.14 Expenses of management

Expenses of management have been allocated to various classes of business on the basis of gross premium written as deemed equitable by management. Allocation to each segment is based on the nature of the expense and its correlation to each segment.

2.15 Provisions

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

2.16 Cash and cash equivalents

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

2.17 Financial assets

2.17.1 Classification

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

At fair value through profit or loss

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

Available for sale

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

Held to maturity

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

Loans and receivables

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

2.17.2 Initial recognition and measurement

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

2.17.3 Subsequent measurement

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

2.17.4 Impairment against financial assets

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

2.17.5 Derecognition

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

2.17.6 Offsetting of financial assets and financial liabilities

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

2.18 Premiums due but unpaid

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

2.19 Amounts due from / to other insurers / reinsurers

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

2.20 Taxation

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

Current

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

Deferred

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

2.21 Deferred commission expense

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

2.22 Prepaid reinsurance premium ceded

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

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

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2.23 Sundry receivables

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

2.24 Fixed assets

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

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

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

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

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

2.25 Impairment

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

2.26 Foreign currency translation

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

2.27 Functional and presentation currency

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

2.28 Segment reporting

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

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

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

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

2.29 Dividend distribution

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

3 SHARE CAPITAL

3.1 Authorised share capital

Number of shares 2014	Number of shares 2013		2014 (Rupees)	2013 (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 2014	Number of shares 2013		2014 (Rupees)	2013 (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 (2013: 30,000,000) ordinary shares of Rs. 10 each as at December 31, 2014. The ultimate parent Company is ACE Limited (U.S.A).

	2014 (Rupees)	2013 (Rupees)
4 AMOUNTS DUE TO OTHER INSURERS / REINSURERS	72,295,092	104,312,547

This amount includes an amount of Rs. 59.679 million (2013: Rs. 49.677 million) payable to ACE Tempest Reinsurance Limited, a group Company, in respect of treaty arrangements.

5 OTHER CREDITORS AND ACCRUALS

	Note	2014 (Rupees)	2013 (Rupees)
Claims payable	5.1	6,503,244	52,873,819
Federal insurance fee		56,405	61,811
General sales tax		7,113,985	7,967,508
Payable to defined benefit plan - gratuity fund	5.2	13,523,753	10,724,183
Excess recovery from reinsurer	16.1	-	114,513,454
Provision for Workers' Welfare Fund		5,856,130	2,752,877
Risk inspection charges and no claim bonus payable		8,066,814	15,545,552
Miscellaneous		7,762,966	5,747,063
		48,883,297	210,186,267

5.1 This represents claims sent for payment but for which cheque has not yet been issued as at the balance sheet date.. for outstanding claims.

5.2 Defined benefit plan - Gratuity fund

5.2.1 Salient features

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

The Company faces the following risks on account of 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 being not sufficient to meet the liabilities.

Mortality risks

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

5.2.2 Valuation results

An actuarial valuation is carried out every year to determine the liability of the Company in respect of the benefit and the latest valuation was carried out as at December 31, 2014.

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:

	2014	**2013**
	(Principal actuarial assumptions)	
Discount rate	11 50% p a	13.00% p.a
Expected rate of increase in salaries	11 50% p a	13 00% p a
Rates of employee turnover	Light	Light

	Note	**2014**	**2013**
5.2.3 Amounts recognised in the balance sheet		-------------- (Rupees)	--------------
Present value of defined benefit obligation	5.2.4	41,188,224	34,022,553
Fair value of plan assets	5.2.5	(27,664,471)	(23,298,370)
Gratuity liability as at December 31		13,523,753	10,724,183
Movement in net defined liability during the year			
Obligation at the beginning of the year		10,724,183	6,399,960
Charge to profit and loss account		3,707,530	2,335,062
Remeasurement of post employment benefit obligations		1,807,324	4,326,050
Contribution to the fund		(2,715,284)	(2,336,889)
Obligation at the end of the year		13,523,753	10,724,183

5.2.4 Movement in the present value of the defined benefit obligation

	2014	2013
Obligation at the beginning of the year	34,022,553	25,861,212
Current service cost	2,314,882	1,603,604
Interest cost	3,995,643	2,426,398
Benefits paid	(500,544)	-
Remeasurements:		
(Gain) / loss from change in demographic assumptions	-	-
(Gain) / loss from change in financial assumptions	(276,128)	226,565
Experience (gains) / losses	1,631,818	3,904,774
	1,355,690	4,131,339
Obligation at the end of the year	41,188,224	34,022,553

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5.2.5 Movement in the fair value of plan assets

	2014	2013
	(Rupees)	
Fair value at the beginning of the year	23,298,370	19,461,252
Interest income	2,602,995	1,694,940
Company's contributions	2,715,284	2,336,889
Benefits paid	(500,544)	-
Remeasurement - return on plan assets excluding amounts included in interest income	(451,634)	(194,711)
Fair value at the end of the year	27,664,471	23,298,370

5.2.6 Amounts recognised in the profit and loss account

	2014	2013
Current service cost	2,314,882	1,603,604
Net interest cost	1,392,648	731,458
	3,707,530	2,335,062

5.2.7 Plan assets comprise of:

	2014		2013	
	(Rupees)	%	(Rupees)	%
Term deposit receipts	26,576,113	96	19,673,938	84
Cash at bank	1,088,358	4	3,624,432	16
	27,664,471	100	23,298,370	100

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

5.2.9 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.

5.2.10 The expected return on plan assets was taken as 11.5% (2013: 13%), which is representative of yields on term deposits with banks.

5.2.11 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. 3.816 million (2013: 3.708 million) as per the actuarial valuation report of the Fund as of December 31, 2015.

5.2.12 The weighted average duration of defined benefit obligation is 6.48 years

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

As at December 31, 2014	Between 0-1 year	Between 2-4 years	Between 5-10 years	Over 10 years	Total
	(Rupees)				
Gratuity	27,069,501	1,297,197	3,285,926	556,861,845	588,514,469

5.2.14 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%	(44,197,534)	38,622,355
Expected rate of increase in salaries	1%	38,816,336	(44,028,275)

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.

5.2.15 The disclosure made in notes 5.2.2 to 5.2.14 are based on the information included in the actuarial valuation report of the Fund as of December 31, 2014.

6 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Company has set up a provident fund for its permanent employees and the contributions were made by the Company to the 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, 2014 is Rs. 2.949 million (2013: Rs.2.421). Total net assets based on audited financial statements of Provident Fund as at December 31, 2014 was Rs. 46.260 million out of which 93.87% was invested in different financial instruments categories as provided in Section 227 of the Companies Ordinance, 1984 and rules formulated for the purpose. The fair value and cost of investments of provident fund as at December 31, 2014 was Rs. 43.423 million. The above investments out of provident fund have been made in accordance with the requirement of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

Break up of Investments	-- (Rupees)--	% of size of Fund's Investment
Bank deposits	43,423,000	100%

7 STAFF STRENGTH

	2014	2013
	(Number of employees)	
Number of employees as at December 31	15	16
Average number of employees during the year	15	16

8 CONTINGENCIES AND COMMITMENTS

8.1 Contingencies

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

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

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

If the matter referred to above is decided against the Company, an additional tax liability of Rs. 8.644 million will arise on account of these add backs for which no provision has been made in these financial statements.

8.2 Commitments

There were no commitments outstanding as at December 31, 2014 and 2013.

9 CASH AND BANK DEPOSITS	Note	2014	2013
		(Rupees)	
Cash and other equivalents			
Stamps		742,520	39,865
Cash in hand		50,000	50,000
		792,520	89,865
Current and other accounts			
Current accounts		30,207,823	31,013,415
Deposit with the State Bank of Pakistan	9 1	30,000,089	30,000,089
		60,207,912	61,013,504
Deposits maturing within 12 months			
Fixed and term deposits	9 2	565,000,000	680,000,000
		626,000,432	741,103,369

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

9.2 These term deposits carry interest at rates ranging from 7 50% to 9 10% (2013· 7 85% to 9 10%) and will mature by March 24, 2015 (2013: March 24, 2014)

10 DEFERRED TAXATION - NET	2014	2013
	(Rupees)	
Deferred tax debits / (credits) have arisen in respect of:		
Accelerated tax depreciation	(753,627)	(175,077)
Defined benefit plan	4,733,314	3,646,222
	3,979,687	3,471,145

11 REINSURANCE RECOVERIES AGAINST OUTSTANDING CLAIMS	295,208,040	518,249,382

The above balance includes claims receivable from ACE Tempest Reinsurance Limited, a group Company, amounting to Rs 154.656 million (2013: Rs. 386.493 million).

12 PREPAYMENTS	Note	2014	2013
		(Rupees)	
Prepaid reinsurance premium ceded	12.1	106,870,487	93,508,556
Prepaid rent		4,914,508	-
		111,784,995	93,508,556

12.1 The above balance includes prepaid reinsurance ceded to ACE Tempest Reinsurance Limited, a group Company, amounting to Rs. 72.089 million (2013· Rs 52.618 million).

13 SUNDRY RECEIVABLES	Note	2014	2013
		(Rupees)	
Interest accrued on fixed and term deposits		3,266,606	3,486,609
Advance against expenses		766,550	446,550
Advance against purchase of fixed assets		2,588,000	2,534,580
Miscellaneous	13.1	21,277,357	6,835,713
		27,898,513	13,303,452

13.1 The above balance includes an amount of Rs. 7.368 million (2013: Rs. 4 953 million) receivable from ACE Limited, Parent Company in respect of dividend paid to employees and taxes withheld on vested shares

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14 FIXED ASSETS

	Furniture and fixtures	Office equipment	Motor vehicles	Computers and related accessories	Total
	(Rupees)				
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	
As at January 1, 2013					
Cost	5,604,389	5,870,900	18,245,751	2,731,907	32,452,947
Accumulated depreciation	(3,713,530)	(2,661,179)	(7,839,264)	(2,098,479)	(16,312,452)
Net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
Year ended December 31, 2013					
Opening net book value	1,890,859	3,209,721	10,406,487	633,428	16,140,495
Additions	205,550	153,243	48,205	400,000	806,998
Disposals / write offs / adjustment					
Cost	131,300	286,651	-	1,295,495	1,713,446
Accumulated depreciation	(102,954)	(262,833)	-	(952,593)	(1,318,380)
	28,346	23,818	-	342,902	395,066
Depreciation charge for the year	(402,904)	(686,046)	(2,086,921)	(244,074)	(3,419,945)
Closing net book value	1,665,159	2,653,100	8,367,771	446,452	13,132,482
As at December 31, 2013					
Cost	5,678,639	5,737,492	18,293,956	1,836,412	31,546,499
Accumulated depreciation	(4,013,480)	(3,084,392)	(9,926,185)	(1,389,960)	(18,414,017)
Net book value	1,665,159	2,653,100	8,367,771	446,452	13,132,482
Depreciation rate % per annum	20	20	20	33	

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15 EXPENSES	Note	2014	2013
		---------- (Rupees) ----------	
Salaries, wages and benefits	15.1 & 15.2	64,472,306	52,815,400
Rent, rates and taxes		9,230,807	6,639,680
Utilities		2,415,485	739,599
Repairs and maintenance		3,547,162	1,997,151
Travelling and conveyance		1,154,329	1,299,621
Education and training		1,029,242	2,920,339
Communication		1,873,715	2,009,838
Service charges		457,669	514,639
Registration, subscription and association fees		1,299,043	1,011,469
Printing and stationery		1,374,209	1,377,867
Agency office expenses		1,056,000	973,333
Corporate promotion		1,740,066	508,830
Others		6,862,820	4,509,997
		96,512,853	77,317,763

15.1 This includes an amount of Rs. 6.657 million (2013: Rs. 4.940 million) in respect of staff retirement benefits Retirement benefits include contribution to defined contribution plan of Rs. 2.949 million (2013: Rs. 2.421 million).

15.2 Share-based payments

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

15.2.1 Restricted Stock

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

The following table shows changes in the restricted stock grants for the years ended December 31, 2014 and 2013

	Number of Restricted Stocks	
	2014	2013
Unvested at the beginning of the year	2,293	2,809
Vested during the period	(1,021)	(1,282)
Granted during the period	778	766
Forfeited during the period	-	-
Unvested at the end of the year	2,050	2,293

The fair value of options granted during the year was USD 96.76 (2013: USD 85.39) 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. 6 945 million (2013: Rs 5.997 million) in respect of equity-settled restricted stock award vested during the year.

15.2.2 Non-Qualified Stock Options

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

The following table shows changes in the stock option grants for the years ended December 31, 2014 and 2013:

	Stock Options	
	2014	2013
Outstanding at the beginning of the year	2,869	2,881
Granted during the year	866	851
Exercised during the year	(229)	(863)
Expired during the year	-	-
Forfeited during the year	-	-
Unvested at the end of the year	3,506	2,869
Exercisable at the end of the year	1,826	1,243
Vested during the year	812	922

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	Weighted average exercise price	
	2014	2013
	------------ (US Dollar) -----------	
Outstanding at the beginning of the year	58.05	54.84
Granted during the year	96.76	85.39
Exercised during the year	(58.05)	(54.84)
Expired during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of the year	61.78	58.05
Exercisable at the end of the year	55.41	53.07
Vested during the year	74.06	60.46

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. 2 343 million (2013: Rs. 2.013 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.

16 OTHER INCOME

	Note	2014	2013
		----------- (Rupees) -----------	
Interest income on fixed and term deposit accounts		56,420,942	56,459,744
Gain on disposal of fixed asset		155,547	264,102
Exchange gain - net		(8,369,355)	4,849,357
Liabilities no longer payable written back		2,160,634	8,939,979
Excess recovery from reinsurer written back	16.1	114,513,454	-
Others		1,981,370	3,488,664
		166,862,592	74,001,846

16.1 This represents excess recovery from reinsurer previously classified in other creditors and accruals being written back since it is no longer considered payable.

17 GENERAL AND ADMINISTRATION EXPENSES

	Note	2014	2013
		----------- (Rupees) -----------	
Depreciation	14	3,590,994	3,419,945
Auditors' remuneration	17.1	731,597	652,500
Fixed assets written off		29,044	98,823
Legal and professional charges		2,867,860	1,712,429
		7,219,495	5,883,697

17.1 Auditors' remuneration

	2014	2013
Audit fee	525,000	525,000
Regulatory audit	63,250	57,500
Out-of-pocket expenses	143,347	70,000
	731,597	652,500

18 FINANCIAL CHARGES

	2014	2013
Bank charges	85,860	164,573
	85,860	164,573

19 TAXATION

	2014	2013
Current - for the year	94,693,627	45,862,933
- for prior year	-	-
	94,693,627	45,862,933
Deferred - for the year	230,643	(638,351)
- for prior year	-	-
	230,643	(638,351)
	94,924,270	45,224,582

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19.1 Relationship between income tax expense and accounting profit	2014	2013
	----------- (Rupees) -----------	
Profit before taxation	277,500,220	125,729,449
Tax at the applicable rate	(91,575,073)	(42,748,013)
Effect of prior year adjustment	-	-
Permanent difference for share based payments	(3,064,969)	(2,723,486)
Reduction in opening deferred tax resulting from increase/decrease in tax rate	(102,093)	23,241
Others	(182,135)	223,676
	(94,924,270)	(45,224,582)

20 REMUNERATION OF CHIEF EXECUTIVE AND DIRECTORS

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

	2014		2013	
	Chief Executive	Directors	Chief Executive	Directors
	---------- (Rupees) ----------			
Short-term employee benefits				
Managerial remuneration (including bonus)	9,139,118	8,249,217	7,737,242	7,360,972
Housing, utilities and others	143,373	-	163,802	-
	9,282,491	8,249,217	7,901,044	7,360,972
Other employee benefits				
Shared-based compensation benefits	5,078,389	1,450,379*	4,749,841	1,421,270*
Post-employment benefits				
Retirement benefits	682,573	390,619*	593,541	339,010*
Total	15,043,453	10,090,215	13,244,426	9,121,252
Number of persons	1	2	1	2

* These benefits relate to one director

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

20.2 During the year the Chief Executive and the Directors of the Company received dividends on shares in the holding Company amounting to Rs. 313,392 and Rs 105,033 (2013: Rs 291,665 and Rs. 136,831) respectively.

20.3 The managerial remuneration includes the 2013 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. 5 million (2013: Rs. 4.5 million) has been accrued on an estimated basis. Individual entitlements in respect of this accrual will be determined next year and will then be disclosed accordingly.

21 EARNINGS PER SHARE - BASIC AND DILUTED

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

	2014	2013
	----------- (Rupees) -----------	
Profit after taxation for the year	182,575,950	80,504,867
	(Number of shares)	
Weighted average number of shares of Rs.10 each outstanding during the year	30,000,000	30,000,000
	----------- (Rupees) -----------	
Basic earnings per share	6.09	2.68

21.1 There are no convertible dilutive potential ordinary shares outstanding on December 31, 2014 and 2013.

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22 SEGMENT REPORTING

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

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

	2014					
	Fire and property damage	Marine' aviation and transport	Motor	Accident and Health	Liability	Total
	(Rupees)					
Segment assets	566,898,770	86,327,986	614,360	20,677,935	39,024,504	713,543,555
Unallocated assets	-	-	-	-	-	653,721,514
Total assets	566,898,770	86,327,986	614,360	20,677,935	39,024,504	1,367,265,069
Segment liabilities	678,568,787	97,867,295	1,148,411	17,572,652	50,256,671	845,413,816
Unallocated liabilities	-	-		-	-	7,875,116
Total liabilities	678,568,787	97,867,295	1,148,411	17,572,652	50,256,671	853,288,932
Net assets						513,976,137

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

23 FINANCIAL INSTRUMENTS BY CATEGORY

23.1 Financial assets and financial liabilities

	2014	2013
	(Rupees)	
Financial assets		
Loans and receivables		
Cash and bank deposits		
Cash and other equivalents	50,000	50,000
Current and other accounts	60,207,912	61,013,504
Deposits maturing within 12 months	565,000,000	680,000,000
	625,257,912	741,063,504
Current assets - others		
Premiums due but unpaid	236,696,590	201,402,050
Amounts due from other insurers / reinsurers	17,662,045	15,959,322
Reinsurance recoveries against outstanding claims	295,208,040	518,249,382
Sundry receivables	27,131,963	12,677,379
	576,698,638	748,288,133
	1,201,956,550	1,489,351,637

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	2014	2013
	-----------------(Rupees)----------------	
Financial liabilities		
Amortised cost		
Provision for outstanding claims (including IBNR)	351,143,911	592,372,876
Amounts due to other insurers / reinsurers	72,295,092	104,312,547
Accrued expenses	13,641,771	12,512,046
Other creditors and accruals	22,333,024	188,679,888
	459,413,798	897,877,357

24 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

24.1 Market risk

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

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

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

24.1.1 Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's principal transactions are carried out in Pakistani rupees and its exposure to foreign exchange arise primarily with respect to US dollars and Bangladeshi Taka. The details of balances are as follows:

	2014	2013
	-----------USD---------	
Premium due but unpaid	1,819,527	792,152
Net foreign currency exposure	1,819,527	792,152
	------- BDT ------	
Premium due but unpaid	9,611,258	18,221,709
Net foreign currency exposure	9,611,258	18,221,709

At December 31, 2014, if the Pakistani Rupee had weakened / strengthened by 1% against the US Dollar and Bangladeshi Taka with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs.1.955 million (2013: Rs 1.084 million).

24.1.2 Interest rate risk

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

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

	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

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

24.1.3 Sensitivity analysis

(a) Sensitivity analysis for variable rate instruments

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

(b) Sensitivity analysis for fixed rate instruments

The Company holds Term Deposit Receipts (TDRs) which are classified as cash and cash equivalents. These carry fixed interest rates and therefore any change in the interest rates will not affect the total assets of the Company and profit after taxation for the year ended December 31, 2014

24.1.4 Price Risk

Price risk is the risk that arises due to increase / decrease in market prices. The Company does not hold any investment at December 31, 2014 that would expose it to price risk

24.2 Credit risk and concentration of credit risk exposure

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

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

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 1,202 million except Rs. 0.05 million (2013: 0.05 million) are subject to credit risk.

Out of the total financial assets, bank balances of Rs. 625.257 million have been placed with banks having credit rating of A and above is outstanding as at December 31, 2014. Outstanding balances on account of premium due but unpaid as at December 31, 2014 pertains to companies and individuals having no rating.

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

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

	2014 (Rupees)	2013 (Rupees)
Upto 30 days	8,197,054	15,738,828
31 to 180 days	74,150,787	7,886,997
Over 180 days	4,219,544	5,688,585
	86,567,385	29,314,410

24.2.2 Out of the total amount of premium outstanding as at December 31, 2014 of Rs. 236.697 million (2013. Rs. 201.402 million), Rs.150.130 (2013: Rs. 172.088 million) pertains to policies which were effective in the current year but premium on account of these policies is not yet due in the current year due to agreed contractual terms.

24.2.3 Sector wise analysis of premiums due but unpaid

	2014	2013
	------------(Rupees)------------	
Financial sector	963,413	6,178,357
Pharmaceuticals	1,475,604	1,066,265
Chemicals	4,163,284	3,624,561
Fertilizer	29,539,653	32,571,871
Oil And Gas	16,009,944	26,169,386
Energy	158,422,232	91,457,538
Construction	1,112,115	7,228,514
Distribution	-	-
Industrial Material And Mining	822,071	418,008
Telecommunication	435,728	24,176,110
Miscellaneous	23,752,546	8,511,440
	236,696,590	201,402,050

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

	2014			
	Amount due from other insurers / reinsurers	Reinsurance recoveries against outstanding claims	Other reinsurance assets	Aggregate
	(Rupees)			
A or above	-	295,208,040	72,089,382	367,297,422
BBB	-	-	-	-
Others	17,662,045	-	34,781,105	52,443,150
Total	17,662,045	295,208,040	106,870,487	419,740,572

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

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24.3 Liquidity risk

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

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

	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	-

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

25 INSURANCE RISK / RISK MANAGEMENT PRACTICES

25.1 Insurance and reinsurance risk

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

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

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

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

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

	2014		
	Gross aggregate exposure	Maximum re-insurance cover	Net
	Rupees in million		
Earthquake	27,624	66,070	(38,446)
Flood / windstorm	32,339	66,070	(33,731)

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

25.2 **Geographical concentration of insurance risk**

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

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

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

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

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

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

25.3 Frequency and severity of claims

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

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

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

26 REINSURANCE ARRANGEMENTS

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

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

27 SENSITIVITY ANALYSIS

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

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

	Pre tax profit		Shareholders' equity	
	2014	2013	2014	2013
10% increase in net claims (i.e. loss)	(Rupees)			
Fire and property damage	(871,792)	(2,339,686)	(566,665)	(1,520,796)
Marine, aviation and transport	(770,540)	997,116	(500,851)	648,125
Motor	(89,797)	213,111	(58,368)	138,522
Accident and health	(8,308)	108,845	(5,400)	70,749
Liability	718,956	(1,892,068)	467,321	(1,229,844)
	(1,021,481)	(2,912,682)	(663,963)	(1,893,244)
10% decrease in net claims (i.e. loss)				
Fire and property damage	871,792	2,339,686	566,665	1,520,796
Marine, aviation and transport	770,540	(997,116)	500,851	(648,125)
Motor	89,797	(213,111)	58,368	(138,522)
Accident and health	8,308	(108,845)	5,400	(70,749)
Liability	(718,956)	1,892,068	(467,321)	1,229,844
	1,021,481	2,912,682	663,963	1,893,244

28 CLAIMS DEVELOPMENT TABLE

The following table shows the development of fire and property damage claims over a period of time. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claim payments For other classes of business the uncertainty about the amount and timings of claim payments is usually resolved within a year. Further, there are no material claims that are outstanding as at December 31, 2014 which pertain to years prior to the year ended December 31, 2011

Analysis on gross basis	2010	2011	2012	2013	2014	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	1,593,545,847
One year later	764,911,427	79,406,275	198,594,707	486,673,105	-	1,529,585,514
Two years later	764,911,427	28,989,126	198,594,707	-	-	992,495,260
Three years later	764,911,427	28,989,126	-	-	-	793,900,553
Four years later	764,911,427	-	-	-	-	764,911,427
Estimate of cumulative claims	764,911,427	28,989,126	198,594,707	486,673,105	230,028,721	1,709,197,086
Cumulative payments to date	754,431,427	28,989,126	198,594,707	346,090,725	209,769,307	1,537,875,292
Liability recognised in the balance sheet for the respective periods	10,480,000	-	-	140,582,380	20,259,414	171,321,794

29 CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are:

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

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

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30 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

31 TRANSACTIONS WITH RELATED PARTIES

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

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

	2014	2013
	(Rupees)	
Reinsurance premium ceded	404,317,196	351,637,356
Commission on cession	40,076,412	38,380,293
Claims ceded	93,070,143	440,367,144
Dividend paid	74,480,000	89,100,000

Transactions with key management personnel are disclosed in note 20 to the financial statements and transactions and balances with the employees' defined benefit plan are disclosed in note 5.2 to the financial statements.

32 NON-ADJUSTING EVENT

The Board of Directors of the Company in their meeting held on 24 MAR 2015 have approved payment of Rs 90 million as dividend to ACE INA International Holdings Limited USA out of the reserves of the Company. The financial statements for the year ended December 31, 2014 do not include the effect of this appropriation which will be accounted for in the financial statements for the year ending December 31, 2015.

33 DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on 24 MAR 2015 by the Board of Directors of the Company

34 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. No significant reclassifications were made during the year.

35 GENERAL

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

PRINCIPAL OFFICER & CHAIRPERSON	DIRECTOR	DIRECTOR