

CHUBB INSURANCE PAKISTAN LIMITED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020



INDEPENDENT AUDITOR'S REPORT

To the members of Chubb Insurance Pakistan Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the annexed financial statements of **Chubb Insurance Pakistan Limited** (the Company), which comprise the statement of financial position as at December 31, 2020, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 equity and the statement of cash flows 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 Company's affairs as at December 31, 2020 and of the profit and the 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.

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 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 financial statements that are free from material misstatement, whether due to fraud or error.

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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);





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- b) the statement of financial position, 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 (XXI 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 **Shahbaz Akbar**.

A handwritten signature in blue ink that reads 'A. Ferguson & Co.' in a cursive style.

A. F. Ferguson & Co.
Chartered Accountants
Karachi
Dated: March 29, 2021

CHUBB INSURANCE PAKISTAN LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Note	2020	2019
		----- (Rupees) -----	
Property and equipment	7	45,075,805	32,187,382
Investments			
Debt securities	8	52,512,910	50,309,772
Term deposits	8	690,000,000	582,000,000
Loans and other receivables - considered good	9	124,304,525	124,406,017
Insurance / reinsurance receivables	10	339,466,807	182,394,512
Reinsurance recoveries against outstanding claims	20	122,000,120	123,248,423
Deferred commission expense / acquisition cost	21	7,432,217	6,021,377
Deferred taxation - net	11	1,444,812	783,307
Taxation - payments less provision		20,018,606	32,042,347
Prepayments	12	63,815,631	63,969,217
Cash and bank	13	70,836,041	33,506,405
Total assets		<u>1,536,907,474</u>	<u>1,230,868,759</u>
Equity and liabilities			
Capital and reserves attributable to the Company's equity holders			
Ordinary share capital	14	500,000,000	500,000,000
Reserves		15,320,582	11,443,813
Unappropriated profit		249,543,697	162,360,021
Total equity		<u>764,864,279</u>	<u>673,803,834</u>
Liabilities			
Underwriting provisions			
Outstanding claims including IBNR	20	200,237,274	192,920,645
Unearned premium reserves	19	381,405,765	252,945,107
Unearned reinsurance commission	21	15,365,146	14,098,598
Retirement benefit obligations	15	5,949,902	3,538,760
Premium received in advance		7,688,138	5,400,863
Insurance / reinsurance payables	16	111,096,877	44,708,741
Other creditors and accruals	17	50,300,093	43,452,211
Total liabilities		<u>772,043,195</u>	<u>557,064,925</u>
Total equity and liabilities		<u>1,536,907,474</u>	<u>1,230,868,759</u>
Contingencies and commitments	18		

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

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Huzefa Chaudhri
CHIEF EXECUTIVE OFFICER /
COUNTRY PRESIDENT

[Signature]
DIRECTOR

[Signature]
DIRECTOR

Syed Uddin Shah
CHAIRMAN

CHUBB INSURANCE PAKISTAN LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	Year ended December 31, 2020	Year ended December 31, 2019
----- (Rupees) -----			
Net insurance premium	19	209,283,744	168,173,036
Net insurance claims expense	20	24,766,709	33,010,070
Net commission income	21	(20,404,390)	(6,673,201)
Insurance claims and acquisition expenses		4,362,319	26,336,869
Management expenses	22	129,801,796	111,799,832
Underwriting results		<u>75,119,629</u>	<u>30,036,335</u>
Investment income	23	60,257,515	58,250,541
Other income	24	4,472,516	7,226,662
Other expenses	25	12,174,780	8,040,431
Profit before taxation		<u>127,674,880</u>	<u>87,473,107</u>
Income tax expense	26	38,859,771	25,663,237
Profit after taxation		<u>88,815,109</u>	<u>61,809,870</u>
Other comprehensive income - not reclassifiable to profit and loss			
Remeasurement of post employment benefit obligations	15.5	(2,297,793)	(1,009,194)
Taxation thereon		666,360	292,666
Other comprehensive loss for the year		(1,631,433)	(716,528)
Total comprehensive income for the year		<u>87,183,676</u>	<u>61,093,342</u>
Earnings per share - basic and diluted	27	<u>1.78</u>	<u>1.24</u>

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

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Huzefa Chaudhri

CHIEF EXECUTIVE OFFICER /
COUNTRY PRESIDENT

[Signature]

DIRECTOR

[Signature]

DIRECTOR

Syed Uddin Shah

CHAIRMAN

CHUBB INSURANCE PAKISTAN LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Reserves				Total
	Issued, subscribed and paid-up share capital	Capital reserves		Revenue reserves	
		Advance against future issue of shares	Share based payment contribution reserve	Unappropriated profit	
----- (Rupees) -----					
Balance as at January 1, 2019	500,000,000	11,450	8,730,272	101,266,679	610,008,401
Employee benefit cost under IFRS 2 - 'Share-based payment' - note 22.2	-	-	2,702,091	-	2,702,091
Profit for the year after taxation	-	-	-	61,809,870	61,809,870
Other comprehensive loss	-	-	-	(716,528)	(716,528)
Total comprehensive income for the year	-	-	-	61,093,342	61,093,342
Balance as at December 31, 2019	<u>500,000,000</u>	<u>11,450</u>	<u>11,432,363</u>	<u>162,360,021</u>	<u>673,803,834</u>
Employee benefit cost under IFRS 2 - 'Share based payment' - note 22.2	-	-	3,876,769	-	3,876,769
Profit for the year after taxation	-	-	-	88,815,109	88,815,109
Other comprehensive loss	-	-	-	(1,631,433)	(1,631,433)
Total comprehensive income for the year	-	-	-	87,183,676	87,183,676
Balance as at December 31, 2020	<u>500,000,000</u>	<u>11,450</u>	<u>15,309,132</u>	<u>249,543,697</u>	<u>764,864,279</u>

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

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Huzefa Chaudhri
CHIEF EXECUTIVE OFFICER /
COUNTRY PRESIDENT

[Signature]
DIRECTOR

[Signature]
DIRECTOR

Syed Usman Shah
CHAIRMAN

CHUBB INSURANCE PAKISTAN LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Note	2020	2019
		----- (Rupees) -----	
OPERATING CASH FLOWS			
a) Underwriting activities			
Insurance premium received		718,389,648	562,058,264
Reinsurance premium paid		(460,852,636)	(383,859,593)
Claims paid	20	(35,910,828)	(51,441,416)
Reinsurance and other recoveries received		19,064,342	47,053,501
Commission paid		(22,733,237)	(34,346,871)
Commission received		42,074,187	43,549,879
Management expenses paid		(112,265,298)	(93,890,410)
Net cash generated from underwriting activities		<u>147,766,178</u>	<u>89,123,354</u>
b) Other operating activities			
Income tax paid		(26,831,175)	(7,399,678)
Other operating payments		(15,450,066)	(13,367,371)
Net cash used in other operating activities		<u>(42,281,241)</u>	<u>(20,767,049)</u>
Net cash generated from all operating activities		<u>105,484,937</u>	<u>68,356,305</u>
INVESTMENT ACTIVITIES			
Profit / return received		60,758,895	56,849,233
Investments made during the year		(51,448,539)	-
Investments proceeds received during the year		50,000,000	-
Fixed assets disposal		1,625,000	8,725,000
Fixed capital expenditure		(21,090,657)	(21,644,060)
Net cash generated from investing activities		<u>39,844,699</u>	<u>43,930,173</u>
Net cash generated from all activities		<u>145,329,636</u>	<u>112,286,478</u>
Cash and cash equivalents at the beginning of the year		615,506,405	503,219,927
Cash and cash equivalents at the end of the year	13.2	<u><u>760,836,041</u></u>	<u><u>615,506,405</u></u>
Reconciliation to profit after taxation in the Statement of Comprehensive Income			
Operating cash flows		105,484,937	68,356,305
Depreciation expense	7.1	(7,898,017)	(4,454,919)
Amortisation of discount / (premium) on Pakistan Investment Bonds	23	754,599	(1,289,935)
Gain on disposal of property and equipment	24	1,320,783	5,780,275
Profit / return received		60,758,895	56,849,233
Increase / (decrease) in assets other than cash		144,951,158	89,935,848
(Increase) / decrease in liabilities		(212,680,477)	(150,664,846)
Employee benefit cost under IFRS 2, 'Share based payment'		(3,876,769)	(2,702,091)
Profit after taxation		<u><u>88,815,109</u></u>	<u><u>61,809,870</u></u>

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

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Hungah Chaudhri

CHIEF EXECUTIVE OFFICER /
COUNTRY PRESIDENT

[Signature]

DIRECTOR

[Signature]

DIRECTOR

Syed U Aishah

CHAIRMAN

CHUBB INSURANCE PAKISTAN LIMITED
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2020

1 LEGAL STATUS AND NATURE OF BUSINESS

Chubb Insurance Pakistan Limited (the Company) is a wholly owned subsidiary of Chubb INA International Holdings, Ltd. U.S.A. The Company was incorporated in Pakistan on August 6, 2001 as a public limited company under the Companies Ordinance, 1984 (now Companies Act, 2017) and is engaged in general insurance business. The ultimate parent of the Company is Chubb Limited.

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

2 BASIS OF PREPARATION AND 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 comprise of:

- International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017, Insurance Ordinance, 2000, the Insurance Rules, 2017 and the Insurance Accounting Regulations, 2017.

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

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 defined benefit obligation less fair value of plan assets and certain equity settled share based payments which are measured at their respective fair values at the grant date.

3.1 Functional and presentation currency

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

3.2 Standards, interpretations and amendments to the accounting and reporting standards as applicable in Pakistan that are effective in the current year

3.2.1 There are certain other new and amended standards and interpretations that are mandatory for the Company's accounting period 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 and are therefore not detailed in these financial statements.

3.3 Standards, interpretations and amendments to the accounting and reporting standards as applicable in Pakistan that are not yet effective

3.3.1 The following standards, amendments and interpretations of the accounting and reporting standards as applicable in Pakistan will be effective for accounting periods beginning on or after January 1, 2021:

Standard, interpretations or amendments	Effective date (accounting period beginning on or after)
- IFRS 16 - 'Leases' (amendments)	June 1, 2020
- IAS 16 - 'Property, plant and equipment' (amendments)	January 1, 2022
- IAS 37 - 'Provisions, contingent liabilities and contingent assets' (amendments)	January 1, 2022
- IAS 1 - 'Presentation of financial statements' (amendments)	January 1, 2023
- IFRS 9 - 'Financial Instruments'	January 1, 2023*

The management is in the process of assessing the impact of these standards on the financial statements of the Company.

3.3.2 There are certain other new and amended standards, interpretations and amendments that are mandatory for the Company's accounting periods beginning on or after January 1, 2021 but are considered not to be relevant or will not have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

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4 TEMPORARY EXEMPTION FROM APPLICATION OF IFRS 9

4.1 As an insurance company, the management has opted for temporary exemption from the application of IFRS 9 as allowed by the International Accounting Standards Board (IASB) for entities whose activities are predominantly connected with insurance. Additional disclosures, as required by the IASB, for being eligible to apply the temporary exemption from the application of IFRS 9 are given in note 4.2 below.

4.2 Fair value of financial assets as at December 31, 2020 and change in the fair values during the year ended December 31, 2020

	As at December 31, 2019	As at December 31, 2020	Change during the year ended December 31, 2020
	----- Rupees -----		
Financial assets			
Pakistan Investment Bonds	<u>49,486,982</u>	<u>55,956,909</u>	<u>6,469,927</u>

The fair value of the remaining financial assets are not significantly different from their carrying amounts since these assets are short term in nature or are frequently repriced to market rate.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented except as disclosed in note 2.3.1.

5.1 Property and equipment

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

Depreciation is charged to the profit or loss by applying the reducing balance method at the rates specified in note 7 to the financial statements. The assets' residual values and useful lives are reviewed at each reporting date and adjusted, if appropriate. Depreciation is charged on additions from the month of acquisition and on disposals upto the month of disposal.

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

Gains and losses on disposal of fixed assets are taken to the profit or loss in the statement of comprehensive income in the period in which disposals are made.

5.2 Insurance contracts

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

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

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

Insurance contracts are classified into the following five categories:

- (a) Fire and property damage - The perils covered under fire and property damage insurance include damages caused by fire, riots and strikes, explosions, earthquakes, atmospheric damages, floods, electric fluctuations, terrorism, burglary, loss of cash in safe and cash in transit, money, engineering losses and other covers;
- (b) Marine, aviation and transport - This provides coverage against cargo risk, risk of war and damages occurring in ocean marine transit and inland transit;

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- (c) Motor - This provides comprehensive car coverage and indemnity against third party loss;
- (d) Accident and health - This provides coverage for accidental death and disability as a result of accident, medical expenses attributable to sickness or infirmity and travel insurance; and
- (e) Liability - This provides cover for legal liability incurred by policy holders as a result of their business activities.

5.2.1 Premium

Premium received / receivable under a policy is recognised as written from the date of attachment of the risk to the policy to which it relates.

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

5.2.2 Reinsurance ceded

The Company enters into reinsurance contracts in the normal course of business in order to limit the potential for losses arising from certain exposures. Outward reinsurance premiums are accounted for in the same period as the related premiums for the direct or accepted insurance business being reinsured. Reinsurance premium is recognised as an expense after taking into account the proportion of deferred premium expense which is calculated using pattern similar to calculation of premium income for the same policy. The deferred portion of premium expense is recognised as prepaid insurance premium ceded.

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

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

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

The Company assesses its reinsurance assets for impairment on each reporting date. If there is an objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the profit or loss in the statement of comprehensive income .

5.2.3 Underwriting provisions

Underwriting provisions in respect of the insurance contracts entered into by the Company are accounted for as under:

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

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

The liability in respect of unpaid reported claims is based on the estimates of the claims intimated or assessed before the end of the reporting period and is measured at the undiscounted value of expected future payments. In addition, as per the requirements of the Insurance Accounting Regulations, 2017, a provision is made on an estimated basis for the claims which may have been incurred in the current reporting period but have not been reported to the Company (IBNR) as of the reporting date, after taking into consideration the expected recoveries and settlement costs. IBNR claims also include claims which have been reported but in respect of which complete details are not available with the Company so as to ascertain the amount of loss for that claim as claims outstanding. Provision for IBNR is determined and recognised in accordance with the valuation carried out by an appointed actuary based on the guidelines given in circular no. 9 of 2016, 'Securities and Exchange Commission (SEC) guidelines for estimation of incurred but not reported (IBNR) claims reserve, 2016' issued by the SECP. 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, where information about the claim event is available. IBNR claim costs may not be apparent to the insurer until many years after the event that gives rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty in estimating these liabilities.

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5.2.3.2 Unearned premium reserve

Provision for unearned premium represents the portion of premium written relating to the unexpired period of coverage. The Company recognises unearned portion of premium income as a liability, calculated as a proportion of the gross premium of individual policies, determined as the ratio of the unexpired period to the total period of the policy, both measured to the nearest day, in accordance with the option given in the Insurance Accounting Regulations, 2017.

5.2.3.3 Premium deficiency reserve

The Company is required as per Insurance Rules, 2017 to maintain a provision in respect of premium deficiency for the class of business where the unearned premium liability is not adequate to meet the expected future liability, after reinsurance, from claims and other supplementary expenses expected to be incurred after the reporting date in respect of the unexpired policies in that class of business at the reporting date. The movement in the premium deficiency reserve is recorded as an expense / income in the profit or loss in the statement of comprehensive income for the year.

At each reporting date, liability adequacy tests are performed separately for each class of business to ensure the adequacy of the unearned premium liability for that class. It is performed by comparing the expected future liability, after reinsurance, from claims and other expenses, including reinsurance expense, commissions and other expenses, expected to be incurred after the reporting date in respect of policies in force at reporting date with the carrying amount of unearned premium liability. Any deficiency is recognised by establishing a provision (premium deficiency reserve) to meet the deficit. The expected future liability is estimated with reference to the experience during the expired period of the contracts, adjusted for significant individual losses which are not expected to recur during the remaining period of the policies, and expectations of future events that are believed to be reasonable. The expected ultimate net claim ratios for the unexpired periods of policies in force at reporting date for relevant classes of business are as follows:

	2020	2019
Fire and property damage	18%	28%
Marine, aviation and transport	90%	30%
Accident and health	9%	12%

Based on an analysis of combined operating ratio for the expired period of each reportable segment, the management considers that the unearned premium reserve for each line of business as at the year end is adequate to meet the expected future liability after reinsurance, from claims and other expenses, expected to be incurred after the reporting date in respect of policies in those classes of business in force at the reporting date.

5.2.3.4 Unearned reinsurance commission

Commission received from reinsurers is deferred and recorded as a liability. It is recognised in the profit or loss in the statement of comprehensive income as revenue in accordance with the pattern of recognition of reinsurance premium to which it relates.

5.2.4 Amounts due to / from other insurers / reinsurers

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

5.2.5 Due from insurance contract holders

Premium / premium adjustments not yet processed but relating to the financial year, so far as is practicable, is recognised as a receivable and earned over the period covered by the policy.

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

5.2.6 Reinsurance recoveries against outstanding claims

Reinsurance recoveries against outstanding claims are recognised as assets and are measured at the amounts expected to be received. These are recognised at the same time as the claims which give rise to the right to the recovery are recognised.

5.2.7 Deferred commission expense

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

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5.2.8 Prepaid reinsurance premium ceded

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

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

5.3 Loans and other receivables

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

5.4 Cash and cash equivalents

Cash and cash equivalents include cash and stamps in hand, bank balances and other deposits which are readily convertible into cash and which are used in the cash management function on a day-to-day basis and other short-term highly liquid investments with original maturities of three months or less.

5.5 Employees' benefits

5.5.1 Defined benefit plan

The Company operates an approved gratuity fund (defined benefit plan) for all permanent employees to which the Company makes contributions on the basis of recommendations made by an actuary. The most recent actuarial valuation was carried out for the year ended December 31, 2020 using the projected unit credit method.

The liability / asset recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with the adjustments for amounts arising as a result of remeasurements with a charge or credit to other comprehensive income in the periods in which these occur.

5.5.2 Defined contribution plan

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

5.5.3 Share-based compensation benefits

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

5.5.4 Employees' compensated absences

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

5.6 Right-of-use assets and their related lease liability

Right-of-use assets

On initial recognition, right-of-use assets is measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or the site on which it is located.

Right-of-use assets is subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenure.

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Right-of-use assets is depreciated over the expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which leases are entered into. No depreciation is charged in month in which the leases mature or are terminated.

Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also measured to reflect any remeasurement or change in lease terms. These remeasurement of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Lease payments reduce the lease liability against right-of-use assets. Finance cost is charged to the unconsolidated statement of comprehensive income as financial charges over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

5.7 Creditors and accruals

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

5.8 Provisions, contingent assets and contingent liabilities

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

Contingent assets are not recognised and disclosed unless an inflow of economic benefits is virtually certain. Contingent liabilities are also not recognised and but are disclosed unless the probability of an outflow of resources embodying economic benefits is remote.

5.9 Impairment of non-financial assets

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

5.10 Financial instruments

5.10.1 Financial assets

5.10.1.1 Classification

The classification of financial assets is determined at initial recognition and depends on the purpose for which these were acquired. Currently, the Company has classified its financial assets into the following categories:

a) At fair value through profit or loss

These financial assets are acquired principally for the purpose of generating profit from short-term fluctuation in prices or are part of a portfolio for which there is a recent actual pattern of short-term profit taking. Subsequent to initial recognition these are measured at fair value by reference to quoted market prices with the resulting gain or loss being included in the profit or loss in the statement of comprehensive income for the period in which it arises.

b) Available-for-sale

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

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c) Held to maturity

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

d) Loans and receivables

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

5.10.1.2 Initial recognition and measurement

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

5.10.1.3 Subsequent measurement

Financial assets classified as 'financial assets at fair value through profit or loss' are subsequently measured at their fair values and gains and losses arising from changes in fair value are included in the profit or loss. Financial assets classified as 'available-for-sale' are also subsequently measured at fair value. The gain / loss on remeasurement is taken to equity. Financial assets classified as 'held-to-maturity' and 'loan and receivables' are subsequently measured at amortised cost less any impairment losses, taking into account any discount or premium on acquisition by using the effective interest rate method.

5.10.1.4 Impairment of financial assets

For financial assets classified as 'loans and receivables', 'available for sale' and 'held to maturity', a provision for impairment is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms. In case of equity securities, a significant or prolonged decline in their values below cost is considered as an evidence of impairment. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash outflows, discounted at the original effective interest rate.

5.10.1.5 Derecognition

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

5.10.2 Financial liabilities

Financial liabilities are recognised at the time the Company becomes a party to the contractual provisions of the instruments. These are initially recognised at fair value and subsequently stated at amortised cost. Financial liabilities are derecognised at the time when these are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires. Any gain or loss on derecognition of financial liabilities is taken to the profit or loss in the statement of comprehensive income.

5.10.3 Offsetting of financial assets and financial liabilities

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

5.11 Revenue recognition

- Premium income under a policy is recognised as revenue evenly over the period of insurance from inception to expiry. It includes administrative surcharge that represents documentation and other charges recovered by the Company from policy holders in respect of policies issued, at the rate of 5% of the premium written restricted to a maximum of Rs. 5,000 per policy. Administrative surcharge is recognised as premium at the time the policies are written.

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- Endorsement and other adjustments in the existing policy is recognised as an adjustment to the premium in the year in which the endorsement / adjustment is made.
- Commission income is recognised in accordance with the pattern of recognition of reinsurance premium to which it relates.
- Income from government securities is recognised on an accrual basis using the effective interest method.
- Income from term deposits is recognised on an accrual basis.
- Survey fee income is recognised when the surveyor / co-insurer has billed the amount to the Company whether or not the bill has been generated against the broker of insured.

5.12 Management expenses

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

5.13 Taxation

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

Current

Provision for current taxation is based on profits and gains of insurance business computed in accordance with the rules specified in the Fourth Schedule to the Income Tax Ordinance, 2001 after taking into account tax credits available, if any. The charge for current tax is calculated using the prevailing tax rates or tax rates expected to apply to the profits for the period at the enacted rates. The charge for current tax also include adjustments where necessary, relating to prior years which arise from assessment framed / finalised during the year.

Deferred

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

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

5.14 Proposed dividends and transfers between reserves

Dividends, if any, declared and transfers between reserves made subsequent to the reporting date are considered as non-adjusting events and are recognised in the financial statements in the year in which such dividends are declared and transfers are made.

5.15 Foreign currency transactions and translations

Transactions in foreign currencies are translated into reporting currency at the rates of exchange prevailing at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into reporting currency equivalents using year-end spot foreign exchange rates. Non-monetary 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. All exchange differences are routed through the profit or loss in the statement of comprehensive income.

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5.16 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The Company accounts for segment reporting using the classes of business as specified under the Insurance Ordinance, 2000 and the Insurance Rules, 2017. The reported operating segments are also consistent with the internal reporting provided to the Chief Executive Officer who is responsible for allocating resources and assessing performance of the operating segments. The performance of segments is evaluated on the basis of underwriting results of each segment.

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

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

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

5.17 Earnings per share

The Company presents basic and diluted earnings per share (EPS) for its shareholders. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

5.18 Share Capital

Ordinary shares are classified as equity and are recorded at face value, incremental costs, if any, directly attributable to the issuance of shares, are recognised in equity as a deduction, net of tax, from the proceeds.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with the accounting and reporting standards as applicable to insurance companies in Pakistan requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and income and expenses. It also requires management to exercise judgment in the application of the accounting policies of the Company. The estimates and associated assumptions are based on historical experience, current trends and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the estimates about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

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

- provisions for outstanding claims including IBNR (note 5.2.3.1);
- obligation in respect of employee benefits (notes 5.5, 15 and 22.2);
- provision for taxation and deferred tax (notes 5.13, 11 and 26);
- premium deficiency reserve (note 5.2.3.3);
- useful lives, residual value and depreciation method for property and equipment (notes 5.1 and 7);
- classification of investments and its impairment (notes 5.10.1.1, 5.10.1.4 and 8);
- provision against premium due but unpaid and amount due from other insurers / reinsurers (notes 5.2.4, 5.2.5 and 10); and
- reinsurance recoveries against outstanding claims (notes 5.2.6 and 20).

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7	PROPERTY AND EQUIPMENT	Note	2020	2019
			----- (Rupees) -----	
	Operating assets	7.1	45,075,805	25,749,382
	Capital work in progress	7.3	-	6,438,000
			<u>45,075,805</u>	<u>32,187,382</u>

7.1 Following is a statement of operating assets:

	2020									
	Cost				Depreciation				Written down value as at December 31, 2020	Depreciation rate (% per annum)
	As at January 1, 2020	Additions during the year	Disposals / write-offs	As at December 31, 2020	As at January 1, 2020	Depreciation for the year	Disposals / write-offs	As at December 31, 2020		
	----- (Rupees) -----									
Furniture and fixtures	7,169,193	13,046,133	4,758,326	15,457,000	4,936,461	688,875	4,339,200	1,286,136	14,170,864	20%
Office equipment	9,104,775	3,413,524	3,296,121	9,222,178	6,476,219	896,568	2,866,654	4,506,133	4,716,045	20%
Motor vehicles	26,536,705	14,869,000	5,211,000	36,194,705	6,025,688	6,188,139	1,955,376	10,258,451	25,936,254	20%
Computers and related accessories	2,652,122	-	-	2,652,122	2,275,045	124,435	-	2,399,480	252,642	33%
	<u>45,462,795</u>	<u>31,328,657</u>	<u>13,265,447</u>	<u>63,526,005</u>	<u>19,713,413</u>	<u>7,898,017</u>	<u>9,161,230</u>	<u>18,450,200</u>	<u>45,075,805</u>	

	2019									
	Cost				Depreciation				Written down value as at December 31, 2019	Depreciation rate (% per annum)
	As at January 1, 2019	Additions during the year	Disposals / write-offs	As at December 31, 2019	As at January 1, 2019	Depreciation for the year	Disposals / write-offs	As at December 31, 2019		
	----- (Rupees) -----									
Furniture and fixtures	7,169,193	-	-	7,169,193	4,378,280	558,181	-	4,936,461	2,232,732	20%
Office equipment	8,995,215	109,560	-	9,104,775	5,825,930	650,289	-	6,476,219	2,628,556	20%
Motor vehicles	26,620,365	15,096,500	15,180,160	26,536,705	15,200,399	3,060,724	12,235,435	6,025,688	20,511,017	20%
Computers and related accessories	2,652,122	-	-	2,652,122	2,089,320	185,725	-	2,275,045	377,077	33%
	<u>45,436,895</u>	<u>15,206,060</u>	<u>15,180,160</u>	<u>45,462,795</u>	<u>27,493,929</u>	<u>4,454,919</u>	<u>12,235,435</u>	<u>19,713,413</u>	<u>25,749,382</u>	

7.1.1 Disposal of operating assets

Particulars of the assets	Cost	Accumulated depreciation	Book value	Sale proceeds	Net gain / (loss)	Mode of disposal	Particulars of purchaser
----- (Rupees) -----							
Assets having book value of Rs 500,000 and more disposed of during the year							
Vehicles							
Honda City	1,663,000	1,071,333	591,667	1,625,000	1,033,333	Negotiation	Honda Quaideen
Honda Civic	3,548,000	884,043	2,663,957	3,800,000	1,136,043	Negotiation	Honda Quaideen
Assets having book value of not more than Rs 500,000 disposed of during the year							
	8,054,447	7,205,854	848,593	-	(848,593)		
	<u>13,265,447</u>	<u>9,161,230</u>	<u>4,104,217</u>	<u>5,425,000</u>	<u>1,320,783</u>		

7.2 The cost of fully depreciated assets still in use amounts in aggregate to Rs 0.366 million (2019: Rs 0.366 million).

7.3	CAPITAL WORK-IN-PROGRESS	Note	2020	2019
			----- (Rupees) -----	
	Advances to suppliers		-	6,438,000

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8	INVESTMENTS	Note	2020 ----- (Rupees) -----	2019 -----
	Debt securities - held-to-maturity			
	Government securities - Pakistan Investment Bonds	8.1	52,512,910	50,309,772
	Term deposits - loans and receivables			
	Deposits maturing within 12 months	8.2	<u>690,000,000</u>	<u>582,000,000</u>
			<u>742,512,910</u>	<u>632,309,772</u>
8.1	These have a face value of Rs 55 million (2019: Rs 50 million) which have been deposited with the State Bank of Pakistan in compliance with the requirements of clause (a) of sub-section 2 of section 29 of the Insurance Ordinance, 2000. These carry coupon interest at the rate of 9.00% per annum and are due to mature on September 19, 2022.			
8.2	These carry interest at rates ranging between 5.60% and 6.45% (2019: 12.00% and 12.40%) per annum and are due to mature on various dates latest by March 11, 2021 (2019: March 27, 2020).			
9	LOANS AND OTHER RECEIVABLES - CONSIDERED GOOD	Note	2020 ----- (Rupees) -----	2019 -----
	Accrued investment income		5,140,744	6,396,723
	Deposit against utilities		894,050	874,050
	Survey fees receivable		13,235,618	12,054,067
	Deposit with Sindh Revenue Board	18.1.3	104,678,626	104,678,626
	Other receivables		355,487	402,551
			<u>124,304,525</u>	<u>124,406,017</u>
10	INSURANCE / REINSURANCE RECEIVABLES			
	Unsecured and considered good			
	Due from insurance contract holders		21,782,945	17,484,701
	Due from other insurers / reinsurers		<u>317,683,862</u>	<u>164,909,811</u>
			<u>339,466,807</u>	<u>182,394,512</u>
11	DEFERRED TAXATION - NET			
	Deferred tax debits have arisen in respect of:			
	- Accelerated tax depreciation		-	-
	- Defined benefit plan		1,725,472	1,026,240
	Deferred tax credits have arisen in respect of:			
	- Accelerated tax depreciation		<u>280,660</u>	<u>242,933</u>
			<u>1,444,812</u>	<u>783,307</u>
12	PREPAYMENTS			
	Prepaid reinsurance premium ceded	19	59,515,062	58,200,536
	Prepaid rent		3,019,037	3,659,623
	Prepaid miscellaneous expenses		<u>1,281,532</u>	<u>2,109,058</u>
			<u>63,815,631</u>	<u>63,969,217</u>
13	CASH AND BANK			
	Cash and cash equivalents			
	- cash in hand		50,000	50,000
	- stamps in hand		<u>703,706</u>	<u>1,651,572</u>
			<u>753,706</u>	<u>1,701,572</u>
	Cash at bank			
	- current accounts	13.1	<u>70,082,335</u>	<u>31,804,833</u>
			<u>70,836,041</u>	<u>33,506,405</u>
13.1	This includes an amount pertaining to unclaimed insurance benefits as disclosed in note 20.2.			

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13.2 Cash and cash equivalents

As at December 31, 2020 and 2019 cash and cash equivalents comprise the following:

	2020	2019
	----- (Rupees) -----	
Cash and stamps in hand		
Cash in hand	50,000	50,000
Stamps in hand	703,706	1,651,572
	753,706	1,701,572
Current and other accounts		
Current accounts	70,082,335	31,804,833
Deposits maturing within 3 months		
Fixed and term deposits	690,000,000	582,000,000
	<u>760,836,041</u>	<u>615,506,405</u>

14 ORDINARY SHARE CAPITAL

14.1 Authorised share capital

	2020	2019		2020	2019
	Number of shares		Note	----- (Rupees) -----	
<u>50,000,000</u>	<u>50,000,000</u>		Ordinary shares of Rs. 10 each	<u>500,000,000</u>	<u>500,000,000</u>

14.2 Issued, subscribed and paid-up share capital

	2020	2019		2020	2019
	Number of shares			----- (Rupees) -----	
			Ordinary shares of Rs 10 each:		
29,700,000	29,700,000		- fully paid in cash	297,000,000	297,000,000
<u>20,300,000</u>	<u>20,300,000</u>		- issued as bonus shares	<u>203,000,000</u>	<u>203,000,000</u>
<u>50,000,000</u>	<u>50,000,000</u>		14.2.1	<u>500,000,000</u>	<u>500,000,000</u>

14.2.1 Chubb INA International Holdings, Ltd. U.S.A. and its nominee directors collectively hold 50,000,000 (2019: 50,000,000) ordinary shares of Rs. 10 each as at December 31, 2020.

15 RETIREMENT BENEFIT OBLIGATIONS

15.1 Salient features

The Company operates an approved gratuity fund for all employees which is governed under the Trust Act, 1882, the Trust Deed, the Rules of the Fund, the Companies Act, 2017, the Income Tax Ordinance, 2001 and the Income Tax Rules, 2002. The Fund is administered by the Trustees in accordance with the provisions of the Trust Deed and annual contributions therein are made in accordance with actuarial recommendations. 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 for the year ended December 31, 2020 using the projected unit credit method as allowed under the International Accounting Standard (IAS) 19, 'Employee benefits' for valuation of the Fund.

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

a) Final salary risk

This is 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 basis of the final salary, the benefit amount increases accordingly.

b) Withdrawal risk

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

c) Investment risk

This is the risk of investments underperforming and not being sufficient to meet the liabilities.

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d) Mortality risk

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

15.2 Principal actuarial assumptions	2020	2019
Discount rate (% per annum)	10.25% p.a.	11.75% p.a.
Expected rate of increase in salaries (% per annum)	10.25% p.a.	11.75% p.a.
Mortality rates*	SLIC (2001-05)-1	SLIC (2001-05)-1
Rates of employee turnover	Light	Light

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

15.3 Amounts recognised in the statement of financial position	2020 ----- (Rupees) -----	2019 ----- (Rupees) -----
Present value of defined benefit obligation	46,930,652	37,675,022
Fair value of plan assets	(40,980,750)	(34,136,262)
Gratuity liability as at December 31	<u>5,949,902</u>	<u>3,538,760</u>

	2020		
	Present value of defined benefit obligation	Fair value of plan assets	Net
	----- (Rupees) -----		
As at January 1	37,675,022	(34,136,262)	3,538,760
Current service cost	3,738,859	-	3,738,859
Interest expense / (income)	4,599,049	(4,183,245)	415,804
	<u>46,012,930</u>	<u>(38,319,507)</u>	<u>7,693,423</u>
Remeasurements:			
- Difference in actual and expected return on plan assets	-	1,146,353	1,146,353
- Gain due to change in financial assumptions	(318,177)	-	(318,177)
- Loss due to change in experience adjustment	1,469,617	-	1,469,617
	<u>1,151,440</u>	<u>1,146,353</u>	<u>2,297,793</u>
	<u>47,164,370</u>	<u>(37,173,154)</u>	<u>9,991,216</u>
Contributions made	-	(4,041,314)	(4,041,314)
Benefits paid	(233,718)	233,718	-
As at December 31	<u>46,930,652</u>	<u>(40,980,750)</u>	<u>5,949,902</u>

	2019		
	Present value of defined benefit obligation	Fair value of plan assets	Net
	----- (Rupees) -----		
As at January 1	30,255,307	(28,104,956)	2,150,351
Current service cost	3,477,008	-	3,477,008
Interest expense / (income)	4,193,224	(3,908,302)	284,922
	<u>37,925,539</u>	<u>(32,013,258)</u>	<u>5,912,281</u>
Remeasurements:			
- Difference in actual and expected return on plan assets	-	1,134,711	1,134,711
- Loss due to change in financial assumptions	(252,009)	-	(252,009)
- Loss due to change in experience adjustment	126,492	-	126,492
	<u>(125,517)</u>	<u>1,134,711</u>	<u>1,009,194</u>
	<u>37,800,022</u>	<u>(30,878,547)</u>	<u>6,921,475</u>
Contributions made	-	(3,382,715)	(3,382,715)
Benefits paid	(125,000)	125,000	-
As at December 31	<u>37,675,022</u>	<u>(34,136,262)</u>	<u>3,538,760</u>

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	2020	2019
	----- (Rupees) -----	
15.4	Amounts recognised in the profit or loss	
Current service cost	3,738,859	3,477,008
Interest expense on defined benefit obligation	4,599,049	4,193,224
Interest income on plan assets	(4,183,245)	(3,908,302)
	<u>4,154,663</u>	<u>3,761,930</u>
15.5	Remeasurements recognised in other comprehensive income	
Remeasurement loss / (gain) on obligation		
- (Gain) / loss due to change in financial assumptions	(318,177)	(252,009)
- Loss due to change in experience adjustments	1,469,617	126,492
	<u>1,151,440</u>	<u>(125,517)</u>
Remeasurement loss on plan assets		
- Actual return on plan assets	(2,917,145)	(3,063,311)
- Interest income on plan assets	4,183,245	3,908,302
- Others	(119,747)	289,720
	<u>1,146,353</u>	<u>1,134,711</u>
	<u>2,297,793</u>	<u>1,009,194</u>
15.6	Analysis of present value of defined benefit obligation	
Vested / non-vested		
- Vested benefits	46,706,582	37,675,022
- Non-vested benefits	224,070	-
Total	<u>46,930,652</u>	<u>37,675,022</u>
Types of benefits		
- Accumulated benefit obligation	15,171,894	10,141,052
- Amounts attributed to future salary increases	31,758,758	27,533,970
Total	<u>46,930,652</u>	<u>37,675,022</u>

15.7	Composition of plan assets	2020		2019	
		(Rupees)	%	(Rupees)	%
	Debt securities	40,000,000	97.61%	34,100,000	99.89%
	Cash and others	980,750	2.39%	36,262	0.11%
		<u>40,980,750</u>	<u>100.00%</u>	<u>34,136,262</u>	<u>100.00%</u>

15.8 The sensitivity analysis of the defined benefit obligation to changes in principal actuarial assumptions are as follows:

Change in assumption	----- As at December 31, 2020 -----		----- As at December 31, 2019 -----		
	Increase / (decrease) in present value of defined benefit obligation		Increase / (decrease) in present value of defined benefit obligation		
	Rupees	(%)	Rupees	(%)	
Discount rate	+1.00%	(5,364,272)	-11.43%	(4,427,009)	-11.75%
	-1.00%	6,390,088	13.62%	5,284,128	14.03%
Long-term salary increase rate	+1.00%	6,568,392	14.00%	5,424,486	14.40%
	-1.00%	(5,597,998)	-11.93%	(4,612,531)	-12.24%

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

15.9 The weighted average duration of defined benefit obligation is 12.44 years (2019: 12.80 years).

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

As at December 31, 2020	Between 0-1 year	Between 2-4 years	Between 5-10 years	Over 10 years	Total
	----- (Rupees) -----				
Distribution of timing of payment of benefits	851,125	4,096,305	51,838,473	787,755,103	844,541,006

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As at December 31, 2019	Between 0-1 year	Between 2-4 years	Between 5-10 years	Over 10 years	Total
	(Rupees)				
Distribution of timing of payment of benefits	723,486	2,829,395	55,554,423	1,623,246,834	1,682,354,138

15.11 Historical information	2020	2019	2018	2017	2016
	(Rupees)				
Present value of defined benefit obligation	46,930,652	37,675,022	30,255,307	29,485,199	46,796,186
Fair value of plan assets	(40,980,750)	(34,136,262)	(28,104,956)	(14,593,755)	(35,101,997)
Deficit	5,949,902	3,538,760	2,150,351	14,891,444	11,694,189
Remeasurements of plan liabilities	1,151,440	(125,517)	1,016,375	(1,207,746)	2,507,648
Remeasurements of plan assets	1,146,353	1,134,711	144,553	2,186,678	1,280,322

15.12 The plan assets and defined benefit obligation are based in Pakistan.

15.13 Funding levels are monitored on an annual basis and are based on actuarial recommendations. Gratuity cost comprising the service cost and the net interest cost for the next year will approximate to Rs 5.023 million (2019: Rs 4.155 million) as per the actuarial valuation report of the Fund as of December 31, 2020.

15.14 The disclosures made in notes 15.2 to 15.13 are based on the information included in the actuarial valuation report of the Fund for the year ended December 31, 2020.

16 INSURANCE / REINSURANCE PAYABLES	Note	2020	2019
		(Rupees)	
Due to other insurers / reinsurers		111,096,877	44,708,741
17 OTHER CREDITORS AND ACCRUALS			
Federal insurance fee		221,052	293,979
Sindh sales tax		4,447,870	5,004,717
Provision for Workers' Welfare Fund	17.1	5,856,130	5,856,130
No claim bonus payable		4,599,607	2,445,181
Commission payable		18,781,756	13,870,744
Accrued expenses		16,168,739	15,640,451
Others		224,939	341,009
		<u>50,300,093</u>	<u>43,452,211</u>

17.1 This denotes provision for Workers' Welfare Fund (WWF) for the year ended December 31, 2014 levied by the Federal Government. During the year ended December 31, 2016, the Supreme Court of Pakistan vide its order dated November 10, 2016 had held that the amendments made in the law introduced by the Federal Government for the levy of WWF were unlawful. The Federal Board of Revenue filed review petitions against this order which are currently pending. The management believes that consequent to filing these review petitions the judgment may not currently be treated as conclusive. Accordingly, the Company maintains its provision of Rs 5.856 million (2019: Rs 5.856 million) in respect of Federal WWF in these financial statements.

18 CONTINGENCIES AND COMMITMENTS

18.1 Contingencies

18.1.1 While finalising the assessment for the assessment years 1999-2000 to 2001-2002, the taxation officer has added back management expenses in excess of the limits laid down in the Insurance Rules, 1958 read with section 40C of the Insurance Act, 1938 by taking recourse to the provisions of Rule 5(c) of the Fourth Schedule to the repealed Income Tax Ordinance, 1979. The gross amounts added back in respect of these assessment years aggregated to Rs. 31.859 million which were disputed by the Company and appeals were filed against these. In respect of assessment years 1999-2000 and 2000-2001, the add backs made by the taxation officer aggregating to Rs. 22.394 million have been maintained by the Income Tax Appellate Tribunal (ITAT) and the Company's appeals are currently pending in the High Court of Sindh. As regards assessment year 2001-2002, the add back amounting to Rs. 9.466 million has been set aside by the ITAT but the set aside proceedings have not commenced so far. No provision has been made in these financial statements in respect of the additional tax liability of Rs. 7.838 million which may arise on account of these add backs as (a) the issue is being contested in appeals, (b) excess management expenses were being regularly condoned by the Controller of Insurance under Section 40C (1) of the Insurance Act, 1938 and (c) the Insurance Ordinance, 2000 provides no limitation on management expenses.

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- 18.1.2 The return of income of the Company for Tax Year 2013 was selected for audit under section 214C of the Income Tax Ordinance, 2001 by the Federal Board of Revenue. Upon finalising the audit proceedings, the taxation officer passed an amended order thereby raising a tax demand of Rs 24.979 million by making certain additions aggregating to Rs 57.275 million relating to provision for outstanding claims (including IBNR), addition on account of disposal of motor vehicle and commission expenses for non-deduction of tax. The Company preferred its first appeal before the Commissioner Inland Revenue (Appeals) [CIR(A)] who deleted the addition of Rs 0.352 million on account of motor vehicle but maintained the other additions. The Company then preferred its second appeal before the Appellate Tribunal Inland Revenue (ATIR) which is pending adjudication.

Subsequent to filing the second appeal before the ATIR, a rectified order under section 221 dated December 28, 2015 was passed wherein a revised tax demand of Rs 20.791 million was raised. The amount was paid by the Company and is currently being treated in the financial statements as a balance recoverable from taxation authorities.

The management, based on the advice of the tax consultant, is confident that the above matter will be decided in favour of the Company and has accordingly not made any provision for the aforementioned amount.

- 18.1.3 On April 26, 2016, the Company received a show cause notice from the Sindh Revenue Board (SRB) alleging therein that the Company was liable to pay Sindh Sales Tax aggregating to Rs 209.357 million on reinsurance services obtained by the Company from foreign reinsurers for the period from July 1, 2011 to June 30, 2014 under the Sindh Sales Tax on Services Act, 2011 along with penalty and default surcharge. The Company filed an application with the Honourable High Court of Sindh contending that the reinsurance obtained by the Company is not subject to the Sindh sales tax on services and further the show cause notice served to the Company is without lawful authority as the alleged liability raised in the notice has been computed with a retrospective effect. Similar applications were filed by other insurance companies receiving foreign reinsurance services and the matter was taken up by the Insurance Association of Pakistan with the Sindh Revenue Board (SRB). The Honourable High Court of Sindh vide its order dated May 31, 2016 restrained the SRB from taking any coercive action against the Company on the basis of the show cause notice issued earlier. In the previous year, on instructions of the High Court of Sindh, the Company deposited 50% of the amount alleged in show cause notice with the SRB to continue with the suit in Honourable High Court of Sindh. The matter is, currently, fixed for hearing of applications.

The management, based on the advice received from its legal advisors, believes that the Company has good grounds to argue its defence against this demand. The Company has recorded Rs 104.679 million (2019: Rs 104.679 million) as 'loans and other receivables' in these financial statements (note 9).

18.2 Commitments

There were no commitments outstanding as at December 31, 2020 and 2019.

	2020	2019
	----- (Rupees) -----	-----
19 NET INSURANCE PREMIUM		
Written gross premium	870,178,945	604,749,900
Add: Unearned premium reserve - opening	252,945,107	148,670,388
Less: Unearned premium reserve - closing	<u>(381,405,765)</u>	<u>(252,945,107)</u>
Premium earned	741,718,287	500,475,181
Less: Reinsurance premium ceded	<u>533,749,071</u>	<u>357,438,423</u>
Add: Prepaid reinsurance premium - opening	58,200,536	33,064,258
Less: Prepaid reinsurance premium - closing	<u>(59,515,064)</u>	<u>(58,200,536)</u>
Reinsurance expense	532,434,543	332,302,145
	<u>209,283,744</u>	<u>168,173,036</u>
20 NET INSURANCE CLAIMS EXPENSE		
Claims paid	35,910,828	51,441,416
Add: Outstanding claims (including IBNR) - closing	200,237,274	192,920,645
Less: Outstanding claims (including IBNR) - opening	<u>(192,920,645)</u>	<u>(147,104,086)</u>
Claims expense	43,227,457	97,257,975
Less: Reinsurance and other recoveries received	<u>19,709,051</u>	<u>36,957,086</u>
Add: Reinsurance and other recoveries in respect of outstanding claims - closing	122,000,120	123,248,423
Less: Reinsurance and other recoveries in respect of outstanding claims - opening	<u>(123,248,423)</u>	<u>(95,957,604)</u>
Reinsurance and other recoveries revenue	18,460,748	64,247,905
	<u>24,766,709</u>	<u>33,010,070</u>

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20.1 Claim development

The following table shows the development of fire and property damage claims over a period of time. The disclosure goes back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claim payments. For other classes of business the uncertainty about the amount and timings of claim payments is usually resolved within a year. Further, there are no material claims that are outstanding as at December 31, 2020 which pertain to years prior to the year ended December 31, 2016.

Accident year	2016	2017	2018	2019	2020	Total
-----Rupees-----						
Estimate of ultimate claims cost:						
At end of accident year	251,915,768	134,423,530	42,848,914	79,447,049	11,735,254	520,370,515
One year later	233,479,548	117,094,897	57,405,877	87,365,138	-	495,345,460
Two years later	233,856,535	118,419,420	37,008,052	-	-	389,284,007
Three years later	233,285,873	119,121,333	-	-	-	352,407,206
Four years later	233,772,333	-	-	-	-	233,772,333
Current estimate of cumulative claims	233,772,333	119,121,333	37,008,052	87,365,138	11,735,254	489,002,110
Cumulative payments to date	232,978,300	118,621,333	30,830,894	22,260,701	22,117	404,713,345
Liability recognised in the statement of financial position	794,033	500,000	6,177,158	65,104,437	11,713,137	84,288,765

20.2

Particulars	Total Amount	Age-wise Breakup				
		1 to 6 months	7 to 12 months	13 to 24 months	25 to 36 months	Beyond 36 months
-----Rupees-----						
Unclaimed maturity benefits	-	-	-	-	-	-
Unclaimed death benefits	-	-	-	-	-	-
Unclaimed disability benefits	-	-	-	-	-	-
Claims not encashed	713,528	-	-	710,528	3,000	-
Other unclaimed benefits	-	-	-	-	-	-
Total	713,528	-	-	710,528	-	-

21

NET COMMISSION INCOME

	Note	2020	2019
----- (Rupees) -----			
Commission paid or payable		27,644,249	34,793,241
Add: Deferred commission expense - opening		6,021,377	5,304,599
Less: Deferred commission expense - closing		7,432,217	6,021,377
Net commission		26,233,409	34,076,463
Less: Commission received or recoverable		47,904,347	46,852,406
Add: Unearned reinsurance commission - opening		14,098,598	7,995,856
Less: Unearned reinsurance commission -, closing		15,365,146	14,098,598
Commission from reinsurers		46,637,799	40,749,664
		(20,404,390)	(6,673,201)

22

MANAGEMENT EXPENSES

Employee benefit cost	22.1 & 22.2	78,165,955	64,045,397
Travelling expenses		1,615,847	4,961,521
Printing and stationery		924,807	1,021,888
Depreciation	7.1	7,898,017	4,454,919
Rent, rates and taxes		15,687,952	13,788,104
Professional charges		527,189	491,596
Utilities		1,419,749	1,893,394
Office repairs and maintenance		9,442,140	3,051,022
Education and training		362,399	684,279
Vehicle running expenses		6,016,005	6,742,219
Communication		1,497,015	1,901,472
Service charges		626,036	533,290
Registration, subscription and association fees		1,534,411	1,425,504
Agency office expenses		300,000	600,000
Annual supervision fee to the SECP		429,598	671,146
Advertisement and sales promotion		712,450	2,008,084
Entertainment		312,386	713,924
Bank charges		43,965	104,888
Others		2,285,875	2,707,185
		129,801,796	111,799,832

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	Note	2020	2019
		----- (Rupees) -----	
22.1 Employee benefit cost			
Salaries, allowances and other benefits		69,126,563	56,225,293
Charges for post employment benefit	22.1.1	9,039,392	7,820,104
		<u>78,165,955</u>	<u>64,045,397</u>

22.1.1 These include contributions to defined contribution plan of Rs 4.768 million (2019: Rs 3.948 million).

22.2 Share-based payments

As explained in note 5.5.3, certain employees of the Company are provided share-based compensation benefits. These include the following:

22.2.1 Restricted stock

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

The following table shows changes in the restricted stock grants for the years ended December 31, 2020 and 2019:

	Number of restricted stocks	
	2020	2019
Unvested at the beginning of the year	337	486
Vested during the period	(172)	(250)
Granted during the period	190	101
Forfeited during the period	-	-
Unvested at the end of the year	<u>355</u>	<u>337</u>

The fair value of restricted stocks granted during the year was USD 150.11 (2019: 133.90) which was measured on the basis of observable market price of the date on which the restricted stock options were granted.

The Company recognised an expense of Rs 2.886 million (2019: Rs 2.075 million) in respect of equity-settled restricted stock award vested during the year.

22.2.2 Non-qualified stock options

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

The following table shows changes in the stock option grants for the years ended December 31, 2020 and 2019:

	Number of stock options	
	2020	2019
Outstanding at the beginning of the year	3,288	4,163
Granted during the year	254	135
Exercised during the year	(965)	(1,010)
Expired during the year	-	-
Forfeited during the year	-	-
Outstanding at the end of the year	<u>2,577</u>	<u>3,288</u>
Exercisable at the end of the year	2,198	2,987
Unvested during the year	379	301
Outstanding at the end of the year	<u>2,577</u>	<u>3,288</u>
Vested during the year	<u>176</u>	<u>259</u>

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Weighted average
exercise price

	2020	2019
	----- (US Dollar) -----	
Outstanding at the beginning of the year	70.49	69.66
Granted during the year	150.11	133.90
Exercised during the year	(70.49)	(69.66)
Outstanding at the end of the year	72.38	70.49
Exercisable at the end of the year	69.69	68.50
Vested during the year	138.51	129.55

The fair value of non-qualified stock options are estimated on the date of grant using Black-Scholes option valuation model. The Company recognised an expense of Rs. 0.991 million (2019: Rs. 0.627 million) related to equity-settled non-qualified share options vested during the year. The exercise price of these shares varies from USD 139.01 - USD 133.09. Weighted average remaining contractual life of these options is 1 year and 7 months.

			2020	2019
	Note		----- (Rupees) -----	
23	INVESTMENT INCOME			
	Income from debt securities - held-to-maturity			
	Return on government securities		5,267,601	4,624,999
	Amortisation of premium on Pakistan Investment Bonds		754,599	(1,289,935)
	Income from term deposits - loans and receivables			
	Return on term deposits		54,235,315	54,915,477
			60,257,515	58,250,541
24	OTHER INCOME			
	Exchange gain - net		102,918	699,712
	Gain on sale of fixed assets	7.1.1	1,320,783	5,780,275
	Liabilities no longer payable written back		-	320,626
	Survey fee		3,040,550	412,057
	Others		8,265	13,992
			4,472,516	7,226,662
25	OTHER EXPENSES			
	Auditors' remuneration	25.1	2,351,413	2,224,701
	Survey fee written off		4,285,992	-
	Legal and professional charges		4,537,375	5,815,730
	Donation	25.2	1,000,000	-
			12,174,780	8,040,431
25.1	Auditors' remuneration			
	Audit fee		910,000	829,250
	Half yearly review fee		350,000	321,000
	Fee for the review of compliance with the Code of Corporate Governance		165,000	149,800
	Fee for reporting on regulatory compliances		-	250,000
	Fee for regulatory returns		235,000	214,000
	Sindh sales tax on services		174,179	164,793
	Out-of-pocket expenses		517,234	295,858
			2,351,413	2,224,701
25.2	This represents donation made to the Prime Minister's COVID-19 pandemic relief fund through the American Business Council of Pakistan.			
26	INCOME TAX EXPENSE		2020	2019
			----- (Rupees) -----	
	For the year			
	- Current		38,854,916	25,418,414
	- Deferred		4,855	244,823
			38,859,771	25,663,237

	Note	2020	2019
		----- (Rupees) -----	
26.1 Relationship between income tax expense and accounting profit			
Profit before taxation		<u>127,674,880</u>	<u>87,473,107</u>
Tax at the applicable rate		37,025,715	25,367,201
Permanent difference for share based payments		1,124,263	783,606
Effect of change in tax rate		-	-
Others permanent differences		<u>709,793</u>	<u>(487,570)</u>
		<u>38,859,771</u>	<u>25,663,237</u>
27 EARNINGS PER SHARE - BASIC AND DILUTED		2020	2019
		----- (Rupees) -----	
Profit after tax		<u>88,815,109</u>	<u>61,809,870</u>
		----- Number of shares -----	
Weighted average number of ordinary shares		<u>50,000,000</u>	<u>50,000,000</u>
		----- (Rupees) -----	
Earnings per share - basic and diluted	27.1	<u>1.78</u>	<u>1.24</u>

27.1 As at December 31, 2020 and 2019, the Company did not have any convertible instruments in issue which would have had a dilutive effect on the earnings per share if the option to convert was exercised.

28 REMUNERATION OF CHIEF EXECUTIVE OFFICER / COUNTRY PRESIDENT, DIRECTORS AND EXECUTIVES

Aggregate amounts charged in the financial statements for the year for remuneration, including benefits to the key management personnel of the Company namely the Chief Executive Officer / Country President, directors and executives of the Company are as follows:

	2020			2019		
	Chief Executive Officer / Country President	Directors	Executives	Chief Executive Officer / Country President	Directors	Executives
	----- (Rupees) -----					
Short-term employee benefits						
Consultancy fees	-	7,128,336	-	-	6,109,992	-
Managerial remuneration	9,933,567	-	40,281,218	8,480,907	-	30,995,797
Bonus	800,000	-	2,146,600	400,000	-	1,279,374
Leave encashment	-	-	394,816	-	-	785,017
Housing, utilities and others	581,147	-	-	397,169	-	-
Conveyance	-	-	1,940,298	-	-	1,890,171
Medical	403,713	-	1,021,146	17,984	-	391,634
	<u>11,718,427</u>	<u>7,128,336</u>	<u>45,784,078</u>	<u>9,296,060</u>	<u>6,109,992</u>	<u>35,341,993</u>
Other employee benefits						
Shared-based compensation benefits	2,882,931	219,016	774,822	1,616,759	714,926	356,152
Post-employment benefits						
Charge for defined benefit plan	832,120	-	3,322,543	788,894	-	2,973,036
Contribution to defined contribution plan	993,360	-	3,775,019	848,094	-	3,099,580
Total	<u>16,426,838</u>	<u>7,347,352</u>	<u>53,656,462</u>	<u>12,549,807</u>	<u>6,824,918</u>	<u>41,770,761</u>
Number of persons	<u>1</u>	<u>2</u>	<u>16</u>	<u>1</u>	<u>2</u>	<u>14</u>

28.1 The Company also provides key management personnel with facilities such as Company maintained cars and monthly subscription of club facilities.

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- 28.2 During the year the Chief Executive Officer / Country President, directors and executives of the Company received dividends on shares of the holding company amounting to Rs 117,911, Rs 26,470 and Rs 38,280 (2019: Rs 71,560, Rs 66,338 and Rs 26,062) respectively.
- 28.3 The managerial remuneration includes the 2019 bonus paid in the current year. An estimated accrual in respect of the above bonus was made in the last year's financial statements. For the current year, an amount of Rs. 2.560 million (2019: Rs. 2.947 million) has been accrued on an estimated basis. Individual entitlements in respect of this accrual will be determined next year and will then be disclosed accordingly.
- 28.4 Executives mean employees, other than chief executive and directors whose basic salary exceed Rs 500,000 in a financial year.

29 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions and include major shareholders, parent company, related group companies with or without common directors, retirement benefit funds, directors, and key management personnel and their close family members. The Company in the normal course of business carries out transactions with various related parties at agreed terms and conditions. Remuneration of Chief Executive Officer / Country President, directors and executives is disclosed in note 28.

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

	Group / associated companies		Other related parties		Total	
	2020	2019	2020	2019	2020	2019
BALANCES AS AT YEAR END						
----- (Rupees) -----						
Due from other insurers / reinsurers						
- Chubb European Group SE (Turkey Branch)	143,058,414	29,613,941	-	-	143,058,414	29,613,941
Reinsurance recoveries against outstanding claims						
- Chubb Tempest Reinsurance Limited	70,407,053	91,319,884	-	-	70,407,053	91,319,884
- Chubb European Group SE	710,277	575,000	-	-	710,277	575,000
- Chubb INA Overseas Insurance Company Limited	15,000	-	-	-	15,000	-
Prepaid reinsurance premium ceded	59,515,064	58,200,536	-	-	59,515,064	58,200,536
Provision for outstanding claims	14,264,999	15,570,636	-	-	14,264,999	15,570,636
Due to other insurers / reinsurers	111,096,877	44,708,741	-	-	111,096,877	44,708,741
Retirement benefit obligations	-	-	5,949,902	3,538,760	5,949,902	3,538,760
Other creditors and accruals						
- Key management personnel	-	-	8,014,956	7,148,211	8,014,956	7,148,211

	Group / associated companies		Other related parties		Total	
	2020	2019	2020	2019	2020	2019
TRANSACTIONS DURING THE YEAR						
----- (Rupees) -----						
Gross premium written	143,058,414	29,796,851	64,564	77,936	143,122,978	29,874,787
Reinsurance premium ceded	533,749,071	356,766,576	-	-	533,749,071	356,766,576
Claims paid	-	-	-	14,685	-	14,685
Claims ceded	19,674,818	36,945,625	-	-	19,674,818	36,945,625
Commission on cession	47,904,347	46,852,406	-	-	47,904,347	46,852,406
Remuneration of key management personnel	-	-	77,430,652	61,145,486	77,430,652	61,145,486
Contribution to gratuity fund	-	-	4,041,314	3,382,715	4,041,314	3,382,715
Contribution to provident fund	-	-	4,768,379	3,947,674	4,768,379	3,947,674

30 SEGMENT INFORMATION

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

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

Particulars	Year ended December 31, 2020					
	Fire and property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	Total
	----- (Rupees) -----					
Premium receivable (inclusive of Sindh sales tax, federal insurance fee and administrative surcharge)	321,716,032	3,270,073	35,385	4,693,614	9,751,703	339,466,807
Less: Sindh Sales Tax	(1,824,814)	(148,511)	(4,035)	(281,638)	(168,007)	(2,427,005)
Federal Insurance Fee	(140,371)	(11,441)	(310)	(28,129)	(12,924)	(193,175)
Premium receivable (net of Federal excise duty, Sindh sales tax and federal insurance fee)	<u>319,750,847</u>	<u>3,110,121</u>	<u>31,040</u>	<u>4,383,847</u>	<u>9,570,772</u>	<u>336,846,627</u>
Unearned premium reserve - opening	207,051,756	5,419,432	689,920	4,917,093	34,866,906	252,945,107
Less: Unearned premium reserve - closing	<u>(334,335,282)</u>	<u>(6,882,759)</u>	<u>-</u>	<u>(5,243,978)</u>	<u>(34,943,746)</u>	<u>(381,405,765)</u>
Net (increase) / decrease in unearned premium reserve	(127,283,526)	(1,463,327)	689,920	(326,885)	(76,840)	(128,460,658)
Gross written premium (inclusive of administrative surcharge)						
Gross direct premium	55,852,756	20,035,606	425,938	40,859,805	52,644,489	169,818,594
Facultative inward premium	663,352,896	4,153,516	-	-	32,380,914	699,887,326
Administrative surcharge	70,525	41,500	-	55,000	306,000	473,025
	<u>719,276,177</u>	<u>24,230,622</u>	<u>425,938</u>	<u>40,914,805</u>	<u>85,331,403</u>	<u>870,178,945</u>
Insurance premium earned	591,992,651	22,767,295	1,115,858	40,587,920	85,254,563	741,718,287
Insurance premium ceded to reinsurers	<u>(441,322,104)</u>	<u>(16,165,985)</u>	<u>(1,110,692)</u>	<u>(30,857,611)</u>	<u>(42,978,151)</u>	<u>(532,434,543)</u>
Net insurance premium	<u>150,670,547</u>	<u>6,601,310</u>	<u>5,166</u>	<u>9,730,309</u>	<u>42,276,412</u>	<u>209,283,744</u>
Commission income	21,399,609	1,722,852	146,536	15,238,695	8,130,107	46,637,799
Net underwriting income	<u>172,070,156</u>	<u>8,324,162</u>	<u>151,702</u>	<u>24,969,004</u>	<u>50,406,519</u>	<u>255,921,543</u>
Insurance claims	21,862,016	18,043,394	97,895	3,372,850	(148,698)	43,227,457
Insurance claims recovered from reinsurers	<u>8,052,327</u>	<u>8,198,559</u>	<u>-</u>	<u>2,293,706</u>	<u>(83,844)</u>	<u>18,460,748</u>
Net claims	<u>13,809,689</u>	<u>9,844,835</u>	<u>97,895</u>	<u>1,079,144</u>	<u>(64,854)</u>	<u>24,766,709</u>
Commission expense	9,316,938	925,500	9,923	10,484,635	5,496,413	26,233,409
Management expenses	107,292,115	3,614,404	63,536	6,103,130	12,728,611	129,801,796
Premium deficiency expense	-	-	-	-	-	-
Net insurance claims and expenses	<u>130,418,742</u>	<u>14,384,739</u>	<u>171,354</u>	<u>17,666,909</u>	<u>18,160,170</u>	<u>180,801,914</u>
Underwriting result	<u>41,651,414</u>	<u>(6,060,577)</u>	<u>(19,652)</u>	<u>7,302,095</u>	<u>32,246,349</u>	<u>75,119,629</u>
Net investment income						60,257,515
Other income						4,472,516
Other expenses						(12,174,780)
Profit before tax						<u>127,674,880</u>

Particulars	As at December 31, 2020					
	Fire and Property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	Total
	----- (Rupees) -----					
Segment assets	459,552,380	24,206,423	35,385	12,765,212	31,854,806	528,414,206
Unallocated assets	-	-	-	-	-	1,008,493,268
Total assets	<u>459,552,380</u>	<u>24,206,423</u>	<u>35,385</u>	<u>12,765,212</u>	<u>31,854,806</u>	<u>1,536,907,474</u>
Segment liabilities	583,244,327	40,919,740	270,680	18,198,979	65,471,337	708,105,063
Unallocated liabilities	-	-	-	-	-	63,938,132
Total liabilities	<u>583,244,327</u>	<u>40,919,740</u>	<u>270,680</u>	<u>18,198,979</u>	<u>65,471,337</u>	<u>772,043,195</u>
Net assets						<u>764,864,279</u>

Particulars	Year ended December 31, 2019					
	Fire and property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	Total
	----- (Rupees) -----					
Premium receivable (inclusive of Sindh sales tax, federal insurance fee and administrative surcharge)	171,403,241	298,641	35,385	3,769,733	6,887,512	182,394,512
Less: Sindh Sales Tax	(1,454,120)	(33,851)	(4,035)	-	(131,103)	(1,623,109)
Federal Insurance Fee	(111,856)	(2,621)	(310)	(31,898)	(10,085)	(156,770)
Premium receivable (net of Federal excise duty, Sindh sales tax and federal insurance fee)	<u>169,837,265</u>	<u>262,169</u>	<u>31,040</u>	<u>3,737,835</u>	<u>6,746,324</u>	<u>180,614,633</u>
Unearned premium reserve - opening	117,927,999	5,999,879	165,412	1,960,632	22,616,466	148,670,388
Less: Unearned premium reserve - closing	(207,051,756)	(5,419,432)	(689,920)	(4,917,093)	(34,866,906)	(252,945,107)
Net (increase) / decrease in unearned premium reserve	<u>(89,123,757)</u>	<u>580,447</u>	<u>(524,508)</u>	<u>(2,956,461)</u>	<u>(12,250,440)</u>	<u>(104,274,719)</u>
Gross written premium (inclusive of administrative surcharge)						
Gross direct premium	51,912,962	27,818,251	1,573,501	54,582,892	52,558,478	188,446,084
Facultative inward premium	376,933,105	3,211,949	-	-	35,669,903	415,814,957
Administrative surcharge	88,347	59,431	12,880	43,201	285,000	488,859
	<u>428,934,414</u>	<u>31,089,631</u>	<u>1,586,381</u>	<u>54,626,093</u>	<u>88,513,381</u>	<u>604,749,900</u>
Insurance premium earned	339,810,657	31,670,078	1,061,873	51,669,632	76,262,941	500,475,181
Insurance premium ceded to reinsurers	(229,545,887)	(25,221,510)	(693,340)	(38,496,470)	(38,344,938)	(332,302,145)
Net insurance premium	<u>110,264,770</u>	<u>6,448,568</u>	<u>368,533</u>	<u>13,173,162</u>	<u>37,918,003</u>	<u>168,173,036</u>
Commission income	10,340,784	2,031,871	177,777	22,283,674	5,915,558	40,749,664
Net underwriting income	<u>120,605,554</u>	<u>8,480,439</u>	<u>546,310</u>	<u>35,456,836</u>	<u>43,833,561</u>	<u>208,922,700</u>
Insurance claims	100,131,431	(2,087,871)	35,464	2,208,147	(3,029,196)	97,257,975
Insurance claims recovered from reinsurers	67,569,931	(3,927,178)	-	1,288,904	(683,752)	64,247,905
Net claims	<u>32,561,500</u>	<u>1,839,307</u>	<u>35,464</u>	<u>919,243</u>	<u>(2,345,444)</u>	<u>33,010,070</u>
Commission expense	11,524,758	1,902,003	61,363	15,450,646	5,137,693	34,076,463
Management expenses	79,296,906	5,747,525	293,274	10,098,700	16,363,427	111,799,832
Premium deficiency expense	-	-	-	-	-	-
Net insurance claims and expenses	<u>123,383,164</u>	<u>9,488,835</u>	<u>390,101</u>	<u>26,468,589</u>	<u>19,155,676</u>	<u>178,886,365</u>
Underwriting result	<u>(2,777,610)</u>	<u>(1,008,396)</u>	<u>156,209</u>	<u>8,988,247</u>	<u>24,677,885</u>	<u>30,036,335</u>
Net investment income						58,250,541
Other income						7,226,662
Other expenses						(8,040,431)
Profit before tax						<u>87,473,107</u>

Particulars	Year ended December 31, 2019					
	Fire and Property Damage	Marine, Aviation and Transport	Motor	Accident and Health	Liability	Total
	----- (Rupees) -----					
Segment assets	311,996,158	11,871,668	730,062	14,301,590	30,965,373	369,864,851
Unallocated assets	-	-	-	-	-	861,003,908
Total assets	<u>311,996,158</u>	<u>11,871,668</u>	<u>730,062</u>	<u>14,301,590</u>	<u>30,965,373</u>	<u>1,230,868,759</u>
Segment liabilities	402,170,772	20,955,259	1,055,780	19,527,403	60,963,876	504,673,090
Unallocated liabilities	-	-	-	-	-	52,391,835
Total liabilities	<u>402,170,772</u>	<u>20,955,259</u>	<u>1,055,780</u>	<u>19,527,403</u>	<u>60,963,876</u>	<u>557,064,925</u>
Net assets						<u>673,803,834</u>

As at December 31, 2019		
At fair value through profit or loss	At amortised cost	Total
----- (Rupees) -----		
Provision for outstanding claims (including IBNR)	192,920,645	192,920,645
Insurance / reinsurance payables	44,708,741	44,708,741
Other creditors and accruals	32,297,385	32,297,385
	<u>269,926,771</u>	<u>269,926,771</u>

Financial liabilities

Provision for outstanding claims (including IBNR)
Insurance / reinsurance payables
Other creditors and accruals

-	192,920,645	192,920,645
-	44,708,741	44,708,741
-	32,297,385	32,297,385
-	<u>269,926,771</u>	<u>269,926,771</u>

33 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

33.1 Market risk

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

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

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

33.1.1 Currency risk

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

	2020	
	USD	BDT
Due from insurance contract holders	-	-
Due from other insurers / reinsurers	4,078	-
Net foreign currency exposure	<u>4,078</u>	<u>-</u>

	2019	
	USD	BDT
Due from insurance contract holders	-	-
Due from other insurers / reinsurers	4,078	2,680,948
Net foreign currency exposure	<u>4,078</u>	<u>2,680,948</u>

As at December 31, 2020, if the Pakistani Rupee had weakened / strengthened by 1% against the US Dollar and the Bangladeshi Taka with all other variables held constant, profit before taxation for the year would have been higher / lower by Rs. 0.007 million (2019: Rs 0.055 million).

Affix

33.1.2 Maturity profile / yield interest rate risk

The Company's maturity profile of financial assets and liabilities is as follows:

-----2020-----							
Effective yield / mark-up rate (% per annum)	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
------(Rupees)-----							
Financial assets							
Investments							
- Debt securities	9.00%	-	52,512,910	52,512,910	-	-	52,512,910
-Term deposits	5.6%-6.45%	690,000,000	-	690,000,000	-	-	690,000,000
Loans and other receivables -							
considered good		-	-	-	18,731,849	18,731,849	18,731,849
Insurance / reinsurance receivables		-	-	-	339,466,807	339,466,807	339,466,807
Reinsurance recoveries against outstanding claims		-	-	-	122,000,120	122,000,120	122,000,120
Cash and bank		-	-	-	70,836,041	70,836,041	70,836,041
		690,000,000	52,512,910	742,512,910	551,034,817	551,034,817	1,293,547,727
Financial liabilities							
Provision for outstanding claims (including IBNR)		-	-	-	200,237,274	200,237,274	200,237,274
Insurance / reinsurance payables		-	-	-	111,096,877	111,096,877	111,096,877
Other creditors and accruals		-	-	-	39,775,041	39,775,041	39,775,041
		-	-	-	351,109,192	351,109,192	351,109,192
On-balance sheet gap (a)		690,000,000	52,512,910	742,512,910	199,925,625	199,925,625	942,438,535
Off-balance sheet financial instruments		-	-	-	-	-	-
Off-balance sheet gap (b)		-	-	-	-	-	-
Total interest rate sensitivity gap (a+b)		690,000,000	52,512,910	742,512,910			
Cumulative interest rate sensitivity gap		690,000,000	742,512,910				
-----2019-----							
Effective yield / mark-up rate (% per annum)	Interest / mark-up bearing			Non-interest / mark-up bearing			Total
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
------(Rupees)-----							
Financial assets							
Investments							
- Debt securities	9.25%	50,309,772	-	50,309,772	-	-	50,309,772
-Term deposits	12.00%-12.40%	582,000,000	-	582,000,000	-	-	582,000,000
Loans and other receivables -							
considered good		-	-	-	18,853,341	18,853,341	18,853,341
Insurance / reinsurance receivables		-	-	-	182,394,512	182,394,512	182,394,512
Reinsurance recoveries against outstanding claims		-	-	-	123,248,423	123,248,423	123,248,423
Cash and bank deposits		-	-	-	33,506,405	33,506,405	33,506,405
		632,309,772	-	632,309,772	358,002,681	358,002,681	990,312,453
Financial liabilities							
Provision for outstanding claims (including IBNR)		-	-	-	192,920,645	192,920,645	192,920,645
Insurance / reinsurance payables		-	-	-	44,708,741	44,708,741	44,708,741
Other creditors and accruals		-	-	-	32,297,385	32,297,385	32,297,385
		-	-	-	269,926,771	269,926,771	269,926,771
On-balance sheet gap (a)		632,309,772	-	632,309,772	88,075,910	88,075,910	720,385,682
Off-balance sheet financial instruments		-	-	-	-	-	-
Off-balance sheet gap (b)		-	-	-	-	-	-
Total interest rate sensitivity gap (a+b)		632,309,772	-	632,309,772			
Cumulative interest rate sensitivity gap		632,309,772	632,309,772				

Sensitivity analysis

(a) Sensitivity analysis for variable rate instruments

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

(b) Sensitivity analysis for fixed rate instruments

The Company holds Term Deposit Receipts (TDRs) and Pakistan Investment Bonds (PIBs) which are classified as cash and cash equivalents and investments respectively. These carry fixed interest rates and therefore any change in the interest rates will not affect the total assets of the Company and profit after taxation for the year ended December 31, 2020.

33.1.3 Price risk

Price risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices (other than those arising from interest / mark up rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instruments traded in the market. As at December 31, 2020 and 2019, the Company did not have any financial instrument which exposed it to price risk.

33.2 Credit risk

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

33.2.1 Concentration of credit risk exposure

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

Credit risk arises from bank deposits in current and other accounts, insurance and reinsurance receivables, reinsurance recoveries against outstanding claims, loans and other receivables. The total financial assets of Rs 1,292.794 million (2019: Rs 988.661 million) except Rs 53.266 million (2019: Rs 52.011 million) are subject to credit risk. Most significant receivables denote amounts due from group companies.

Out of the total financial assets, bank balances of Rs 70.082 million (2019: Rs. 31.805 million) and fixed term deposits of Rs 690 million (2019: Rs 582 million) have been placed with banks having credit rating of A and above as at December 31, 2020 and December 31, 2019.

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

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

Name of bank	Rating agency	2020		2019	
		Rating		Rating	
		Short-term	Long-term	Short-term	Long-term

Current accounts and term deposits

Citibank N.A., - Pakistan Branches	Moody's	P-1	AA3	P-1	AA3
MCB Bank Limited	PACRA	A1+	AAA	A1+	AAA
Habib Bank Limited	VIS	A-1+	AAA	A-1+	AAA
Standard Chartered Bank	PACRA	A-1+	AAA	A-1+	AAA
Mobilink Microfinance Bank Limited	PACRA	A-1	A	A-1	A

Alfano

33.2.1.1 An age analysis of amounts due from insurance contract holders that are past due but not impaired are as under:

	2020	2019
	------(Rupees)-----	
Upto 30 days	8,875	308,101
31 to 180 days	-	494,780
Over 180 days	-	-
	<u>8,875</u>	<u>802,881</u>

33.2.2 Out of the total amounts due from insurance contract holders as at December 31, 2020 of Rs 21.639 million (2019: Rs 17.485 million), Rs 21.630 million (2019: Rs 16.682 million) relate to policies which were effective in the current year but premium on account of these policies is not yet due in the current year due to agreed contractual terms.

33.2.3 Sector wise analysis of amounts due from insurance contract holders is as follows:

	2020	2019
	------(Rupees)-----	
Financial sector	3,718,727	3,651,674
Chemicals	15,815,964	12,565,268
Miscellaneous	2,104,652	1,267,759
	<u>21,639,343</u>	<u>17,484,701</u>

33.2.4 The credit quality of receivables in respect of insurance contract which can be assessed with reference to external credit ratings is as follows:

	-----2020-----			
	Insurance / reinsurance receivables		Reinsurance recoveries against outstanding claims	Aggregate
	Due from insurance contract holders	Amount due from other insurers / reinsurers		
	----- (Rupees) -----			
A or above	17,089,331	317,683,862	122,000,120	456,773,313
Others	-	-	-	-
Unrated	4,693,614	-	-	4,693,614
Total	<u>21,782,945</u>	<u>317,683,862</u>	<u>122,000,120</u>	<u>461,466,927</u>

	-----2019-----			
	Insurance / reinsurance receivables		Reinsurance recoveries against outstanding claims	Aggregate
	Due from insurance contract holders	Amount due from other insurers / reinsurers		
	----- (Rupees) -----			
A or above	16,216,942	164,909,811	123,248,423	304,375,176
Others	-	-	-	-
Unrated	1,267,759	-	-	1,267,759
Total	<u>17,484,701</u>	<u>164,909,811</u>	<u>123,248,423</u>	<u>305,642,935</u>

33.3 Liquidity risk

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

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

	2020			
	Carrying amount	Contractual cash flows	Upto one year	More than one year
	(Rupees)			
Underwriting provision for outstanding claims	200,237,274	200,237,274	200,237,274	-
Insurance / reinsurance payables	111,096,877	111,096,877	111,096,877	-
Other creditors and accruals	39,775,041	39,775,041	39,775,041	-
	<u>351,109,192</u>	<u>351,109,192</u>	<u>351,109,192</u>	<u>-</u>

	2019			
	Carrying amount	Contractual cash flows	Upto one year	More than one year
	(Rupees)			
Underwriting provision for outstanding claims	192,920,645	192,920,645	192,920,645	-
Insurance / reinsurance payables	44,708,741	44,708,741	44,708,741	-
Other creditors and accruals	32,297,385	32,297,385	32,297,385	-
	<u>269,926,771</u>	<u>269,926,771</u>	<u>269,926,771</u>	<u>-</u>

34 INSURANCE RISK / RISK MANAGEMENT PRACTICES

34.1 Insurance and reinsurance risk

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

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

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

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

The greatest likelihood of significant losses on the contracts underwritten by the Company mainly arises from earthquakes or floods. The Company's estimated exposure on account of such perils for any given single loss event and maximum re-insurance cover against those perils are summarised below:

	2020		
	Maximum gross exposure	Reinsurance cover	Highest net liability
	Rupees in million		
Earthquake	105,330	105,327	3
Flood / windstorm	57,478	57,475	3

	2019		
	Maximum gross exposure	Reinsurance cover	Highest net liability
	Rupees in million		
Earthquake	62,271	62,268	3
Flood / windstorm	54,726	54,723	3

34.2 Geographical concentration of insurance risk

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

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

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

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

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

34.3 Frequency and severity of claims

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

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

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

34.4 Sources of uncertainty in the estimation of future claim payments

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

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

34.5 Process used to decide on assumptions and changes therein

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

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34.6 Sensitivity analysis

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

	Pre-tax profit		Shareholders' equity	
	2020	2019	2020	2019
	----- (Rupees) -----			
10% increase in net claims (i.e. loss)				
Fire and property damage	(1,381,285)	(3,256,150)	(980,712)	(2,311,867)
Marine, aviation and transport	(984,484)	(183,931)	(698,984)	(130,591)
Motor	(9,790)	(3,546)	(6,951)	(2,518)
Accident and health	(107,598)	(91,924)	(76,395)	(65,266)
Liability	6,486	234,544	4,605	166,526
	<u>(2,476,671)</u>	<u>(3,301,007)</u>	<u>(1,758,437)</u>	<u>(2,343,716)</u>
10% decrease in net claims (i.e. loss)				
Fire and property damage	1,381,285	3,256,150	980,712	2,311,867
Marine, aviation and transport	984,484	183,931	698,984	130,591
Motor	9,790	3,546	6,951	2,518
Accident and health	107,598	91,924	76,395	65,266
Liability	(6,486)	(234,544)	(4,605)	(166,526)
	<u>2,476,671</u>	<u>3,301,007</u>	<u>1,758,437</u>	<u>2,343,716</u>

34.7 Reinsurance arrangements

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

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

35 CAPITAL RISK MANAGEMENT POLICIES AND PROCEDURES

The Company's objectives when managing capital are:

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

The current requirement for regulatory capital is Rs 500 million as at December 31, 2020. The Company complies with this requirement.

36 FAIR VALUE MEASUREMENT

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. Consequently, differences may arise between the carrying values and the fair value estimates.

Underlying the definition of fair value is the presumption that the Company is a going concern without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms.

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Fair value hierarchy

International Financial Reporting Standard (IFRS) 13; 'Fair value measurement' requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The 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 or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

As detailed in note 32, the Company does not have any assets or liabilities carried at fair values as at December 31, 2020 and 2019. However, the Company has disclosed the fair value of its investments in Pakistan Investment Bonds (PIBs) in note 4.2 to the financial statements. At the reporting date, the fair value hierarchy of these PIBs are as follows:

	As at December 31, 2020			
	Level 1	Level 2	Level 3	Total
Assets	----- (Rupees) -----			
Pakistan Investment Bonds	-	55,956,909	-	55,956,909
	-----	-----	-----	-----
	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Assets	----- (Rupees) -----			
Pakistan Investment Bonds	-	49,486,982	-	49,486,982
	-----	-----	-----	-----

37 DEFINED CONTRIBUTION PLAN - PROVIDENT FUND

The Company has set up a provident fund for its permanent employees wherein contributions are made by the Company 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, 2020 is Rs 4.768 million (2019: Rs 3.948 million).

The following information is based on the un-audited financial statements of the Fund for the year ended December 31, 2020 and 2019:

	2020	2019
	----- (Rupees) -----	
Size of the fund - net assets	59,227,452	46,231,048
Fair value / cost of investments made	58,477,393	45,863,612
	----- Percentage -----	
Investments made as a percentage of total assets	98.54%	99.04%

The break-up of investments made is given below:

Particulars of investments	2020		2019	
	Amount	Amount as a percentage of total investments	Amount	Amount as a percentage of total investments
	Rupees		Rupees	
Khas deposit certificates	23,000	0.04%	23,000	0.05%
Term deposits	58,000,000	99.18%	45,100,000	98.34%
Bank deposits	454,393	0.78%	740,612	1.61%
	-----	-----	-----	-----
	58,477,393	100.00%	45,863,612	100.00%

The above investments out of provident fund have been made in accordance with the requirement of Section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

	2020 (Number of employees)	2019
38 STAFF STRENGTH		
Number of employees as at December 31	14	14
Average number of employees during the year	15	14

39 CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison and better presentation. No significant rearrangements or reclassifications have been made in these financial statements during the current year.

40 DATE OF AUTHORISATION FOR ISSUE

These financial statements have been authorised for issue on MARCH 26, 2021 by the Board of Directors of the Company.

41 GENERAL

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

42 IMPACT OF COVID-19

The World Health Organisation declared COVID-19 a global pandemic in March 2020. Like other parts of the world, Pakistan also went into lockdown which impacted the economies and businesses in different facets globally. After the outbreak of COVID-19, the Company had invoked necessary measures to ensure the safety and health of its staff and an uninterrupted service to its clients. These include implementing mandatory adherence to the recommended standard operating procedures within the Company. The remote work capabilities for critical staff have been assessed to make sure they are fully protected using virtual private network ("VPN") connections. Further, the Company has also ensured that its remote access systems are sufficiently resilient to any unwanted cyber-attacks.

The Company has made an assessment in order to evaluate the impact of COVID-19 pandemic over the business, operations and profitability of the Company as well as a going concern assessment. The management has evaluated that it does not foresee any going concern risk in the Company due to the pandemic and they believe that the Company's operations, financial position and results will not be impacted significantly as the operations are gradually returning to normal and the market is still showing a positive outlook and upward trend subsequent to the financial year-end. Therefore, it has concluded that there are no material implications of COVID-19 on any balance in these financial statements.

Attn

Hungah Chaudhri

 CHIEF EXECUTIVE OFFICER /
 COUNTRY PRESIDENT

[Signature]

 DIRECTOR

[Signature]

 DIRECTOR

Syed Uan Shal

 CHAIRMAN