ANNUAL REPORT

2019

SECURITY GENERAL INSURANCE COMPANY LTD.

(Window Takaful Operations)

GROWTH WITH STRENGTH
STRATEGIES AND VALUE

TABLE OF CONTENT

Company Information

Investor Information

Corporate Governance

Financial Statements

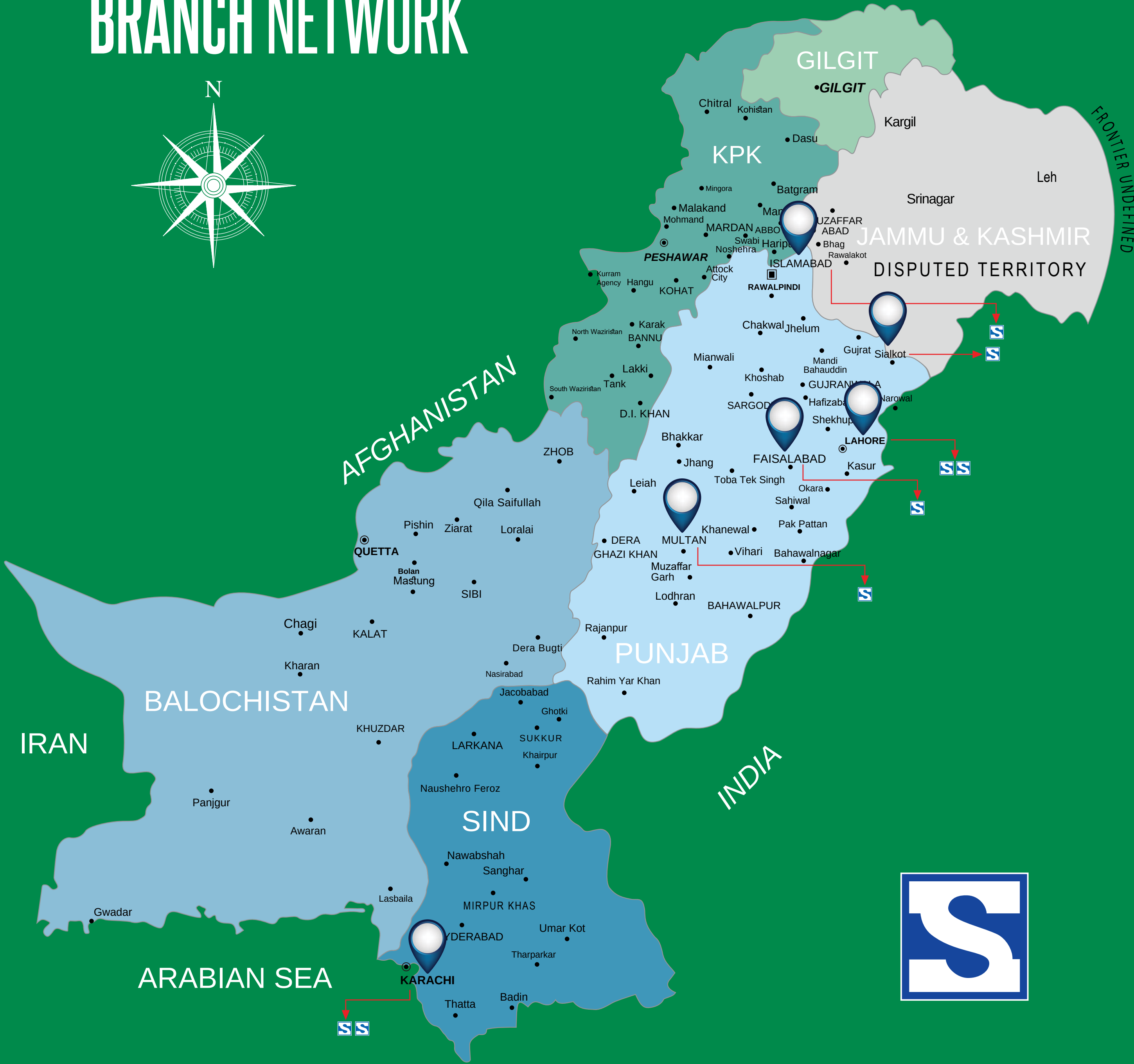
Financial Statements WTO

For All Our Progress and Success There's Still to do.

HIGHLIGHTS

Rupees in Million

BRANCH NETWORK



CORPORATE BRANCH:
9-B, 3rd Floor, LDA Flats, Lawrance Road, Lahore.

FAISALABAD BRANCH:
2nd Floor, Regency Plaza, New Civil Lines, Faisalabad.

MULTAN BRANCH:
1st, Floor, Business City Plaza, Bosan Road, Multan.

ISLAMABAD BRANCH:
Office No. 4, 1st Floor Vip Square, I-8 Markaz, Islamabad.

KARACHI CITY BRANCH:
House No. 59-N, Nazar-ul-Islam Road, Block No. 2, P.E.C.H.S Karachi.

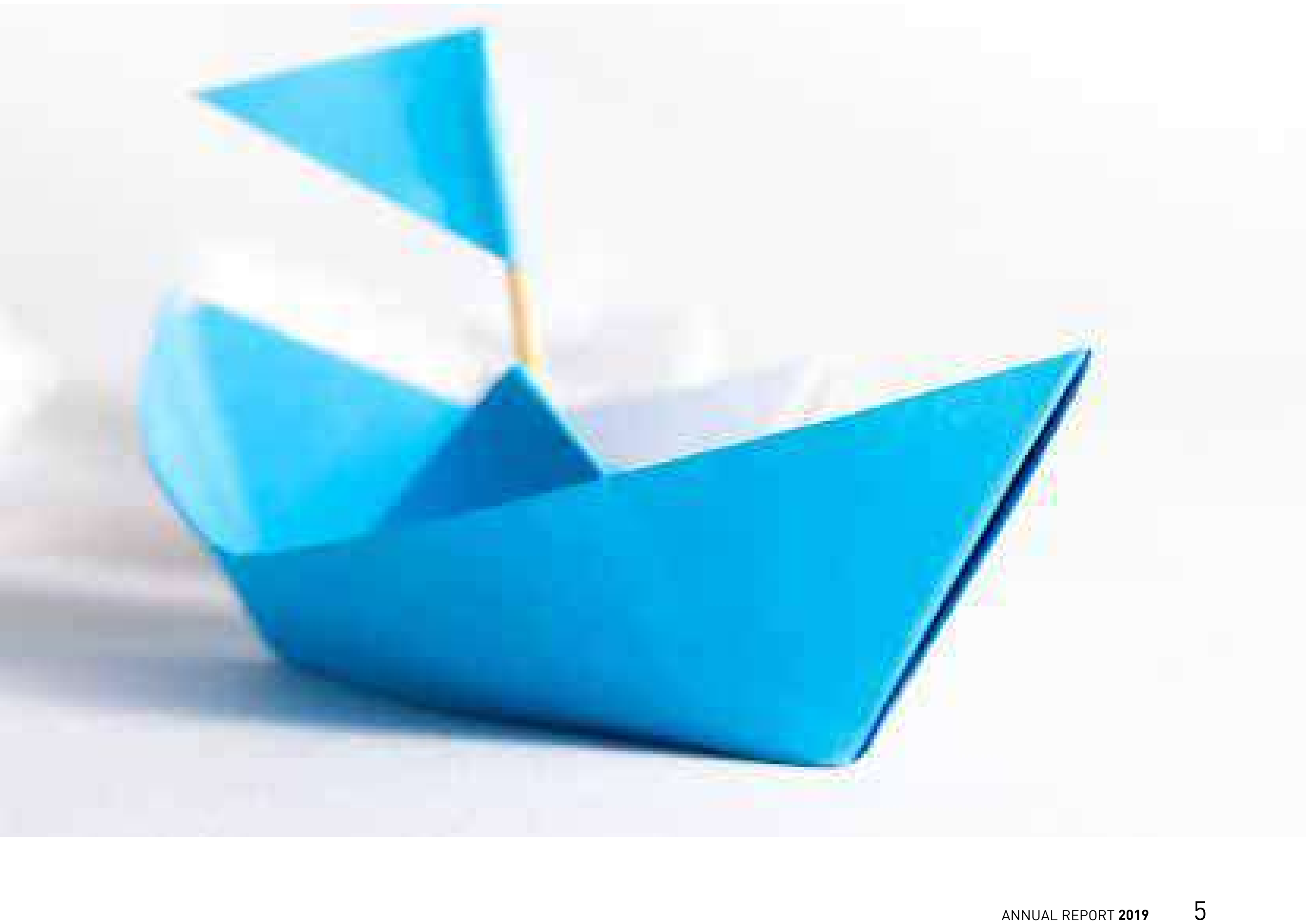
KARACHI MAIN BRANCH:
1st Floor, Karachi Chamber, Hasrat Mohani Road, Off. I.I. Chundrigar Road, Karachi.

SIALKOT BRANCH:
Office No. 1 & 2, First Floor, Kashmir Centre, Kutchery Road, Sialkot.

LAHORE CITY BRANCH:
House No.65/172, 1st Floor, Street No. 3 CMA, Housing Society, Lahore, Cantt.

MISSION STATEMENT

SGI to become a leader in insurance through innovation, competitive advantage, customers' satisfaction and stakeholders' confidence.



QUALITY POLICY & OBJECTIVES

We aspire to be the lead insurance company and achieve global recognition through quality products, high quality service and superior risk underwriting capability.

- Increasing market share
- Large & more diversified business portfolio
- Greater market outreach

To achieve Market dominance through:

- Innovative products
- High quality & timely customer service
- Prompt payment of claims
- Provide adequate protection to clients and pass on to clients greater benefits
- through more cost effective insurance with less risk exposure

To achieve customer satisfaction through:

- Through innovative underwriting techniques & practices
- Disciplined risk management & judicious underwriting
- Through hiring/retaining highly qualified & expereienced underwriters & adequate
- in house training / exposure

To achieve superior risk underwriting capacity:

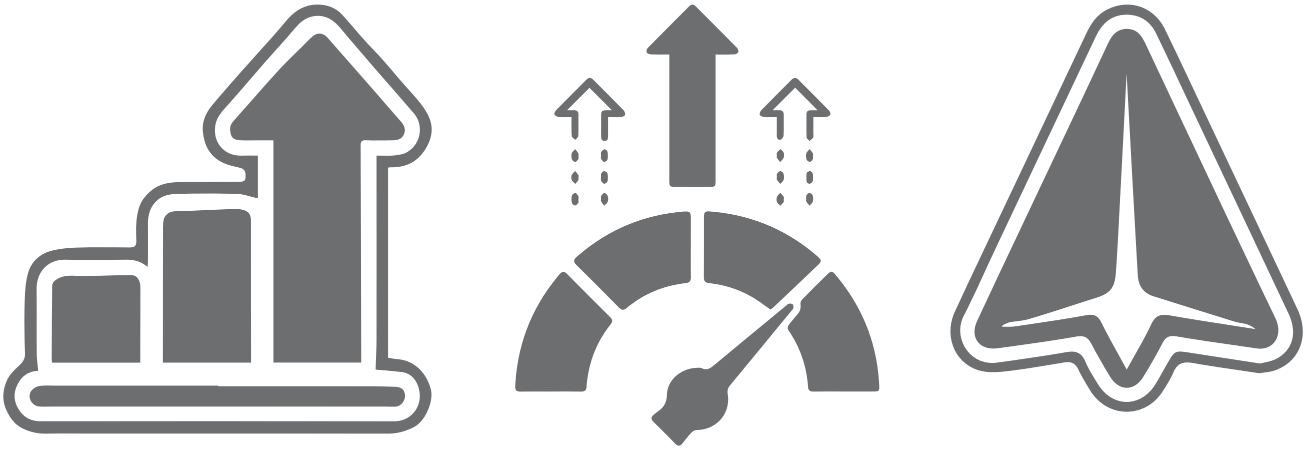
- By enhanced efficiency through optimum utilization of resources
- Through increased premium growth & earnings to enhance the return to shareholders.
- Enhance job satisfaction & employee creativity and provide employees with opportunities for personal & career development

To achieve stakeholders' confidence & continuously improve performance:

INSURER FINANCIAL STRENGTH RATING

'AA'

JCR-VIS



BOARD OF DIRECTORS

Mian Hassan Mansha
Chairman

"By adopting best practices and measures we are ensuring consistent growth in market share for Security General Insurance Company Limited"

Farrukh Aleem
Chief Executive Officer

Aftab Ahmed Khan
Director

Mahmood Akhtar
Director

Khalid Mahmood Chohan
Company Secretary

Inayat Ullah Niazi
Director

Muhammad Azam
Director

CEO MESSAGE

To our proud 21,903 policy holders and valued customers,

Security General Insurance Company Limited – a leading non-life insurance company – has been delivering sustainable profit growth while building a solid business foundation amidst a challenging operating environment. Our strengths are derived from our proven ability to leverage our most valuable assets — our people, our technical experts, our re-insurance arrangements and our unrelenting focus on creating value for our customers.

"You'll never have a product or price advantage again. They can be too easily duplicated. But a strong customer service culture cannot be copied."

As a public limited company, we are always responsible for driving our business forward in light of vision conferred by our sponsors and providing them with optimal return on their investment. This will only be accomplished by our continued focus on policy implementation, quality work, reliability, vocational value and customer service.

Success and growth in insurance sector depends on various factors but to mobilize your sales team with objective balance between efforts and rewards is very much important as rewards are those commitments that a principal can consistently carry forward are key elements for the growth, strength and good will of company. We are focused and stick to this policy and offered positive values and consistent remunerations for our sales team and this is the reason we not only earned their trust but also the loyalty that gave us consistent growth as well as strong bottom line. Furthermore, our market penetration not only deems the "controlled" underwriting approach but also affix with the vision to safe guard our re-insurers and treaty underwriters to keep the long-tail relationships with them.

We are thriving towards growth by extending our products range. For the year 2020 we are about to offer new products on board that will not only give us new ways to satisfy our customers but also provide opportunity for our sales team to mark the market. Later, in the first half of year 2018, we started Takaful Window Operations (WTO) that are going smoothly towards growth and we are hopeful to have substantial market share in upcoming years.

Overall, market dynamics have been changed that led further competition and new extensions in existing products. In this context we are always adaptive toward new changes but shall continue to exercise ethical business practices, maintain a respect for the customers and run our business in ways that earn us the trust of those whom we encounter.

For further progress and growth we equipped ourselves internally to meet the dynamic requirements of our clients and market according to our policies and procedures and for this purpose we continually aim to shape, anticipate and understand the market.

In the end thanks to all of our valued customers for their trust they endow with us.

Farrukh Aleem
C.E.O

COMPANY INFORMATION

Board of Directors

Mian Hassan Mansha
Chairman
Mahmood Akhtar
Director
Inayat Ullah Niazi
Director
Farrukh Aleem
CEO
Aftab Ahmed Khan
Director
Muhammad Azam
Director

Management

Farrukh Aleem
CEO
Hafiz Khuram Shahzad
CFO
Khalid Mahmood Chohan
Company Secretary

Audit Committee

Mian Hassan Mansha
Chairman
Aftab Ahmed Khan
Member
Inayat Ullah Niazi
Member

External Auditors

A.F. Ferguson & Co.
Chartered Accountants

Internal Auditors

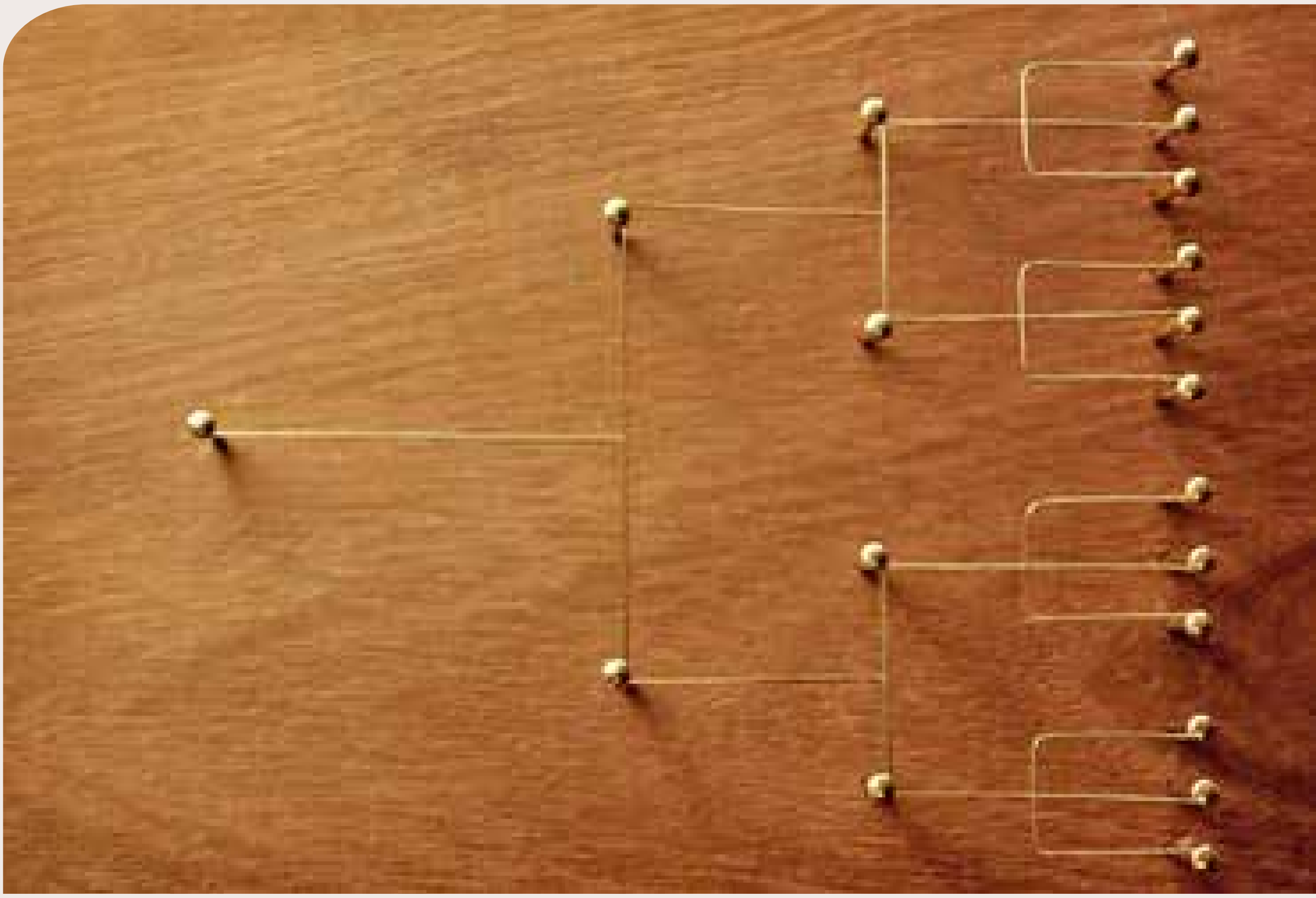
Ahsan & Ahsan
Chartered Accountants

Lawyers

Hamid Law Associates

Head Office

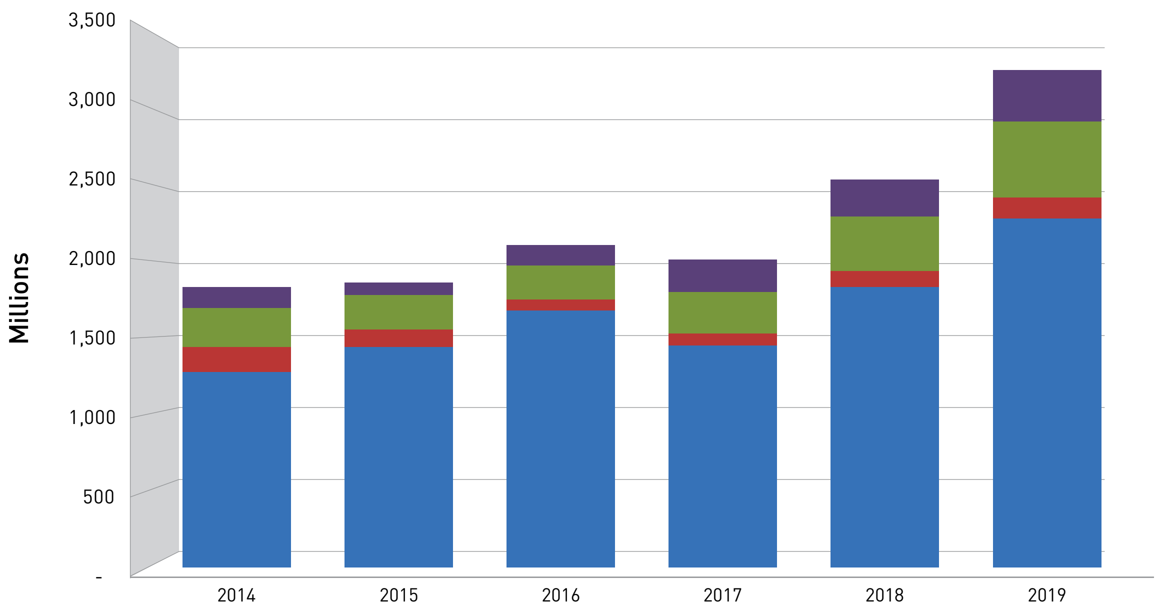
SGI House, 18 C / E1,
Gulberg III, Lahore.
Tel: 92-42-35775024-29
Fax: 92-42-35775030
E-mail: sgi@sgicl.com
Web: www.sgicl.com



KEY FINANCIAL DATA

Description	2019	2018	2017	2016	2015	2014
			Rupees in Million			
Gross Premium	3,227	2,516	2,000	2,087	1,851	1,816
Profit after Tax	959	854	825	800	914	897
Profit before Tax	1,354	1,292	1,278	1,186	1,094	971
Investment Income	1,037	995	1,083	1,017	996	799
Underwriting Income	302	294	310	271	200	174
Net Revenue	696	600	503	446	441	524
Net Claims	110	83	94	75	125	232
Paid up Capital	681	681	681	681	681	681
Authorized Share Capital	1,000	1,000	1,000	1,000	1,000	1,000
Underwriting Reserve	2,734	2,261	2,152	1,853	1,931	1,395
Investements	16,254	14,015	17,044	16,790	14,352	18,333
Fixed Assets	149	124	117	107	107	120
Retained Profit	10,496	9,877	9,364	8,881	8,423	7,812

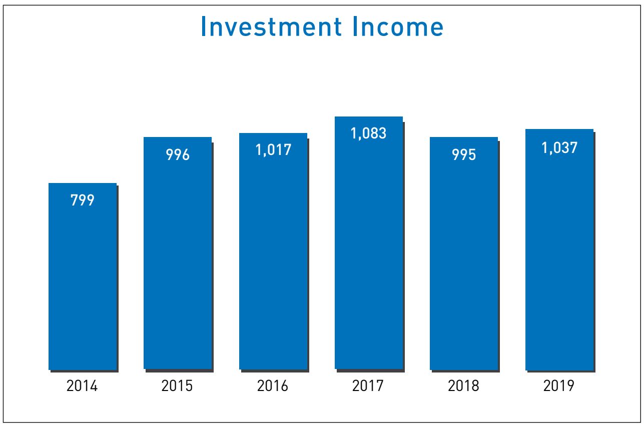
DEPARTMENT WISE GROSS PREMIUM

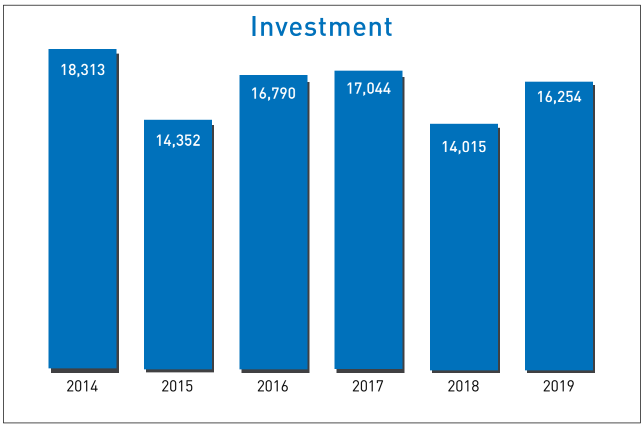


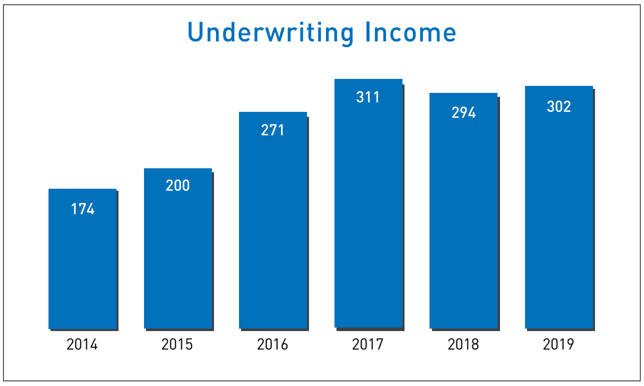
	2014	2015	2016	2017	2018	2019
MISC. & Others	124,150,857	79,825,677	126,818,592	212,728,241	245,870,808	341,718,323
MOTOR	256,417,556	221,940,854	221,403,965	268,003,619	344,453,390	488,561,303
MARINE	160,250,641	115,468,744	74,319,232	77,409,428	101,220,334	131,690,048
FIRE	1,274,925,183	1,433,504,124	1,664,597,343	1,442,116,868	1,824,624,646	2,265,097,650
TOTAL	1,815,744,237	1,850,739,399	2,087,139,132	2,000,258,156	2,516,169,178	3,227,067,324

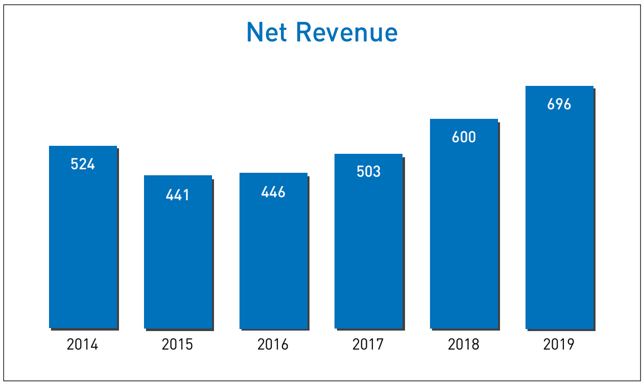
KEY FINANCIAL DATA

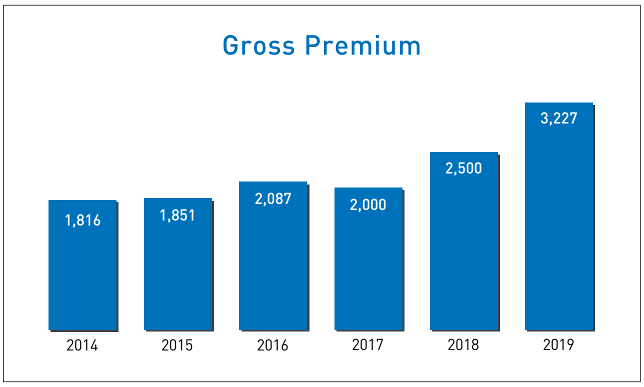
GRAPHICAL HIGHLIGHTS

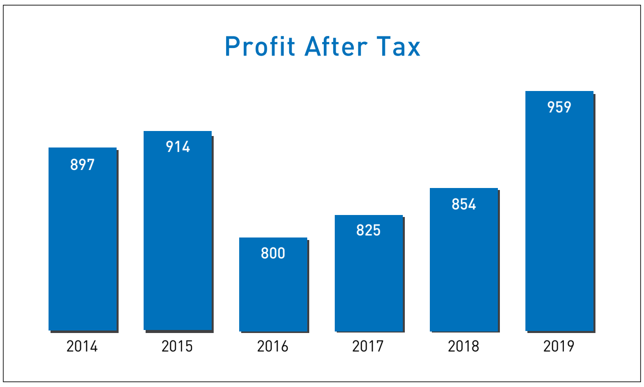


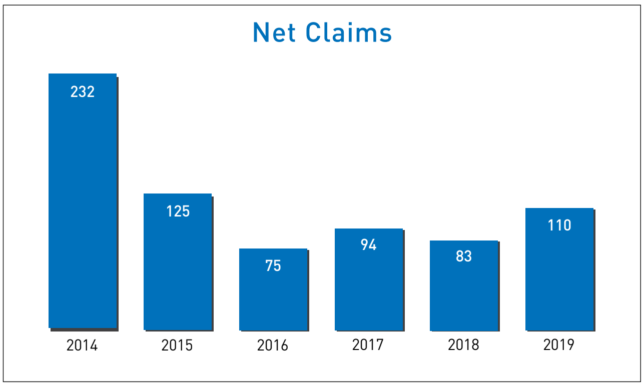


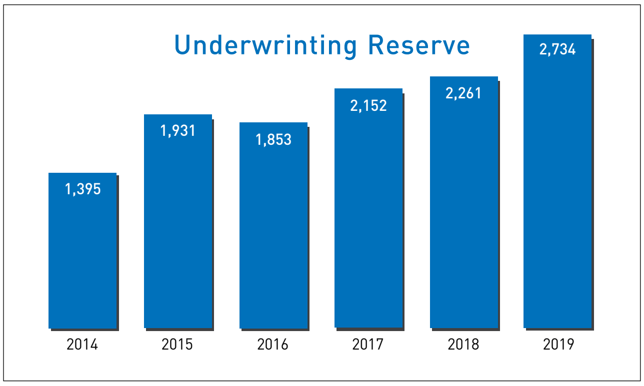












FIRE & ALLIED PERLIS INSURANCE

Fire is among those four natural elements which is beyond human control once engulfed and results to sever aftermath. Naturally we can take physical measures to control and financially we can take insurance cover to recover the financial loss.

Fire insurance gives the insured the requisite financial protection against assets acquired during his/her lifetime so that in the event of any misfortune the insured would be put in the same financial position he/she enjoyed just before the loss due to fire and lightning only.

There are two (2) main potential buyers of fire insurance

- the individual
- the entity (organization).

The Individuals need Fire Insurance as protection against his/her property including buildings, household goods and personal effects. The Organization including Commercial and Industrial entity could insure its buildings, plant, machinery and equipment, stock of raw materials, finished goods and profits.

Fire & Allied Perils: Adding to the above mentioned cover, this type of policy covers a number of additional perils which may differ from one policy to another but most usually include the following perils:

- Explosions
- Riot & Strike
- Malicious Damage
- Earthquake (Fire & Shock)
- Atmospheric disturbance
- Aircraft Damage
- Impact Damage

Additional Coverages:

1. Burglary/Theft:
In market, it has been practiced that losses due to burglary & theft are endorse under fire policy

2. Business Interruption (BI)
It is also known as Consequential Loss/Loss of Profit Insurance, any business loss that incurred due to fire covered under this policy, insurer pay certain amount till indemnity period define in policy.

MARINE CARGO INSURANCE

Lloyd's Coffee House was the first marine insurance market. It became the meeting place for parties in the shipping industry wishing to insure cargoes and ships, and those willing to underwrite such ventures. These informal beginnings led to the establishment of the insurance market Lloyd's of London and several related shipping and insurance businesses.

Under Marine Insurance Act 1906, Marine Insurance covers the loss or damage to:

- Hull Insurance: Water vessel- Hull & Machinery
- Aviation Insurance: Aero planes
- Cargo Insurance: Goods in transit by sea, air and by rail/road

The Clauses used for by Sea Shipments:

- Institute Cargo Clauses (A) – Covers all except general exclusions OR
- Institute Cargo Clauses (B) - Restricted cover than ICC (A) OR
- Institute Cargo Clauses (C) - Restricted cover than ICC (B)

The Clause used for by Air Shipments:

- Institute Cargo Clauses Air – Covers all except general exclusions

The Clauses used for Inland Transit/Rail/Road:

- Road/Rail Cargo Clauses (A) - Covers all except general exclusions OR
- Road/Rail Cargo Clauses (B) - Restricted cover than R/R (A)

War & Strike cover available in addition to above basic covers:

- Institute War Clauses (Cargo) on payment of additional premium
- Institute Strike Clauses (Cargo) on payment of additional premium
- Road/Rail Strike Clauses (Cargo) on payment of additional premium

Marine Perils

Perils of sea: Storms, lightning, snow, ice-burgs, fog, tides, rocks, sandbanks, volcanic eruption, heavy weather, Fire, explosion, Vessel Stranded, Sunk, burnt, Collision or contact of vessel, Theft, Willful Misconduct of assured, Malicious Damage, General average sacrifice, Jettison, washing overboard, Piracy and Rovers.

MOTOR INSURANCE

Motor insurance protects your vehicle against losses arising from unforeseen risks. It basically covers financial losses arising from accidents, theft and other natural calamities. Motor insurance is a contract for an automobile in which the insurance company agrees to pay for your financial loss resulting from a said specified event.

Motor Insurance is very important because too many road accidents reported on road on daily basis and fatalities in road accidents are moving up. Considering the high number and the poor state of roads, Motor insurance is a necessary requirement. By law, Motor Insurance is mandatory. Motor Insurance provides financial cover not only to you but also covers damages to third party (people travelling with you). Motor Insurance also protects you from losses arising from natural calamities like cyclone, earthquake etc.

Motor insurance covers is available for;

1. Private Motor vehicles
2. Commercial Motor vehicles

Private Motor Vehicles – Comprehensive motor covers your car and third party damages up to some extent.

Commercial Motor vehicles – offers comprehensive cover for all commercial vehicles like ambulances, carriage vans, trucks, prime movers etc.

ENGINEERING & MISCELLANEOUS INSURANCE

Engineering insurance refers to the insurance that provides economic safeguard to the risks faced by the ongoing construction project, installation project, and machines and equipment in project operation. Product categories: Depending on the project, it can be divided into construction project all risks insurance and installation project all risks insurance; depending on the attribute of the object, it can be divided into project all risks insurance, and machinery breakdown insurance.

Miscellaneous Insurance refers to contracts of insurance other than these of Life, Fire and Marine insurance. This branch of insurance is of recent origin and it covers a variety of risks.

1. Personal Accident Insurance - This means insurance for individuals or groups of person against any personal accident or illness. The risk insured in personal accident insurance is the bodily injury resulting solely and directly from accident caused by violent, external and visible means.

2. Liability Insurance - Just as a person can insure himself against the risk of death and personal injury, or damage, determination or destruction of property, there can also be an insurance against the risk of incurring liability to third parties. The risk of liability arising out of the use of property, comes under the category commonly called "liability insurance". It includes -

i. Public Liability Insurance: That is, insurance against a liability imposed by law. For example, a house owner may obtain an insurance against his liability to invitees or licensees, arising from body injury or damage to property.
ii. Professional Negligence Insurance: These policies give professional indemnity cover to accountants, solicitors, lawyers, from any loss or injury due to any negligence in the conduct of their professional duties.
iii. Employer's Liability Insurance: The liability of an employer under the modern labor laws, has considerably extended and the employers are tempted to take out insurances against such liabilities. For examples, when the employees retire, substantial amount become immediately payable by way of gratuity, commuted pension, leave salary, compensation, etc. and also the uncommuted pension becomes payable in future. Employers often take insurance policies which assure payment of such amounts, as and when these becomes payable.
iv. Guarantee Insurance: The main types of policies included in guarantee insurance are a) insurance for performance of contract, policies, the guarantor / underwriter insures the promisee or employer against the loss arising by non-performance by the promisor or the dishonesty of the employee.

Fidelity policies are the most common type of guarantee policies, taken under contracts of employment where the employee has an opportunity to be dishonest. Such policies cover the risk of losses arising by theft or embezzlement of money or securities, or by fraud, on the part of employees.

Money Policies – We insure "cash" either in transit or premises, two wide range of covers available

- Cash in Transit (CIT) - cash is insured while transit between designated locations.
- Cash in Safe (CIS) – cash is insured whilst in safe.

BONDS INSURANCE

Bid Bonds

Bid Bonds are required in connection with the submission of tenders for contracts with private/public owner. The subject is to guarantee that the bidder (Contractor), if awarded the contract, will enter into the contract and furnish the Prescribed Performance Bond. If the contractor is afterwards unable to enter into the contract and to furnish the required Performance Bond, the insurance company is liable to pay the bond amount to the owner.

Mobilization Adavance Bond

Mobilization Advance Bond is required in cases where the oblige (owner) is pre-financing a contract; he may secure the repayment of the advance by means of a bond called Mobilization Advance Bond. The amount guaranteed should decrease in accordance with the portions of work performed. By this bond, the Insurance Company guaranteed the owner correct utilization of advance. In case contractor fails to fulfill their obligation and commit default the insurance company will pay the amount to the owner which is outstanding at that time.

Performance Bond

Performance bond is required of a contract (After accepting Bid and awarding of contract) to guarantee the full and the due performance of the contract according to plan and specifications. In case the contractor fails, to perform the contract in accordance with the terms and conditions of the contract, the insurance company will be liable to pay the bond amount to the owner on demand.

Supply Bonds

Supply bonds are similar in intent to performance bonds. They are issued for contracts to supply materials, goods, machinery at a specified time and place.

CROPS INSURANCE

Crop insurance is purchased by agricultural producers, including farmers, ranchers, and others to protect themselves against either the loss of their crops due to natural disasters, such as hail, drought, and floods, or the loss of revenue due to declines in the prices of agricultural commodities. The two general categories of crop insurance are called crop-yield insurance and crop-revenue insurance.

Farming is no easy task. It is one of the riskiest enterprises in the world, defined by uncontrollable conditions that are unlike any other profession. Bad weather, blight, insects, natural disasters, price fluctuations, and global subsidization all make it hard to make a living as a farmer.

That's where crop insurance comes in. It's basically no different than auto insurance or homeowner's insurance. Banks require farmers to purchase it, just as they require insurance from homebuyers, but because of the risks unique to agriculture, it can be cost prohibitive. Without a strong infrastructure and investment, crop insurance would be too costly for most farmers to afford or for most private-sector insurance companies to widely provide.

In Pakistan, Government is offering incentives for farmers by offering loan from various private and government banks, in this capacity banks as well as farmers possess this insurance for any unfortunate event(s).

This insurance is very helpful for farmers to have financial safeguard in case of calamity

HOME INSURANCE

Home Owner's Insurance:
Homeowners insurance provides you with financial protection in the event of a disaster or accident involving your home.

A standard homeowner's insurance policy insures your home's structure (house,) and your belongings in the event of a destructive event, such as a fire.

In addition, homeowner's insurance policies are generally "package policies", this means that the coverage includes not only damage to your property, but also your liability—that is, legal responsibility—for any injuries and property damage to others caused by you or members of your family.

The most common forms of household insurance are:
Home insurance – covers financial losses associated with damage or loss of a property you own.

Contents insurance – covers financial losses caused by the loss, theft or damage of your possessions. In addition to home insurance. A policy may be issue in combination of both.

Tenant's insurance – a low-cost contents policy for tenants that provides limited cover for events such as fire and theft.

Landlord's insurance – covers the risks associated with renting out a property.

LIVE STOCK INSURANCE

Cattle and livestock are the bread and butter for millions of farmers in Pakistan and all across the world. With this regard the insurance policy covers animals such as cows, buffaloes, bullocks, sheep and goats owned by the different individuals and which are used for commercial and for personal purposes against the risk of permanent total disablement or death due to accident and/or any diseases which the animal may contract during the policy period.

The policy covers death caused by: Accident inclusive of fire, lighting, flood, storm, hurricane, earthquake, cyclone, tornado etc. Diseases contracted or occurring during the period of the policy.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that Annual General Meeting (AGM) of the members of Security General Insurance Company Limited (the "Company") will be held on Monday, March 30, 2020 at 11:30 A.M. at Nishat House, 53-Lawrenec Road, Lahore to transact the following special business:

1. To receive, approve and adopt the audited accounts of the Company for the year ended December 31, 2019 together with the Directors' and Auditors' reports thereon.

2. To approve Final Cash Dividend @ 25% (i.e. Rs.2.50 per Share) for the year ended 2019, as recommended by the Board, in addition to 25% interim dividend already paid.

3. To appoint Statutory Auditors of the Company for the year 2020 and fix their remuneration.

4. Special Business:

a) To consider and if deemed fit, pass a resolution as Special Resolution, as proposed in the Statement of Material Facts, pursuant to the provisions of Section 199 of the Companies Act, 2017 to approve and authorize additional long-term equity investments by way of purchase of ordinary shares of Nishat Hotels and Properties Limited, an associated company;

b) To consider and if deemed fit, pass a resolution as Special Resolution, as proposed in the Statement of Material Facts, pursuant to the provisions of Section 199 of the Companies Act, 2017 to approve the increase in %age of equity investment in Hyundai Nishat Motor (Private) Limited (HNMPL), an associated company from 10% to upto 13% of the total paid up share capital of HNMPL provided that the aggregate limit of equity investment in HNMPL shall not exceed the amount of PKR 1,056,400,000 for subscription of 105,640,000 shares pursuant to the authority of the special resolutions passed on 28 March 2018 and December 12, 2019.

A Statement of Material Facts as required under Section 134(3) of the Companies Act 2017 concerning the aforesaid special business is annexed to the notice of meeting circulated to the members of the Company.

By order of the Board

(KHALID MAHMOOD CHOHAN)
COMPANY SECRETARY

Lahore
March 09, 2020

NOTICE OF ANNUAL GENERAL MEETING

NOTES:

1. The Register of Members of the Company will remain closed from March 24, 2020 to March 31, 2020 (both days inclusive). Transfers received in order at the registered office of the Company by the close of business on March 23, 2019 will be considered in time for entitlement of 25% Final Cash Dividend and attending of Annual General Meeting.

2. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote. The Instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarial attested copy of the power of attorney must be deposited at the registered office of the Company at least 48 hours before the time of the meeting. A proxy must be a member of the company. A Company or a Corporation being a member of the Company may appoint a representative through a resolution of board of directors for attending and voting at the meeting.

STATEMENT UNDER SECTION 134(3) OF THE COMPANIES ACT 2017

This statement sets out material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on March 30, 2020.

a. Additional Equity Investments in Nishat Hotel and Properties Limited (Associated Company)

Nishat Hotels and Properties Limited (NHPL) was incorporated on 04 October 2007 as a public company limited by shares. Its authorized share capital is Rs. 12,000,000,000/- (Rupees Twelve Billion Only) divided into 1,200,000,000 (Rupees One Billion Two Hundred Million) ordinary shares of PKR 10 each. Its main object is to carry on retail and hospitality business in Pakistan. NHPL has constructed Emporium Mall and Nishat Hotel which are fully operational.

The company already owns and holds 111,821,737 ordinary shares of NHPL. It is proposed to make additional long term investment of maximum of PKR 900,000,000 for purchase of 56,698,229 ordinary shares of NHPL at a maximum price of PKR 16.13213 per share.

As required by the Regulations, the directors of the Company certify that they have carried out necessary due diligence for the proposed additional long-term equity investment before making recommendation for approval of shareholders and the duly signed recommendation of the due diligence report shall be made available to the members for inspection at the meeting along with latest audited financial statements of the associated company.

The following resolution is proposed to be passed as special resolution, with or without any modification.

RESOLVED THAT approval of the members of Security General Insurance Company Limited ("the Company") be and is hereby accorded and the Company be and is hereby authorized in terms of Section 199 and other applicable provisions of the Companies Act, 2017 to make additional long-term equity investment of Rs. 900,000,000 (Rupees Nine Hundred Million Only) for purchase of 56,698,229 shares of Nishat Hotels and Properties Limited (NHPL), an associated company and as per other terms and conditions disclosed to the members.

RESOLVED FURTHER THAT the Chief Executive Officer and/or Chief Financial Officer and/or Company Secretary of the Company be and are hereby singly empowered and authorized to do all acts, matters, deeds and things, take any or all necessary actions including signing and execution of agreement(s) and to complete all legal formalities including filing of documents as may be necessary or incidental expedient for the purpose of implementing the aforesaid resolutions.

RESOLVED FURTHER THAT the Company be and is hereby authorized to dispose of through any mode, a part or all of equity investment in NHPL made by the Company from time to time and the Chief Executive Officer and / or Chief Financial Officer and / or Company Secretary be and are hereby authorized singly to take the decision of divestment as they may deem appropriate and necessary in the best interest of the Company and its members.

Information under Regulation 3 of the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017

<table>
<tr><td colspan="4">Disclosure for all types of investments:</td></tr>
<tr><td colspan="4">(A) Disclosure regarding associated company</td></tr>
<tr><td>(i)</td><td colspan="2">Name of Associated Company or Associated Undertaking</td><td>Nishat Hotels and Properties Limited ("NHPL")</td></tr>
<tr><td>(ii)</td><td colspan="2">Basis of Relationship</td><td>Common Directorship</td></tr>
<tr><td>(iii)</td><td colspan="2">Earnings / (Loss) per Share for the last three years</td><td>PKR 1.42 – 2019 Audited
PKR (0.30) – 2018 Audited (Restated)
PKR (0.23) – 2017 Audited</td></tr>
<tr><td>(iv)</td><td colspan="2">Break-up value per Share, based on last Audited financial statements</td><td>PKR 18.09 per share as at 30th June 2019.</td></tr>
<tr><td>(v)</td><td colspan="2">Financial position, including main items of statement of financial position and profit and loss account on the basis of its latest financial statements</td><td>Audited financial statements as at 30th June 2019
<table>
<tr><td></td><td>Rs. in millions</td></tr>
<tr><td>Balance Sheet:</td><td></td></tr>
<tr><td>Assets</td><td></td></tr>
<tr><td>Non-current assets</td><td>34,901</td></tr>
<tr><td>Current assets</td><td>2,171</td></tr>
<tr><td>Total assets</td><td>37,072</td></tr>
<tr><td>Liabilities</td><td></td></tr>
<tr><td>Borrowings</td><td>13,497</td></tr>
<tr><td>Other liabilities</td><td>5,488</td></tr>
<tr><td></td><td>18,985</td></tr>
<tr><td></td><td></td></tr>
<tr><td>Equity</td><td>18,087</td></tr>
<tr><td>Profit & loss:</td><td></td></tr>
<tr><td>Sales</td><td>4,233</td></tr>
<tr><td>Gross Profit</td><td>1,740</td></tr>
<tr><td>Net Profit after tax</td><td>1,376</td></tr>
<tr><td>EPS</td><td>1.42</td></tr>
</table></td></tr>
<tr><td>(vi)</td><td colspan="2">In case of investment in relation to a project of associated company or associated undertaking that has not commenced operations, following further information, namely</td><td>N/A</td></tr>
<tr><td></td><td>I</td><td>Description of the project and its history since conceptualization</td><td>N/A</td></tr>
</table>

NOTICE OF ANNUAL GENERAL MEETING

	II	Starting date and expected date of completion of work	N/A
	III	Time by which such project shall become commercially operational	N/A
	IV	Expected time by which the project shall start paying return on investment	N/A
	V	Funds invested or to be invested by the promoters, sponsors, associated company or associated undertaking distinguishing between cash and non-cash amounts	N/A
(B) General Disclosures:			
(i)	Maximum amount of investment to be made		PKR 900,000,000 (Rupees Nine Hundred Million Only).
(ii)	Purpose, benefits likely to accrue to the investing company and its members from such investment and period of investment		To earn dividend income and / or capital gains which will enhance the profitability of Security General Insurance Company Limited and add to the shareholders' value of the members of the investing Company. The investment in NHPL will be for long term.
(iii)	Sources of funds to be utilized for investment and where the investment is intended to be made using borrowed funds:		The investment will be made from own sources and if needed funds will be borrowed.
	(I)	Justification for investment through borrowings	The investment may be made through borrowed funds which is justified in view of long-term prospects and expected earnings of NHPL.
	(II)	Detail of Collateral, guarantees provided and assets pledged for obtaining such funds	Land/Building/Investments/Receivables will be pledged for obtaining funds, if required from financial institutions.
	(III)	Cost benefit analysis	Based on the prospects of NHPL, Long term benefits expected to be accrued to SGICL are much more than the cost of borrowed funds.
(iv)	Salient features of the agreement(s), if any, with associated company or associated undertaking with regards to the proposed investment		NA as shares will be purchased from an existing shareholder.

NOTICE OF ANNUAL GENERAL MEETING

<table>
<tr><td>(v)</td><td>Direct or indirect interest of Directors, sponsors, majority shareholders and their relatives, if any, in the associated company or associated undertaking or the transaction under consideration</td><td>The interest, direct or indirect in the associated company and the transaction under consideration is detailed as under:

The directors of Security General Insurance Company Limited (SGI), their relatives and associated companies holding shares of Nishat Hotels and Properties Limited (NHPL) are interested, directly or indirectly, to the extent of their shareholding as under:-
Directors: % of Shareholding
Mian Hassan Mansha (Common Director) 21.82
Mr. Muhammad Azam (Common Director) 0.00
Mr. I.U. Niazi (Common Director) 0.00

Relatives:
Mian Raza Mansha 21.69
Mian Umer Mansha 21.82
Both brothers of Mian Hassan Mansha.

Associated Companies/shareholders
Nishat Mills Limited 7.40</td></tr>
<tr><td></td><td></td><td>NHPL is not a shareholder of the Company. The directors / sponsors of NHPL are interested in the Company to the extent of their shareholding as under:-
Name % of Shareholding
Mian Raza Mansha 11.90
Mian Umer Mansha 13.30
Mian Hassan Mansha (Common Director) 13.30
Mr. Muhammad Azam (Common Director) 0.00
Mr. I.U. Niazi (Common Director) 0.00

There is no other interest except their directorship/remuneration attached thereto and to the extent of their shareholdings. The associated Companies holding shares of NHPL are interested in the Company to the extent of their shareholding as follows:

Name % of Shareholding
Nishat Mills Limited 15.02</td></tr>
<tr><td>(vi)</td><td>In case any investment in associated company or associated undertaking has already been made, the performance review of such investment including complete information/justification for any impairment or write offs</td><td>The Company has invested PKR 1,359,102,133 for purchase of 111,821,737 ordinary shares with Rs.10/- per share face value in NHPL. NHPL's earning per share for the year ended June 30, 2019 was PKR 1.42 There is no impairment/ write off of this investment.</td></tr>
<tr><td>(vii)</td><td>Any other important details necessary for the members to understand the transaction</td><td>None</td></tr>
</table>

NOTICE OF ANNUAL GENERAL MEETING

Additional disclosure regarding Equity Investment		
(i)	Maximum price at which securities will be acquired	16.13213
(ii)	In case the purchase price is higher than market value in case of listed securities and fair value in case of unlisted securities, justification thereof	N/A
(iii)	Maximum number of securities to be acquired	56,698,229 Shares
(iv)	Number of securities and percentage thereof held before and after the proposed investment	**No. of Shares** / **%age** Before 111,821,737 11.18 After 168,519,966 16.85
(v)	Current and preceding twelve weeks' weighted average market price where investment is proposed to be made in listed securities	N/A
(vi)	Fair value determined in terms of sub-regulation (1) regulation 5 for investments in unlisted securities	Rs 17.79

b. Increase in %age of equity investment in Hyundai Nishat Motor (Private) Limited

Security General Insurance Company Limited (the "Company") holds 69,750,000 ordinary share of PKR 10 each of HNMPL comprising 10% equity stake. The Company is authorized to make equity investment of upto PKR 1,056,400,000 for acquisition of 105,640,000 shares of HNMPL at PKR 10 each pursuant to the special resolutions passed by the shareholders on 28 March 2018 and December 12, 2019, the %age of Company's equity investment in NHMPL as mentioned in the Statement of Material Facts was 10% of the total paid up share capital of HNMPL. This %age may increase to upto 13% of the total paid up share capital of HNMPL for acquiring shares of HNMPL due to non-subscription by other shareholders of HNMPL. The Company's aggregate amount of equity investment in HNMPL at any point in time shall not exceed the amount of PKR 1,056,400,000 pursuant to the already passed special resolutions by the shareholder. However, as the provision of Section 199(4) of the Companies Act, 2017 requires that any change in the terms and conditions attached to the investment in associated companies shall be made only under the authority of a special resolution. There is no change in other terms and conditions of the equity investments in HNMPL. Accordingly, the Board of directors has proposed the passing of the following resolution as special resolution, with or without any modification:

RESOLVED THAT approval of the members of Security General Insurance Limited (the "Company") be and is hereby accorded to approve the increase in %age of equity investment in Hyundai Nishat Motor (Pvt) Limited (HNMPL), an associated company from 12% to upto 13% of the total paid up share capital of HNMPL provided that the aggregate limit of equity investment in HNMPL shall not exceed the amount of PKR 1,056,400,000 for acquisition of 105,640,000 shares pursuant to the authority of the special resolutions passed on 28 March, 2018 and 12 December, 2019

RESOLVED FURTHER THAT the Chief Executive Officer and/or Chief Financial Officer and/or Company Secretary of the Company be and are hereby singly empowered and authorized to do all acts, matters, deeds and things, take any or all necessary actions including signing and execution of agreement(s) and to complete all legal formalities including filing of documents as may be necessary or incidental expedient for the purpose of implementing the aforesaid resolutions.

NOTICE OF ANNUAL GENERAL MEETING

Statement Under Rule 4(2) of the Companies (Investment in Associated Companies or Associated Undertakings) Regulations, 2017

Name of Investee Company	Nishat Hotels and Properties Ltd.		Hyundai Nishat Motor (Pvt) Limited (HNMPL)		D. G. Khan Cement. Co. Ltd.	Nishat Mills Limited
Total Investment Approved:	PKR 200,000,000 (Rupees two Hundred Million Only) by way of purchase of shares was approved by members in AGM held on April 30, 2019 for the period of three (3) years	PKR 618,872,963 (Rupees Six Hundred Eighteen Million Eight Hundred Seventy Two Thousand Nine Hundred Sixty Three Only) by way of purchase of shares was approved by members in EOGM held on December 12, 2019	Equity investment upto PKR 1,056,400,000 million (PKR One Billion Fifty Six Million Four Hundred Thousand Only) was approved by members in EOGM held on March 28, 2018 and December 12, 2019. For a period of Four (4) years.	Guarantee / continuing Stand by Letter(s) of Credit (SBLC) for an amount of up to PKR 1,277,100,000 for a tenure of 7.5years was approved by members in EOGM held on March 28, 2018 and December 12, 2019	Equity investment upto PKR 500 million (PKR Five Hundred Million Only) was approved by members in EOGM held on August 19, 2019.	Equity investment upto PKR 500 million (PKR Five Hundred Million Only) was approved by members in EOGM held on August 19, 2019.
Amount of Investment Made to date:	Rs. 29.61 Million	Rs. 618.87 Million	Rs. 697.50 Million	Rs. 989.49 Million	Nil	Nil
Reasons for deviations from the approved timeline of investment, where investment decision was to be implemented in specified time:	Partial investment has been made in investee company. Further investment will be as and when request is made by the investee company. There is no deviation from the approved timeline.	No Deviation. Fully Implemented	Partial investment has been made in investee company. Commercial operations of the investee company have not yet started. The Company will make fur-ther equity investment as and when further shares offered by HNMPL. There is no deviation from the approved timeline.	Partial guarantee has been extended after the approval. Further guarantee will be extended on request of the investee company. There is no deviation from the approved timeline.	No investment has been made in investee company. Further investment will be made depending on market conditions at appropriate time. There is no deviation from the approved timeline.	No investment has been made in investee company. Further investment will be made depending on market conditions at appropriate time. There is no deviation from the approved timeline.
Material change in financial statements of associated company or associated undertaking since date of the resolution passed for approval of investment in such company:	At the time of approval, as per then available latest financial statements for the half year ended December 31, 2018, the basic Loss per Share was Rs. (0.39) and a fair value of Rs. 14.47. As per Latest available financial statements for the half year ended December 31, , 2019 the Earnings per share is Rs. (0.46) and breakup value per Share is Rs. 17.63.	At the time of approval, as per then latest available financial statements the basic earnings per Share was Rs. 1.42 and Break-up Value per Share was Rs. 18.09. As per Latest available financial statements for the half year ended December 31, 2019 the Earnings per share is Rs. (0.46) and breakup value per Share is Rs. 17.63.	At the time of approval, as per available latest audited financial statements for the year ended December 31, 2017, the basic loss per share was Rs.5.74 and breakup value per share was Rs. 4.85. As per latest available financial statements for the half year ended June 30, 2019 the Basic Loss per share is Rs. (0.53) and breakup value per share is Rs. 9.29.	At the time of approval, as per available latest audited financial statements for the year ended December 31, 2017, the basic loss per share was Rs.5.74 and breakup value per share was Rs. 4.85. As per latest available financial statements for the half year ended June 30, 2019 the Basic Loss per share is Rs. (0.53) and breakup value per share is Rs. 9.29.	At the time of approval, as per then available latest financial statements for the half year ended December 31, 2018, the basic Earnings per Share was Rs. 3.98 and a fair value of Rs. 80.15. As per Latest available financial statements for the half year ended December 31 , 2019 the Basic Loss per share is Rs. (1.93) and breakup value per Share is Rs.167.58 .	At the time of approval, as per then available latest financial statements for the half year ended December 31, 2018, the basic earnings per Share was Rs. 9.00 and a fair value of Rs. 126.53. As per Latest available financial statements for the half year ended December 31, , 2019 the Basic Earnings per share is Rs. 5.38 and breakup value per Share is Rs. 207.83.

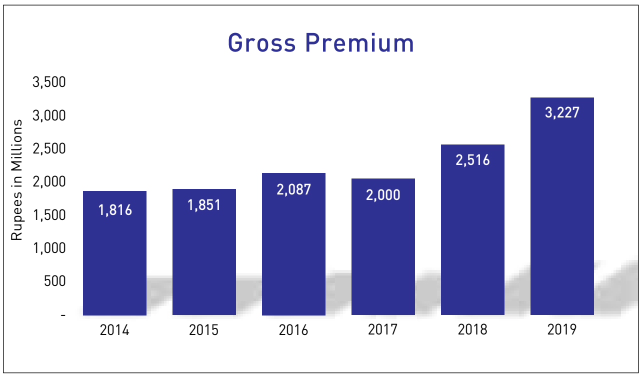
DIRECTORS' REPORT TO THE MEMBERS

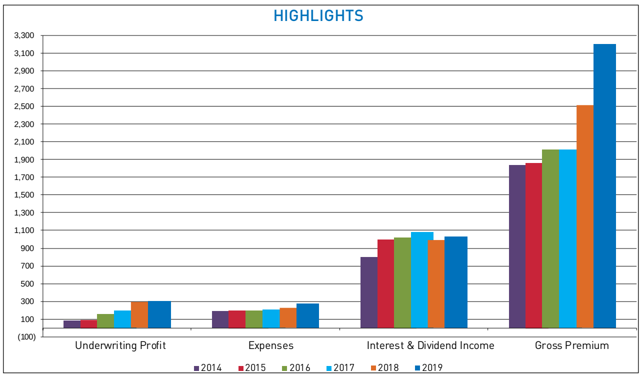
On behalf of the Board of Directors of Security General Insurance Company Limited, I am pleased to present the 24th annual report of your company for the year ended December 31, 2019.

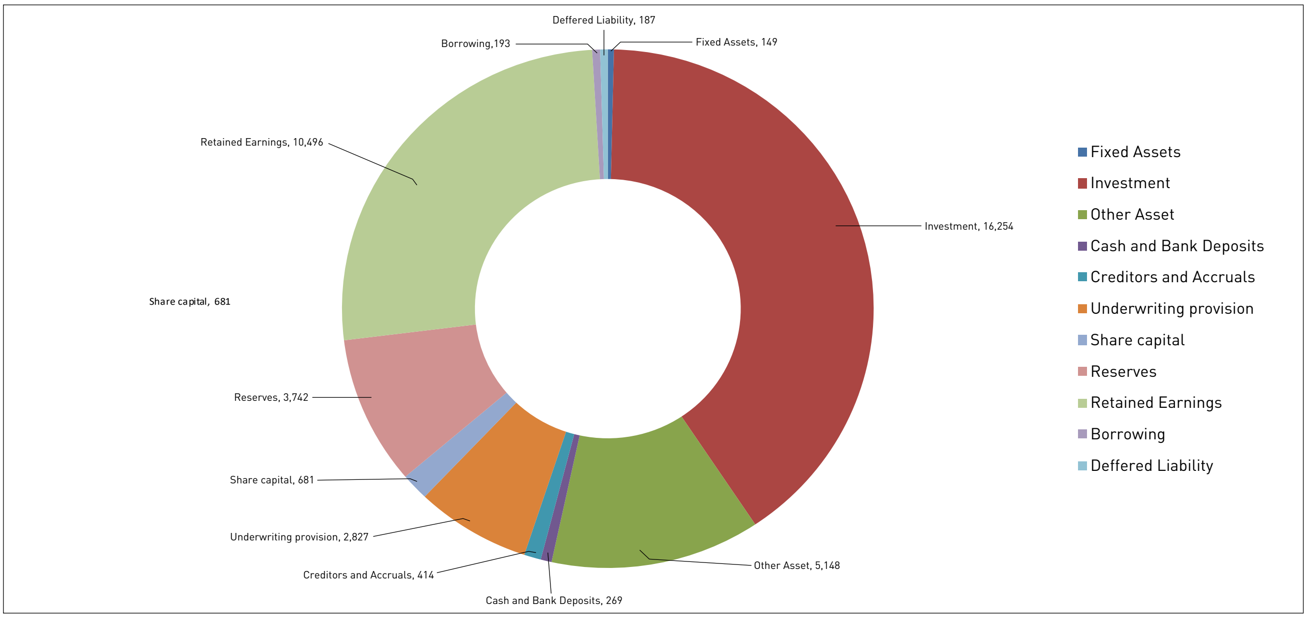
COMPANY'S PERFORMANCE DURING 2019:

SGI underwrote a gross premium of Rs.3.2 billion including takaful contribution during the year 2019.

	Dec, 2019	Dec, 2018	Increase/ Decrease
	Rupees in Million		%
Gross Premium & Contribution written	3,227	2,516	28
Net Premium	696	600	16
Net Commission	13	7	86
Net Claims	110	83	33
Profit from underwriting business	302	294	3
Other income (not attributable to Investment activities)	48	28	71
Investment income	1,037	995	4
Financial charges	25	9	178
Profit before tax	1,354	1,292	5
Profit after tax	959	854	12



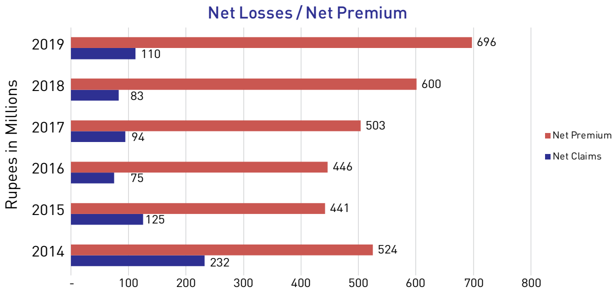




DIRECTORS' REPORT TO THE MEMBERS

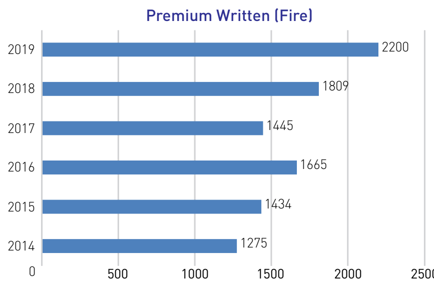
UNDERWRITING ACTIVITY:

SGI underwrote a gross premium of Rs. 3.2 billion during the year 2019. Underwriting profit for the year stands at Rs. 302 million (2018: Rs. 294 million). Underwriting profit bears a percentage of 43% to the net premium revenue.



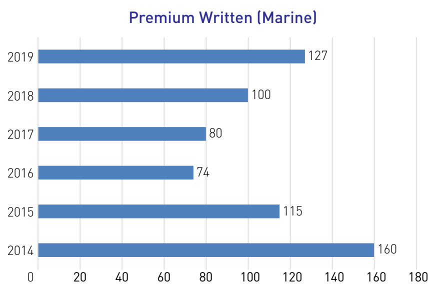
FIRE & PROPERTY DAMAGE:

Premium written in Fire business has increased as compared to same period during last year by 23%. The underwriting profit from fire business for period ended December 31st 2019 is 45%. Fire and property portfolio represent 72% of the total underwriting portfolio of SGI.



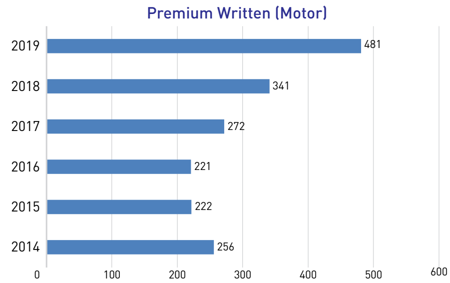
MARINE AVIATION AND TRANSPORT BUSINESS:

Premium written in Marine business has increased as compared to same period during last year by 20%. The underwriting profit from Marine business for period ended December 31st 2019 is 93%. Marine portfolio represents 4% of the total underwriting portfolio of SGI.



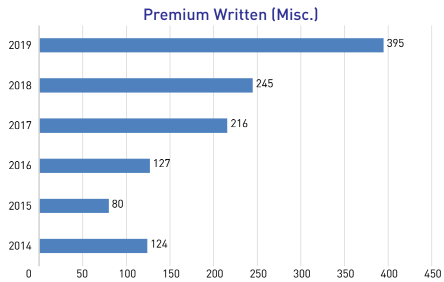
MOTOR:

The gross premium from motor business has increased from Rs. 341 million during the period ended December 31st 2018 to Rs. 429 million during the period ended December 31st 2019. The profitability from the motor business for the period ended December 31st 2019 is 43%.



MISCELLENOUS:

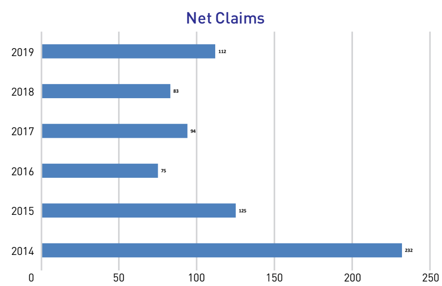
The gross premium from miscellaneous business is increased from Rs. 245 million for the Year ended December 31st 2018 to Rs. 336 million for the year ended December 31st 2019.



CLAIMS:

The overall claims expenses has increased from Rs. 83 million during the period ended December 31st 2018 to Rs. 110 million during the period ended December 31st 2019. Net Claims are 16% of premium (2018: 14%).

INVESTMENT:



DIRECTORS' REPORT TO THE MEMBERS

The market value of our investment portfolio increased from Rs. 14 billion to Rs. 16 billion on the December 31st 2019 the Company earned dividend of Rs. 1,028 million from its investment portfolio (2018: 984 million).

CASH FLOW:

As of December 31st 2019, the net cash flow generated from underwriting activities is positive.

EARNING PER SHARE:

Earnings per share has increased from Rs. 12.54 during the period ended December 31st 2018 to Rs. 14.10 during the period ended December 31st 2019.

APPROPRIATIONS:

Directors, in their meeting held on March 09, 2020, have recommended a 25% cash dividend. This is in addition to 25% interim cash dividend paid on the basis of half yearly results for 2019.

CREDIT RATING:

JCR-VIS Credit Rating Company Ltd., has maintained the Insurer Financial Strength (IFS) Rating of SGI at 'AA'

BOARD AUDIT COMMITTEE:

As required under the code of corporate governance for insurance companies, the board audit committee reviewed the results of all four quarter for the year. Following persons have remained its members during the year:

Name of Member	Category
Mian Hassan Mansha	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Aftab Ahmed Khan	Member

STATUTORY AUDIT:

The auditors have expressed an unqualified opinion on the financial statement of the Company for the year 2019.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

In Compliance with the financial reporting framework of the code of corporate governance the directors confirm the following:

- The Financial statements together with the notes thereon have been drawn up in conformity with the Companies Act 2017, the Insurance Ordinance 2000, the Insurance Rule 2017, the insurance Accounting Regulations 2017 and Takaful rules 2012. These statements present fairly the company's state of affair, results of its operations, cash flow and changes in equity.
- Proper books of accounts have been maintained by the company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The international accounting standards as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There is no significant doubt upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Key operating and financial data of last six years is available in the annual report.
- All applicable statutory payments on account of taxes, duties etc were regularly and timely deposited in the Government treasury.
- Value of investment of Provident Fund as at 31st December 2019 stands at Rs.39.5 million and investment of Gratuity fund as at December 31st 2019, stands at Rs.37 million.

DIRECTORS' REPORT TO THE MEMBERS

- During the year under review Six Board meetings were attended by the directors and detail is as follows:

Name of Member	No. of Meetings
Mian Hassan Mansha (Chairman)	4
Mr. Mahmood Akhtar	5
Mr. Inayat Ullah Niazi	5
*Mr. Badar ul Hassan	0
Muhammad Azam	4
*Mr. Aftab Ahmed Khan	4
Mr. Farrukh Aleem (CEO)	5

* Mr. Badar Ul Hassan resgined and Mr. Aftab Ahmad Khan appointed as Director in place of Mr. Badar Ul Hassan with Effect from April 09, 2019.

- The aggregate shares held by the Associated Companies are:

  1. Nishat Mills Limited 10,226,244

- The pattern of shareholding is given on page 40 of this report.

There are no material changes /commitments between the year end and the date of signing of this report except those mentioned in appropriations

FUTURE OUTLOOK 2020:

The economy of Pakistan, after two relatively challenging years, appears to be heading towards positive development. Whilst inflation remains high, primarily attributed to increase in food and utility prices, it is expected to go down over the course of year 2020, mainly attributed to the transition to a market-based exchange rate system, improvement in the business community's outlook of the economy, and fiscal developments remaining on track, as per commitments under the IMF program.

Our strategy for 2020 is designed to achieve steady growth in the challenging business environment in order to attain better position in the industry.

We are focusing more closely on products and customer segment where we have a competitive edge, those where we can offer a greater value proposition to our customers.

Going forward, however, we expect uptick in inflation will continue in 2020 and interest rates are also expected to increase a bit for investment, the Company will adopt a balanced strategy to benefit from equity markets performance along with upward revision in interest rates through money market instruments.

ACKNOWLEDGEMENTS:

The loyalty of our patron clients has enabled us to maintain and improve our market share over a period of time. We are grateful to them for reposing their confidence in us. We acknowledge the support of our shares holders which allows us to improve our sound position in the market. Thanks are due to our reinsurance brokers for their professional assistance and reinsurers for their valued support. Our gratitude and appreciation is also due to SECP for their guidance and cooperation. We acknowledge the professionalism and hard work of our developments officers, staff members and Executives who helped the Company to achieve its goals.

On behalf of Board of Directors

FARRUKH ALEEM
CEO

MAHMOOD AKHTAR
DIRECTOR

Lahore
March 09, 2020

ڈائریکٹرز کی اراکین کو رپورٹ

فیوچر آوٹ لک 2020

پاکستان کی معیشت، نسبتاً دو مشکل سال کے بعد ترقی کی طرف گامزن دکھائی دیتی ہے۔ افراط زر کی سطح زیادہ ہے جس کی بنیادی وجہ غذائی اشیا اور یوٹیلیٹی کی قیمتوں میں اضافہ ہے۔توقع ہے کہ سال 2020 کے دوران اس میں کمی واقع ہوگی،کیونکہ روپے کی قدر مارکیٹ پر مبنی شرح تبادلہ نظام میں منتقل ہو چکی ہے، کاروباری برادری کے معیشت سے متعلق نقط نظرمیں بہتری آئی ہے اور آئی ایم ایف پروگرام کے تحت وعدوں کے مطابق معیشت اورمالیاتی پیشرفت درست سمت میں گامزن ہیں۔

2020 کے لیے حکمتِ عملی مستحکم نمو کے لیے تیار کی گی ہے جو کے مشکل کاروباری ماحول میں بہتر کاروباری مقام حاصل کرنے کیلیے ہے۔

ہم مصنوعات اور صارفین پر زیادہ توجہ مرکوزکر رہے ہے جہاں پر ہمیں مصابتی برتری حاصل ہے وہاں پرہم مقابلہ کر کے اپنے گاہکوں کو اعلٰی خدمات پیش کر سکتے ہیں۔

2020 میں ہم افراط زر اور سود کی شرح میں اضافہ کی توقع رکھتے ہیں۔ لہذا ہم سود کی شرح سے فائدہ اٹھانے کے لیے متوازن حکمت عملی اختیار کریں گے اور ساتھ ساتھ بازارحصص میں بھی فائدہ اٹھائیں گے۔

اظہار تشکر

ہمارے مخلص سرپرست کلائنٹ نے ہمیں اس قابل کیا ہے کہ ہم وقت کے ساتھ ساتھ اپنے مارکیٹ شئیر میں اضافہ کر سکیں۔ ہم ان کے شکر گزار ہیں کہ انہوں نے ہم پر اعتماد کیا۔ ہم اپنے شئیر ہولڈرز کے بھی ممنون ہیں کہ ان کی بھرپور معاونت سے ہم اس قابل ہوئے کہ مارکیٹ میں اپنی مستحکم پوزیشن کو برقرار رکھ سکیں۔ ہم اپنے ری انشورر کی قابل قدر معاونت اور ری انشورنس بروکرز کی پیشہ وارانہ مہارت پر بھی ان کے شکر گزار ہیں۔ ہم ایس ای سی پی (SECP) کے تعاون اور رہنمائی پر بھی ان کے بےحد مشکور ہیں۔ ہم اپنے ڈویلپمنٹ آفیسرز ، اسٹاف ممبرز ، اور ایگزیکٹوز کی انتھک محنت اور پیشہ وارانہ کاوشوں کی بھی تعریف کرتے ہیں جن کی مدد سے ہم اپنے اہداف مکمل کر سکے۔

بورڈ آف ڈائریکٹرز کی جانب سے

فرخ علیم
سی ای او

محمود اختر
ڈائریکٹر

لاہور
مارچ 09, 2020

ڈائریکٹرز کی اراکین کو رپورٹ

سرمایاکاری

اختتام سال 31 دسمبر 2019 میں ہمارے سرمایاکاری کے پورٹ فولیو کی قدر میں 14 ارب روپے سے 16 ارب روپے کا اضافہ ہوا ہے کمپنی نے حصص کا منافع (ڈیویڈنڈ انکم) 1,028 ملین روپے اپنی سرمایاکاری کے پورٹ فولیو سے کمایا (2018: 984 ملین روپے) ہے۔

کیش فلو

سال 31 دسمبر 2018 پر خالص کیش فلو جو کہ انڈر رائٹنگ عمل سے پیدا کی گئی مثبت ہے۔

فی حصص آمدنی

فی حصص آمدنی میں اضافہ دیکھنے میں آیا ہے دوران سال31 دسمبر2018 میں یہ 12.54 سےاختتام سال31 دسمبر 2019 میں14.10 روپے ہے۔

منافع اور فوائد کا مختص کرنا

09مارچ 2020 کو جو میٹنگ منعقد ہوئی ۔ اس میں ڈائریکٹرز نے 25% نقدمنافع برائے حصص کی تجویز کی ہے ۔ یہ حصص کا منافع جو کہ نصف سال 2019 میں25 فیصد ادا کیا گیا اس کے علاوہ ہے۔

کریڈٹ ریٹنگ

JCR-VIS کریڈٹ ریٹنگ کمپنی لمیٹڈ نے سیکورٹی جنرل انشورنس کی مالیاتی طاقت کواپ گریڈ کر کے ‘AA’ کر دیا ہے۔

بورڈ آڈٹ کمیٹی

جیسا کہ انشورنس کمپنی کے کوڈ آف کارپوریٹ گورنر کی ضرورت کے تحت بورڈ آف آڈٹ کمیٹی نے سال کے چاروں ساماہی مالیاتی نتائج کا جائزہ لیا ۔ دوران سال مندرجہ ذیل افراد اس کے ممبر رہے۔

ممبرز کے نام	کیٹیگری
میاں حسن منشا	چیئرمین
جناب عنایت اللہ نیازی	ممبر
آفتاب احمد خان	ممبر

سٹیچوٹری آڈٹ

آڈیٹر نے کمپنی کی سال 2019 کی مالیاتی رپورٹ کو (unqualified) بیان کیا ہے

کارپوریٹ اور فنانشل رپورٹنگ فریم ورک

کوڈ آف کارپوریٹ اور فنانشل رپورٹنگ فریم ورک کے مطابق مالیاتی رپورٹ کے ضمن میں ڈائریکٹرز مندرجہ ذیل کی تصدیق کرتے ہیں۔

مالیاتی گوشوارے جو کہ انشورنس آرڈیننس 2000، کمپنی ایکٹ 2017، انشورنس رولز 2017، انشورنس اکاونٹنگ ریگولیشن 2017 اور تکافل رولز 2012 کے مطابق تیار کیے ہیں اور یہ گوشوارے کاروباری معمالات ، آپریشن ، نقد بہاؤ اور ایکوئٹی میں تبدیلی کی عکاسی کرتے ہیں۔

- کمپنی کے اکاؤنٹس باقاعدہ طور پر منقعد کیے گئے ہیں۔
- مالیاتی گوشوارے ترتیب دیتے ہوئے مناسب اکاؤنٹنگ پالیسیوں کو ملحوظ خاطر رکھا گیا ہے ۔ مالیاتی گوشوارے اور اکاؤنٹنگ تخمینے مناسب اور محتاط فیصلوں پر مبنی ہیں۔
- پاکستان میں لاگو بین الاقوامی اکاؤنٹنگ کے معیارات کی مالیاتی گوشوارے کی تیاری میں پیروی کی گئی ہے۔ اور اگر کوئی اس میں تبدیلی ہے تو مناسب طور پر بیان کی گئی ہے۔
- داخلی کنڑول کا نظام مستحکم طور پر ترتیب دیا گیا ہے۔ اور مؤثر طور پر عملدرآمد کے ساتھ اسکی نگرانی بھی کی جاتی ہے۔
- کاروبار کو جاری رکھنے میں کمپنی کی صلاحیت شکوک وشبہات سے بالاتر ہے۔
- کارپوریٹ گورنس کی بہترین مشقوں کو اپنانے میں کوئی کوتاہی نہیں کی گئی۔
- گزشتہ چھ سال کے لیے نمایاں آپریٹنگ اور مالیاتی اعداد و شمار سالانہ رپورٹ میں دستیاب ہے۔
- تمام لاگو قانونی ادائیگیاں جو کہ بحساب ٹیکس، ڈیوٹیز وغیرہ باقاعدگی اور وقت کے ساتھ سرکاری خزانہ میں ادا کی گئی ہیں۔
- پرووڈنٹ فنڈ کی سرمایاکاری کی مالیت 31 دسمبر 2019 پر 39.5 ملین روپے پر ہے اور گریجوٹی فنڈ کے اثاثوں کی منصفانہ مالیت31دسمبر 2019 پر 37 ملین روپے ہے۔

- زیر جائزہ سال کے دوران چھ بورڈ میٹنگ منعقد ہوئیں حاضری کی پوزیشن مندرجہ ذیل ہے۔

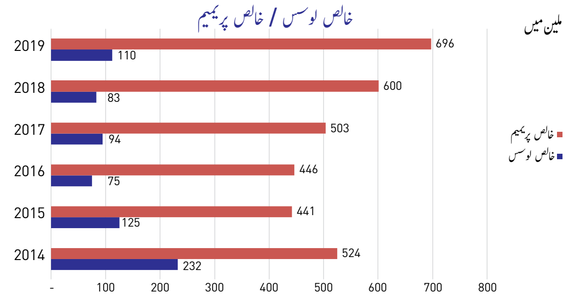
ممبرز کے نام	میٹنگز کی تعداد
میاں حسن منشاء (چیئرمین)	4
جناب محمود اختر	5
جناب عنایت اللہ نیازی	5
*جناب بدر الحسن	0
جناب محمد اعظم	4
*آفتاب احمد خان	4
ناب فرخ علیم (چیف ایگزیکٹوآفیسر)	5

- * جناب بدرالحسن نے استفعا دے دیا اور جناب آفتاب احمد خان کو جناب بدرالحسن کی جگہ پر 09 اپریل 2019 کو ڈائریکٹر مقرر کیا گیا۔
- ایسوسی ایٹ کمپنیز کے حصص درج ذیل ہے۔
  نشاط ملز لمیٹڈ 10,226,244
- پیٹرن آف شیر ہولڈنگ رپورٹ کے صفہ نمبر40 پر دیا گیا ہے۔
  اختتام سال اور اس رپورٹ کے دستخط ہونے کے دوران کوئی موثر تبدیلی یا وعدہ نہیں ہے ماسوائے ان کے جو Appropriation میں ہے۔

ڈائریکٹرز کی اراکین کو رپورٹ

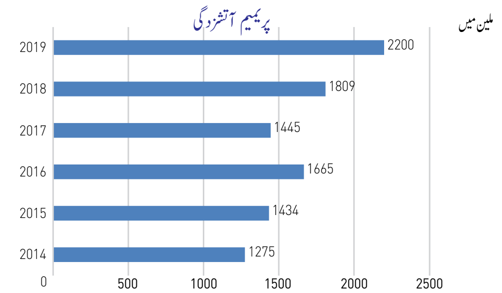
انڈر رائٹنگ عمل

سیکورٹی جنرل نے دوران سال 2019 میں مجموعی پریمیم 3.2 ارب روپے کیا ہے۔ منافع انڈر رائٹنگ برائے سال 2019 میں 302 ارب روپے ہے ۔ (2018 میں294 ملین روپے) منافع برائے انڈر رائٹنگ بلحاظ خالص پریمیم آمدنی کا 43 فیصد ہے۔



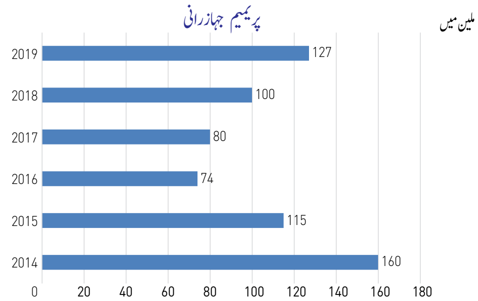
آتشزدگی اور جائیداد

آتشزدگی کے شعبے میں 23 فیصد اضافہ دیکھنے میں آیا ہے۔ بلحاظ 2018 کے اسی دورانیہ کے منافع آتشزدگی کے شعبہ میں اختتام سال 31 دسمبر 2019 پر 45 فیصد ہے ۔ یہ شعبہ سیکورٹی جنرل کے72 فیصد مجموعی پریمیم کی نمائندگی کرتا ہے۔



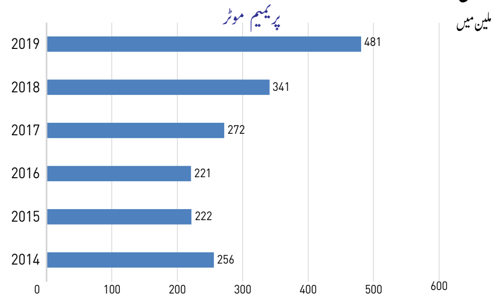
جہاز رانی ، ہوا بازی اور نقل و حمل

موازنہ برائے پچھلے سال کے جہاز رانی میں 20 فیصد اضافہ دیکھنے میں آیا ہے۔ جہاز رانی کا انڈر رائٹنگ منافع اختتام سال 31 دسمبر 2019 میں 93 فیصد رہا۔ سیکورٹی جنرل کے جہاز رانی کا کاروبار مجموعی پریمیم کے 4 فیصد کی نمائندگی کرتا ہے



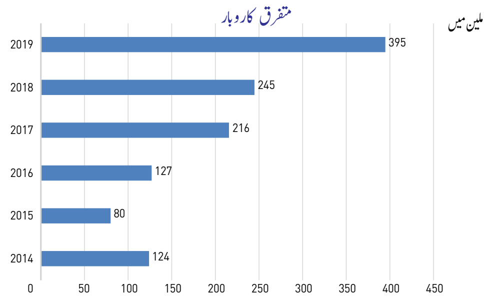
موٹر

مجموعی پریمیم موٹر کے کاروبار میں 341 ملین کا دورانِ سال 31 دسمبر 2019 اِضافہ ہوا ہے۔ موٹر کے کاروبار کا انڈر رائٹنگ منافع % 43 ہے۔جو کے سال 31 دسمبر 2018 میں 429 ملین تھا۔



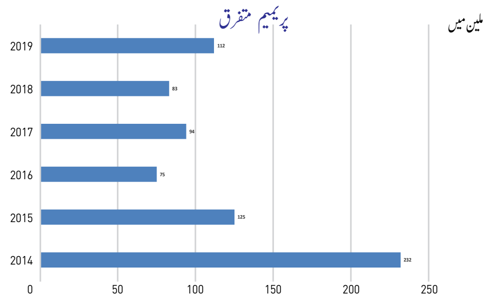
متفرق

متفرق کاروبار کے مجموعی پریمیم میں اضافہ 245 ملین اختتام سال 31 دسمبر 2019 سے 336 ملین اختتام سال 31 دسمبر 2019 ہوا ہے۔



کلیمز

اختتام سال 31 دسمبر 2018 میں نیٹ کلیمز کا خرچہ 83 ملین روپے رہا ، جو کہ کم ہو کر اختتام سال 31دسمبر 2019 پر 110 ملین روپے ہو گیا ، خالص کلیمز 16 فیصد ہے۔ بلحاظ خالص پریمیم آمدنی کے (2018 میں 14 فیصد) ہے۔



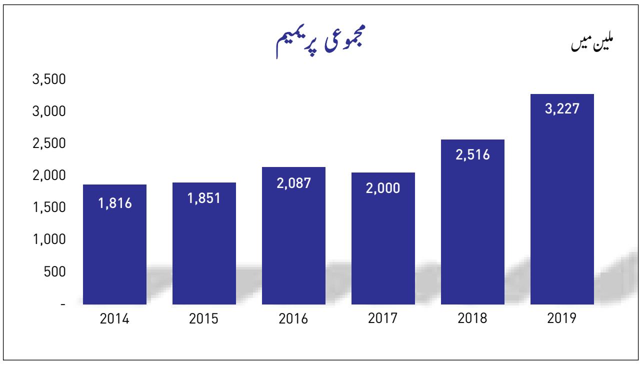
ڈائریکٹرز کی اراکین کو رپورٹ

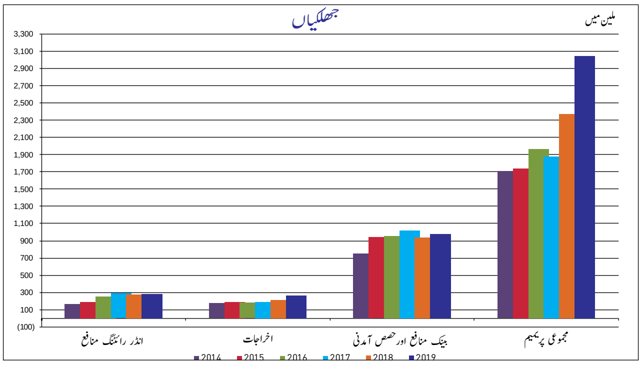
سیکورٹی جنرل انشورنس کمپنی کے بورڈ آف ڈائریکٹر کی جانب سے چوبیسوں سالانہ رپورٹ برائے اختتام سال 31 دسمبر 2019 پیش کرتے ہوئے مجھے خوشی ہو رہی ہے

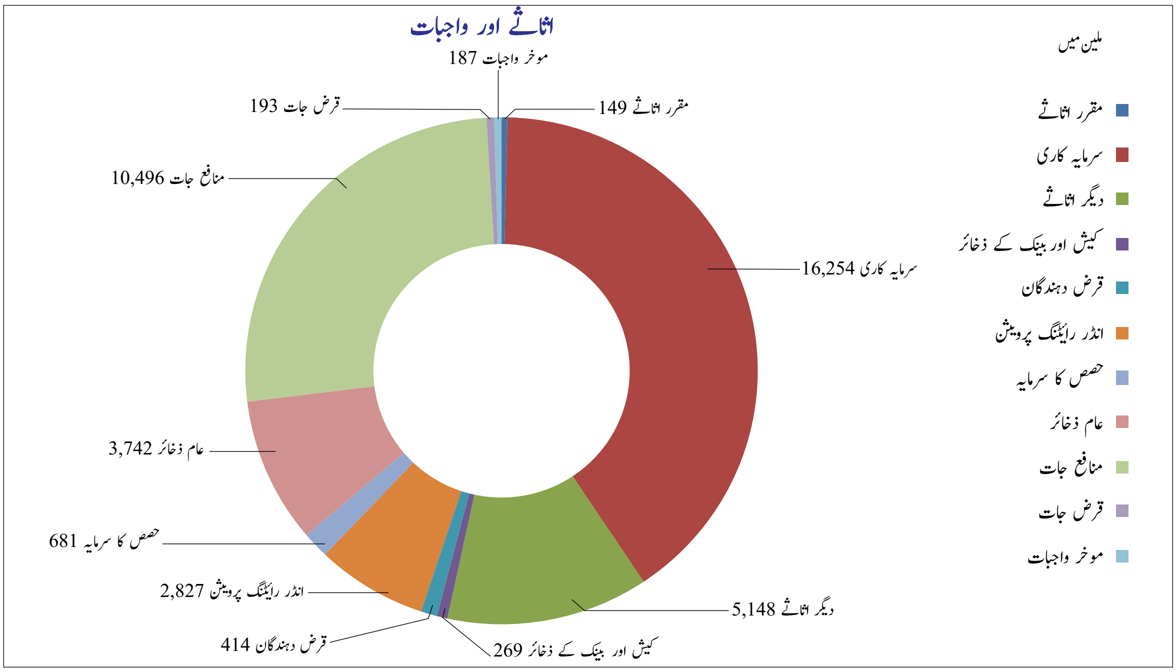
کمپنی کی کارکردگی دوران سال 2019

سیکورٹی جنرل انشورنس نے دوران سال مجموعی پریمیم 3.2ارب روپے تحریر کیا ہے۔

	دسمبر 2019	دسمبر 2018	کمی / اضافہ
	روپیہ ملین		%
مجموعی پریمیم	3,227	2,516	28
خالص پریمیم آمدنی	696	600	16
خالص کمیشن	13	7	86
خالص کلیمز	110	83	33
منافع انڈر رائٹنگ کاروبار	302	294	3
دوسری آمدنی (سرمایا کاری کی سرگرمیوں سے منسوب نہیں)	48	28	71
سرمایا کاری آمدنی	1,037	995	4
مالیاتی خرچہ	25	9	178
قبل از ٹیکس منافع	1,354	1,292	5
بعد از ٹیکس منافع	959	854	12







DISCLOSURE OF CATEGORIES OF SHAREHOLDING

as at December 31, 2019

Description	No of Shareholders	Shares Held	Percentage
Directors, CEO & their spouse minor childern			
Mian Hassan Mansha (Director)	1	9,049,371	13.30
Mr. Muhammad Azam (Director)	1	500	-
Mr. Inayat Ullah Niazi (Director)	1	500	-
Mr. Aftab Amhed Khan (Director)	1	500	-
Mr. Mehmood Akhtar (Director)	1	500	-
Associated companies, Undertakings & Related parties"			
Nishat Mills Ltd.	1	10,226,244	15.02
NIT and ICP	-		
Public Sector Companies & Corporations	-		
Executives	-		
"Banks, Development Financial Institutions,	1	12,401,871	18.22
Non-Banking Financial Institution.			
Insurance Companies	2	10,138,412	14.90
Modarabas and Mutual Funds"	-		
General Public			
a. Local	-		
b. Foreign	-		
Others			
a - Joint stock companies	2	15,668,819	4.50
b - All others (Individuals)	6	10,575,783	34.06
Total	17	68,062,500	100.00

SHAREHOLDERS HOLDING FIVE PERCENT OR MORE VOTING INTEREST

as at December 31, 2019

	Name of Shareholder	Shares Held	Percentage
1	Allied Bank Limited	12,401,871	18.22
2	Nishat Mills Limited	10,226,244	15.02
3	Adamjee Insurance Co. Ltd	9,681,374	14.22
4	Mrs. Naz Mansha	5,101,740	7.50
5	Mian Hassan Mansha	9,049,371	13.30
6	Mian Umer Mansha	9,049,371	13.30
7	Mian Raza Mansha	8,133,467	11.95
Associated Company:-			
	Nishat Mills Limited	10,226,244	15.02

PATTERN OF SHARE HOLDING
as at December 31, 2019

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
6	1	500	3,000
1	455001	460000	457,038
1	640001	645000	643,667
1	915001	920000	915,903
1	2395001	2400000	2,399,454
1	5100001	5105000	5,101,740
1	8130001	8135000	8,133,467
2	9045001	9050000	18,098,742
1	9680001	9685000	9,681,374
1	10225001	10230000	10,226,244
1	12400001	12405000	12,401,871
17			68,062,500

CLASSIFICATION OF SHARES BY CATEGORIES
as at December 31, 2019

Categories of Members	Numbers	Shares Held	Percentage
Individuals	11	29,853,398	43.86
Investment Companies	0	0	0.00
Insurance Companies	2	10,138,412	14.90
Joint Stock Companies	3	15,668,819	23.02
Financial Institutions	1	12,401,871	18.22
Modaraba Companies	0	0	0.00
Foreign Investors	0	0	0.00
Others	0	0	0.00
Total	17	68,062,500	100.00

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Security General Insurance Company Limited

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

We have reviewed the enclosed Statement of Compliance with the Code of Corporate Governance for Insurers, 2016 (the Code) prepared by the Board of Directors of Security General Insurance Company Limited ('the Company') for the year ended December 31, 2019 to comply with the Code issued by the Securities and Exchange Commission of Pakistan applicable to unlisted insurance companies.

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

As a part of our audit of the financial statements, we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

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

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the requirements contained in the Code as applicable to the Company for the year ended December 31, 2019.

A.F.Ferguson & Co.
Chartered Accountants
Name of engagement partner: Amer Raza Mir

Lahore
Date: March 10, 2020

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
23-C, Aziz Avenue, Canal Bank, Gulberg-V, P.O.Box 39, Lahore-54660, Pakistan
Tel: +92 (42) 3571 5868-71 / 3577 5747-50 Fax: +92 (42) 3577 5754 www.pwc.com/pk
•KARACHI •LAHORE •ISLAMABAD

STATEMENT OF COMPLIANCE

with the Code of Corporate Governance for Insurers, 2016
Security General Insurance Company LTD.
For the Year ended December 31, 2019

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

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

1. As the Company is an unlisted company, therefore, it is not mandatory for the Company to have Independent Nonexecutive Director as well as minority interest. At present the Board includes:

Category	Names
Independent Director	Nil
Executive Director	Mr. Farrukh Aleem
Non Executive Directors	Mr. Hassan Mansha Mr. Inayat Ullah Niazi Mr. Aftab Ahmed Khan Mr. Muhammad Azam Mr. Mehmood Akhtar

2. The directors have confirmed that none of them is serving as a director in more than seven listed companies.

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

4. A casual vacancy occurred on the Board on April 9, 2019 and was filled by the Directors within 30 days thereof.

5. The Company has prepared a "Statement of Ethics and Business Practices" as Code of Conduct and has ensured that appropriate steps have been taken to disseminate among all the directors and employees of the Company.

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

7. All powers of the Board have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of Chief Executive Officer (CEO) and the key officers, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven (7) days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board has established a system of sound internal control, which is effectively implemented at all levels within the Company. The Company has adopted and complied with all the necessary aspects of internal controls given in the Code.

10. All the directors have either attended the orientation course or have been provided appropriate materials/ guidelines in this regard and as such they are aware of their duties and responsibilities.

11. There was no appointment of Chief Financial Officer (CFO) and Corporate Secretary. The Board has revised the remuneration of CFO.

12. The Directors' Report for this year has been prepared in compliance with the requirements of the Code of Corporate Governance for insurers, 2016 and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by Chief Executive Officer and Chief Financial Officer before approval of the Board.

14. The directors, Chief Executive Officer and other executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

16. The Board has formed the following Management Committees:

Underwriting Committee:	
Name of Member	**Category**
Mr. Farrukh Aleem	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Sajjad Rasool	Member

STATEMENT OF COMPLIANCE

with the Code of Corporate Governance for Insurers, 2016
Security General Insurance Company LTD.
For the Year ended December 31, 2019

Claims Settlement Committee:	
Name of Member	**Category**
Mr. Farrukh Aleem	Chairman
Mr. Hafiz Khuram Shahzad	Member
Mr. Imran Sohail	Member

Reinsurance and co-insurance Committee:	
Name of Member	**Category**
Mr. Farrukh Aleem	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Umer Haroon	Member
Mr. Muhammad Haris	Member

Risk Management & Compliance Committee:	
Name of Member	**Category**
Mr. Farrukh Aleem	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Hafiz Khuram Shahzad	Member

17. The Board has formed the following Board Committees:

Ethics, Human Resource and Remuneration Committee:	
Name of Member	**Category**
Mian Hassan Mansha	Chairman
Mr. Aftab Ahmed Khan	Member
Mr. Farrukh Aleem	Member

Investment Committee :	
Name of Member	**Category**
Mian Hassan Mansha	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Farrukh Aleem	Member
Mr. Hafiz Khuram Shahzad	Member

Nomination Committee:	
Name of Member	**Category**
Mian Hassan Mansha	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Aftab Ahmed Khan	Member

18. The Board has formed an Audit Committee. It comprises of three members, of whom three are non-executive Directors. The Chairman of the Committee is a non executive director. The composition of audit committee is as follows:

Audit Committee:	
Name of Member	**Category**
Mian Hassan Mansha	Chairman
Mr. Inayat Ullah Niazi	Member
Mr. Aftab Ahmed Khan	Member

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

20. The Board has outsourced the internal audit function to Ahsan and Ahsan, Chartered Accountants who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company and their representatives are involved in the internal audit function on a regular basis.

STATEMENT OF COMPLIANCE

with the Code of Corporate Governance for Insurers, 2016
Security General Insurance Company LTD.
For the Year ended December 31, 2019

21. The Chief Executive Officer, Chief Financial Officer, Compliance Officer and the Head of Internal Audit possess such qualification and experience as is required under the Code of Corporate Governance for insurers, 2016. Moreover, the persons heading the underwriting, claim, reinsurance, risk management and grievance function possess qualification and experience of direct relevance to their respective functions, as required under section 12 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000):

Name of the Person	Designation
Mr.Farrukh Aleem	Chief Executive Officer
Mr. Hafiz Khuram Shahzad	Chief Financial Officer
Mr. Muhammad Asim Rauf Khan	Compliance Officer
Mr. Khalid Mahmood Chohan	Company Secretary
Ahsan and Ahsan, Chartered Accountants	Internal Auditors
Mr. Syed Mehmood Ul Hassan	Head of Window Takaful
Mr. Sajjad Rasool	Head of Underwriting
Mr. Imran Sohail	Head of Claims
Mr. Umer Haroon	Head of Reinsurance
Mr. Muhammad Haris	Head of Risk Function
Mr. Shafiq-ur-Rehman	Head of Grievance Function

22. The statutory auditors of the Company have been appointed from the panel of auditors approved by the Commission in terms of section 48 of the Insurance Ordinance, 2000 (Ordinance No. XXXIX of 2000). The statutory auditors have confirmed that they have been given a satisfactory rating under the Quality Control Review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the insurer and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.

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

24. The Board ensures that the appointed Actuary complies with the requirement set out for him in the Code of Corporate Governance for Insurers, 2016.

25. The Board ensures that the investment policy of the insurer has been drawn up in accordance with the provisions of the Code of Corporate Governance for insurers, 2016.

26. The Board ensures that the risk management system of the insurer is in place as per the requirements of the Code of Corporate Governance for insurers, 2016.

27. The Company has set up a risk management function which carries out its tasks as covered under the Code of Corporate Governance for insurers, 2016.

28. The Board ensures that as part of this risk management system, the Company gets itself rated from JCR-VIS which is being used by its risk management function and the respective Committee as a risk monitoring tool. The rating assigned by the said rating agency is AA with stable outlook on December 04, 2019.

29. The Board has set up a grievance function in compliance with the requirement of the Code of Corporate Governance for Insurers, 2016.

30. The Company has not obtained any exemption(s) from the Securities and Exchange Commission of Pakistan in respect of the requirement of the Code.

31. We confirm that all other material principles contained in the Code have been complied with.

On behalf of Board of Directors

MAHMOOD AKHTAR
DIRECTOR

(FARRUKH ALEEM)
CEO

Lahore
March 09, 2020

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

The incharge of the management of the business is Farrukh Aleem, Chief Executive Officer and the report on the affairs of business during the year 2019 signed by him , and approved by the Board of Directors is part of the Annual Report 2019 under the title of "Directors' Report to Members" and

a. In our opinion the annual statutory accounts of Security General Insurance Company Limited set out in the forms attached to the statement have been drawn up in accordance with the Insurance Ordinance, 2000 (Ordinance) and any rules made thereunder,

b. Security General Insurance Company Limited has at all times in the year complied with the provisions of the Ordinance and the rules made thereunder relating to paid-up capital, solvency and re-insurance arrangements; and

c. As at the date of the statement, the Security General Insurance Company Limited continues to be in compliance with the provisions of the Ordinance and the rules made thereunder relating to paid-up capital, solvency and re-insurance arrangements.

Lahore.
Dated: March 09, 2020

Hasan Mansha

Chief Executive Officer	Director	Director	Chairman


MAR

Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2019

pwc

A·F·FERGUSON&CO.

INDEPENDENT AUDITOR'S REPORT

To the members of Security General Insurance Company Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Security General Insurance Company Limited (the Company), which comprise the statement of financial position as at December 31, 2019, and the profit and loss account, and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the cash flow statement together with the notes forming part thereof, conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2019 and of the profit, total comprehensive income, the changes in equity and its cash flows for the year then ended.

Basis for Opinion

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

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

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

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

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
23-C, Aziz Avenue, Canal Bank, Gulberg-V, P.O.Box 39, Lahore-54660, Pakistan
Tel: +92 (42) 3571 5864-71 / 3577 5747-50 Fax: +92 (42) 3577 5754 www.pwc.com/pk

•KARACHI •LAHORE •ISLAMABAD

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

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

b) the statement of financial position, the profit and loss account, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XIX of 2017), and are in agreement with the books of account;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

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

The engagement partner on the audit resulting in this independent auditor's report is Amer Raza Mir.

A.F.Ferguson & Co.
Chartered Accountants
Name of engagement partner: Amer Raza Mir

Lahore
Date: March 10, 2020

STATEMENT OF FINANCIAL POSITION

as at December 31, 2019

	Note	2019	2018
		---------Rupees in thousand---------	
ASSETS			
Property and equipment	6	145,332	120,118
Intangible assets under development	7	4,044	4,044
Investment property	8	464,176	457,948
Investments			
Equity securities	9	16,184,138	13,940,348
Debt securities	10	69,673	74,607
Loans and other receivables	11	34,968	16,751
Insurance/reinsurance receivables	12	2,289,531	2,176,640
Reinsurance recoveries against outstanding claims	25	1,006,088	814,128
Salvage recoveries accrued		5,120	3,599
Deferred commission expense	26	110,933	94,261
Prepayments	13	1,151,576	1,006,289
Cash and bank	14	268,560	233,108
		21,734,139	18,941,841
Total assets of window takaful operations - Operator's fund	15	86,187	54,842
TOTAL ASSETS		21,820,326	18,996,683
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES ATTRIBUTABLE TO COMPANY'S EQUITY HOLDERS			
Ordinary share capital	16	680,625	680,625
Reserves	17	3,742,464	3,313,257
Un-appropriated profit		10,494,554	9,876,532
TOTAL EQUITY		14,917,643	13,870,414
LIABILITIES			
UNDERWRITING PROVISIONS			
Outstanding claims including IBNR	25	1,176,065	964,731
Unearned premium reserves	24	1,558,246	1,296,132
Unearned reinsurance commission	26	92,208	80,758
Retirement benefit obligations	18	5,831	5,184
Deferred taxation	19	1,507,567	1,082,760
Borrowings	20	193,228	194,876
Insurance/reinsurance payables	21	1,730,249	1,068,131
Other creditors and accruals	22	414,429	247,650
Taxation - provision less payments		187,826	177,195
TOTAL LIABILITIES		6,865,649	5,117,417
Total liabilities of window takaful operations - Operator's Fund	15	37,034	8,852
TOTAL EQUITY AND LIABILITIES		21,820,326	18,996,683
CONTINGENCIES AND COMMITMENTS	23		

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive Officer	Director	Director	Hasan Mansha Chairman

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2019

	Note	2019	2018
		Rupees in thousand	
Net insurance premium	24	695,996	599,589
Net insurance claims	25	(110,472)	(83,195)
Net commission and other acquisition costs	26	(12,927)	(7,469)
Insurance claims and acquisition expenses		(123,399)	(90,664)
Management expenses	27	(270,190)	(214,628)
UNDERWRITING RESULTS		302,407	294,297
Investment income	28	1,037,215	995,081
Other income	29	48,439	27,637
Other expenses	30	(12,507)	(11,917)
RESULTS OF OPERATING ACTIVITIES		1,375,554	1,305,098
Finance costs	31	(24,754)	(9,253)
Profit / (loss) from window takaful operations- Operator's Fund	15	3,163	(4,010)
PROFIT BEFORE TAX		1,353,963	1,291,835
Income tax expense	32	(394,580)	(438,007)
PROFIT AFTER TAX		959,383	853,828
Earnings after tax per share - Rupees	33	14.10	12.54

The annexed notes 1 to 42 form an integral part of these financial statements.

Hasan Mansha

Chief Executive Officer	Director	Director	Chairman

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2019

	2019	2018
	Rupees in thousand	
		(Re-stated)
PROFIT AFTER TAX FOR THE YEAR	959,383	853,828
OTHER COMPREHENSIVE INCOME FOR THE YEAR:		
Items that may be reclassified subsequently to profit and loss account		
Unrealized gain /(loss)loss on available-for-sale investments - net of tax	429,207	(2,036,260)
Items that will not be subsequently reclassified to profit and loss account:		
Remeasurement of defined benefit obligations - net of tax	(1,049)	(1,109)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR	1,387,541	(1,183,541)

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive Officer	Director	Director	Chairman

Hasan Mansha

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2019

	Attributable to equity holders of the Company				
	Capital Reserve		Revenue Reserve		
	Share Capital	Fair value reserve	General Reserve	Un-appropriated profit	Total capital and reserves
	--------------------Rupees in thousand--------------------				
BALANCE AS ON JANUARY 01, 2018	680,625	5,347,517	2,000	9,364,125	15,394,267
Profit after taxation for the year ended December 31, 2018	-	-	-	853,828	853,828
Other comprehensive loss for the year ended December 31, 2018	-	(2,036,260)	-	(1,109)	(2,037,369)
Total comprehensive (loss)/income for the year ended December 31, 2018	-	(2,036,260)	-	852,719	(1,183,541)
Transactions with owners recognised directly in equity					
Final dividend for the year ended December 31, 2017 at the rate of Rs 2.5 (25%) per share	-	-	-	(170,156)	(170,156)
Interim dividend for half year ended June 30, 2018 at the rate of Rs 2.5 (25%) per share	-	-	-	(170,156)	(170,156)
Balance as on December 31, 2018	680,625	3,311,257	2,000	9,876,532	13,870,414
Profit after taxation for the year ended December 31, 2019	-	-	-	959,393	959,393
Other comprehensive loss for the year ended December 31, 2019	-	429,207	-	(1,049)	428,158
Total comprehensive income for the year ended December 31, 2019	-	429,207	-	958,334	1,387,541
TRANSACTIONS WITH OWNERS, RECOGNISED DIRECTLY IN EQUITY					
Final dividend for the year ended December 31, 2018 at the rate of Rs 2.5 (25%) per share	-	-	-	(170,156)	(170,156)
Interim dividend for half year ended June 30, 2019 at the rate of Rs 2.5 (25%) per share	-	-	-	(170,156)	(170,156)
BALANCE AS ON DECEMBER 31, 2019	680,625	3,740,464	2,000	10,494,554	14,917,643

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive Officer

Director

Director

Hasan Mansha

Chairman

CASH FLOW STATEMENT

For the year ended December 31, 2019

		Note	2019	2018
			Rupees in thousand	
	OPERATING CASH FLOWS			
a)	**UNDERWRITING ACTIVITIES**			
	Insurance premiums received		3,059,231	2,051,269
	Reinsurance premiums paid		(1,713,052)	(2,030,035)
	Claims paid		(439,489)	(471,320)
	Reinsurance and other recoveries received		348,247	395,450
	Commissions paid		(173,787)	(175,893)
	Commissions received		221,791	176,697
	Management expenses paid		(213,702)	(234,680)
	NET CASH INFLOW / (OUTFLOW) FROM UNDERWRITING ACTIVITIES		1,089,239	(288,512)
	OTHER OPERATING ACTIVITIES			
	Income tax paid		(383,187)	(387,774)
	Other operating payments		-	-
	Other operating receipts		50,711	33,188
	NET CASH OUT FLOW FROM OTHER OPERATING ACTIVITIES		(332,476)	(354,586)
	TOTAL CASH INFLOW / (OUTFLOW) FROM ALL OPERATING ACTIVITIES		756,763	(643,098)
	INVESTMENT ACTIVITIES			
	Profit / return received		50,247	24,421
	Dividends received		1,028,471	984,158
	Payments for investments / investment properties		(1,590,539)	(1,330,424)
	Proceeds from investments		205,484	666,749
	Fixed capital expenditure		(58,452)	(28,179)
	Proceeds from sale of operating assets		3,419	5,007
	TOTAL CASH (OUT FLOW) / INFLOW FROM INVESTING ACTIVITIES		(361,370)	321,732
	FINANCING ACTIVITIES			
	Dividends paid		(340,312)	(340,313)
	Interest paid		(17,981)	(8,985)
	TOTAL CASH OUTFLOW FROM FINANCING ACTIVITIES		(358,293)	(349,298)
	NET CASH INFLOW / (OUTFLOW) FROM ALL ACTIVITIES		37,100	(670,664)
	CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		38,232	644,546
	Investments classified to cash and cash equivalent		-	64,350
	CASH AND CASH EQUIVALENTS AT END OF THE YEAR	14.3	75,332	38,232

CASH FLOW STATEMENT

For the year ended December 31, 2019

	Note	2019	2018
		Rupees in thousand	
Reconciliation to profit and loss account			
Operating cash flows		756,763	(643,098)
Depreciation expense		(23,036)	(16,631)
Finance costs		(26,612)	(9,253)
(Loss)/Profit on disposal of operating assets		(313)	371
Profit on disposal of investments		484	5,464
Dividend income		1,028,353	984,316
Other investment income		8,378	5,301
Other income		48,752	27,266
Increase in assets other than cash		464,030	760,228
Increase in liabilities other than borrowings		(1,043,687)	(3,148)
Increase in provision for unearned premium		(262,114)	(255,074)
Increase in commission income unearned		(11,450)	(9,633)
Increase in commission expense deferred		16,672	11,729
Profit/(loss) from window takaful operations for the year - Operator's Fund		3,163	(4,010)
Profit after taxation		959,383	853,828

The annexed notes 1 to 42 form an integral part of these financial statements.

Chief Executive Officer   Director   Director   Chairman

1 LEGAL STATUS AND NATURE OF BUSINESS

Security General Insurance Company Limited (the 'Company') is a general non-life insurance company which was incorporated as an unquoted public limited company, in Pakistan on May 13, 1996 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The Company has 8 branches in Pakistan. The Company is engaged in providing general insurance services in spheres of fire, marine, motor and miscellaneous. The registered office and the principal place of business is situated at SGI House, 18-C, E1, Gulberg III, Lahore.

The Company was granted authorization during the year on May 07, 2018 under Rule 6 of the Takaful Rules, 2012 to undertake Takaful Window Operations in respect of general takaful products by Securities and Exchange Commission of Pakistan ('SECP') and subsequently the Company commenced Window Takaful Operations.

2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

2.1 STATEMENT OF COMPLIANCE

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

- - International Financial Reporting Standards (IFRS) issued by International Accounting Standard Board (IASB) as are notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017, the Insurance Ordinance, 2000, the Insurance Rules, 2017, the Insurance Accounting Regulations, 2017 and the Takaful Rules, 2012.

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

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

2.1.2 A separate set of financial statements of the General Takaful operations has been annexed to these financial statements as per the requirements of the Takaful Rules, 2012.

2.2 Basis of preparation

These financial statements have been presented on the format of the financial statements issued by SECP through Insurance Rules, 2017 vide S.R.O 89(1)/2019 dated February 09, 2018 . All transactions reflected in the financial statements are on accrual basis except those reflected in cash flow statement.

2.3 Basis of measurement

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

2.4 Functional and presentation currency

These financial statements are presented in Pakistan Rupees which is the Company's functional and presentation currency and all figures in these financial statements have been rounded off to the nearest thousand rupees, except otherwise stated.

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

a) IFRS 9 'Financial Instruments and IFRS 4 Insurance Contracts

This standard was notified by the Securities and Exchange Commission of Pakistan (SECP) to be effective from annual periods ending on or after June 30, 2019. This standard replaces the guidance in International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement'. Key changes in the new standard include requirements on the classification, measurement and derecognition of financial assets and liabilities. The standard also contains new requirements for hedge accounting and replaces the current incurred loss impairment model with an expected credit loss model.

During the year the Company has taken advantage of an election under IFRS 4 that permits an insurer which meets certain conditions to temporarily be exempt from adopting IFRS 9 'Financial Instruments', that would have otherwise become effective from January 1, 2019, until January 1, 2022. Disclosures required under the temporarily exemption have been made by the Company and detailed in note 4 to these financial statements.

b) IFRS 16, Leases

Effective January 1, 2019, the Company has adopted IFRS 16, "Leases" which replaces existing guidance on accounting for leases, including IAS 17 'Leases', IFRIC 4 'Determining whether an arrangement contains a Lease', SIC-15 'Operating Leases- Incentive' and SIC-27 'Evaluating the substance of transactions involving the legal form of a Lease'. IFRS 16 introduces a single, lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right-of-use of the underlying asset and a lease liability representing its obligations to make future lease payments. An exemption exists for short term and low value leases. The accounting for lessors will not significantly change i.e. lessors continue to classify leases as finance or operating leases. The accounting policies relating to company's right of use asset and lease liability are disclosed in note 3.1.

The Company has applied IFRS 16 using the simplified approach for transition. This approach requires entities to recognize the cumulative effect of applying the standard as an adjustment to the opening balance of un-appropriated profit at the date of initial application. Comparative prior periods would not be adjusted. The cumulative effect of initially applying this standard as an adjustment to the opening balance of un-appropriated profit in the period of initial application does not have any impact since the Company has applied the practical expedient to account for leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

The Company has multiple lease agreements relating to buildings occupied at different locations across the country. However, these lease agreements are considered as short-term leases since the lease term is less than 12 months. Consequently, the changes laid down by the standard do not have any material impact on the financial statements of the Company.

In addition to the above, there are certain new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2019 but are considered not to be relevant or to have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

2.6 Standards, interpretations and amendments to accounting and reporting standards that are not yet effective

There are certain new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Company's operations although they may affect the accounting for future transactions and events upon initial application and are, therefore, not disclosed in these financial statements, except for the following:

a) IFRS 17 - Insurance contracts

This standard has been notified by the IASB to be effective for annual periods beginning on or after January 1, 2022 and yet to be notified by the SECP. The standard provides a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grand fathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts include the measurement of the present value of future cash flows incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows); a contractual service margin equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The management is in the process of assessing the impact of changes laid down by the standard on its financial statements.

a)	Other standards, amendments and interpretations	Effective date (period beginning on or after)
	IAS 1, Presentation of Financial Statements (Amendments)	January 1, 2020
	IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)	January 1, 2020

In addition to the above, there are certain new standards, amendments and interpretations to accounting and reporting standards that are mandatory for the Company's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not detailed in these financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below. Accounting policies relating to Window Takaful Operations are disclosed in a separate financial statements of Window Takaful Operations which have been annexed to these financial statements. These accounting policies have been consistently applied to all the years presented, expect for changes in accounting policies, as mentioned below in note 3.1 to these financial statements.

3.1 Leases

3.1.1 Lessee Accounting

At inception of a contract, the company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases having lease term of less than 12 months are accounted for as short-term leases and the expense charged to profit or loss on straight line basis over the lease term.

From January 1, 2019, lessee at the commencement of lease term shall recognize right of use asset and a lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the company's incremental borrowing rate.

Lease payments include fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option, less any lease incentives receivable. The extension and termination options are incorporated in determination of lease term only when the company is reasonably certain to exercise these options.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in fixed lease payments or an index or rate, change in the company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option. The corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the statement of profit or loss if the carrying amount of right-of-use asset has been reduced to zero.

3.1.2 Lessor Accounting

Lease income from operating leases where the Company is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statement of financial position based on their nature.

3.2 Property and equipment

3.2.1 Operating assets

Operating assets except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss. Cost of operating assets consists of historical cost and directly attributable cost of bringing the assets to their present location and condition. Depreciation on all operating assets is charged to profit and loss account on reducing balance method at the rates given in note 6.1 to the financial statements so as to write off the cost of operating asset over its estimated useful life. Depreciation on addition to operating assets is charged from the month in which an asset is acquired or capitalized, while no depreciation is charged in the month in which the asset is derecognized or retired from active use. Management judgement and estimates are involved in determining the useful lives of assets that best reflects the expected pattern of consumption of the future economic benefits embodied in the asset by the Company.

Maintenance and normal repairs are charged to profit and loss account as and when incurred whereas major renewals and improvements are capitalized and the assets so replaced, if any, are retired. Gain and loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense, in the profit and loss account.

The operating assets' residual value and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual value of its operating assets as at December 31, 2019 has not required any adjustment as its impact is considered insignificant.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the items will flow to the company and the cost of the item can be measured reliably.

The carrying values of operating assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount.

Capital work-in-progress is stated at cost less any identified impairment loss. All expenditure including borrowing costs connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating assets as and when these are available for use.

3.3 Intangible assets

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

Capital work-in-progress is stated at cost less any identified impairment loss. All expenditure including borrowing costs connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to operating assets as and when these are available for use.

3.4 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Company comprise of land and buildings. The investment property, except freehold land, are stated at cost less accumulated depreciation and any identified impairment losses. Freehold land is stated at cost less any identified impairment loss.

Depreciation on all investment property is charged to the profit and loss account, by applying the reducing balance method at the rates given in note 7 to write off the cost of investment property over its expected useful life. Depreciation on addition to operating assets is charged from the month in which an asset is acquired or capitalized, whereas no depreciation is charged in the month of disposal.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The Company's estimate of the residual values and useful lives of its investment property as at December 31, 2018 has not required any adjustment as its impact is considered insignificant.

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

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

3.5 Insurance contracts

Insurance contracts are those contracts where the Company has accepted significant insurance risk from the policy holders by agreeing to compensate the policy-holders on the occurrence of a specified uncertain future event i.e. insured event, that adversely affects the policy holders. Significant insurance risk is defined as the possibility of having to pay benefits on the occurrence of an insured event.

The Company underwrites non-life insurance contracts only under four main classes of business i.e. fire and property damage, marine aviation and transport, motor and others including miscellaneous and are issued to corporate and individual clients. The tenure of these insurance contracts depend upon terms of the policies written and vary accordingly. Nonetheless, once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and liabilities are extinguished or expired.

a) Fire and property damage insurance:

i) Insurance risks and events insured

Fire and property damage insurance contracts generally cover the policy holders against damages caused by one or more of the following: fire, earthquake, riot and strike, explosion, atmospheric disturbance, flood, burglary, etc. according to the terms and conditions of the policy. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

ii) Revenue recognition policy

Premium income is recognized over the period of insurance from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct insurance business, premium is recognized evenly over the period of the policy and for proportional reinsurance business, evenly over the period of underlying insurance policies. Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of the incidence of risk. Premiums for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross premium underwritten is adjusted against the unearned premium reserves / liabilities existing at each reporting date to determine the net premium underwritten during the year.

Since majority of policies are for one year, the Company maintains its provision for unearned premium by applying the 1/24th method as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017, except in rare circumstances where the coverage period materially differs, the same is recognised in accordance with the ratio of unexpired period of policy and the total period.

In addition to direct insurance, at times the Company also participates in risks under coinsurance from other companies and also accepts risks through reinsurance inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Company. Premium recognized against coinsurance policies is limited to the share of the Company only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Premium income includes administrative surcharge that represents documentation and other charges recovered by the Company from insurance contract holder in respect of policies issued, at the rate of 5% of the gross premium written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim liability against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the insurance contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

b) Marine, aviation and transport insurance:

i) Insurance risks and events insured

Marine, aviation and transport insurance contracts generally provide cover against one or more of the following: cargo risk, war risk and damages occurring during transit between the points of origin and final destination according to the terms and conditions of the policy.

ii) Revenue recognition policy

Premium income is recognized over the period of insurance from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, evenly over the period of the policy and for proportional reinsurance business, evenly over the period of underlying insurance policies. Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of the incidence of risk. Premiums for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross premium underwritten is adjusted against the unearned premium reserves / liabilities existing at each reporting date to determine the net premium underwritten during the year.

Since majority of policies are for three months period, premium written during last three months of the financial year, is taken to the provision for unearned premium at the reporting date by using 1/6th method.

In addition to direct insurance, at times the Company also participates in risks under coinsurance from other companies and also accepts risks through reinsurance inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Company. Premium recognized against coinsurance policies is limited to the share of the Company only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Premium income includes administrative surcharge that represents documentation and other charges recovered by the Company from insurance contract holder in respect of policies issued, at the rate of 5% of the gross premium written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the insurance contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

c) Motor insurance:

i) Insurance risks and events insured

Motor insurance contracts provide indemnity against one or more of the following: total or partial loss of vehicle, third party loss and other comprehensive car coverage, etc. according to the terms and conditions of the policy.

ii) Revenue recognition policy

Premium income is recognized over the period of insurance from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, evenly over the period of the policy and for proportional reinsurance business, evenly over the period of underlying insurance policies. Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of the incidence of risk. Premiums for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross premium underwritten is adjusted against the unearned premium reserves / liabilities existing at each reporting date to determine the net premium underwritten during the year.

Since majority of policies are for one year, the Company maintains its provision for unearned premium by applying the 1/24th method as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017.

In addition to direct insurance, at times the Company also participates in risks under coinsurance from other companies and also accepts risks through reinsurance inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Company. Premium recognized against coinsurance policies is limited to the share of the Company only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Premium income includes administrative surcharge that represents documentation and other charges recovered by the Company from insurance contract holder in respect of policies issued, at the rate of 5% of the gross premium written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the insurance contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

d) **Miscellaneous insurance:**

i) **Insurance risks and events insured**

All other insurances like crop, cash in hand, cash in transit, personal accident, infidelity, public liabilities, livestock, travel, bankers and other financial institutions packages, product liabilities, professional indemnity, mobilization and performance bonds, workers compensation etc. are included under miscellaneous insurance cover.

ii) **Revenue recognition policy**

Premium income is recognized over the period of insurance from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, evenly over the period of the policy and for proportional reinsurance business, evenly over the period of underlying insurance policies. Where the pattern of incidence of risk varies over the period of the policy, premium is recognized as revenue in accordance with the pattern of the incidence of risk. Premiums for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross premium underwritten is adjusted against the unearned premium reserves / liabilities existing at each reporting date to determine the net premium underwritten during the year.

In addition to direct insurance, at times the Company also participates in risks under coinsurance from other companies and also accepts risks through reinsurance inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Company. Premium recognized against coinsurance policies is limited to the share of the Company only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Premium income includes administrative surcharge that represents documentation and other charges recovered by the Company from insurance contract holder in respect of policies issued, at the rate of 5% of the gross premium written restricted to a maximum of Rs. 2,000 per policy.

iii) **Claims recognition**

Claim against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the insurance contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

Detailed accounting policies for recording and measurement of reinsurance contracts held, receivables / payables related to insurance contracts and provision for outstanding claims including Incurred But Not Reported (IBNR) are mentioned in note 3.9, 3.10 and 3.20, respectively.

In addition to direct insurance, the Company also participates in risks under co-insurance contracts from other companies and also accepts risks through re-insurance inward by way of facultative acceptance on case to case basis provided such risks are within the underwriting policies of the Company. The nature of risk undertaken in these contracts is consistent with those stated above, in direct and other lead insurance contracts.

3.6 Deferred commission expense / acquisition cost

Deferred commission expense represents the portion of commission expense relating to the unexpired period of the insurance coverage at the reporting date. The same is amortized systematically, through the profit and loss account, over the reporting periods over which the related premium revenue is recognized. Accordingly, deferred commission expense is also effected by the judgement and estimates involved in the determination of premium revenue.

The Company maintains its provision for deferred commission expense by applying the 1/24th method on fire and property damage, motor and miscellaneous as stipulated in the Insurance Accounting Regulation, 2017 for non life insurance companies. In case of marine, commission expense relating to last three months is taken as deferred commission expense, consistent with 1/6th method above.

3.7 Unearned premium reserves

Provision for unearned premium represents the portion of premium written relating to the unexpired period of insurance coverage at the reporting date. The method selected by management involves judgement and estimates regarding the expected pattern of incidence of risk in relation to a particular type of policy. Majority of the insurance contracts entered into by the Company are for a period of 12 months. Policy for recognition of premium revenue is disclosed in note 3.13 to these financial statements.

The Company maintains its provision for unearned premium by applying the 1/24th method on fire and property damage, motor and miscellaneous as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017. However, in case of marine, premium written during last three months is taken as provision for unearned premium, consistent with 1/6th method above.

3.8 Premium deficiency reserve (liability adequacy test)

In order to comply with the requirements of section 34(2)(d) of the Insurance Ordinance, 2000, a premium deficiency reserve is maintained for each operating segment, where the unearned premium liability for any class of business is not adequate to meet the expected future liability, after re-insurance, for claims and other expenses, including reinsurance expense, commissions, and other underwriting expenses, expected to be incurred after the reporting date in respect of the policies in force at the reporting date, in that operating segment. The movement in the premium deficiency reserve is recorded as an expense / income as part of the underwriting results for the year.

An estimate of loss ratios for the expired period is carried out, at each operating segment level, keeping in view historical claim development and experience during the expired period of the contracts. Where ratios are adverse, an assessment is made to determine if it is due to one off claim that are not expected to recur during the remaining period of the policies and expectations of future events that are believed to be reasonable. If determined to be inadequate, a deficiency in premium is recognized in the current reporting period. The loss ratios for the current and prior year are as follows:

	Loss ratios based on current estimated of known claims	
	2019	2018
Fire and property damage	7%	11%
Marine, aviation and transport	25%	28%
Motor	36%	36%
Miscellaneous	45%	45%

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 claims and other expenses, expected to be incurred after the statement of financial position date in respect of policies in those classes of business in force at the statement of financial position date. Hence, no reserve for the same has been made in these financial statements.

3.9 Reinsurance contracts held

The Company enters into reinsurance contracts with reinsurance companies by arranging treaty reinsurance, whereby certain agreed proportion of risks are shared with the participating companies, hence higher underwriting capacity with larger spread becomes available. Depending upon the nature and / or size of the risk at times reinsurance of excess of capacity is also placed on case to case basis under facultative reinsurance arrangement. The Company also accepts facultative reinsurance from other local insurance companies provided the risk meets the underwriting requirements of the Company.

The risks undertaken by the Company under these contracts for each operating segment are stated in note 3.11 to the financial statements.

The benefits to which the Company is entitled under reinsurance contracts held are recognized as reinsurance assets. These assets include reinsurance receivables as well as receivables that are dependent on the expected claims and benefits arising under the related reinsured contracts.

Reinsurance liabilities primarily include premium payable and commission payable (in case of facultative acceptance). Reinsurance assets and liabilities are measured consistently with the terms of the underlying reinsurance contracts.

Reinsurance assets and liabilities are derecognized when the contractual rights are extinguished or expired. Furthermore, reinsurance assets are not offset against related insurance liabilities.

Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligation to its policyholders.

Premium ceded to reinsurers is recognized as follows:

a) for reinsurance contracts operating on a proportional basis, a liability to the reinsurer is recognized on attachment of the underlying policies reinsured, while an asset is recognized for the unexpired period of reinsurance coverage at the reporting date as prepaid reinsurance premium ceded and the same is expensed over the period of underlying policies; and

b) for reinsurance contracts operating on a non-proportional basis, a liability is recognized on inception of the reinsurance contract, while an asset is recognized for the unexpired period of reinsurance coverage at the reporting date as prepaid reinsurance premium ceded and the same is expensed over the period of indemnity.

3.10 Receivables and payables related to insurance contracts

Insurance/reinsurance receivables and payables are recognized when due and carried at cost less provision for impairment. Cost is the fair value of the consideration to be received/paid in the future for services rendered/received. These include amounts due to and from agents, brokers, insurance contract holders and other insurance companies.

An assessment is made at each reporting date to determine whether there is objective evidence from external as well as internal sources of information that a financial asset or group of assets may be impaired i.e. recoverable amount at the reporting date is less than the earning amount of the asset. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized, in the profit and loss account, for the difference between the recoverable amount and the carrying amount. Provisions for impairment are reviewed at each reporting date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income or expense, in the profit and loss account for the period.

3.11 Segment reporting

The Company accounts for segment reporting based on the guidelines of the Insurance Accounting Regulations, 2017 and the operating segments as specified under the Insurance Ordinance, 2000 and the Insurance Rules, 2017, as the primary reporting format based on the Company's practice of internal reporting to the management on the same basis. The Company has determined its primary segments based on insurance risks covered under four types of insurance contracts as stated in note 3.5, to these financial statements.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

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

3.12 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments along with any short term finance borrowing arrangement carried out with banks.

3.13 Revenue recognition

a) Premium income earned

Premium income under an insurance contract is recognized over the period of insurance from the date of the issue of the policy/cover note to which it relates to its expiry as detailed in note 3.7 to the financial statements.

b) Commission income

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

c) Investment income

Following are recognized as investment income:

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

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

d) Dividend income and bonus shares

Dividend income and entitlement of bonus shares are recognized when the right to receive such dividends and bonus shares is established.

e) Rent and other income

Rental and other income is recognized on accrual basis.

f) Administrative surcharge

Administrative surcharge includes documentation and other charges recovered by the Company from insurance contract holders in respect of insurance policies issued, at a rate of 5% of the gross premium, restricted to a maximum of Rs 2,000 in case of all insurance contracts. Administrative surcharge is recognized as revenue at the time of issuance of policy.

For the purpose of these financial statements, administrative surcharge is included in gross premiums written during the year.

3.14 Provisions

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

3.15 Taxation

Income tax comprises current and deferred tax. Income tax is recognized in the profit and loss account except to the extent that relates to items recognized directly in equity or other comprehensive income, in which case it is recognized directly in equity or other comprehensive income.

Current tax

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

Deferred tax

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

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in the profit and loss account, except in the case of items credited or charged to other comprehensive income or equity in which case it is included in other comprehensive income or equity, as applicable.

3.16 Staff retirement benefits

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

3.16.1 Defined contribution plan

There is an approved contributory provident fund for all permanent employees. Equal monthly contributions are made by the company and employees to the fund, at the rate of 10% of basic salary. Contributions made by the company are recognized as expense. The Company has no further payment obligations once the contributions have been paid. Obligation for contributions to defined contribution plan is recognized as an expense in the profit and loss account as and when incurred.

3.16.2 Defined benefit plan

There is an approved Gratuity Fund for all of its permanent employees. Retirement benefits are payable to staff on resignation, retirement or termination from service, subject to completion of prescribed qualifying period of service under the scheme.

The latest actuarial evaluation was carried out as at December 31, 2019 using the "Projected Unit Credit Method". Amounts arising as a result of 'Remeasurements', representing the actuarial gains and losses and the difference between the actual investment returns and the return implied by the net interest cost are recognized in the statement of financial position immediately, with a charge or credit to 'Other Comprehensive Income' in the periods in which they occur.

The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. When the calculation results in a potential asset for the Company, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

Actuarial gains or losses are recognized in other comprehensive income when they occur. Amounts recorded in profit and loss account are limited to current and past service costs, gains or losses on settlements and net interest income (expense).

3.17 Impairment

An assessment is made at each statement of financial position date to determine whether there is objective evidence that a financial asset or group of assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized, in the profit and loss account, for the difference between the recoverable amount and the carrying amount. Provisions for impairment are reviewed at each statement of financial position date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income or expense.

The carrying amount of non financial assets is reviewed at each statement of financial position date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such asset is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

In the case of reinsurance assets, if an event occurs before or after the statement of financial position date, that gives rise to a reasonable and measurable probability that the amounts recoverable from any of the counter parties to the reinsurance contract are not recoverable, in whole or in part, an impairment loss is charged to profit for the year.

3.18 Dividend distribution

Dividend is recognized as a liability in the period in which it is declared and approved. Appropriations of profit are reflected in the statement of changes in equity in the period in which such appropriations are approved.

3.19 Management expenses

Expenses of management include both directly and indirectly attributable expenses allocated to various classes of business / operating segments on the basis of gross premium written. Management judgement is involved in determining the nature of expenses that are not allocable to the underwriting business and based thereon are classified as other expenses.

Allocation of management expenses effects the underwriting results of the operating segments, as disclosed in relevant note to these financial statements.

3.20 Provision for outstanding claims including Incurred But Not Reported (IBNR)

The Company recognizes a liability in respect of all claims incurred up to the reporting date which is measured at the undiscounted value of the expected future payments. The claims are considered to be incurred at the time of the incident giving rise to the claim except as otherwise expressly indicated in an insurance contract. The liability for claims includes amounts in relation to unpaid reported claims, IBNR and expected claim settlement costs.

Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date, whether reported or not. The Company engages an actuary to estimate the IBNR as per the SECP Circular No. 9 of 2016, "SEC guidelines for estimation of Incurred but not Reported claim reserve, 2016".

The Guidelines require that estimation for provision for claims incurred but not reported for each class of business, by using prescribed method "Chain Ladder Method" and other alternate method as allowed under the provisions of the Guidelines. The Chain Ladder Method involves determination of development factors or link ratios for each period. These are then subsequently combined to determine Cumulative Development Factor (CDF) which represents the extent of future development of claims to reach their ultimate level to derive an IBNR estimate.

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the retakaful recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance arrangements.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and contribution deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of reporting date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

3.21 Reinsurance recoveries against outstanding claims

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

3.22 Provision for doubtful receivables

Receivables under insurance contracts are recognized when due, at the fair value of the consideration receivable less provision for doubtful debts, if any, provision for impairment of premium receivables is established when the chances of recovery are less. Receivables are also analyzed as per their ageing and accordingly provision is maintained on a systematic basis. The provision is made while taking into consideration of expected recoveries, if any.

3.23 Unearned reinsurance commission

Unearned commission income from the reinsurers represents the portion of income relating to the unexpired period of coverage and is recognized as a liability.

3.24 Creditors and accruals

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

3.25 Loan to employees

These are recognized at cost, which is the fair value of the consideration given.

3.26 Foreign currency translation

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

3.27 Financial assets

3.27.1 Classification

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held to maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. Loans and receivables comprise insurance/reinsurance receivables, loans, advances, deposits and other receivables, reinsurance recoveries against outstanding claims and cash and bank balances in the statement of financial position.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the statement of financial position date.

c) Held-to-maturity

Investments with fixed maturity, that the management has the intent and ability to hold till maturity are classified as held-to-maturity and are initially recognized at cost being the fair value of consideration given and include transaction costs.

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

In case of fixed income securities redeemable at a given date where the cost is different from the redemption value, such difference is amortized uniformly over the period between the acquisition date and the date of maturity in determining 'cost' at which these investments are stated as per the requirements of the SEC (Insurance) Rules, 2002.

3.27.2 Recognition and measurement

All financial assets are recognized at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date; the date on which the Company commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. For investments having quoted price in active market, the quoted price represents the fair value. In other cases, fair value is measured using appropriate valuation methodology and where fair value cannot be measured reliably, these are carried at cost. Loans and receivables are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of profit or loss as part of other income when the Company's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of profit or loss as gains and losses from investment securities. Interest on available-for-sale investments calculated using the effective interest method is recognized in the statement of profit or loss. Dividends on available-for-sale equity instruments are recognized in the statement of profit or loss when the Company's right to receive payments is established.

The Company assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the statement of profit or loss. Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. Impairment testing of insurance/reinsurance receivables and other receivables is described in note 3.22.

3.27.3 Financial liabilities

All financial liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the statement of profit or loss.

3.27.4 Offsetting of financial assets and liabilities

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

3.28 Borrowings

Loans and borrowings from banks are recorded at the proceeds received. Finance charges are accounted for on an accrual basis and are included in creditors and accruals to the extent of the remaining unpaid amount.

3.29 Share capital

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

3.30 Investments

All investments are initially recognized at cost, being the fair value of the consideration given and include transaction costs. All investments in equity securities, debt securities and term deposits are accounted for under IAS-39 and based thereon can be classified into any of the following categories:

- Held to maturity; and
- Available for sale

i) Equity securities

Currently the company classifies investment in equity securities such as listed / unlisted shares in other companies, mutual fund units / investments, etc. as 'Available for sale'.

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as 'held to maturity' or 'investment at fair value through profit and loss account'. These investments are intended to be held for an indefinite period of time which may be sold in response to the need for liquidity, changes in interest rates, equity prices or exchange rates. Investments classified as 'available for sale' are initially measured at cost, being the fair value of consideration given.

At each subsequent reporting date, available for sale investments are remeasured at fair market value. Changes in fair market value are recognised in other comprehensive income / (loss) until derecognised or determined to be impaired. Gains / losses on derecognition and impairment losses / reversals are recognized in profit and loss account.

ii) Debt securities

The Company classifies its investment in debt securities as either 'Held to maturity' or 'Available for sale' depending upon the maturity of the investment.

Investments with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as 'held to maturity', while debt investments having an indefinite term / perpetual maturity are classified as 'available for sale'. These investments are initially measured at the cost being the fair value of consideration paid.

Subsequently 'held to maturity' investments are measured at amortized cost using the effective yield method. Any premium paid or discount availed on acquisition of held to maturity investments is deferred and included in the income for the period on a straight line basis over the term of investment. While 'available for sale' investments are remeasured at fair market value at each subsequent reporting date. Changes in fair market value, if any are recognised in other comprehensive income / (loss) until derecognised or determined to be impaired. Gains / losses on derecognition and impairment losses / reversals are recognized in profit and loss account.

The Company has classified debt investments in Pakistan Investment Bonds as 'Held to maturity' at the reporting date.

4 TEMPORARY EXEMPTION FROM APPLICATION OF IFRS 9 - FINANCIAL INSTRUMENTS

As allowed by the International Accounting Standards Board (IASB) the Company's management has opted for a temporary exemption from IFRS 9 on the basis that its activities are predominantly connected with insurance.

The Company qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance, with the carrying amount of its liabilities within the scope of IFRS 4 being greater than the required threshold of the total carrying amount of all its liabilities at December 31, 2015, and with no subsequent change in its activities that warrant a reassessment of the same.

"Furthermore, the amendment of IFRS 4 - Insurance Contracts requires entities to disclose the fair value at the end of the reporting period and the change in fair value during the period for groups of financial assets with contractual cash flows that are solely payments of principal and interest ('SPPI') and other financial assets separately. The fair value measurement of investments has been documented in note 37.1 and credit exposure of assets that pass the SPPI test has been documented in note 39.3 to these financial statements.

Security General Insurance Company Limited has assessed that the following financial asset have contractual cash flows that meet the SPPI criteria:

a) Investments in debt securities - Pakistan Investment Bonds
b) Insurance debtors and other short term receivables
c) Balances with banks

''The remaining financial assets held by the entity have contractual cash flows that do not represent solely payments of principal and interest. The group includes the following financial assets:

a) Investments in equity securities - Shares in listed / unlisted companies
b) Investments in equity securities - Mutual funds

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved financial reporting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continuously evaluated and are based on the historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both periods. The major areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Premium deficiency reserve (liability adequacy test) (note 3.8)
b) Provision for outstanding claims including, incurred but not reported claims (IBNR) (notes 3.20 and 25)
c) Provision for taxation and deferred tax (notes 3.15 ,19 and 32)
d) Provision for doubtful receivables (notes 3.22 and 12)
e) Useful lives of property and equipment and investment property (notes 3.2.1, 3.4, 6 and 8)
f) Defined benefit plan (notes 3.16.2 and 18)
g) Classification of investments and its impairment (notes 3.27.1,9 and 10)

		Note	2019	2018
			Rupees in thousand	
6	PROPERTY AND EQUIPMENT			
	Operating assets	6.1	145,332	120,118
	Capital work-in-progress - Advance to suppliers		-	-
			145,332	120,118

6.1 Operating assets

	2019							
	Cost			Accumulated depreciation			Written down value as at December 31	Depreciation rate %
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		
	----------Rupees in thousand----------							
Freehold land	22,672	-	22,672	-	-	-	22,672	0%
Buildings on freehold land	62,656	1,228	63,884	43,003	1,980	44,983	18,901	10%
Leasehold improvements	2,561	1,118	3,679	1,060	164	1,224	2,455	10%
Furniture and fixtures	10,381	2,158	12,474	4,904	627	5,494	6,980	10%
		(64)			(37)			
Office equipment	16,951	3,041	18,211	11,476	969	11,425	6,786	15%
		(1,781)			(1,020)			
Computer equipment	7,422	1,046	8,043	3,701	623	4,031	4,012	15%
		(424)			(294)			
Motor vehicles	109,388	40,658	142,735	47,770	15,700	59,209	83,526	20%
		(7,311)			(4,261)			
	232,031	49,249	271,698	111,914	20,063	126,366	145,332	
		(9,580)			(5,612)			

	2018							
	Cost			Accumulated depreciation			Written down value as at December 31	Depreciation rate %
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		
	----------Rupees in thousand----------							
Freehold land	22,672	-	22,672	-	-	-	22,672	0%
Buildings on freehold land	62,656	-	62,656	40,819	2,184	43,003	19,653	10%
Leasehold improvements	2,561	-	2,561	893	167	1,060	1,501	10%
Furniture and fixtures	9,542	839	10,381	4,363	540	4,903	5,478	10%
Office equipment	15,705	1,380	16,951	10,660	875	11,476	5,475	15%
		(134)			(59)			
Computer equipment	6,432	990	7,422	3,116	585	3,701	3,721	15%
Motor vehicles	94,537	27,879	109,388	43,958	12,280	47,770	61,618	20%
		(13,028)			(8,468)			
	214,105	31,088	232,031	103,809	16,631	111,913	120,118	
		(13,162)			(8,527)			

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended December 31, 2019

6.1.1 Disposal of Fixed Asset

Particulars of the assets	Particulars of buyer	2018 Cost	Book value	Sale proceeds	Mode of disposal
Vehicles		Rupees in thousand			
Honda CG-125	Ghulam Shabir Tahir	106	34	34	Company's policy
Daihatsu Move	Muhammd Ali Rashid	1,250	536	536	Company's policy
Suzuki Swift	Umer Haroon	1,345	450	450	Negotiation
Toyota Corolla	Rana Shahid Mahmood	1,524	728	750	Company's policy
Honda City	Muhammd Shoaib Baig	1,557	807	817	Company's policy
Honda CG-125	Muhammad Aamir Jamil	112	75	75	Company's policy
Honda CD- 70	Khwaja Muhammad Khursheed	73	23	25	Company's policy
Suzuki Swift	Muhammad Yahya Farooq	1,345	398	443	Company's policy
		7,311	3,051	3,130	
Office equipment					
Huawei Mate 10 Lite	Shahzaib Alam	15	13	5	Company's Policy
Samsung J7	Insurance Claim Recovered	35	25	26	Company's Policy
Samsung J7 Prime	Asif Shakoor	37	25	12	Company's Policy
Grand Prime	Mr. Fayyaz	40	16	3	Negotiation
Samsung Note 3	Qadeer Ahmed	77	30	7	Negotiation
Samsung Galaxy Note 8	Insurance Claim Recovered	115	94	98	Company's Policy
Office Furniture	Accounts Reclassification	20	243	5	Negotiation
J-7 Prime	Khalid Pervaiz	243	14	-	Reclassification
Oppo A-37	Muhammad Qasim	15	9	6	Company's Policy
Haier Split AC	Muhammad Shoaib	33	6	5	Negotiation
Split AC's	Mr. Abdullah	318	86	30	Negotiation
Photocopier Machine	Mr. Abdullah	51	18	8	Negotiation
Water Dispensor	Mr. Abdullah	9	2	3	Negotiation
Disposal Of Transformer	Wapda	774	181	50	Negotiation
		1,781	762	256	
Furniture & Fixtures					
Sale of 7 Chairs	Mr. Abdullah	30	10	2	Negotiation
Sale of 8 Chairs	Mr. Abdullah	34	17	2	Negotiation
		64	27	4	
Computers					
Sale of PCs	Wastech Computers	414	122	20	Negotiation
Dell Optiplex-790 C2D	Wastech Computers	10	9	9	Negotiation
		424	131	29	
		9,580	3,971	3,419	

Disposal of Fixed Asset

		2018			
Particulars of the assets	Particulars of buyer	Cost	Book value	Sale proceeds	Mode of disposal
Vehicles			Rupees in thousand		
Suzuki Swift	Asim Durrani	1,146	337	337	Company's policy
Suzuki Alto	Nazim Nawaz	984	321	321	Company's policy
Suzuki Alto	Jawad Bakali	665	200	250	Negotiation
Suzuki Swift	Mehmood ul Hassan	1,146	298	298	Company's policy
Suzuki Swift	Imran Sohail	1,107	315	315	Company's policy
Suzuki Alto	Akmal Shahbaz	788	242	242	Company's policy
Toyota Corolla Gli	Asif Shakoor	1,750	525	525	Company's policy
Mitsubishi Wagon	Muhammad Hairs	1,270	753	753	Company's policy
Suzuki Mehran	Muhammad Arshad	380	140	260	Company's policy
Suzuki Mehran	Muhammad Aamir Saeed	693	224	250	Company's policy
Corolla Altis	Naveed Hayat Tarar	2,300	1,092	1,093	Company's policy
Honda CD - 70	Rizwan Rafiq	66	10	24	Company's policy
Honda CD-70	Syed Rizwan Gillani	70	18	18	Company's policy
Honda CD-70	Sohail Zaman	73	30	30	Company's policy
Honda CG-125	Naveed Ahmed Khan	69	14	16	Company's policy
Suzuki Alto	Muhammad Amir	520	40	205	Company's policy
		13,027	4,559	4,937	
Office equipment					
Generator	Amjad Hussain	60	21	17	Negotiation
Samsung C7	Insurance claim recovered	35	27	31	Company's policy
Samsung Alpha	Insurance claim recovered	15	11	14	Company's policy
Samsung J5	Insurance claim recovered	15	10	5	Company's policy
Q-Mobile X700	Insurance claim recovered	10	7	3	Company's policy
		135	76	70	
		13,162	4,635	5,007	

6.1.2 The depreciation charge/expense for the year has been allocated to management expenses as disclosed in note 27.

6.1.3 The Company owns 2 buildings and the resulting area of land. First one is the Head Office situated at 18 C/E1 Gulberg 3, Lahore. The land for head office was purchased in 2004 and the Company shifted to this office in 2007.The second one is an office in Gujranwala, which was purchased in the year 2009. The building at Gujranwala is vacant at present. The amount of Gujranwala building is approx. Rs 1.6 million and Company is of the view that this building will be used for operating a corporate branch in future. The owned buildings are insured under insurance policy. The Company charges depreciation on building at the rate of 10% per annum.

		Note	2019	2018
			Rupees in thousand	
7	INTANGIBLE ASSETS			
	Capital work-in-progress		4,044	4,044

7.1 No amortization of intangible asset has been charged as it is under development.

8 Investment property

2019

	Cost			Accumulated depreciation			Written down value as at December 31	Deprecia-tion rate
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		%
	---Rupees in thousand---							
Freehold land	428,217	9,202	437,419	-	-	-	437,419	0%
Building	30,759	-	30,759	1,028	2,974	4,002	26,757	10%
	458,976	9,202	468,178	1,028	2,974	4,002	464,176	

2018

	Cost			Accumulated depreciation			Written down value as at December 31	Deprecia-tion rate
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		%
	---Rupees in thousand---							
Freehold land	-	428,217	428,217	-	-	-	428,217	0%
Building	-	30,759	30,759	-	1,028	1,028	29,731	10%
	-	458,976	458,976	-	1,028	1,028	457,948	

8.1 The depreciation charge/expense for the year has been allocated to management expenses as disclosed in note 27.

8.2 The market value of the investment property as per valuation carried out by professional valuer as at the year ended December 31, 2019 is Rs. 514.690 million (2018:Rs 466.099 million).

		Note	2019		2018	
			Cost	Carrying value	Cost	Carrying value
			Rupees in thousand			
9	**INVESTMENTS IN EQUITY SECURITIES**					
	Available-for-sale					
	Related parties					
	Listed shares	9.1	218,375	218,375	218,375	218,375
	Unlisted shares	9.2	2,057,352	2,057,352	960,620	960,620
			2,275,727	2,275,727	1,178,995	1,178,995
	Unrealized gain on revaluation			500,279		355,848
				2,776,006		1,534,843
	Others					
	Listed shares	9.3	8,639,691	8,639,691	8,345,884	8,345,884
	Mutual funds	9.4	460	460	460	460
			8,640,151	8,640,151	8,346,344	8,346,344
	Unrealized gain on revaluation			4,767,981		4,059,161
				13,408,132		12,405,505
	Total investments available-for-sale			16,184,138		13,940,348

9.1 Listed shares - related parties

Number of shares		Face value	Company's name	Cost		Market value	
2019	2018			2019	2018	2019	2018
				Rupees in thousand			
6,837,097	6,837,097	10	Lalpir Power Limited Equity held 1.8% (2018: 1.8%-note 8.1.1	92,720	92,720	99,206	112,880
6,407,796	6,407,796	10	Pakgen Power Limited Equity held 1.72% (2018: 1.72%)-note 8.1.1	88,900	88,900	117,391	109,189
228,500	228,500	10	D.G. Khan Cement Company Limited Equity held 0.05% (2018: 0.05%)	19,516	19,516	16,971	18,314
			Textile				
338,000	338,000	10	Nishat Chunian Limited Equity held 0.14% (2018: 0.14%)	17,239	17,239	14,416	16,420
				218,375	218,375	247,984	256,803

9.1.1 The investments include 500 shares of Pakgen Power Limited and 550 shares of Lalpir Power Limited held in the name of nominee director of the Company.

9.2 Unlisted shares - related parties

Number of shares		Face value	Company's name	Cost		Market value	
2019	2018			2019	2018	2019	2018
				Rupees in thousand			
111,821,737	71,062,000	10	Nishat Hotels and Properties Limited Equity held 11.65% (2018: 7.4%)-note 8.2.1	1,359,852	710,620	1,830,522	1,028,040
69,750,000	20,000,000	10	Hyundai Nishat Motors (Private) Limited Equity held 10% (2018: 10%)	697,500	200,000	697,500	200,000
N/A	N/A	N/A	Hyundai Nishat Motors (Private) Limited Advance against shares-note 9.2.2	-	50,000	-	50,000
				2,057,352	960,620	2,528,022	1,278,040

9.2.1 This represents investment in the ordinary shares of Nishat Hotels and Properties Limited ('NHPL') a related party (based on common directorship) which is principally engaged in establishing and managing a multi-purpose facility including a shopping mall, hotel and banquet halls in Johar Town, Lahore, by the name of Nishat Emporium. Since NHPL's ordinary shares are not listed, an independent valuer engaged by the Company has estimated a fair value of Rs 16.37 per ordinary share as at December 31, 2019 through a valuation technique based on discounted cash flow analysis of NHPL. Hence, it has been classified under level 3 of fair value hierarchy as further explained in note 38 to these financial statements. The fair value gain of Rs 153.250 million is included in the fair value loss recognised during the year in other comprehensive income.

The main level 3 inputs used by the Company are derived and evaluated as follows:

- Discount rate is determined using a capital asset pricing model to calculate a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to NHPL.
- Long term growth rate is estimated based on historical performance of NHPL and current market information for similar type of companies.

The significant assumptions used in this valuation technique are as follows:
- Discount rate of 12.21%.
- Long term growth rate of 4% for computation of terminal value.
- Annual growth in costs and revenues is linked to inflation at 5.25% per annum.

Sensitivity analyses

Sensitivity analysis of the significant assumptions used in the valuation technique are as follows:
If the discount rate increases by 1% with all other variables held constant, the fair value as at December 31, 2019 would decrease by Rs 400.856 million.
If the long term growth rate decreases by 1% with all other variables held constant, the fair value as at December 31, 2019 would decrease by Rs 205.828 million.
If inflation decreases by 1% with all other variables held constant, the fair value as at December 31, 2019 would decrease by Rs 14.69 million.

9.2.2 This represents advance amount paid to Hyundai Nishat Motors (Private) Limited against issue of shares. These shares were allotted to the Company subsequent to the year end dated January 19, 2019.

9.3 Listed shares - others

Number of shares		Face value	Company's name	Cost		Market value	
2019	2018			2019	2018	2019	2018
				Rupees in thousand			
			Banks				
59,136,076	57,588,876	10	MCB Bank Limited Equity held 4.99% (2018: 4.86%)-note 8.3.1	7,356,906	7,078,664	12,119,347	11,147,479
70,413	70,413	10	United Bank Limited Equity held 0.01% (2018: 0.01%)	11,126	11,126	11,583	8,635
			Insurance Companies				
27,771,587	27,771,587	10	Adamjee Insurance Company Limited. Equity held 7.93% (2018: 7.93%)-note 8.3.2	1,160,299	1,160,299	1,168,906	1,166,962
			Electricity				
30,000	30,000	10	Kohinoor Energy Limited Equity held 0.02% (2018: 0.02%)	578	578	1,212	1,109
			Oil and Gas				
599,998	499,999	10	Pakistan Petroleum Limited Equity held 0.002% (2018: 0.25%)	95,217	95,217	82,284	74,830
			Automobile Assembler				
228,500	-	10	Millat Tractors Limited Equity held 0.05% (2018: 0.00%)	15,565	-	18,385	-
				8,639,691	8,345,884	13,401,717	12,399,015

9.3.1 The Company holds 4.99% shareholding in MCB Bank Limited. In order that the Company is not considered as a sponsor of MCB Bank Limited, the Company had filed a writ petition in the Honourable Lahore High Court in 2010, Lahore to declare null and void the State Bank of Pakistan's BPRD Circular No 4 dated May 22, 2008 which requires a person(s) holding 5% or more of sponsor shares, acquired individually or in concert with his family members, group companies, subsidiaries and affiliates / associates, of a bank to be placed in a blocked account with Central Depository Company (CDC). The court has suspended the operation of the impugned circular and reserved its judgment after hearing the case. The management is confident that the outflow of financial resources as a result of the eventual outcome of the above matter is unlikely.

9.3.2 1,000,000 shares (2018: nil) of MCB Bank Limited are pledged with banks.

9.3.3 8,650,000 shares (2018: 6,050,000 shares) of Adamjee Insurance Company Limited are pledged with banks.

9.4 Mutual funds - others

Number of units		Face value	Company's name	Cost		Market value	
2019	2018			2019	2018	2019	2018
				Rupees in thousand			
53,565	53,565	100	JS Large Capital Fund	460	460	6,415	6,490
			MCB - Arif Habib Saving and				
				460	460	6,415	6,490

	Note	2019 Cost	2019 Carrying value	2018 Cost	2018 Carrying value
		Rupees in thousand			
10 INVESTMENTS IN DEBT SECURITIES					
Held to maturity - Government securities					
Pakistan Investment Bonds	10.1	69,673	69,673	74,607	74,607

10.1 This represents carrying amount of government securities placed as statutory deposit with the State Bank of Pakistan ('SBP') in accordance with the requirements of clause (a) of sub-section 2 of section 29 of the Insurance Ordinance, 2000.

	Maturity	Effective yield	2019	2018
			Rupees in thousand	
10.2 Particulars of debt securities are as follows :				
Pakistan Investment Bonds	18-Aug-21	12%	1,991	1,984
Pakistan Investment Bonds	22-Jul-20	12%	1,993	1,982
Pakistan Investment Bonds	19-Jul-22	12%	1,976	1,969
Pakistan Investment Bonds	09-Aug-28	9%	63,713	63,680
Pakistan Investment Bonds	03-Sep-19	12%	-	4,992
			69,673	74,607

10.1.1 Pakistan Investment Bonds

Face value	Type of security	Profit payment	Profit rate	Maturity date	Carrying value 2019	Carrying value 2018
					Rupees in thousand	
100	10 year Pakistan Investment Bond	Bi-annually	12.00%	18-Aug-21	1,991	1,984
100	10 year Pakistan Investment Bond	Bi-annually	12.00%	22-Jul-20	1,993	1,982
100	10 year Pakistan Investment Bond	Bi-annually	12.00%	9-Aug-28	1,976	1,969
100	10 year Pakistan Investment Bond	Bi-annually	6-months Kibor%+.5%	19-Jul-22	63,713	63,680
100	10 year Pakistan Investment Bond	Bi-annually	12.00%	3-Sep-19	-	4,992
					69,673	74,607

		Note	2019	2018
			Rupees in thousand	
11	**LOANS AND OTHER RECEIVABLES - CONSIDERED GOOD**			
	Receivable from related parties	11.1	5,168	60
	Accrued investment income		4,673	2,971
	Security deposit		6,858	3,566
	Loans to employees		1,010	931
	Other receivable	11.2	17,259	9,223
			34,968	16,751

11.1 This represents receivable from Hyundai Nishat Motor Private Limited, a related party (due to common directorship).

11.2 These include a receivable from takaful operations amounting to Rs 1.569 million (2018 : .423 million).

		Note	2019	2018
12	**INSURANCE/REINSURANCE RECEIVABLES**			
	Due from insurance contract holders - unsecured			
	- Considered good		1,221,472	1,056,905
	- Considered doubtful		62,183	57,823
		12.1	1,283,655	1,114,728
	Provision for impairment of receivables from insurance contract holders	12.2	(62,183)	(57,823)
			1,221,472	1,056,905
	Due from other insurer/reinsurer- unsecured			
	- Considered good		1,068,059	1,119,735
	- Considered doubtful		30,046	30,046
			1,098,105	1,149,781
	Provision for impairment of receivables from other insurer/ reinsurer	12.3	(30,046)	(30,046)
			1,068,059	1,119,735
			2,289,531	2,176,640

12.1 **This includes amounts due from the following related parties:**

	2019	2018
Nishat Mills Limited	1,581	2,705
Nishat Power Limited	134,495	123,899
Nishat Hospitality (Pvt) Limited	-	32
Nishat Dairy (Pvt) Limited	17	23
Nishat Hotels and Properties Limited	106	96
Nishat Linen (Pvt) Ltd	224	62
Nishat Paper Product Co. Ltd.	96	469
Nishat Agriculture Farming (Pvt) Ltd.	-	12
Nishat Real Estate Development Co. (Pvt) Ltd.	-	112
Nishat Developers (Pvt) Limited	6	6
D.G. Khan Cement Co. Ltd	49,401	42,418
Hyundai Nishat Motor (Private) Limited	44	-

	Note	2019	2018
		Rupees in thousand	
Pakistan Aviators & Aviation (Pvt) Ltd.		1	1
Pakgen Power Limited		370,858	337,265
Lalpir Power Limited		357,300	325,053
Nishat Spinning (Pvt) Ltd.		46	-
		914,175	832,153

Age analysis of the amounts due from related parties is as follows :

	1 year	More than 1 Year	2019	2018
	Rupees in thousand			
Nishat Mills Limited	1,557	24	1,581	2,705
Nishat Power Limited	129,892	4,603	134,495	123,899
Nishat Hospitality (Pvt) Limited	-	-	-	32
Nishat Dairy (Pvt) Limited	1	16	17	23
Nishat Hotels and Properties Limited	11	95	106	96
Nishat Linen (Pvt) Ltd	168	56	224	62
Nishat Paper Product Co. Ltd.	1	95	96	469
Nishat Agriculture Farming (Pvt) Ltd.	-	-	-	12
Nishat Real Estate Development Co. (Pvt) Ltd.	-	-	-	112
Nishat Developers (Pvt) Limited	-	6	6	6
D.G. Khan Cement Co. Ltd	45,973	3,428	49,401	42,418
Hyundai Nishat Motor (Private) Limited	44	-	44	-
Pakistan Aviators & Aviation (Pvt) Ltd.	-	1	1	1
Pakgen Power Limited	362,683	8,175	370,858	337,265
Lalpir Power Limited	348,697	8,603	357,300	325,053
Nishat Spinning (Pvt) Ltd.	-	46	46	-
	889,027	25,148	914,175	832,153

		Note	2019	2018
			Rupees in thousand	
12.2	**Provision for doubtful receivables from insurance contract holders**			
	Opening as at Jan 01		57,823	57,823
	Provision made during the year		4,360	-
	Balance as at December 31		62,183	57,823

	Note	2019	2018
		Rupees in thousand	
12.3 Provision for doubtful receivables from other insurer/reinsurer			
Opening as at Jan 01		30,046	24,857
Provision made during the year		-	5,189
Balance as at December 31		30,046	30,046
13 PREPAYMENTS			
Prepaid reinsurance premium ceded	13.1	1,148,842	1,003,893
Prepaid rent		598	612
Others		2,136	1,784
		1,151,576	1,006,289
13.1 Movement in prepaid reinsurance premium ceded			
As at January 01		1,003,893	769,414
Reinsurance premium ceded during the year		2,308,580	1,875,705
Reinsurance expense for the year		(2,163,631)	(1,641,226)
As at December 31		1,148,842	1,003,893
14 CASH AND BANK			
Cash and cash equivalent			
Cash in hand		6	11
Cash at bank			
Current accounts		23,832	25,877
Saving accounts	14.1	235,372	142,870
Deposit with SBP	14.2	9,350	64,350
		268,554	233,097
		268,560	233,108

14.1 The balance in savings accounts bears mark-up which ranges from 8.65% to 12.25% (2018: 2.39% to 8.65%) per annum.

14.2 This represents statutory deposit with the SBP in accordance with the requirements of clause (a) of sub-section 2 of section 29 of the Insurance Ordinance, 2000.

14.3 Cash and short term borrowing include the following for the purposes of the cash flow statement:

	Note	2019	2018
		Rupees in thousand	
Cash and cash equivalents		268,560	233,108
Short term borrowings	20	(193,228)	(194,876)
		75,332	38,232

		Note	2019	2018
			Rupees in thousand	
15	**WINDOW TAKAFUL OPERATIONS**			
15.1	**Operator's Fund**			
	Assets			
	Property and equipment		2,625	1,908
	Loans and other receivables		2,246	708
	Wakala fees receivable		27,023	3,949
	Deferred commission expense		9,956	3,053
	Cash and bank		39,326	45,224
	Qard-e-Hasna to Participants' Takaful Fund		5,000	-
	Takaful/retakaful receivables		11	-
	Total assets		86,187	54,842
15.2	**Total liabilities**		37,034	8,852
15.3	**Profit and loss account**			
	Wakala fee		21,065	2,024
	Other expenses		(534)	(869)
	Management expenses		(7,674)	(4,783)
	Commission expenses		(11,373)	(1,105)
	Other income		1,679	723
	Profit / (Loss) for the year		3,163	(4,010)

16 ORDINARY SHARE CAPITAL

16.1 Authorized share capital

2019	2018		2019	2018
Number of Shares			Rupees in thousand	
100,000,000	100,000,000	Ordinary shares of Rs 10 each	1,000,000	1,000,000

16.2 Issued, subscribed and paid up share capital

2019	2018		2019	2018
68,062,500	68,062,500	Ordinary shares of Rs 10 each fully paid in cash	680,625	680,625

16.2.1 10,226,244 (2018: 10,226,244) ordinary shares of the Company are held by Nishat Mills Limited (the 'Investor', Company being its associate under IAS 28). Nishat Mills Limited is an Investor as per International Accounting Standard ('IAS') 28, 'Investments in Associates and Joint Ventures.

16.2.2 There has been no movement in share capital of the Company.

		Note	2019	2018
			Rupees in thousand	
17	Reserves			
	Capital reserve			
	Fair value reserve	17.1	3,740,464	3,311,257
	Revenue reserve			
	General reserve		2,000	2,000
			3,742,464	3,313,257

17.1 This represents unrealized gain on re-measurement of available-for-sale investments at fair value and is not available for distribution. This shall be transferred to profit and loss account on de-recognition of investments.

18 Retirement benefit obligations

18.1.1 Salient features

The Company offers an approved gratuity fund for all employees. Annual contributions are made to the fund on the basis of actuarial recommendations. The gratuity is governed under the Trust Act, 1882, the Trust Deed and the Rules of the Fund, the Income Tax Ordinance, 2001 , the Income Tax Rules, 2002 and the applicable local regulations. An actuarial valuation is carried out every year to determine the liability of the Company in respect of the benefit. The most recent valuation in this regard has been carried out as at December 31 , 2019 using the Projected Unit Credit (PUC) Actuarial Cost Method as allowed under the International Accounting Standard (lAS) 19-'Employee Benefits' for valuation of the Fund.

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

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

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

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

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

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

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

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

			2019	2018
18.1.2	**Principal actuarial assumptions**			
	Valuation discount rate		13.75%	13.75%
	Valuation discount rate for statement of comprehensive income		11.75%	13.75%
	Salary increase rate - short term		10.75%	12.75%
	Salary increase rate - long term		10.75%	12.75%
	Normal retirement age		60	60
	Withdrawal rate		Moderate	Moderate
	Mortality rate		SLIC 2001 - 2005	SLIC 2001 - 2005
	Net salary increase date		01/01/2019	01/01/2019
	Duration of plan		10 years	11 years
18.1.3	**The amounts recognized in statement of financial position are as follows:**			
	Reconciliation			
	Present value of defined benefit obligations	18.1.4	42,929	35,523
	Fair value of plan assets	18.1.5	(37,098)	(30,339)
	Net payable to defined benefit plan		5,831	5,184
	Opening balance of payable		5,184	4,485
	Expense recognized		4,782	4,075
	Contributions to the fund during the year		(5,184)	(4,485)
	Recognition in other comprehensive income - net		1,049	1,109
	Closing balance of payable		5,831	5,184

	Note	2019	2018
		Rupees in thousand	
18.1.4 Movement in the present value of defined benefit obligations is as follows;			
Present value of obligations as at January 01		35,523	28,448
Current service cost		4,426	3,861
Interest cost		4,838	2,685
Benefits paid		(672)	(378)
Actuarial (gain)/losses from changes in financial assumptions		(206)	384
Experience adjustments		(980)	523
Present value of defined benefit obligations as at December 31		42,929	35,523
18.1.5 Movement in the fair value of plan assets is as follows;			
Fair value of plan assets as at January 01		30,339	23,963
Contribution made to the fund during the year		5,184	4,485
Interest income on plan assets		4,482	2,472
Benefits paid		(672)	(378)
Return on plan assets, excluding interest income		(2,235)	(203)
Fair value of plan assets as at December 31		37,098	30,339
18.1.6 Composition of plan assets			
Fair value of investments		25,469	25,142
Cash at bank		11,629	5,197
Fair value of plan assets as at December 31		37,098	30,339

18.1.7 Charge for the year

The following amounts have been charged to the profit and loss account in respect of defined benefit plan:

	2019	2018
Current service cost	4,426	3,861
Interest cost on defined benefit obligations	4,838	2,685
Interest income on plan asset	(4,482)	(2,472)
	4,782	4,075

		Note	2019	2018
			Rupees in thousand	
18.1.8	**Recognition in other comprehensive income**			
	The following amounts have been recognized in other comprehensive income:			
	Experience adjustments		(980)	523
	Actuarial (gains)/losses from changes in financial assumptions		(206)	384
	Return on plan assets, excluding interest income		2,235	203
			1,049	1,109

		Discount rate + 100 bps	Discount rate - 100 bps	Salary increase rate + 100 bps	Salary increase rate - 100 bps
		Rupees in thousand			
18.1.9	**Sensitivity analysis**				
	Year end sensitivity analysis (±100 bps) on present value of defined benefit obligations is as follows:				
		38,710	47,831	47,898	38,580

18.1.10 The Company expects to pay Rs 5.83 million in contributions to defined benefit plan during the year ending December 31, 2019.

		2019	2018	2016	2015	2014
		-------------------Rupees in thousand-------------------				
18.1.11	**5 year historical data on the deficit of defined benefit plan is as follows:**					
	Present value of defined benefit obligations	42,929	35,523	28,448	22,427	20,635
	Fair value of plan assets	(37,098)	(30,339)	(23,963)	(17,411)	(19,806)
	Deficit	5,831	5,184	4,485	5,016	829
	Experience adjustments					
	(Loss) / gain on plan assets (as percentage of plan assets)	6.02%	-1.00%	1.00%	0.00%	0.00%
	(Gain) / loss on obligations (as percentage of obligations)	2.00%	1.00%	2.00%	5.00%	-15.00%

18.2 Defined contribution plan - provident fund

The Company has set up a provident fund for its permanent employees and contributions were made by the Company to the Trust in accordance with the requirements of Section 218 of the Companies Act, 2017. The total charge against provident fund for the year ended December 31, 2019 was Rs 5.6 million . The net assets based on unaudited financial statements of Provident Fund as at December 31, 2019 are Rs 43.3 million out of which 91.20% are invested in different financial instruments categories as provided in Section 218 of the Companies Act, 2017 and the rules formulated therein. The above investments out of provident fund have been made in accordance with the requirements of Section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

	Un-audited			
	2019		2018	
	Rupees in thousand	% of investment	Rupees in thousand	% of investment
Investment in Government securities	19,547	49%	19,578	60%
Bank balances	10,764	28%	4,648	15%
Mutual funds	9,180	23%	8,232	25%
	39,491	100%	32,458	100%

	2019	2018
	Number of employees	
18.3 Staff strength		
Number of employees as at December 31	157	136
Average number of employees during the year	147	136
19 DEFERRED TAXATION		
Deferred debits arising in respect of:		
Provision for doubtful receivables - insurance / reinsurance receivables	26,746	25,482
Deferred credits arising due to:		
Accelerated tax depreciation	6,056	4,490
Unrealized gain on remeasurement of investment	1,528,257	1,103,752
	1,534,313	1,108,242
	1,507,567	1,082,760
20 BORROWINGS		
Bank loans:		
Running finance	193,228	44,876
Short term advance	-	150,000
	193,228	194,876

'The total running finance facility obtained from Habib Bank Limited under mark-up arrangement aggregates to Rs 300 million (2018: Rs 300 million). Such facility has been obtained at mark-up rate ranging from three months KIBOR plus fixed spread of 1.50% per annum, payable quarterly, on the balance outstanding. The facility is secured against pledge of 8.65 million shares of Adamjee in favor of HBL as security. The mark-up rate charged during the year on the outstanding balance ranged from 12.05% to 15.35% (2018: 7.66% to 10.38) per annum. Sub facility comprises of Short term advance which has a limit of Rs 200 million. However it has not been utilized as at December 31, 2019. Furthermore the company has also arranged another running finance facility from Habib Metro Bank Limited amounting to Rs 300 million. It has been obtained at mark-up rate ranging from 3 months kibor plus fixed spread of 1.25% payable quarterly. The facility is secured against the pledge of 1 million shares of MCB Bank Limited.

21 INSURANCE / REINSURANCE PAYABLE

This represents amounts due to insurers/reinsurers.

	Note	2019	2018
		Rupees in thousand	
22 OTHER CREDITORS AND ACCRUALS			
Agent commission payable		191,976	122,207
Federal excise duty / sales tax		9,836	9,813
Federal insurance fee		690	675
Accrued expenses		33,032	25,342
Other tax payable		2,737	1,565
Cash margin		80,372	45,355
Leave encashment payable		7,886	6,862
Provident fund payable	18.2	892	829
Mark-up accrued on finances under mark-up arrangements		7,052	279
Others		79,956	34,723
		414,429	247,650

23 CONTINGENCIES AND COMMITMENTS

a) Contingencies

23.1 The company is contingently liable for Rs 5.858 million (2018: Rs 7.083 million) on account of claims lodged against the company but not acknowledged as debts. The management, based on advice of the legal counsels, is confident that the outcome of the cases is likely to be in favour of the company.

23.2 Guarantee issued by Habib Metro Bank Limited on behalf of the company, fixed at GBP 5,000 amounting to Rs 1.017 million (2018: Rs 0.828 million).

23.3 For tax years 2009 and 2011 to 2014, the tax authorities raised an aggregate demand of Rs 664.953 million that primarily pertains to rate of tax on dividend income. The Company had filed appeals before Appellate Tribunal Inland Revenue('ATIR') against the above demands and ATIR decided the case in the favour of the Company. However, the Commissioner Inland Revenue has filed a petition against the order of ATIR in Honorable Lahore High Court and the case is now pending adjudication. The Company has not made any provision in these financial statements against the above demands as the management is confident that the ultimate outcome of the appeals would be in favour of the Company, inter alia on the basis of the advice of the legal counsel and the relevant law and the facts.

b) Commitments

These represent commitments arising from short-term and immaterial leases recognised on a straight-line basis as expense under the practical expedients applied by the Company with respect to IFRS-16. The amount of future payments under these operating leases and the period in which these payments will become due are as follows:

	31, December 2019	31, December 2018
	Rupees in thousand	
Not later than one year	5,144,918	2,598,662
	5,144,918	2,598,662

		Note	2019	2018
			Rupees in thousand	
24	**NET INSURANCE PREMIUM**			
	Written gross premium		3,121,741	2,495,889
	Unearned premium reserve opening		1,296,132	1,041,058
	Unearned premium reserve closing		(1,558,246)	(1,296,132)
	Premium earned		2,859,627	2,240,815
	Reinsurance premium ceded		(2,308,580)	(1,875,705)
	Prepaid reinsurance premium opening		(1,003,893)	(769,414)
	Prepaid reinsurance premium closing		1,148,842	1,003,893
	Reinsurance expense		(2,163,631)	(1,641,226)
			695,996	599,589
25	**NET INSURANCE CLAIMS**			
	Claims paid		437,968	470,470
	Outstanding claims including IBNR-closing	25.1 & 25.2	1,176,065	964,731
	Outstanding claims including IBNR-opening		(964,731)	(1,111,319)
	Claims expense		649,302	323,882
	Reinsurance and other recoveries received		(346,870)	(398,471)
	Reinsurance and other recoveries in respect of outstanding claims - closing		(1,006,088)	(814,128)

	Note	2019	2018
		Rupees in thousand	
Reinsurance and other recoveries in respect of outstanding claims - opening		814,128	971,912
Reinsurance expense		(538,830)	(240,687)
		110,472	83,195

25.1 Claim development note

The following table shows the development of fire, marine, motor and others including miscellaneous claims compared to the last four years. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments.

Accident year	2015	2016	2017	2018	2019
	-------------------Rupees in thousand-------------------				
Estimate of ultimate claims costs:					
At the end of accident year	1,781,426	421,180	612,367	504,940	749,598
One year later	3,656,854	383,941	510,900	473,892	-
Two years later	3,649,493	366,782	509,361	-	-
Three years later	3,643,705	368,230	-	-	-
Four years later	3,636,419	-	-	-	-
Current estimate of cumulative claims	3,636,419	368,230	509,361	473,892	749,598
Cumulative payments to date	(3,433,874)	(298,451)	(448,915)	(318,213)	(254,238)
Liability recognized in the statement of financial position	202,545	69,779	60,446	155,679	495,360

	Note	2019	2018
		Rupees in thousand	
25.2 This includes the following related parties balances:			
Name			
Nishat Mills Limited (Investor)		5,491	2,026
Nishat Power Limited (due to common directorship)		457	82,865
Nishat Hospitality (Pvt.) Limited (due to common directorship)		39	8
Nishat Dairy (Pvt.) Limited (due to common directorship)		129	20
Nishat Hotels and Properties Limited (due to common directorship)		162	21,220
Nishat Paper Product Company Limited (due to common directorship)		3,506	8

	Note	2019	2018
		Rupees in thousand	
D.G. Khan Cement Company Limited (other related party)		6,469	4,009
Hyundai Nishat Motor (Private) Limited		29,968	-
Pakistan Aviators & Aviation (Pvt) Ltd.		569	-
Nishat (Chunian) Limited		345	-
Nishat Linen (Pvt) Limited		13	-
		47,148	110,156

26 NET COMMISSION EXPENSE

	2019	2018
Commission paid or payable	239,940	186,262
Deferred commission expense - opening	94,261	82,532
Deferred commission expense - closing	(110,933)	(94,261)
Net commission	223,268	174,533
Commission received or recoverable	(221,791)	(176,697)
Unearned reinsurance commission - opening	(80,758)	(71,125)
Unearned reinsurance commission - closing	92,208	80,758
Commission from reinsurers	(210,341)	(167,064)
	12,927	7,469

27 MANAGEMENT EXPENSES

	Note	2019	2018
Employee benefit cost	27.1	164,286	131,817
Travelling expenses		2,773	1,992
Advertisements and sales promotion		95	6
Printing and stationery		4,638	3,673
Depreciation on operating assets	6.1	20,063	16,631
Depreciation on investment property	8.1	2,973	1,028
Rent, rates and taxes		6,623	5,365
Legal and professional- business related		6,551	4,948
Electricity, gas and water		6,120	4,449
Entertainment		4,860	3,656
Vehicle running expenses		22,485	16,204
Office repairs and maintenance		7,588	5,015
Bank charges		1,858	2,562
Postages, telegrams and telephone		5,350	4,083
Annual supervision fee SECP		2,995	3,120
Provision for doubtful receivables	12.2 &12.3	4,360	5,189
Service charges		5,074	3,142
Miscellaneous		1,498	1,748
		270,190	214,628

27.1 Employee benefit cost

	2019	2018
Salaries, allowances and other benefits	153,879	125,709
Charges for post employment benefit plan- Gratuity	4,782	4,074
Charges for post employment benefit plan- Provident fund	5,625	2,034
	164,286	131,817

		Note	2019	2018
			Rupees in thousand	
28	**INVESTMENT INCOME**			
	Income from equity securities			
	Available-for-sale			
	Dividend income	28.1	1,028,353	984,316
	Income from debt securities			
	Held to maturity			
	Return on debt securities		9,440	6,660
	Net realized gains on investments		1,037,793	990,976
	Available-for-sale financial assets			
	Realized gains on:			
	- Equity securities		484	5,464
	Total investment income		1,038,277	996,440
	Reversal of impairment in value of available-for-sale securities			
	- Equity securities		-	-
	Investment related expenses		(1,062)	(1,359)
			1,037,215	995,081
	28.1 This includes dividend income from the following related parties:			
	D.G. Khan Cement Company Limited (other related party)		229	971
	Pakgen Power Limited (due to common directorship)		9,612	7,060
	Lalpir Power Limited (due to common directorship)		6,837	6,837
	Nishat Chunian Limited (due to common directorship)		1,352	-
			18,030	14,868
29	**OTHER INCOME**			
	Return on bank balances		48,297	20,344
	Gain on sale of operating assets		-	371
	Liabilities written back		-	6,226
	Miscellaneous		142	696
			48,439	27,637

		Note	2019	2018
			Rupees in thousand	
30	**OTHER EXPENSES**			
	Legal and professional fee other than business related		3,600	3,600
	Auditor's remuneration	30.1	3,225	2,829
	Donations		-	649
	Subscription		2,821	2,122
	Insurance expense		2,661	2,212
	Professional charges		100	100
	Others		100	405
			12,507	11,917
	30.1 Auditor's remuneration			
	Fee for statutory audit		990	825
	Fee for interim review		445	355
	Fee for audit of gratuity fund		103	64
	Special certifications and sundry advisory services		295	289
	Tax services		1,260	1,071
	Out of pocket		132	225
			3,225	2,829
31	**FINANCE COSTS**			
	Markup on running finance		24,754	9,253
			24,754	9,253
32	**TAXATION**			
	For the year			
	Current		393,818	398,492
	Deferred		762	711
			394,580	399,203
	For prior years	32.1	-	38,804
	Current		394,580	438,007

32.1 This represents provision for super tax as per the rates specified in Division IIA of Part I of the First Schedule to the Income Tax Ordinance, 2001.

		2019 %	2018 %
32.2	**Relationship between tax expense and accounting profit**		
	Numerical reconciliation between the average effective tax rate and the applicable tax rate is as follows :		
	Applicable tax rate	29.00	29
	Effect of:		
	- Prior year tax	-	2.95
	- Super tax	-	1.99
	- Change in tax rate and others	0.11	(0.03)
	Effective tax rate	29.11	33.91

		2019	2018
		Rupees in thousand	
33	**EARNINGS PER SHARE**		
	Profit (after tax) for the year- Rupees in thousand	959,393	853,828
	Weighted average number of ordinary shares- Number	68,063	68,063
	Earnings per share - (basic / diluted)- Rupees	14.10	12.54

There is no dilutive effect on basic earnings per share.

34 COMPENSATION OF DIRECTORS AND EXECUTIVES

34.1 Aggregate amounts charged in the accounts for remuneration, including all benefits to Chief Executive Officer, Directors and Executives of the Company are as follows:

	Chief Executive		Directors		Executives	
	2019	2018	2019	2018	2019	2018
	Rupees in thousand					
Managerial remuneration	5,519	4,928	-	-	7,860	6,913
Leave encashment	690	616	-	-	982	864
Bonus	2,070	1,848	-	-	2,947	2,592
Charge for defined benefit plan	460	411	-	-	655	576
Contribution to defined contribution plan	552	493	-	-	786	691
Rent and house maintenance	2,208	1,971	-	-	3,144	2,765
Utilities	552	493	-	-	786	691
Medical	319	79	-	-	898	644
Others	1,000	910	-	-	2,410	2,168
Total	13,370	11,749	-	-	20,468	17,904
Number of persons	1	1	5	5	4	4

34.2 Executive means an employee, other than the Chief Executive and Directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year

34.3 Chief Executive and some of the executives of the Company are provided with Company maintained cars.

35 RELATED PARTY TRANSACTIONS

The related parties include the Investor, related parties on the basis of common directorship, group companies, key management personnel including directors and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables. Significant related party transactions have been disclosed in respective notes in these financial statements other than the following:

	Note	2019	2018
		Rupees in thousand	
Year end balances			
(i) Post employment benefit plans			
Payable to gratuity fund		5,831	5,184
Payable to provident fund		892	829
		6,723	6,013
(ii) Key management personnel			
Advances against salaries		310	259
Transactions during the year			
(i) Related parties based on common directorship			
Premium underwritten		1,161,926	954,406
Claims paid		68,233	77,704
Dividends paid		51,141	51,141
Payment in respect of services		5,009	755
		1,286,309	1,084,006
(ii) Post employment benefit plans			
Charge in respect of gratuity fund		4,782	4,074
Charge in respect of provident fund		5,625	4,988
Contribution to gratuity fund		5,184	4,485
Contribution to provident fund		11,251	10,080
		26,842	23,627
(iii) Key management personnel			
Employee benefits		38,038	27,839
Asset sold		-	1,405
Dividends paid		45,247	45,247

36 SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing services that are subject to risk and returns that are different from those of other business segments. The Company has identified four (2018: four) primary business segments for reporting purposes in accordance with the requirements of the Insurance Ordinance, 2000 and the Insurance Rules, 2017. These include fire, marine, aviation and transport, motor and miscellaneous class of business/operating segment. As per Insurance Rules, 2017, information for other segments under which business is less than 10%, is classified under miscellaneous class of operating/business segment.

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

	2019				
	Fire and property damage	Marine, aviation and transport	Motor	Miscellaneous	Total
	------------------------------ Rupees in thousand ------------------------------				
Premium receivable (inclusive of federal insurance fee, federal excise duty and administrative surcharge)	2,493,636	138,909	481,561	381,849	3,495,955
Federal excise duty	(249,294)	(14,045)	(49,157)	(38,623)	(351,119)
Federal insurance fee	(16,397)	(924)	(3,233)	(2,540)	(23,094)
Gross written premium (inclusive of administrative surcharge)	2,227,945	123,940	429,171	340,686	3,121,742
Gross direct premium	1,412,837	119,910	422,144	335,746	2,290,637
Facultative inward premium	810,337	-	-	-	810,337
Administrative surcharge	4,770	4,030	7,027	4,940	20,767
	2,227,944	123,940	429,171	340,686	3,121,741
Insurance premium earned	2,028,081	124,781	390,682	316,084	2,859,628
Insurance premium ceded to reinsurers	(1,616,130)	(92,184)	(183,075)	(272,243)	(2,163,632)
Net insurance premium	411,951	32,597	207,607	43,841	695,996
Commission income	102,128	32,333	43,704	32,177	210,342
Net underwriting income	514,079	64,930	251,311	76,018	906,338
Insurance claims	(340,817)	(8,920)	(169,181)	(130,384)	(649,302)
Insurance claims recovered from reinsurers	328,856	12,831	86,689	110,454	538,830
Net claims	(11,961)	3,911	(82,492)	(19,930)	(110,472)
Commission expense	(123,645)	(28,175)	(43,078)	(28,371)	(223,269)
Management expenses	(193,707)	(10,448)	(36,782)	(29,253)	(270,190)
Net insurance claims and expenses	(329,313)	(34,712)	(162,352)	(77,554)	(603,931)
Underwriting results	184,766	30,218	88,959	(1,536)	302,407

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended December 31, 2019

					2019 Rupees in thousand
Net investment income					1,037,215
Other income					48,439
Other expenses					(12,507)
Finance costs					(24,754)
Loss before taxation from window takaful operations - Operator's Fund					3,163
Profit before tax					1,353,963
Segment assets - Conventional	2,453,098	95,289	351,505	627,666	3,527,558
Segment assets - Takaful Operator's Fund	26,511	1,430	5,033	4,004	36,978
Unallocated assets - Conventional					18,206,581
Unallocated assets - Takaful Operator's Fund					49,209
					21,820,326
Segment liabilities - Conventional	2,026,843	61,338	363,950	646,734	3,098,865
Segment liabilities - Takaful Operator's Fund	26,551	1,432	5,042	4,009	37,034
Unallocated liabilities - Conventional					3,766,784
					6,902,683

	2018				
	Fire and property damage	Marine, aviation and transport	Motor	Miscellaneous	Total
	Rupees in thousand				
Premium receivable (inclusive of federal insurance fee, federal excise duty and administrative surcharge)	2,007,421	113,477	398,524	282,197	2,801,619
Federal excise duty	(186,293)	(12,636)	(53,877)	(34,282)	(287,088)
Federal insurance fee	(11,778)	(998)	(3,434)	(2,431)	(18,641)
Gross written premium (inclusive of administrative surcharge)	1,809,350	99,843	341,213	245,484	2,495,890
Gross direct premium	1,172,048	96,511	336,913	241,866	1,847,338
Facultative inward premium	632,809	-	-	-	632,809
Administrative surcharge	4,493	3,331	4,301	3,618	15,743
	1,809,350	99,842	341,214	245,484	2,495,890
Insurance premium earned	1,594,352	92,713	304,944	248,807	2,240,816
Insurance premium ceded to reinsurers	(1,221,386)	(68,605)	(136,607)	(214,629)	(1,641,227)
Net insurance premium	372,966	24,108	168,337	34,178	599,589
Commission income	84,129	22,725	30,220	29,991	167,065
Net underwriting income	457,095	46,833	198,557	64,169	766,654
Insurance claims	(63,197)	(7,299)	(133,915)	(119,471)	(323,882)
Insurance claims recovered from reinsurers	53,340	7,642	71,101	108,604	240,687
Net claims	(9,857)	343	(62,814)	(10,867)	(83,195)
Commission expense	(99,151)	(20,472)	(33,923)	(20,988)	(174,534)
Management expenses	(155,590)	(8,586)	(29,342)	(21,110)	(214,628)
Net insurance claims and expenses	(264,598)	(28,715)	(126,079)	(52,965)	(472,357)
Underwriting results	192,497	18,118	72,478	11,204	294,297

					2018 Rupees in thousand
Net investment income					995,081
Other income					27,637
Other expenses					(11,917)
Finance costs					(9,253)
Loss before taxation from window takaful operations - Operator's Fund					(4,010)
Profit before tax					1,291,835
Segment assets - Conventional	2,449,282	98,894	352,415	631,786	3,532,377
Segment assets - Takaful Operator's Fund	11,276	2,214	22,839	330	36,659
Unallocated assets - Conventional					15,939,562
Unallocated assets - Takaful Operator's Fund					39,502
					19,548,100
Segment liabilities - Conventional	1,612,989	76,356	301,966	517,871	2,509,182
Segment liabilities - Takaful Operator's Fund	6,639	620	1,416	177	8,852
Unallocated liabilities - Conventional					2,608,235
					5,126,269

As the operations of the company are carried out in Pakistan, information relating to geographical segment is not considered relevant.

36.1 Information about major customers

Included in the net insurance premium is premium from three (2018: three) customers of the Company from the fire and property damage (2018: fire and property damage) segment which represents approximately Rs 1,677.641 million (2018: Rs 782.965 million) of the Company's total gross premium written. The Company's revenue from other segments is earned from a large mix of customers.

	Held to maturity debt securities	Available-for-sale equity securities
	Rupees in thousand	
37 MOVEMENT IN INVESTMENTS		
At the beginning of previous year - January 1, 2018	75,032	16,968,488
Additions	64,000	700,640
Disposals (sale & redemptions)	(64,000)	(504,477)
Fair value net gains (excluding net realized gains)	-	(3,224,303)
Amortization of premium	(425)	-
At end of current year - Dec 31, 2018	74,607	13,940,348
At beginning of current year - January 1, 2019	74,607	13,940,348
Additions	200,000	1,390,539
Disposals (sale & redemptions)	(205,000)	-
Fair value net gains (excluding net realized gains)	-	853,249
Amortization of discount	66	-
At end of current year - December 31, 2019	69,673	16,184,136

37.1 Fair value measurement of financial instruments - IFRS 9

Following is the fair value of financial assets as on December 31, 2019 under IFRS 9 classifications and the change in their fair value during the year ended December 31, 2019:

	Financial instruments with contractual cash flows that meet the SPPI criteria, excluding those held for trading			Other financial instrument*
	Amortised cost	Fair value through OCI	Total	
	Rupees in thousand			
Pakistan Investment Bonds				
Opening fair value - December 31, 2018	74,607	-	74,607	-
Additions				
Unwinding on debt securities	66	-	66	-
Disposals	(5,000)	-	(5,000)	-
Closing fair value - December 31, 2019	69,673	-	69,673	-
Shares in listed / unlisted equity securities				
Opening fair value - December 31, 2018	-	-	-	13,933,858
Additions	-	-	-	1,390,539
Increase in fair value - net	-	-	-	853,326
Reversal of impairment	-	-	-	-
Disposals	-	-	-	-
Closing fair value - December 31, 2019	-	-	-	16,177,723
Mutual fund investments				
Opening fair value - December 31, 2018	-	-	-	6,490
Additions	-	-	-	200,000
Increase in fair value - net	-	-	-	(76)
Reversal of impairment	-	-	-	-
Disposals	-	-	-	(200,000)
Closing fair value - December 31, 2019	-	-	-	6,414

* Other financial instruments are measured at fair value through other comprehensive income.

38 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Underlying the definition of fair value is the presumption that the Company is a going concern and there is no intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

IFRS 13'Fair Value Measurement' requires the Company to classify fair value measurements and fair value hierarchy that reflects the significance of the inputs used in making the measurements of fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)

- Inputs other than quoted prices included within level 1 that are observable for the asset either directly (that is, derived from prices) (Level 2)

- Inputs for the asset or liability that are not based on observable market data (that is, unadjusted) inputs (Level 3)

Transfer between levels of the fair value hierarchy are recognized at the end of the reporting period during which the changes have occurred.

	Note	Carrying value					Fair value			
		Availa-ble-for- sale	Held to maturity	Receivables and other financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		Rupees in thousand								
As at December 31, 2019										
Financial assets										
Investments										
Equity securities		16,184,138	-	-	-	16,184,138	13,656,116	-	2,528,022	16,184,138
Debt securities		-	69,673	-	-	69,673	-	69,673	-	69,673
Loan and other receivables		-	-	34,968	-	34,968	-	-	-	-
Insurance/reinsurance receivables		-	-	2,289,531	-	2,289,531	-	-	-	-
Reinsurance recoveries againts outstanding claims		-	-	1,006,088	-	1,006,088	-	-	-	-
Salvage recoveries accrued		-	-	5,120	-	5,120	-	-	-	-
Cash and bank		-	-	268,560	-	268,560	-	-	-	-
Total assets from Window Takaful Operations - Operator's fund		-	-	86,187	-	86,187	-	-	-	-
		16,184,138	69,673	3,690,454	-	19,944,265	13,656,116	69,673	2,528,022	16,253,811
Financial liabilities										
Outstanding claims (including IBNR)		-	-	-	964,731	964,731	-	-	-	-
Retirement benefit obligation		-	-	-	5,184	5,184	-	-	-	-
Insurance/reinsurance payables		-	-	-	1,068,131	1,068,131	-	-	-	-
Other creditors and accruals		-	-	-	247,650	247,650	-	-	-	-
		-	-	-	2,285,696	2,285,696	-	-	-	-

	Note	Carrying value					Fair value			
		Available-for-sale	Held to maturity	Receivables and other financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
		Rupees in thousand								
As at December 31, 2018										
Financial assets										
Investments										
Equity securities		13,940,348	-	-	-	13,940,348	12,662,308	-	1,278,040	13,940,348
Debt securities		-	74,607	-	-	74,607	-	74,607	-	74,607
Term deposits		-	-	16,751	-	16,751	-	-	-	-
Loan and other receivables		-	-	2,176,640	-	2,176,640	-	-	-	-
Insurance/reinsurance receivables		-	-	814,128	-	814,128	-	-	-	-
Reinsurance recoveries againts outstanding claims		-	-	3,599	-	3,599	-	-	-	-
Salvage recoveries accrued		-	-	233,108	-	233,108	-	-	-	-
Cash and bank		-	-	54,842	-	54,842	-	-	-	-
		13,940,348	74,607	3,299,068	-	17,314,023	12,662,308	74,607	1,278,040	14,014,955
Financial liabilities										
Outstanding claims (including IBNR)		-	-	-	964,731	964,731	-	-	-	-
Retirement benefit obligation		-	-	-	5,184	5,184	-	-	-	-
Insurance/reinsurance payables		-	-	-	1,068,131	1,068,131	-	-	-	-
Other creditors and accruals		-	-	-	247,650	247,650	-	-	-	-
		-	-	-	2,285,696	2,285,696	-	-	-	-

Movement in the above mentioned assets has been disclosed in note 8 to these financial statements and movement in fair value reserve has been disclosed in the statement of changes in equity. There were no transfers between Levels 1 and 2 & Levels 2 and 3 during the year and there were no changes in valuation techniques during the years. Since the ordinary shares of Nishat Hotels and Properties Limited are not listed, an investment advisor engaged by the Company has estimated a fair value of Rs 16.37 per ordinary share as at December 31, 2019 through a valuation technique based on its discounted cash flow analysis. Hyundai Nishat Motor (Private) Limited's ordinary shares are also not listed and since its operations have not commenced as of the reporting date, management assesses the fair value of such investment equal to its cost. The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. Changes in level 2 and 3 fair values are analysed at the end of each reporting period during the annual valuation discussion between the Chief Financial Officer and the investment advisor. As part of this discussion, the investment advisor presents a report that explains the reason for the fair value movements.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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

39 MANAGEMENT OF INSURANCE AND FINANCIAL RISK

39.1 Insurance risk

The risk under any one insurance contract is the probability that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Company manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy aims to minimise insurance risks with a balanced mix and spread of business classes and by observing underwriting guidelines and limits. The Company underwrites mainly fire, marine, motor and other miscellaneous business. These classes of insurance are generally regarded as short term insurance contracts where claims are normally intimated and settled within a short time span. This helps to mitigate the insurance risk.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. For large risks, particularly in property segment of business, risk inspections are carried out before accepting the risks. Similarly, in case of large risks, annual renewals are also preceded by on-site surveys. Where needed, risk mitigation measures are identified and communicated to the clients to improve the risk to an acceptable level.

Reinsurance arrangements in place include treaty and facultative arrangements, on proportional and non-proportional basis and also include catastrophe cover. The effect of such reinsurance arrangements is that the Company may not suffer ultimate net insurance losses beyond the Company's risk appetite in any one year.

The Company's arrangement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor the operations of the Company are substantially dependent upon any single reinsurance contract. The Company obtains reinsurance cover only from companies with sound financial health.

39.1.1 Frequency and severity of claims

The frequency and severity of claims can be affected by several factors like political violence, environmental and economical, atmospheric disturbances, natural disasters, concentration of risks, civil riots etc. The Company manages these risk through the measures described above. The Company has limited its exposure to catastrophic and riot events by use of reinsurance arrangements.

Statement of Age-wise Breakup of unclaimed Insurance Benefits

Particulars	Age Wise Breakup					
	Total Amount	"1 to 6 Months"	"7 to 12 Months"	"13 to 24 Months"	"25 to 36 Months"	"Beyond 36 Months"
	-------------------Rupees in thousand-------------------					
Claims not encashed	9,402	6,498	1,061	475	522	846
Total	9,402	6,498	1,061	475	523	846

39.1.2 Concentration of insurance risk

The spread of risk is of extreme importance to optimize benefits. There are a number of parameters which are significant in assessing the accumulation of risks with reference to the geographical location. The Company measures concentration of insurance risk by class of business as summarized below:

	Gross aggregate exposure		Maximum reinsurance cover		Net	
	2019	2018	**2019**	2018	**2019**	2018
	-------------------Rupees in thousand-------------------					
Fire and property damage	819,963,249	591,755,475	782,824,290	549,617,524	37,138,959	42,137,951
Marine, aviation and transport	24,789,469	61,909,240	19,736,467	48,407,231	5,053,002	13,502,009
Motor	13,248,743	7,777,757	8,176,082	4,920,572	5,072,661	2,857,185
Others including miscellaneous	66,223,791	47,610,666	56,539,158	43,482,740	9,684,633	4,127,926
	924,225,252	709,053,138	867,275,997	646,428,067	56,949,255	62,625,071

For the analysis of insurance risk concentration in fire, marine, motor and miscellaneous segments, the shared characteristic has been taken as the territory (Pakistan). Cash outflows involved for settlement of incurred insurance liabilities may vary significantly as compared to the total contractual liabilities under insurance contracts. Historical data for such outflows is given below:

	Gross claims paid		Reinsurance recoveries		Net	
	2019	2018	2019	2018	2019	2018
	-------------------Rupees in thousand-------------------					
Fire and property damage	228,018	314,035	219,241	301,810	8,777	12,225
Marine, aviation and transport	12,262	12,680	8,479	9,237	3,783	3,443
Motor	153,293	116,791	80,701	62,087	72,592	54,704
Others including miscellaneous	44,394	26,965	38,449	25,337	5,945	1,628
	437,967	470,471	346,870	398,471	91,097	72,000

Risk assessment is carried out on a regular basis for the evaluation of physical hazards associated with commercial / industrial / residential occupation of the policy holders. Any one risk shall be defined to never be less than the property contained within an area which is separated from another property by sufficient distance to confine insured damage from uncontrolled fire and explosion under the most adverse conditions to that one area. Details regarding the fire separation / segregation with respect to manufacturing processes, storage, utilities, etc. are extracted from the layout plan of the insured facility. Reference is also made to the standard construction specifications as laid down by IAP (Insurance Association of Pakistan). For instance, the presence of Perfect Party Walls, Double Fire Proof Iron Doors, physical separation between the buildings within the insured's premises.

Concentration of various insurance risks, with reference to geocoding, are monitored through MIS reports generated from the IT system.

The Company follows a policy of obtaining sufficient reinsurance covers to mitigate the accumulation of risk in case of catastrophic events.

39.1.3 Reinsurance risk

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 reinsurer fails to meet the obligation under the reinsurance agreement.

In common with other insurance companies, in order to minimize the financial exposure arising from large claims, the Company in the normal course of business, enters into agreements with a panel of reinsurers for reinsurance purposes.

To minimize its exposure to significant losses from reinsurer insolvencies, the Company considers the credit rating of the reinsurers before finalizing treaty agreements with them every year. Furthermore, the Company obtains reinsurance from a number of reinsurers, who are dispersed over several geographical regions, to spread the concentration of its reinsurance risk to different geographical regions.

39.1.4 Sources of uncertainty in estimation of future claim payments

The key source of estimation uncertainty at the statement of financial position date relates to valuation of outstanding claims, whether reported or not, and includes expected claims settlement costs. Considerable judgment by management is required in the estimation of amounts due to policyholders arising from claims made under insurance contracts. Such estimates are necessarily based on assumptions about several factors involving varying and possibly significant degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities. Qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example one-off occurrence, changes in market factors such as public attitude to claiming and economic conditions. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the statement of financial position date and for the expected ultimate cost of claims incurred but not reported (IBNR) at the statement of financial position date. The details of estimation of outstanding claims (including IBNR) are given under note 3.20.

39.1.5 Process used to decide on assumptions

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. Each notified claim is assessed on a separate, case to case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available. Reinsurance recoveries against outstanding claims are recognized on occurrence of the related claim liability. These are recorded as an asset and measured at the amount expected to be received.

The Company engages an actuary to estimate the IBNR as per the SECP Circular No. 9 of 2016, "SEC guidelines for estimation of Incurred but not Reported claim reserve, 2016". The Guidelines require that estimation for provision for claims incurred but not reported for each class of business, by using prescribed Method "Chain Ladder method" and other alternate method as allowed under the provisions of the Guidelines. The Chain Ladder Method involves determination of development factors or link ratios for each period. These are then subsequently combined to determine Cumulative Development Factor (CDF) which represents the extent of future development of claims to reach their ultimate level to derive an IBNR estimate.

39.1.6 Changes in assumptions

There have been no changes in assumptions, and the same have been consistently applied.

39.1.7 Sensitivity analysis

The Company believes that the claim liabilities under insurance contracts outstanding at the year end are adequate. However, these amounts are not certain and actual payments may differ from the claims liabilities provided in the financial statements. The Company enters into short term insurance contracts, therefore, it does not assume any significant impact of changes in market conditions on unexpired risks. The risks associated with the insurance contracts are complex and subject to a number of variables which complicate the quantitative sensitivity analysis. However, some results of sensitivity testing are set out below, showing the impact on profit before tax (net of reinsurance) and shareholders' equity:

Particulars	Profit before taxation		Shareholders' equity	
	2019	2018	2019	2018
	Rupees in thousand			
Effect of 10% increase/(decrease) in amount of claims:				
Fire and property damage	1,251	986	888	700
Marine, aviation and transport	(327)	(34)	(232)	(24)
Motor	8,251	6,281	5,858	4,460
Miscellaneous	2,010	1,087	1,427	772
	11,185	8,320	7,941	5,908

39.2 Financial risk

Financial risk factors

The Company's activities expose it to a variety of financial risks, including the effects of changes in market interest rates such as KIBOR, credit and liquidity risk associated with various financial assets and liabilities, respectively, and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 20 to the financial statements. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Board of Directors (the Board) has overall responsibility for establishment and oversight of the companies risk management framework. There are management committees for developing and monitoring the risk management policies. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

The Company finances its operations through equity, borrowings and management of working capital. The Company's overall risk management procedures to minimise the potential adverse effects of financial market on the Company's performance are as follows:

(a) Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date, if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its receivables from other insurers/reinsurers, receivable from customers and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings.

Concentration of credit risk occurs when a number of counter parties have a similar type of business activities. As a result, any change in economic, political or other conditions would effect their ability to meet contractual obligations in similar manner. The Company's credit risk exposure is not significantly different from that reflected in the financial statements. The management assesses the credit quality of the customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. For banks and financial institutions, only independently rated parties with a strong credit rating are accepted. The management monitors and limits the Company's exposure to credit risk through monitoring of client's exposure and review and conservative estimates of provisions for doubtful assets, if any. The management is of the view that it is not exposed to significant concentration of credit risk as it's financial assets are adequately diversified in entities of sound financial standing, covering various industrial sector segments.

The Company monitors the credit quality of its financial assets with reference to historical performance of such assets and available external credit ratings. The carrying amount of financial assets represents the maximum credit exposure, as specified below:

	2019	2018
	Rupees in thousand	
Financial assets		
Cash and bank	268,560	233,108
Investments	16,253,811	14,014,955
Insurance/reinsurance receivables	2,289,531	2,176,640
Accrued investment income	4,673	2,971
Reinsurance recoveries against outstanding claims	1,006,088	814,128
Loans and other receivables	30,295	13,780
	19,852,958	17,255,582

As of December 31, 2019, premium due but unpaid and amount due from other insurers/ reinsurers of Rs 2,289.530 million (2018: Rs 2,176.640 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. An analysis of the age of premiums due but unpaid and amount due from other insurers/ reinsurers that are past due but not impaired is as follows:

	2019	2018
	Rupees in thousand	
- Up to one year	1,296,717	1,480,968
- Past one but less than three years	554,360	281,163
- Over three but less than five years	192,118	314,047
- More than five years	246,336	100,462
	2,289,531	2,176,640

The management estimates the recoverability of premium due but unpaid and amounts due from other insurers/reinsurers on the basis of financial position and past history of its customers based on the objective evidence that it shall not receive the amount due from the particular customer. The provision is written off by the Company when it expects that it cannot recover the balance due. Any subsequent repayments in relation to amount written off, are credited directly to profit and loss account.

(b) Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. Liquidity risk represents the risk that the Company shall encounter difficulties in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the Company's businesses, the Company's finance department maintains flexibility in funding by maintaining availability under committed credit lines. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. At December 31, 2019, the Company had Rs 600 million (2018: Rs 300 million) of available borrowing limits from financial institutions and Rs 268.554 million (2018: Rs 233.097 million) of cash and bank balances.

The table below provides the maturity analysis of the Company's liabilities as at statement of financial position date. All liabilities are presented on a contractual cash flow basis except for the provision of outstanding claims (including IBNR), which are presented with their expected cash flows.

(c) Market risk

Reinsurance assets bearing credit risk together with their credit rating are summarized below :

Rating	Amounts due from reinsurers	Reinsurance recoveries against outstanding claims	Other reinsurance assets	2019	2018
	-------------------------	Rupees in	thousand	-------------------------	
A and above (including Pakistan Reinsurance Company Limited)	421,159	558,576	187,028	1,166,763	1,215,944
A-	3,945	215,257	120,812	340,014	55,044
BBB	797	29,148	-	29,945	13,627
Others	173,369	203,106	841,002	1,217,477	1,260,072
	599,270	1,006,087	1,148,842	2,754,199	2,544,687

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

	Rating Short term	Long term	Rating Agency	Rating 2019	2018
				Rupees in thousand	
Current and other accounts					
Albaraka Islamic Bank	A-1	A	PACRA	129	2,663
Allied Bank Limited	A1+	AAA	PACRA	902	35
Askari Bank Limited	A1+	AA+	PACRA	5	5
Bank Alfalah Limited	A1+	AA+	PACRA	8,354	4,023
Dubai Islamic Bank Limited	A-1+	AA	JCR-VIS	81,434	44,960
Faysal Bank Limited	A1+	AA	PACRA	4,635	869
Habib Bank Limited	A-1+	AAA	JCR-VIS	447	421
Habib Metropolitan Bank	A1+	AA+	PACRA	-	6,419
JS Bank Limited	A1+	AA-	PACRA	15,542	7,351
MCB Bank Limited	A1+	AAA	PACRA	120,045	80,424
MCB Islamic Bank Limited	A1	A	PACRA	14	4,285
Silk Bank Limited	A-2	A-	PACRA	211	211
Soneri Bank Limited	A1+	AA-	PACRA	956	1,884
Summit Atlas Bank	A-3	BBB-	JCR-VIS	2	7
Summit bank	A-3	BBB-	JCR-VIS	157	99
National Bank of Pakistan	A1+	AAA	PACRA	1,272	1,574
Khushhali Microfinance Bank	A-1	A+	PACRA	6,109	234
BANK OF AZAD JAMU AND KASHMIR			N/A	399	-
Apna Micro Finance Bank Ltd	A3	BBB+	PACRA	8,821	10
The Punjab Provincial Co-Operative Bank Ltd,			N/A	214	-
Samba Bank Ltd,	A-1	AA	PACRA	1,040	-
United Bank Limited	A-1+	AAA	PACRA	8,516	13,283
Deposits with State Bank of Pakistan	Not Applicable			9,350	64,350
				268,554	233,097

	Rating	Rating Agency	2019	2018
			Rupees in thousand	
Mutual Funds				
JS Large Capital Fund	AM2	JCR-VIS	460	460
			460	460

Credit Risk exposure for assets that pass the SPPI test - IFRS 9

The following table represents the Company's exposure to credit risk on financial assets that meet the SPPI criteria

	AA	A	BBB Agency	Unrated	Total
				Rupees in thousand	
Pakistan Investment Bonds	-	-	-	69,673	69,673
				69,673	69,673

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

The Company limits market risk by maintaining a diversified portfolio and by continuous monitoring of developments in Government securities, equity and mutual funds units. In addition, the Company actively monitors the key factors that affect the underlying value of these securities.

(i) Cash flow and fair value interest rate risk

Interest/yield rate risk arises from the possibility that changes in interest rate will affect the value of financial instruments. Yield risk is the risk of decline in earnings due to adverse movement of the yield rate. The Company is exposed to interest/yield rate risk for certain deposits with the banks.

As the Company has no significant floating interest rate assets, the Company's income is substantially independent of changes in market interest rates.

	2019			
	Carrying amount	Less than one year	One to five years	More than five years
	----------------Rupees in thousand----------------			
Financial liabilities				
Outstanding claims including IBNR	1,176,065	1,176,065	-	-
Insurance/reinsurance payables	1,730,249	1,075,766	599,839.00	54,644.00
Accrued expenses	33,032	33,032	-	-
Other creditors and accruals	381,397	381,397	-	-
Borrowings	193,228	193,228	-	-
	3,513,971	2,859,488	-	-

	2018			
	Carrying amount	Less than one year	One to five years	More than five years
	----------------Rupees in thousand----------------			
Financial Liabilities				
Outstanding claims including IBNR	964,731	964,731	-	-
Insurance/reinsurance payables	1,068,131	1,068,131	-	-
Accrued expenses	25,342	25,342	-	-
Other creditors and accruals	222,308	222,308	-	-
Borrowings	194,876	194,876	-	-
	2,475,388	2,475,388	-	-

The Company's interest rate risk arises from short term borrowings. These borrowings issued at variable rates expose the Company to cash flow interest rate risk. The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions.

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss account. Therefore, a change in interest rate at the statement of financial position date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

If interest rates on borrowings, at the statement of financial position date, fluctuate by 1% higher/lower with all the other variables held constant, profit before taxation for the year would have been lower/higher by Rs 0.147 million (2018: Rs 0.093 million) and shareholders equity would have been lower/higher by Rs 0.104 million (2018: Rs 0.061 million), mainly as a result of higher/lower interest expense on floating rate borrowings.

	2019	2018	2019	2018
	Effective interest rate		Rupees in thousand	
Fixed rate instruments				
Financial assets				
Bank balances - saving accounts	6.2%	6.2%	235,372	142,870
Investments - Government securities	12.0%	12.0%	6,000	11,000
Total Exposure			241,372	153,870
Financial liabilities				
Variable rate instruments				
Borrowings	13.7%	9.0%	193,228	194,876
Investments - Government securities	14.8%	8.6%	64,000	64,000
Total Exposure			257,228	258,876

(ii) Other price risk

Other price risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is exposed to equity securities price risk because of investments held by the Company and classified as available-for-sale. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board. The primary goal of the Company's investment strategy is to maximise investment returns.

The Company's investments in equity of other entities that are publicly traded are included in the Pakistan Stock Exchange.

The table below summarises the impact of increases/decreases of the KSE-100 index on the Company's pre-tax profit for the year and on equity. The analysis is based on the assumption that the KSE-100 index had increased/decreased by 10% with all other variables held constant and all the Company's equity investments moved according to the historical correlation with the index:

As at December 31, 2019, the Company had no investments classified as at fair value through profit or loss.

(iii) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign reinsurers. The Company is not exposed to any significant currency risk at the statement of financial position date.

(d) Capital management

	Impact on pre-tax profit		Impact on other components of equity	
	2019	2018	2019	2018
Pakistan Stock Exchange Limited	-	-	1,365,383	1,266,319

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's objective when managing capital are:

- to be in compliance with the paid-up capital requirement set by the SECP. The Company's current paid-up capital is in excess of the limit prescribed by the SECP vide SRO 828(I)2015.

  In addition, the Company is also required to maintain minimum solvency in accordance with the rules and regulations set by the SECP which are fully met by the Company.

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders

- to maintain strong ratings and provide an adequate return to shareholders; and

- to ensure a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company manages the capital structure in context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debts.

39.2.1 Maturity analysis of financial assets and liabilities

	2019						
	Interest/mark-up bearing			Non-interest/mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
	Rupees in thousand						
Financial assets							
On statement of financial position							
Loans and receivables							
Cash and bank	235,372	-	235,372	33,188	-	33,188	268,560
Insurance/reinsurance receivables	-	-	-	2,289,531	-	2,289,531	2,289,531
Reinsurance recoveries against outstanding claims	-	-	-	1,006,088	-	1,006,088	1,006,088
Loans and other receivables	-	-	-	34,968	-	34,968	34,968
	235,372	-	235,372	3,363,775	-	3,363,775	3,599,147
Available- for- sale							
Investments - Equity securities	-	-	-	-	16,184,138	16,184,138	16,184,138
Held to maturity							
Investments - Debt securities	1,993	67,680	69,673	-	-	-	69,673
	237,365	67,680	305,045	3,363,775	16,184,138	19,547,913	19,852,958
Off statement of financial position	-	-	-	-	-	-	-
Total	237,365	67,680	305,045	3,363,775	16,184,138	19,547,913	19,852,958
Financial liabilities							
On statement of financial position							
Outstanding claims including IBNR	-	-	-	1,176,065	-	1,176,065	1,176,065
Insurance/reinsurance payables	-	-	-	1,730,249	-	1,730,249	1,730,249
Accrued expenses	-	-	-	33,032	-	33,032	33,032
Other creditors and accruals	-	-	-	381,397	-	381,397	381,397
Borrowings	193,228	-	193,228	-	-	-	193,228
	193,228	-	193,228	3,320,743	-	3,320,743	3,513,971
Off statement of financial position							
Guarantees	-	-	-	1,017	-	1,017	1,017
Contingencies	-	-	-	664,960	-	664,960	664,960
	-	-	-	665,977	-	665,977	665,977
Total	193,228	-	193,228	3,986,720	-	3,986,720	4,179,948
On statement of financial position gap	44,137	67,680	111,817	43,032	16,184,138	16,227,170	16,338,987
Off statement of financial position gap	-	-	-	(665,977)	-	(665,977)	(665,977)

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

39.2.1 Maturity analysis of financial assets and liabilities (cont'd)

	2018 (Re-stated)						
	Interest/mark-up bearing			Non-interest/mark-up bearing			
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
	----------Rupees in thousand----------						
Financial assets							
On statement of financial position							
Loans and receivables							
Cash and bank	142,870	-	142,870	90,238	-	90,238	233,108
Insurance/reinsurance receivables	-	-	-	2,176,640	-	2,176,640	2,176,640
Reinsurance recoveries against outstanding claims	-	-	-	814,128	-	814,128	814,128
Loans and other receivables	-	-	-	16,751	-	16,751	16,751
	142,870	-	142,870	3,097,757	-	3,097,757	3,240,627
Available- for- sale							
Investments	-	-	-	-	13,940,348	13,940,348	13,940,348
Held to maturity							
Investments	4,992	69,615	74,607	-	-	-	74,607
Off statement of financial position	-	-	-	-	-	-	-
Total	147,862	69,615	217,477	3,097,757	13,940,348	17,038,105	17,255,582
Financial liabilities							
On statement of financial position							
Outstanding claims including IBNR	-	-	-	1,111,319	-	964,731	964,731
Insurance/reinsurance payables	-	-	-	1,024,849	-	1,068,131	1,068,131
Accrued expenses	-	-	-	5,225	-	5,147	5,147
Other creditors and accruals	-	-	-	191,679	-	242,503	242,503
Borrowings	194,876	-	194,876	-	-	-	194,876
	194,876	-	194,876	2,333,072	-	2,280,512	2,475,388
Off statement of financial position							
Guarantees	-	-	-	828	-	828	828
Contingencies	-	-	-	664,960	-	664,960	664,960
	-	-	-	665,788	-	665,788	665,788
Total	194,876	-	194,876	2,998,860	-	2,946,300	3,141,176
On statement of financial position gap	(47,014)	69,615	22,601	764,685	13,940,348	14,757,593	14,780,194
Off statement of financial position gap	-	-	-	(665,788)	-	(665,788)	(665,788)

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

40 SUBSEQUENT EVENT- NON ADJUSTING EVENT

The Board of Directors has proposed a final dividend for the year ended December 31, 2019 of Rs 2.50 per share (2018: Rs 2.5 per share), amounting to Rs 170.156 million (2018: Rs 170.156 million) at their meeting held on March 09, 2020 for approval of the members at the Annual General Meeting to be held on March 30, 2020. Furthermore, the Board of Directors have proposed to purchase additional shares of Nishat Hotel and Properties Limited, an associated Company, upto a maximum amount of Rs. 900.00 Million for approval of the members at the Annual General Meeting to be held on March 30, 2020.

41 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 09, 2020 by the Board of Directors of the Company.

42 CORRESPONDING FIGURES

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

Chief Executive Officer	Director	Director	Chairman

Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2019

SHARIAH ADVISOR'S REPORT TO THE BOARD OF DIRECTORS

FOR THE YEAR ENDED DECEMBER 31, 2019

الحمد لله ربِ العالمین والصلاۃ والسلام علی سیدالانبیاء والمرسلین وعلی الہٖ واصحابہٖ اجمعین، وبعد

Being a Shari'ah Advisor of Security General Company Limited (Window Takaful Operations) it is my responsibility to ensure that the participant membership documents, underwriting procedures, Re-Takaful arrangements, and financial activities related to the Participants and stakeholders should be compliant as per Shari'ah rulings.

On the other hand it is the responsibility of "SGI WTO" management to follow the Takaful rules and guidelines set by the Shari'ah Advisor and to take prior approval of Shari'ah Advisor for all policies and services being offered by the "SGICL WTO".

As Shari'ah Advisor of "SGICL WTO" I confirm that:

i. Underwriting, investments and financial transactions undertaken by the "SGICL WTO" for the year ended 31 December 2019, were in accordance with Takaful Rules 2012 and Shariah Guidelines issued by Shariah Advisor.

ii. Appropriate accounting policies and basis of measurement have been consistently applied in preparation of the financial statements of "Participant Takaful Fund (Waqf Fund)" and "Operator Fund".

iii. Conducting Training and Development is an imperative for understanding the principles of Takaful and its practical outline. For this purpose "SGICL WTO" fulfilled its responsibility and arranged Takaful training sessions as per requirement of SECP circular no.37 of 2015.

iv. Shariah Compliance review has been conducted and related matters have been discussed with concerned staff.

v. Any cases which were required to be consulted in accordance with the Shariah and Takaful Rules have been discussed and duly resolved.

I concluded my report with the words that Allah Almighty grant "SGICL Window Takaful Operations" remarkable success and help the entire team at every step and keep away from every hindrance and difficulty.

"And Allah Knows Best"

Mufti Muhammad Umar.
Shariah Advisor
Window Takaful Operations
SGI Insurance Company Limited.
Date :09 March 2020.

INDEPENDENT AUDITOR'S REPORT

To the members of Security General Insurance Company Limited-Window Takaful Operations

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of Security General Insurance Company Limited- Window Takaful Operations (the Operator), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, the statement of changes in funds and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, the statement of comprehensive income, the statement of changes in funds and the cash flow statement together with the notes forming part thereof, conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Operator's affairs as at December 31, 2019 and of the profit, other comprehensive income, the changes in funds and its cash flows for the year then ended.

Basis for Opinion

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

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If,

A. F. FERGUSON & CO., Chartered Accountants, a member firm of the PwC network
23-C, Aziz Avenue, Canal Bank, Gulberg-V, P.O.Box 39, Lahore-54660, Pakistan
Tel: +92 (42) 3571 5864-71 / 3577 5747-50 Fax: +92 (42) 3577 5754 www.pwc.com/pk

•KARACHI •LAHORE •ISLAMABAD

based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Operator's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Operator's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Operator to cease to continue as a going concern.

pwc

A·F·FERGUSON&CO.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

b) the statement of financial position, the statement of comprehensive income, the statement of changes in funds and the cash flow statement together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XIX of 2017), and are in agreement with the books of account;

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Operator's business; and

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

The engagement partner on the audit resulting in this independent auditor's report is Amer Raza Mir.

A.F.Ferguson & Co.
Chartered Accountants
Name of engagement partner: Amer Raza Mir

Lahore
Date: March 10, 2020

STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

	Note	DECEMBER 2019			DECEMBER 2018
		'Operator's Takaful Fund	'Participants' Takaful Fund	Total	Total
		----------------Rupees in thousand----------------			
ASSETS					
Property and equipment	6	2,625	-	2,625	1,908
Wakala fees receivable		27,023	-	27,023	3,949
Loans and other receivables	7	2,246	18,011	20,257	816
Takaful/retakaful receivables	8	11	45,984	45,995	11,544
Retakaful recoveries against outstanding claims		-	22,719	22,719	518
Salvage recoveries accrued		-	900	900	-
Deferred commission expense / acquisition cost		9,956	-	9,956	3,053
Deferred wakala fee	20	-	20,673	20,673	5,002
Prepayments		-	46,466	46,466	13,020
Cash and bank	9	39,326	27,892	67,218	49,538
		81,187	182,645	263,832	89,348
Qard-e-Hasna to Participants' Takaful Fund	11	5,000	-	5,000	-
TOTAL ASSETS		86,187	182,645	268,832	89,348
FUNDS AND LIABILITIES					
FUNDS					
Statutory fund / Ceded money	10	50,000	550	50,550	50,550
Accumulated deficit		(847)	(2,966)	(3,813)	(4,155)
		49,153	(2,416)	46,737	46,395
Qard-e-Hasna From Operator's Fund		-	5,000	5,000	-
LIABILITIES					
UNDERWRITING PROVISIONS					
- Outstanding claims including IBNR	17	-	27,422	27,422	708
- Unearned contribution reserve	16	-	58,922	58,922	14,293
- Unearned retakaful reward	18	-	12,569	12,569	3,545
Takaful/retakaful payables	13	41	51,981	52,022	11,178
Retirement benefit obligations	12	60	-	60	-
Wakala fee payable		-	27,023	27,023	3,949
Unearned wakala fee	20	20,673	-	20,673	5,002
Other creditors and accruals	14	16,260	2,144	18,404	4,278
TOTAL LIABILITIES		37,034	180,061	217,095	42,953
TOTAL FUND AND LIABILITIES		86,187	182,645	268,832	89,348
Contingencies and commitments	15				

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

Chief Executive Officer	Director	Director	Chairman

STATEMENT OF COMPREHENSIVE INCOME

FOR YEAR ENDED DECEMBER 31, 2019

	Note	For the year ended December 31, 2019	For the period from May 7, 2018 to December 31, 2018
		------Rupees in thousand------	
Participants' revenue account			
Net contribution revenue	16	10,505	804
Net claims expense	17	(6,199)	(307)
Wakala fee	20	(21,065)	(2,024)
Reward on retakaful	18	13,444	1,349
Direct expenses	19	(337)	(41)
Takaful claims and acquisition expenses		(14,157)	(1,023)
UNDERWRITING RESULTS		(3,652)	(219)
Other income	24	831	74
DEFICIT FOR THE YEAR		(2,821)	(145)
Other comprehensive income		-	-
Total comprehensive loss for the year		(2,821)	(145)
Operator's revenue account			
Wakala fee	20	21,065	2,024
Commission expense	21	(11,373)	(1,105)
Management expenses	22	(7,674)	(4,783)
		2,018	(3,864)
Other income	24	1,679	723
Other expenses	23	(534)	(869)
Surplus/ (deficit) for the year		3,163	(4,010)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/ (LOSS) FOR THE YEAR		3,163	(4,010)

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

Chief Executive Officer | Director | Director | Chairman

CASH FLOW STATEMENT

FOR YEAR ENDED DECEMBER 31, 2019

	Note	For the period December 31, 2019			For the period from May 7, 2018 to December 31, 2018
		Operator's Fund	Participants' Takaful Fund	Total	Total
		Rupees in thousand			
Operating cash flows					
(a) Takaful activities					
Contributions received		-	74,663	74,663	10,626
Retakaful ceded		-	(46,538)	(46,538)	(8,867)
Claims paid		-	(4,836)	(4,836)	(309)
Retakaful and other recoveries received		-	4,050	4,050	193
Retakaful reward received		-	22,468	22,468	4,894
Commission paid		(8,015)	-	(8,015)	(1,528)
Wakala fee received/ (paid)		13,662	(13,662)	-	-
Other takaful payments		-	(19,116)	(19,116)	(32)
Other takaful receipts		-	1,334	1,334	344
Net cash used in takaful activities		5,647	18,363	24,010	5,321
(b) Other operating activities					
General and other expenses paid		(5,907)	-	(5,907)	(4,261)
Net cash used in from other operating activities		(5,907)	-	(5,907)	(4,261)
Total cash (used in)/ generated from all operating activities		(260)	18,363	18,103	1,060
INVESTMENT ACTIVITIES					
Profit recevied		708	215	923	11
Fixed capital expenditure		(1,346)	-	(1,346)	(2,083)
Total cash outflow from investing activities		(638)	215	(423)	(2,072)
FINANCING ACTIVITIES					
Qard-e-Hasna to Participants' Takaful Fund		(5,000)	-	(5,000)	
Qard-e-Hasna from Operator's Fund		-	5,000	5,000	
Contribution to Operator's fund		-	-	-	50,000
Ceded money		-	-	-	550
Total cash inflow from financing activities		(5,000)	5,000	-	50,550
NET CASH USED IN ALL ACTIVITIES		(5,898)	23,578	17,680	49,538
Cash and cash equivalents at beginning of the period		45,224	4,314	49,538	-
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	39,326	27,892	67,218	49,538
Reconciliation to statement of comprehensive income					
Operating cash flows		(260)	18,363	18,103	1,060
Depreciation expense		(628)	-	(628)	(175)
Bank profit		1,679	831	2,510	797
Increase in assets other than cash		30,554	123,998	154,552	37,116
Decrease in liabilities other than borrowings		(28,182)	(146,013)	(174,195)	(42,953)
Deficit for the period		3,163	(2,821)	342	(4,155)

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

Chief Executive Officer	Director	Director	Chairman

STATEMENT OF CHANGES IN FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operator's Takaful Fund		
	Statutory Fund	Accumulated loss	Total
	Rupees in thousand		
BALANCE AS AT MAY 07, 2018 (AUDITED)	50,000	-	50,000
Contribution made during the period	-	-	-
Loss for the period from May 07, 2018 to December 31, 2018	-	(4,010)	(4,010)
Other comprehensive income from May 07, 2018 to December 31, 2018	-	-	-
Total comprehensive loss for the period	-	(4,010)	(4,010)
Balance as at December 31, 2018 (audited)	50,000	(4,010)	45,990
Profit for the year December 31, 2019	-	3,163	3,163
Other comprehensive income for the year ended December 31, 2019	-	-	-
Total comprehensive surplus for the year	-	3,163	3,163
Balance as at December 31, 2019 (audited)	50,000	(847)	49,153

	Participant's Takaful Fund		
	Cede money	Accumulated deficit	Total
	Rupees in thousand		
BALANCE AS AT MAY 07, 2018 (AUDITED)	550	-	550
Loss for the period from May 07, 2018 to December 31, 2018	-	(145)	(145)
Other comprehensive income from May 07, 2018 to December 31, 2018	-	-	-
Total comprehensive loss for the year	-	(145)	(145)
Balance as at December 31, 2018 (audited)	550	(145)	405
Loss for the year ended December 31, 2019	-	(2,821)	(2,821)
Other comprehensive income for the year ended December 31, 2019	-	-	-
Total comprehensive loss for the year	-	(2,821)	(2,821)
Balance as at December 31, 2019 (audited)	550	(2,966)	(2,416)

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

Chief Executive Officer   Director   Director   Chairman

1 Legal status and nature of business

Security General Insurance Company Limited (the 'Operator') has been allowed to undertake Window Takaful Operations (the Operations) on May 7, 2018 by the Securities and Exchange Commission of Pakistan ('SECP') under SECP Takaful Rules, 2012 to carry on General Window Takaful Operations in Pakistan. The registered office of the Operator is situated at SGI House, 18-C, E1, Gulberg III, Lahore. The objects of the Operator include providing general insurance services (in spheres of Fire and property damage, Marine and aviation, Motor and Miscellaneous) and general takaful services.

The Operator was granted authorisation on May 7, 2018 under Rule 6 of the Takaful Rules, 2012 to undertake Window Takaful Operations ("WTO") by the SECP under Takaful Rules, 2012 to carry on general takaful in Pakistan.

The Operator transferred statutory fund of Rs 50 million in a separate bank account for the WTO as per the requirement of Circular 8 of 2014. The Operator has formed a Waqf for Participants' Fund by executing the Waqf deed dated February 27, 2018 and deposited a cede money of Rs 0.55 million. The cede money is required to be invested in Shari'ah compliant remunerative instrument which may be used to acquire immovable Waqf property if Shari'ah and law so warrants. Waqf Deed governs the relationship of Operator and participants for management of takaful operations, investments of participants' funds and investments of the Operator's funds approved by the shari'ah advisor of the Operator. The Operator commenced activities of WTO on May 7, 2018.

2 BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

2.1 Statement of compliance

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

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and

- Provisions of and directives issued under the Companies Act, 2017 and Insurance Ordinance, 2000, Insurance Rules, 2017, Insurance Accounting Regulations, 2017 and Takaful Rules, 2012.

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

2.1.2 Basis Of Preparation

These financial statements have been presented on the format of financial statements issued by the SECP through Insurance Rules, 2017 vide S.R.O. 89(I)/2017 dated February 9, 2017.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention. All transactions reflected in these financial statements are on accrual basis except for those reflected in cash flow statements.

2.3 Functional and presentation currency

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

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

a) IFRS 9 - Financial instruments

This standard was notified by the Securities and Exchange Commission of Pakistan (SECP) to be effective from annual periods ending on or after June 30, 2019. This standard replaces the guidance in International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurement'. Key changes in the new standard include requirements on the classification, measurement and derecognition of financial assets and liabilities. The standard also contains new requirements for hedge accounting and replaces the current incurred loss impairment model with an expected credit loss model.

During the year the Operator has taken advantage of an election under IFRS 4 that permits an insurer which meets certain conditions to temporarily be exempt from adopting IFRS 9 'Financial Instruments', that would have otherwise become effective from January 1, 2019, until January 1, 2022. Disclosures required under the temporarily exemption have been made by the Operator and detailed in note 4 to these financial statements.

In addition to the above, there are certain new and amended standards and interpretations that are mandatory for the Operator's accounting periods beginning on or after January 1, 2019 but are considered not to be relevant or to have any significant effect on the Operator's operations and are therefore not detailed in these financial statements.

b) IFRS 16 - Leases

This standard has been notified by the SECP to be effective for annual periods beginning on or after January 1, 2019. This standard replaces the current guidance in IAS 17, 'Leases'. Under IAS 17, lessees were required to make a distinction between a finance lease (on statement of financial position) and an operating lease (off statement of financial position). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The new accounting model for lessees may impact negotiations between lessors and lessees.

There are certain amendments to the standards and new interpretations that are mandatory for accounting periods beginning on or after January 1, 2019 but are considered not to be relevant or do not have any significant effect on the Operator's operations and are, therefore, not detailed in these financial statements.

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

There are certain new and amended standards and interpretations that are mandatory for the Operator's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or do not have any significant effect on the Operator's operations although they may affect the accounting for future transactions and events upon initial application and are, therefore, not disclosed in these financial statements, except for the following:

a) IFRS 17 - Insurance contracts

This standard has been notified by the IASB to be effective for annual periods beginning on or after January 1, 2022 and yet to be notified by the SECP. The standard provides a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grand fathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts include the measurement of the present value of future cash flows incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows); a contractual service margin equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognized in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognized amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The management is in the process of assessing the impact of changes laid down by the standard on its financial statements.

b) General Takaful Accounting Regulations, 2019

The Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 1416 (I)/2019 dated November 20, 2019 issued the General Takaful Accounting Regulations, 2019 (the Regulations) for general takaful operators and window general takaful operators which were enforceable for accounting periods commencing on or after January 1, 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

The Regulations provide the principles based on which accounting and reporting of general takaful business of general takaful operators and window general takaful operators shall be made. The regulations also contain the formats for reporting of the published financial statements and regulatory returns of general takaful /window takaful operators.

Consequently, the provision of Rule 19 of the Insurance Rules, 2017 along with Annexure – II and the provision of the Insurance Accounting Regulations, 2017 shall stand applicable on the Operator's window takaful operations to the extent of its conventional insurance business modified to the extent stated in regulation 6 of the Regulations in respect of its window takaful operations. Provided that the provisions of the Regulations shall stand equally applicable on the window Takaful operations of window Takaful operator.

The management is in the process of assessing the impact of changes laid down by the Regulation on its financial statements and shall align the same with the requirements of the Regulation from accounting periods commencing on or after January 1, 2020.

- Other Standards, amendments and interpretations

	Effective date (period beginning on or after)
- IAS 1, Presentation of Financial Statements (Amendments)	
- IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (Amendments)	January 1, 2020

In addition to the above, there are certain new standards, amendments and interpretations to accounting and reporting standards that are mandatory for the Operator's accounting periods beginning on or after January 1, 2020 but are considered not to be relevant or to have any significant effect on the Operator's operations and are, therefore, not detailed in these financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparation of these financial statements are set out below.

3.1 Takaful contracts

Takaful contracts are based on the principles of Wakala where the Participants' Takaful Fund (PTF) accepts significant Takaful risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event adversely affects the policyholders. Once a contract has been classified as a Takaful contract, it remains a Takaful contract for the remainder of its lifetime, even if the Takaful risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The Operator underwrites non-life takaful contracts categorized into fire and property damage, marine, aviation and transport, motor and miscellaneous contracts. The contracts may have a fixed term of one year or less and in some cases for more than one year. Takaful contracts entered into by the Operator under which the contract holder is another Takaful Operator (inwards retakaful) of a facultative nature are included within the individual category of takaful contracts, other than those which fall under Treaty. The takaful risk involved in these contracts is similar to the contracts undertaken by the Operator as takaful operator based on its assessment of the takaful risk involved.

'The classification of a takaful contract into the aforementioned categories is based on management's judgment regarding the incident / cause of loss effecting the majority of asset(s) covered under the takaful contract. The Operator performs its segment reporting activities based on the classifications of takaful contracts made, as disclosed in note 23 to these financial statements.

a) Fire and property and damage

i) Takaful risks and events insured

Cover is provided to the takaful contract holders against damages caused by fire, earthquake, riot and strike, explosion, atmospheric disturbance, flood, electric fluctuation and impact and burglary etc. and loss of profit followed by the incident of fire. These takaful contracts are normally availed by commercial organizations, however are available to both commercial organizations and individuals.

ii) Revenue recognition policy

Contribution income is recognized over the period of takaful from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct takaful business, contribution is recognized evenly over the period of the policy and for proportional retakaful business, evenly over the period of underlying takaful policies. Where the pattern of incidence of risk varies over the period of the policy, contribution is recognized as revenue in accordance with the pattern of the incidence of risk. Contributions for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross contribution underwritten is adjusted against the unearned contribution reserves / liabilities existing at each reporting date to determine the net contribution underwritten during the year.

Since majority of policies are for one year, the Operator maintains its provision for unearned contribution by applying the 1/24th method as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017.

In addition to direct takaful, at times the Operator also participates in risks under cotakaful from other companies and also accepts risks through retakaful inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Operator. Contribution recognized against cotakaful policies is limited to the share of the Operator only.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Contribution income includes administrative surcharge that represents documentation and other charges recovered by the Operator from takaful contract holder in respect of policies issued, at the rate of 5% of the gross contribution written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim liability against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the takaful contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

b) Marine, aviation and transport takaful:

i) Takaful risks and events insured

Cover is provided upon the assets of the takaful contract holders against loss of or damage to cargo while in transit to and from foreign lands and inland transit due to various insured perils including loss of or damage to carrying vessel etc. This product is normally provided to commercial organizations. These takaful contracts are normally availed by commercial organizations, however are available to both commercial organizations and individuals.

ii) Revenue recognition policy

Contribution income is recognized over the period of takaful from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, contribution is recognized evenly over the period of the policy and for proportional retakaful business, evenly over the period of underlying takaful policies. Where the pattern of incidence of risk varies over the period of the policy, contribution is recognized as revenue in accordance with the pattern of the incidence of risk. Contribution for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross contribution underwritten is adjusted against the unearned contribution reserves / liabilities existing at each reporting date to determine the net contribution underwritten during the year.

Since majority of policies are for three months period, contribution written during last three months of the financial year is taken to the provision for unearned contribution at the reporting date.

In addition to direct takaful, at times the Operator also participates in risks under cotakaful from other companies and also accepts risks through retakaful inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Operator. Contribution recognized against cotakaful policies is limited to the share of the Operator only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Contribution income includes administrative surcharge that represents documentation and other charges recovered by the Operator from takaful contract holder in respect of policies issued, at the rate of 5% of the gross contribution written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim liability against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the takaful contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

c) Motor takaful:

i) Takaful risks and events insured

Cover is provided to assets of the takaful contract holders against accidental damage to or loss of insured vehicle including loss of or damage to third party and other comprehensive car coverage. This product is normally availed by individual customers, however are available to both commercial organization and individuals.

ii) Revenue recognition policy

Contribution income is recognized over the period of takaful from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, evenly over the period of the policy and for proportional retakaful business, evenly over the period of underlying takaful policies. Where the pattern of incidence of risk varies over the period of the policy, contribution is recognized as revenue in accordance with the pattern of the incidence of risk. Contributions for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross contribution underwritten is adjusted against the unearned contribution reserves / liabilities existing at each reporting date to determine the net contribution underwritten during the year.

Since majority of policies are for one year, the Operator maintains its provision for unearned contribution by applying the 1/24th method as stipulated in regulation 24(4)(ii) of the Takaful Accounting Regulations, 2017.

In addition to direct takaful, at times the Operator also participates in risks under cotakaful from other companies and also accepts risks through retakaful inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Operator. Contribution recognized against cotakaful policies is limited to the share of the Operator only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Contribution income includes administrative surcharge that represents documentation and other charges recovered by the Operator from takaful contract holder in respect of policies issued, at the rate of 5% of the gross contribution written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim liability against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the takaful contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

d) Miscellaneous takaful:

i) Takaful risks and events insured

Cover is provided to assets of the takaful contract holders against damage / loss occurring due to burglary, loss of cash in safe, cash in transit and cash on counter, health, travel and crop etc. As per guidance of Insurance Accounting Regulations, 2017 amounts constituting less than 10% of the gross contribution revenue are clubbed together under this class of takaful contract. Normally personal takaful contracts e.g. cash in hand, cash in transit, personal accident, infidelity, public liabilities, livestock, travel, bankers and other financial institutions packages, product liabilities, professional indemnity, mobilization and performance bonds, workers compensation etc. are provided to individual customers.

ii) Revenue recognition policy

Contribution income is recognized over the period of takaful from the date of the issue of the policy / cover note to which it relates, to its expiry. For direct business, evenly over the period of the policy and for proportional retakaful business, evenly over the period of underlying takaful policies. Where the pattern of incidence of risk varies over the period of the policy, contribution is recognized as revenue in accordance with the pattern of the incidence of risk. Contributions for policies receivable in installments are recognized as receivable at the inception of the policy and is recognized as income over the period of the policy. The gross contribution underwritten is adjusted against the unearned contribution reserves / liabilities existing at each reporting date to determine the net contribution underwritten during the year.

Since majority of policies are for one year, the Operator maintains its provision for unearned contribution by applying the 1/24th method as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017.

In addition to direct takaful, at times the Operator also participates in risks under co-takaful from other companies and also accepts risks through retakaful inward by way of facultative acceptances on case to case basis provided such risks are within the underwriting policies of the Operator. Contribution recognized against co-takaful policies is limited to the share of the Operator only. The nature of the risks undertaken under such arrangement is consistent with the risks in each class of business as stated above.

Contribution income includes administrative surcharge that represents documentation and other charges recovered by the Operator from takaful contract holder in respect of policies issued, at the rate of 5% of the gross contribution written restricted to a maximum of Rs. 2,000 per policy.

iii) Claims recognition

Claim liability against losses incurred are recognized at the time of the incident giving rise to the claim, except otherwise expressly indicated in the takaful contract. A claim generally includes the loss resulting from the incident, along with claim handling costs that are directly related to the processing / settling the claims, net of any salvage recoveries and any adjustments to claims outstanding from previous years. In addition to reported claims, the liability also includes provisions made under IBNR and expected claims settlement costs.

Detailed accounting policies for recording and measurement of retakaful contracts held, receivables / payables related to takaful contracts and provision for outstanding claims including Incurred But Not Reported (IBNR) are mentioned in note 3.4 and 3.16 respectively.

3.2 Revenue recognition

a) Contribution income earned

Contribution income under a takaful contract is recognized over the period of takaful from the date of the issue of the policy/cover note to which it relates, to its expiry.

b) Rebate from retakaful operators

Rebate from retakaful operators is recognised at the same time of insurance of the underlying takaful policy by the Operator and is deferred in accordance with the pattern of recognition of the retakaful contribution to which it relates.

c) Investment income

Return on Islamic investment products i.e. investments, profit on profit and loss sharing accounts and bank deposits are recognized on accrual basis.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

d) **Wakala and Modarib's share**

The Operator manages the general takaful operations for the participants and charges wakala fee at following rates of gross contribution written including administrative surcharge as Wakala fee against the services.

Class	2019 Percentage	2018 Percentage
	Rupees in thousand	
Fire and property damage	35.0%	35.0%
Marine, aviation and transport	40.0%	40.0%
Motor	35.0%	35.0%
Miscellaneous	30.0%	30.0%

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

e) **Administration surcharge**

Administrative surcharge includes documentation and other charges recovered by the Operator from takaful contact holders in respect of takaful policies issued, at a rate of 5% of the gross contribution, restricted to a maximum of Rs. 2,000. Administrative surcharge is recognized as revenue at the time of issuance of policy.

For the purpose of these financial statements, administrative surcharge is included in gross contribution written during the year.

3.3 Retakaful ceded

The Operator enters into retakaful contracts with retakaful companies by arranging treaty retakaful, whereby certain agreed proportion of risks are shared with the participating companies, hence higher underwriting capacity with larger spread becomes available. Depending upon the nature and / or size of the risk at times retakaful of excess of capacity is also placed on case to case basis under facultative retakaful arrangement. The Operator also accepts facultative retakaful from other local takaful companies provided the risk meets the underwriting requirements of the Operator.

"The risks undertaken by the Operator under these contracts for each operating segment are stated in note 3.1 to the financial statements."

The benefits to which the Operator is entitled under retakaful contracts held are recognized as retakaful assets. These assets include retakaful receivables as well as receivables that are dependent on the expected claims and benefits arising under the related retakaful contracts. Retakaful liabilities primarily include contribution payable and retakaful rebate payable (in case of facultative acceptance). Retakaful assets and liabilities are measured consistently with the terms of the underlying retakaful contracts.

Retakaful assets and liabilities are derecognized when the contractual rights are extinguished or expired. Furthermore, Retakaful assets are not offset against related takaful liabilities.

Assets, liabilities and income and expense arising from ceded retakaful contracts are presented separately from the assets, liabilities, income and expense from the related takaful contracts because the retakaful arrangements do not relieve the PTF from its direct obligation to its policyholders.

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

3.4 Receivables and payables related to takaful contracts

Takaful/retakaful receivables and payables are recognized when due and carried at cost less provision for impairment. Cost is the fair value of the consideration to be received/ paid in the future for services rendered/ received. These include amounts due to and from agents, brokers, takaful contract holders and other takaful companies.

An assessment is made at each reporting date to determine whether there is objective evidence from external as well as internal sources of information that a financial asset or group of assets may be impaired i.e. recoverable amount at the reporting date is less than the carrying amount of the asset. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognized, in the profit and loss account, for the difference between the recoverable amount and the carrying amount. Provisions for impairment are reviewed at each reporting date and adjusted to reflect the current best estimates. Changes in the provisions are recognized as income or expense, in the profit and loss account for the period.

3.5 Segment reporting

The Operator accounts for segment reporting based on the guidelines of the Insurance Accounting Regulations, 2017 and the operating segments as specified under the Insurance Ordinance, 2000 and the Insurance Rules, 2017, as the primary reporting format based on the Operator's practice of internal reporting to the management on the same basis. The Operator has determined its primary segments based on takaful risks covered under four types of takaful contracts as stated in note 3.1, to the financial statements.

Assets, liabilities and capital expenditures that are directly attributable to segments have been assigned to them while the carrying amount of certain assets used jointly by two or more segments have been allocated to segments on a reasonable basis. Those assets and liabilities which cannot be allocated to a particular segment on a reasonable basis are reported as unallocated corporate assets and liabilities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

3.6 Provision for outstanding claims / benefits including Incurred But Not Reported (IBNR)

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

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

Outstanding claims comprise the estimated cost of claims incurred but not settled at the reporting date, whether reported or not. The Operator engages an actuary to estimate the IBNR as per the SECP Circular No. 9 of 2016, "SEC guidelines for estimation of Incurred but not Reported claim reserve, 2016".

The Guidelines require that estimation for provision for claims incurred but not reported for each class of business, by using prescribed method "Chain Ladder Method" and other alternate method as allowed under the provisions of the Guidelines. The Chain Ladder Method involves determination of development factors or link ratios for each period. These are then subsequently combined to determine Cumulative Development Factor (CDF) which represents the extent of future development of claims to reach their ultimate level to derive an IBNR estimate.

The process used to determine the assumptions for calculating the outstanding claim reserve is intended to result in neutral estimates of the most likely or expected outcome. The nature of the business makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case by case basis with due regard to claim circumstances, information available from surveyors and historical evidence of the size of similar claims. Case estimates are reviewed regularly and are updated as and when new information is available.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, in which case information about the claim event is available. IBNR provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of the retakaful recoveries. The estimation process takes into account the past claims reporting pattern and details of reinsurance arrangements.

The premium liabilities have been determined such that the total premium liability provisions (unearned premium reserve and contribution deficiency reserve) would be sufficient to service the future expected claims and expenses likely to occur on the unexpired policies as of reporting date. The expected future liability is determined using estimates and assumptions based on the experience during the expired period of the contracts and expectations of future events that are believed to be reasonable.

3.7 Retakaful recoveries against claims

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

3.8 Commission, other acquisition costs and retakaful reward

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

3.9 Unearned contribution reserves

The unearned portion of contribution written is set aside as an unearned contribution reserve. The provision for unearned contribution accordingly, represents the portion of contribution written relating to the unexpired period of takaful coverage at the reporting date. The method selected by management involves judgement and estimates regarding the expected pattern of incidence of risk in relation to a particular type of policy.

The Operator maintains its provision for unearned contribution by applying the 1/24th method on fire and property damage, motor and miscellaneous as stipulated in regulation 24(4)(ii) of the Insurance Accounting Regulations, 2017. However, in case of marine, aviation and transport, contribution written during last three month is taken by applying 1/6th method to the provision for unearned contribution.

3.10 Contribution deficiency reserve

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Keeping in view the adequacy of the reserves on December 31, 2019, in line with the provisions of the Insurance Ordinance, 2000, the Insurance Rules 2017 and the Insurance Accounting Regulations, 2017, a contribution deficiency reserve is not required and accordingly no provision for the same has been made in financial statements of the current year. Also the loss ratio has been calculated using eight months data as the operations started on May 7th, 2018.

	2019
Fire and property damage	0%
Marine, aviation and transport	-101%
Motor	-383%
Miscellaneous	0%

3.11 Takaful surplus

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

3.12 Qard-e-Hasan

Qard-e-Hasan is provided by Operator's fund to PTF in case of deficit or to fulfill cash flow requirements.

3.13 Creditors, accruals and provisions

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

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

3.14 Taxation

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

3.15 Cash and cash equivalents

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

3.16 Financial assets

3.16.1 Classification

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

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the statement of financial position date, which are classified as non-current assets. Loans and receivables comprise insurance/reinsurance receivables, loans, advances, deposits and other receivables, reinsurance recoveries against outstanding claims and bank balances in the statement of financial position.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investments within twelve months from the statement of financial position date.

c) Held-to-maturity

Investments with fixed maturity, which the management has the intent and ability to hold till maturity are classified as held-to-maturity and are initially recognized at cost being the fair value of consideration given and include transaction costs.

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

In case of fixed income securities redeemable at a given date where the cost is different from the redemption value, such difference is amortized uniformly over the period between the acquisition date and the date of maturity in determining 'cost' at which these investments are stated as per the requirements of the SEC (Insurance) Rules, 2002.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

3.16.2 Recognition and measurement

All financial assets are recognized at the time when the Operator becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognized on trade-date; the date on which the Operator commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Operator has transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. For investments having quoted price in active market, the quoted price represents the fair value. In other cases, fair value is measured using appropriate valuation methodology and where fair value cannot be measured reliably, these are carried at cost. Loans and receivables are carried at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit and loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss as part of other income when the Operator's right to receive payments is established.

Changes in the fair value of securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the other comprehensive income as gains and losses from investment securities. Interest on available-for-sale investments calculated using the effective interest method is recognized in the profit and loss. Dividends on available-for-sale equity instruments are recognized in the profit and loss when the Operator's right to receive payments is established.

The Operator assesses at each reporting date whether there is an objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the profit and loss. Impairment losses recognized in the profit and loss on equity instruments are not reversed through the profit and loss. Impairment testing of insurance/reinsurance receivables and other receivables is described in note 3.18..

3.16.3 Financial liabilities

All financial liabilities are recognized at the time when the Operator becomes a party to the contractual provisions of the instrument.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in respective carrying amounts is recognized in the profit and loss.

3.16.4 Offsetting of financial assets and liabilities

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

3.17 Operating assets

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

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

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

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

3.18 Impairment

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

3.19 Provision for doubtful receivables

Receivables under insurance contracts are recognized when due, at the fair value of the consideration receivable less provision for doubtful debts, if any, provision for impairment of premium receivables is established when the chances of recovery are less. Receivables are also analyzed as per their ageing and accordingly provision is maintained on a systematic basis. The provision is made while taking into consideration of expected recoveries, if any.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

3.20 Foreign currency transactions and translations

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

3.21 Management expenses

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

4 Temporary exemption from application of IFRS 9 - Financial instruments

4.1 Operator's activities are predominantly connected with insurance

As allowed by the International Accounting Standards Board (IASB) the Operator's management has opted for a temporary exemption from IFRS 9 on the basis that its activities are predominantly connected with insurance.

The Operator qualifies for temporary exemption from applying IFRS 9 'Financial Instruments' on the grounds that it has not previously applied any version of IFRS 9 and its activities are predominantly connected with insurance, with the carrying amount of its liabilities within the scope of IFRS 4 being greater than the required threshold of the total carrying amount of all its liabilities at December 31, 2019 i.e first reporting date of the Operator subsequent to December 31, 2018. Furthermore there was no subsequent change in its activities that warrant a reassessment of the same.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

i) provision for outstanding claims including IBNR and retakaful recoveries there against (note 3.6)

ii) contribution deficiency reserve (note 3.6)

iii) useful lives of operating assets (note 5)

6 Operating assets

2019

	Cost			Accumulated depreciation			Written down value as at December 31	Depreciation rate %
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		
	Rupees in thousand							
Motor vehicles	2,083	1,346	3,429	175	629	804	2,625	20%
	2,083	1,346	3,429	175	629	804	2,625	

2018

	Cost			Accumulated depreciation			Written down value as at December 31	Depreciation rate %
	As at January 1	Addition/ (disposals)	As at December 31	As at January 1	Charge for the year/ (disposals)	As at December 31		
	Rupees in thousand							
Motor vehicles	-	2,083	2,083	-	175	175	1,908	20%
	-	2,083	2,083	-	175	175	1,908	

6.1 Depreciation charged during the year is made part of the management expenses. Refer note 22.

	Note	2019			2018
		Operator's Takaful Fund	Participants Takaful Fund	Total	Total
		Rupees in thousand			
7 LOANS AND OTHER RECEIVABLES					
Accrued income		1,681	690	2,371	782
Receivable from Operator's Takaful Fund		-	844	844	25
Receivable from Participation's Takaful Fund		95	-	95	-
Receivable from Security General Insurance Company Limited		271	16,306	16,577	-
Loans to employees		104	-	104	-
Advance income tax		95	-	95	-
Sales tax recoverable		-	171	171	9
		2,246	18,011	20,257	816

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

		Note	2019			2018
			Operator's Takaful Fund	Participants Takaful Fund	Total	Total
			------------ Rupees in thousand ------------			
8	TAKAFUL/RETAKAFUL RECEIVABLES					
	Considered good					
	Contribution due from policyholders		-	21,978	21,978	6,881
	Amount due from other takaful/ retakaful operators		11	24,006	24,017	4,663
			11	45,984	45,995	11,544
9	Cash and bank					
	Cash and cash equivalents					
	Cash in hand		57	-	57	110
	Cash at bank					
	Current accounts		-	-	-	
	Profit and loss sharing accounts	9.1	39,269	27,892	67,161	49,428
			39,326	27,892	67,218	49,538

9.1 The rate of profit and loss sharing accounts range from 8.65% to 12.25% (2018: 2.75% to 5.25%) per annum, depending on the size of average deposits.

		Note	2019	2018
			Rupees in thousand	
10	STATUTORY FUND			
	Statutory reserves	10.1	50,000	50,000

'Amount of Rs. 50,000 thousand (2018: Rs. 50,000 thousand) is deposited as statutory reserves to comply with provisions of para 4 of Circular No 8 of 2014 read with section 11(c) of Takaful Rules, 2012 issued by Securities and Exchange Commission of Pakistan which states that "Every insurer who is interested to commence window takaful business shall transfer an amount of not less than 50 million Rupees to be deposited in a separate bank account for window takaful business duly maintained in a scheduled bank".

	2019	2018
	Rupees in thousand	
11 QARD-E-HASNA - PTF		
Opening balance of Qard-e-Hasna	-	-
Qard-e-Hasna transferred from OPF during the year	5,000	-
Qard-e-Hasna returned by PTF during the year	-	-
Closing balance of Qard-e-Hasna	5,000	-

12 RETIREMENT BENEFIT OBLIGATIONS

These are other long term benefits amounting to Rs. 60,000.

	2019			2018
	Operator's Takaful Fund	Participants Takaful Fund	Total	Total
	------------ Rupees in thousand ------------			
13 TAKAFUL/RETAKAFUL PAYABLE				
Amount due to cotakaful/retakaful operators	41	51,981	52,022	11,178
14 OTHER CREDITORS AND ACCRUALS				
Accrued expenses	951	-	951	716
Commission payable	12,815	-	12,815	2,630
Federal excise duty and sales tax	-	1,517	1,517	394
Federal takaful fee	-	102	102	28
Withholding tax payable	39	27	66	27
Payable to Security General Insurance Company Limited	1,201	336	1,537	423
Payable to Operator's Takaful Fund	-	95	95	-
Payable to Participant's Takaful Fund	844	-	844	29
Others	411	67	478	31
	16,261	2,144	18,405	4,278

15 CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments as at December 31, 2019.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

		'Participants' Takaful Fund	
		For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
		Rupees in thousand	
16	NET CONTRIBUTION REVENUE		
	Written gross contribution	105,373	20,280
	Unearned contribution reserve - opening	14,293	-
	Unearned contribution reserve - closing	(58,922)	(14,293)
	Contribution earned	60,744	5,987
	Retakaful contribution ceded	(83,685)	(18,203)
	Prepaid retakaful contribution ceded - opening	(13,020)	-
	Prepaid retakaful contribution ceded - closing	46,466	13,020
	Retakaful expense	(50,239)	(5,183)
		10,505	804
17	NET CLAIMS		
	Claims paid	5,736	309
	Outstanding claims (including IBNR) - opening	(708)	-
	Outstanding claims (including IBNR) - closing	27,422	708
	Claims expense	32,450	1,017
	Retakaful and other recoveries received	(4,050)	(193)
	Retakaful and other recoveries in respect of outstanding claims - closing	(22,719)	(518)
	Retakaful and other recoveries in respect of outstanding claims - opening	518	-
		(26,251)	(710)
		6,199	307

17.1 CLAIM DEVELOPMENT

The development of claims against takaful contracts written is not disclosed as there is inadequate claim experience i.e. less than five years of the takaful business till date and claims are generally settled within one year.

		Operator's Takaful Fund	
		For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
		Rupees in thousand	
18	**REWARD ON RETAKAFUL**		
	Reward on retakaful received	22,468	4,894
	Unearned retakaful reward - opening	3,545	-
	Unearned retakaful reward - closing	(12,569)	(3,545)
		13,444	1,349
19	**DIRECT EXPENSES**		
	Service charges	337	32
	Bank charges	-	9
		337	41
20	**NET WAKALA FEE**		
	Gross wakala fee	36,736	7,026
	Deferred wakala fee - opening	5,002	-
	Deferred wakala fee - closing	(20,673)	(5,002)
		21,065	2,024
21	**NET COMMISSION EXPENSE**		
	Commission paid or payable	18,276	4,158
	Deferred commission - opening	3,053	-
	Deferred commission - closing	(9,956)	(3,053)
		11,373	1,105
22	**MANAGEMENT EXPENSES**		
	Salaries, allowances and other benefits	4,930	2,122
	Shari'ah advisor fees	1,020	935
	Printing and stationery	188	471
	Computer running expenses	-	590
	Travelling expense	-	22
	Legal and professional	127	-
	Depreciation	628	175
	Motor expenses	630	455
	Others	151	13
		7,674	4,783

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

22.1 COMPENSATION OF EXECUTIVE

Aggregate amounts charged in the accounts for remuneration, including all benefits to executive of the company is as follows

	For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
	Rupees in thousand	
EXECUTIVE		
Managerial remuneration	1,226,988	-
Leave encashment	153,374	-
Bonus paid	460,122	-
Contribution to defined benefit plan	102,249	-
Contribution to defined contribution plan	122,700	-
Rent and house maintenance	490,795	-
Utilities	122,700	-
Medical	190,831	-
Others (Communication, Entertainment, Travelling & Fuel)	324,654	-
Total	3,194,413	-
Number of Persons	1	-

22.2 Executive means an employee other than Chief Executive and Directors, whose basic salary exceeds twelve hundred thousand rupees in a financial year.

	For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
	Rupees in thousand	
23 OTHER EXPENSES		
Auditors' remuneration	534	319
Ceded amount to PTF	-	550
	534	869
24 OTHER INCOME		
OPERATOR'S FUND		
Profit on profit and loss sharing account	1,679	723

	For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
	Rupees in thousand	
PARTICIPANT'S TAKAFUL FUND		
Profit on profit and loss sharing accounts	831	74
- Profit on profit and loss sharing account	2,510	797

25 RELATED PARTY TRANSACTIONS

'Related parties comprises of associated entities, entities under common control, entities with common directors, major shareholders, post employment benefit plans and key management personnel, inclusive of directors, and their close family members. The Company in the normal course of business carries out transactions with various related parties. Transactions with related parties are summarised as follows:

	For the year ended December 31, 2019	For the period May 07, 2018 to December 31, 2018
	Rupees in thousand	
TRANSACTIONS DURING THE PERIOD		
(i) Associated companies based on common directorship		
Gross contribution written	1,014	-
	1,014	-
(i) Key management personnel		
Employee benefits	2,150	1,954
	2,150	1,954

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

26 SEGMENT REPORTING

Particulars	PARTICIPANTS' TAKAFUL FUND									
	Fire and property damage		Marine, aviation and transport		Motor		Miscellaneous		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rupees in thousand									
Contribution receivable (inclusive of federal excise duty, federal insurance fee and administrative surcharge)	43,154	17,748	8,952	1,595	69,009	3,775	1,206	452	122,321	23,570
Federal Excise Duty	(5,521)	(2,320)	(1,104)	(203)	(8,834)	(503)	(161)	(61)	(15,620)	(3,087)
Federal Insurance Fee	(470)	(153)	(94)	(14)	(752)	(32)	(12)	(4)	(1,328)	(203)
Other Charges	-		-		-		-		-	
Advance Tax	-		-		-		-		-	
Stamp duty	-		-		-		-		-	
Gross written contribution (inclusive of administrative surcharge)	37,163	15,275	7,754	1,378	59,423	3,240	1,033	387	105,373	20,280
Gross direct contribution	36,644	15,069	7,430	1,341	58,972	3,147	993	379	104,039	19,936
Administrative surcharge	519	206	324	37	451	93	40	8	1,334	344
	37,163	15,275	7,754	1,378	59,423	3,240	1,033	387	105,373	20,280
Contribution earned	26,037	3,680	6,318	1,141	27,779	1,019	610	147	60,744	5,987
Retakaful expense	(23,266)	(3,058)	(5,565)	(1,032)	(20,892)	(968)	(516)	(125)	(50,239)	(5,183)
Net contribution revenue	2,771	622	753	109	6,887	51	94	22	10,505	804
Net rebate on retakaful	7,011	873	1,714	311	4,570	131	149	34	13,444	1,349
Net underwriting income	9,782	1,495	2,467	420	11,457	182	243	56	23,949	2,153
Takaful claims	(21,054)	-	(1,149)	(572)	(10,247)	(445)	-	-	(32,450)	(1,017)
Retakaful and other recoveries	20,057	-	1,110	98	5,084	612	-	-	26,251	710
Net claims	(997)	-	(39)	(474)	(5,163)	167	-	-	(6,199)	(307)
Wakala expense	(8,931)	(1,216)	(2,398)	(442)	(9,565)	(324)	(171)	(42)	(21,065)	(2,024)
Direct expense	(124)	(30)	(24)	(3)	(186)	(7)	(3)	(1)	(337)	(41)
Net claims and expenses	(10,052)	(1,246)	(2,461)	(919)	(14,914)	(164)	(174)	(43)	(27,601)	(2,372)
Underwriting surplus/(deficit)	(270)	249	6	(499)	(3,457)	18	69	13	(3,652)	(219)
Other income									831	74
Deficit for the period									(2,821)	(145)

SEGMENT REPORTING

Particulars	OPERATOR'S FUND									
	Fire and property damage		Marine, aviation and transport		Motor		Miscellaneous		Total	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rupees in thousand									
Wakala fee	8,931	1,216	2,398	442	9,565	324	171	42	21,065	2,024
Commission expense	(6,139)	(766)	(1,477)	(231)	(3,700)	(94)	(57)	(14)	(11,373)	(1,105)
Management expenses	(2,707)	(3,587)	(565)	(335)	(4,327)	(765)	(75)	(96)	(7,674)	(4,783)
	85	(3,137)	356	(124)	1,538	(535)	39	(68)	2,018	(3,864)
Other income									1,679	723
Other expense									(534)	(869)
Surplus/(loss) for the period									3,163	(4,010)
STATEMENT OF FINANCIAL POSITION										
Segment assets										
- Participants' Takaful Fund	65,733	23,211	5,979	1,532	62,988	4,829	1,246	509	135,946	30,081
Unallocated assets										
- Participants' Takaful Fund	-		-		-		-		46,699	4,425
- Operator's Fund	-		-		-		-		86,187	54,842
Consolidated total assets									268,832	89,348
SEGMENT LIABILITIES										
- Participants' Takaful Fund	78,772	26,129	7,937	1,870	89,626	2,387	1,584	2,978	177,919	33,364
Unallocated assets										
- Participants' Takaful Fund	-		-		-		-		2,144	737
- Operator's Fund	-		-		-		-		37,034	8,852
Consolidated total liabilities									217,095	42,953

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

27 MANAGEMENT OF TAKAFUL RISK AND FINANCIAL RISK

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

27.1 Takaful risk management

27.1.1 Takaful risk

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

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

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

(a) Frequency and severity of claims

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

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

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

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

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

In compliance of the regulatory requirement, the retakaful agreements are duly submitted with the SECP on an annual basis.

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

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

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

(c) Process used to decided on assumptions

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

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

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

(d) Changes in assumptions

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

(e) Sensitivity analysis

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

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

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

	2019		2018	
	Under writing results	Balance of Waqf	Under writing results	Balance of Waqf
	Rupees in thousand			
10% increase in average claim cost				
Fire and property damage	(22)	(22)	-	-
Marine, aviation and transport	-	-	(23)	(23)
Motor	(2)	(2)	(8)	(8)
	(24)	(24)	(31)	(31)
10% increase in average claim cost				
Fire and property damage	22	22	-	-
Marine, aviation and transport	-	-	23	23
Motor	2	2	8	8
	24	24	31	31

Concentration of takaful risk

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

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

	2019			2018		
	Gross sum covered	Retakaful cover	Highest net liability	Gross sum covered	Retakaful cover	Highest net liability
	Rupees in thousand					
Fire and property damage	6,861,703	6,837,687	24,016	-	-	-
Marine, aviation and transport	284,396	281,552	2,844	30,000	24,000	6,000
Motor	14,200	13,206	994	17,212	9,732	7,480
Others including miscellaneous	10,000	9,600	400	-	-	-
	7,170,299	7,142,045	28,254	47,212	33,732	13,480

28 FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

Risk management framework

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

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

28.1 Credit risk

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

28.1.1 Exposure to credit risk

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

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

	Note	2019	2018
		Rupees in thousand	
Cash at bank	9	67,161	49,428
Takaful/retakaful receivables	8	45,995	11,544
Wakala fee receivable		27,023	3,949
Retakaful recoveries against outstanding claims		22,719	518
Loans and other receivables	7	19,991	807
		182,889	66,246

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

	2019			2018		
	Short term	Long term	Agency	Short term	Long term	Agency
Meezan Bank Limited	AA+	A1+	PACRA			
MCB Islamic Bank Limited	A1	A	PACRA	A1	A	PACRA

Contribution due but unpaid

Contribution due but unpaid is mostly recoverable from corporate customers.

Concentration of credit risk

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019		2018	
	Rupees in thousand	%	Rupees in thousand	%
Engineering	21	0%	509	7%
Food	11,794	53%	3,111	45%
Other manufacturing	5,267	24%	1,742	25%
Others	5,008	23%	1,519	22%
	22,090	100%	6,881	99%

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

	2019		2018	
	Gross	Impairment	Gross	Impairment
	Rupees in thousand			
Upto 1 year	22,090	-	6,881	-

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

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

The Operator enters into retakaful arrangements with retakaful companies having sound credit ratings accorded by reputed credit rating agencies. An analysis of all retakaful assets relating to outward treaty cessions recognised by the rating of the entity from which it is due is as follows:

	2019			2018		
	Amount due from retakaful operators	Retakaful recoveries against outstanding claims	Prepaid retakaful contribution ceded	Amount due from retakaful operators	Retakaful recoveries against outstanding claims	Prepaid retakaful contribution ceded
	Rupees in thousand					
A or above	-	18,933	19,801	4,577	297	9,124
A-	2,109	-	15,274	-	-	-
BBB	-	3,752	-	86	-	665
Others	-	33	11,391	-	220	3,231
	2,109	22,718	46,466	4,663	517	13,020

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

	2019		2018	
	Gross	Impairment	Gross	Impairment
	Rupees in thousand			
Upto 1 year	2,109	-	4,663	-

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

28.2 Liquidity risk

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

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

	2019			
	Carrying amount	Contractual cash flows	Up to 6 months	Over 6 months to 1 year
	Rupees in thousand			
Financial liabilities-OPF				
Takaful/retakaful payables	41	41	41	-
Retirement benefit obligations	60	60	60	-
Other creditors and accruals	16,261	16,261	16,261	-
	16,362	16,362	16,362	-
Financial liabilities-PTF				
Provision for outstanding claims (including IBNR)	27,422	27,422	27,265	157
Takaful/retakaful payable	51,981	51,981	51,981	-
Wakala fee payable	27,023	27,023	27,023	-
Other creditors and accruals	2,144	2,144	2,144	-
	108,570	108,570	108,413	157
	124,932	124,932	124,775	157

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2018			
	Carrying amount	Contractual cash flows	Up to 6 months	Over 6 months to 1 year
	Rupees in thousand			
Financial liabilities-OPF				
Other creditors and accruals	3,823	3,823	3,823	-
Financial liabilities-PTF				
Provision for outstanding claims (including IBNR)	708	708	708	-
Takaful/retakaful payable	11,178	11,178	11,178	-
Wakala fee payable	3,949	3,949	3,949	-
Other creditors and accruals	6	6	6	-
	15,841	15,841	15,841	-
	19,664	19,664	19,664	-

28.3 Market risk

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

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

28.3.1 Profit rate risk

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

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

	2019							
	Profit Rate	Profit bearing			Non-profit bearing			Total
		Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	
	--- Rupees in thousand ---							
Financial assets								
Operator's Fund								
Bank balances	3.7% - 5.6%	39,269	-	39,269	-	-	-	39,269
Wakala fee receivable		-	-	-	27,023	-	27,023	27,023
Loans and other receivables		-	-	-	2,247	-	2,247	2,247
		39,269	-	39,269	29,270	-	29,270	68,539
Participants' Takaful Fund								
Bank balances	3.7% - 5.6%	27,892	-	27,892	-	-	-	27,892
Contribution due from policyholders		-	-	-	21,978	-	21,978	21,978
Amount due from other takaful/retakaful operators		-	-	-	24,006	-	24,006	24,006
Retakaful recoveries against outstanding claims		-	-	-	22,719	-	22,719	22,719
Loans and other receivables		-	-	-	18,011	-	18,011	18,011
		27,892	-	27,892	86,714	-	86,714	114,606
Financial liabilities								
Operator's Fund								
Other creditors and accruals		-	-	-	16,261	-	16,261	16,261
Takaful/retakaful payables		-	-	-	41	-	41	
Retirement benefit obligations		-	-	-	60	-	60	
		-	-	-	16,362	-	16,362	16,261
Participants' Takaful Fund								
Outstanding claims including IBNR		-	-	-	27,422	-	27,422	27,422
Takaful/retakaful payable		-	-	-	51,981	-	51,981	51,981
Wakala fee payable		-	-	-	27,023	-	27,023	27,023
Other creditors and accruals		-	-	-	2,144	-	2,144	2,144
		-	-	-	108,570	-	108,570	108,570

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

		2018						
		Profit bearing			Non-profit bearing			
	Profit Rate	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total	Total
		--Rupees in thousand--						
Financial assets								
Operator's Fund								
Bank balances	2.75% - 5.25%	45,114	-	45,114	-	-	-	45,114
Wakala fee receivable		-	-	-	3,949	-	3,949	3,949
Loans and other receivables		-	-	-	708	-	708	708
		45,114	-	45,114	4,657	-	4,657	49,771
Participants' Takaful Fund								
Bank balances	2.75% - 5.25%	4,314	-	4,314	-	-	-	4,314
Contribution due from policyholders		-	-	-	6,881	-	6,881	6,881
Amount due from other takaful/retakaful operators		-	-	-	4,663	-	4,663	4,663
Retakaful recoveries against outstanding claims		-	-	-	518	-	518	518
Loans and other receivables		-	-	-	108	-	108	108
		4,314	-	4,314	12,170	-	12,170	16,484
Financial liabilities								
Operator's Fund								
Other creditors and accruals		-	-	-	3,850	-	3,850	3,850
		-	-	-	3,850	-	3,850	3,850
Participants' Takaful Fund								
Outstanding claims including IBNR		-	-	-	708	-	708	708
Takaful/retakaful payable		-	-	-	11,178	-	11,178	11,178
Wakala fee payable		-	-	-	3,949	-	3,949	3,949
Other creditors and accruals		-	-	-	428	-	428	428
		-	-	-	-	-	-	-

Cash flow sensitivity analysis for variable rate instruments

The Operator is exposed to cash flow profit rate risk in respect of its balances with banks. In case of 100 basis points (bp) increase/decrease in profit rates at period end, assuming that all other variables remain constant, the net income and equity would have been higher/lower approximately by Rs 0.007 million (2017: Nil) in Operator's fund. Similarly, in case of Participants' Takaful Fund the net income and balance of Waqf/PTF would have been higher/lower approximately by Rs 0.001 million (2017: Nil).

28.3.2 Profit rate risk

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

28.4 Fund management

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

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

29 Capital management

The Operator's objectives when managing capital are to safeguard the Operator's ability to continue as a going concern in order to provide return for participants and to maintain an optimal capital structure to reduce the cost of capital.

The Operator's objective when managing capital are:

(i) to be in compliance with the solvency requirements as prescribed under Takaful Rules, 2012.

(ii) to safeguard the Fund's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

(iii) to provide an adequate return to the participants.

The Operator manages the capital structure in context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure.

30 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

31 SUBSEQUENT EVENTS

There are no significant events that need to be disclosed for the year ended December 31, 2019.

32 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Operator on March 09, 2020.

33 GENERAL

The window takaful operator was incorporated on May 7th 2018, consequently, the corresponding figures for statement of comprehensive income, cash flow statement and statement of changes of funds having been presented for the period May 7th 2018 to December 31st 2018. Further, corresponding period's figures have been rearranged where ever considered necessary to facilitate comparison. No significant rearrangements have been made during the year.

Chief Executive Officer	Director	Director	Chairman

FORM OF PROXY

Security General Insurance Company Limited

I/We, ____

________of______________________________FOLIO NO. ______________________________

being a shareholder of the Security General Insurance Company Limited (The Company) do hereby appoint.

Mr./Miss/Ms. ____

_________of_______________________________FOLIO NO.______________________________

__and or failing him/her ______________________________ of ______________________

____

who is/are also a shareholder of the said Company, as my/our proxy in my/our absence and to vote for me/us at the Annual General Meeting of the Company to be held on March 30, 2020 (Monday) at 11:30 A.M. at 53-A Lawrance Road, Lahore and at any adjournment thereof in the same manner as I/we myself/ourselves would vote if personally present at such meeting.

As witness my/our hands in this day of_________________ 2020.

Signature ___________________________________

Address ____________________________________

____

CNIC No. ___________________________________

No. of shares held ____________________________

Revenue Stamp

Witness:-

Name ______________________________________

Address ____________________________________

____

CNIC No. ___________________________________

IMPORTANT:

a. This instrument appointing a proxy, duly completed, must be received at the registered Office of the Company at 53-A Lawrance Road, Lahore not later than 48 hours before the time of holding the Annual General Meeting. For Appointing Proxies.
b. Attested copies of the CNIC or the passport of beneficial owners shall be furnished with the proxy form.
c. The proxy shall produce his original CNIC or original passport at the time of the Meeting.
d. In case of corporate entity, the Board's resolution / power of attorney with specimen signature shall be furnished along with proxy form to the Company

پراکسی فارم
سیکورٹی جنرل انشورنس کمپنی لمیٹڈ

میں/ہم ---

کا/کے--

بحیثیت رکن سیکورٹی جنرل انشورنس کمپنی لمیٹڈ فولیو نمبر --------------------------------- بذریعہ ہذا

محترم/محترمہ------------------------------- کا/کی----------------------------فولیو نمبر-----------------------------

یا اسکی غیر موجودگی میں--------------------------------------کا/کے---

جو مذکورہ کمپنی کا حصص دار بھی ہے

کو اپنے /ہمارے ایماء پر 30مارچ 2020بروز پیر 30 :11 بجے بمقام 53-اے لارنس روڈ لاہور پر

منعقد ہونے والے سالانہ اجلاس عام میں حق رائے دہی استعمال کرنے ، تقریر اور شرکت کرنے یا کسی بھی التواء کی صورت میں اپنا/ہمارا بطور مختار (پراکسی)مقرر کرتا ہوں

آج بروز------ بتاریخ-------2020 کو میرے/ہمارے دستخط سے گواہوں کی تصدیق سے جاری ہوا۔

رسیدی ٹکٹ

گواہ

نام :-----------------------------

پتہ :-----------------------------

شناختی کارڈ نمبر :----------------------

دستخط :----------------------------

اہم نوٹ

ا۔ پراکسی کی تقرری کے آلات، باقاعدہ مکمل شدہ، کمپنی کے 53-اے لارنس روڈ لاہور ۴۸ گھنٹے قبل پراکسیز مقرر کرنے کے لیے لازماً وصول ہوجانے چاہئیں۔

ب۔ بینیفشل اونرز کے کمپیوٹرائزڈ قومی شناختی کارڈ یا پاسپورٹ کی مصدقہ نقول، پراکسی فارم مختارنامہ کے ہمراہ کمپنی میں جمع کرانا ہو گی۔

ج۔ پراکسی اجلاس کے وقت اپنا اصل کمپیوٹرائزڈ قومی شناختی کارڈ یا اصل پاسپورٹ مہیا کرے گا۔

د۔ بصورت کارپوریٹ اینٹٹی، بورڈ کی قرارداد/مختارنامہ معہ پراکسی ہولڈر کے دستخط پراکسی فارم مختارنامہ کے ہمراہ کمپنی میں جمع کرانا ہوگا۔

INVESTORS' EDUCATION

In pursuance of SRO 924(1)/2015 dated September 9th, 2015 issued by the Securities and Exchange Commission of Pakistan (SECP), the following informational message has been reproduced to educate investors:

TAKAFUL

Window Takaful Operations

SGI House

18-C/E-1, Gulberg III, Lahore.

Phone: 042-35775024-29

Email: sgi@sgicl.com

Website: www.sgicl.com | www.takafulsgi.com