

# **SINDH INSURANCE LIMITED**

## **FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED  
31 DECEMBER 2017**

## **AUDITORS' REPORT TO THE MEMBERS OF SINDH INSURANCE LIMITED**

We have audited the annexed financial statements comprising of:

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

of SINDH INSURANCE LIMITED ("the Company") as at 31 December 2017 together with the notes forming part thereof, for the year then ended.

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standards as applicable in Pakistan and the requirements of the Insurance Ordinance, 2000 (XXXIX of 2000) and the repealed Companies Ordinance, 1984 (XLVII of 1984).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

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

In our opinion:

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the repealed Companies Ordinance, 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the repealed Companies Ordinance,

# Riaz Ahmad & Company

Chartered Accountants

1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies consistently applied;

- c) the financial statements together with the notes thereon, present fairly, in all material respects, the state of the Company's affairs as at 31 December 2017 and of the profit, its comprehensive income, changes in equity and its cash flows for the year then ended in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the repealed Companies Ordinance, 1984; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).



**RIAZ AHMAD & COMPANY**  
Chartered Accountants

**Name of engagement partner:**  
**Muhammad Waqas**

**Date: 30 March 2018**

**KARACHI**

**SINDH INSURANCE LIMITED**  
**BALANCE SHEET**  
**AS AT 31 DECEMBER 2017**

	Note	2017 Rupees	2016 Rupees
<b>Share capital and reserve</b>			
Authorized share capital	3.1	1,500,000,000	1,500,000,000
Issued, subscribed and paid-up share capital	3.2	1,000,000,000	500,000,000
Retained earnings		280,926,295	156,050,784
		<u>1,280,926,295</u>	<u>656,050,784</u>
<b>Underwriting provisions</b>			
Provision for outstanding claims (including IBNR)		1,191,759,126	492,762,702
Provision for unearned premium		360,660,322	1,717,299,804
Premium deficiency reserve		7,121,792	627,816
Commission income unearned	20	6,496,730	5,155,112
		<u>1,566,037,970</u>	<u>2,215,845,434</u>
<b>Deferred liabilities</b>			
Deferred taxation	4	1,889,543	1,923,811
<b>Creditors and accruals</b>			
Premium received in advance		514,640,636	57,160,428
Amount due to other insurers/reinsurers	5	84,840,808	40,430,817
Other creditors and accruals	6	27,475,858	13,111,733
		<u>626,957,302</u>	<u>110,702,978</u>
		<u>2,194,884,815</u>	<u>2,328,472,223</u>
Total liabilities of Window Takaful Operations - Operator's Fund	7	2,009,316	1,288,645
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>3,477,820,426</u>	<u>2,985,811,652</u>
<b>CONTINGENCIES AND COMMITMENTS</b>	8		
<b>Cash and bank deposits</b>	9		
Cash and other equivalents		870,114	532,208
Current and other accounts		51,477,115	69,277,221
Deposits maturing within 12 months		<u>2,864,811,730</u>	<u>1,580,816,263</u>
		<u>2,917,158,959</u>	<u>1,650,625,692</u>
<b>Investments</b>	10	130,487,997	894,925,867
<b>Current assets - others</b>			
Premium due but unpaid	11	68,220,897	71,197,939
Due from other insurers/reinsurers	12	44,533,245	9,593,540
Accrued investment income	13	46,995,977	15,828,422
Re-insurance recoveries against outstanding claims		16,932,824	6,372,999
Loan to employees		372,631	1,113,067
Advance income tax (net of provision)		10,200,191	3,222,839
Deferred commission expense		1,980,048	1,896,084
Prepayments	14	161,791,115	244,848,894
Sundry receivables	15	2,406,736	9,585,713
		<u>353,433,664</u>	<u>363,659,497</u>
<b>Fixed assets - tangible and intangible - owned</b>	16		
Leasehold improvements		10,075,166	10,605,438
Furniture and fixtures		2,144,490	2,261,119
Office equipment		6,462,349	5,390,148
Computers		1,168,921	1,107,934
Vehicles		3,020,928	4,342,569
Intangible asset - computer software		<u>1,233,052</u>	<u>2,379,026</u>
		<u>24,104,906</u>	<u>26,086,234</u>
		<u>3,425,185,526</u>	<u>2,935,297,290</u>
Total assets of Window Takaful Operations - Operator's Fund	7	52,634,900	50,514,362
<b>TOTAL ASSETS</b>		<u>3,477,820,426</u>	<u>2,985,811,652</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

Chairman

Director

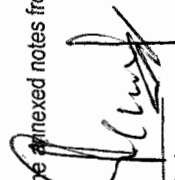
Director

Chief Executive Officer

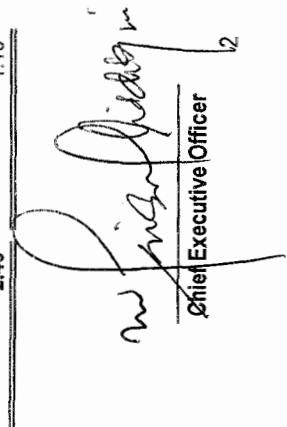
**SINDH INSURANCE LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Fire and property damage	Marine, aviation and transport	Motor	Accident and health	Miscellaneous	Treaty	2017 Aggregate	2016 Aggregate
Note	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
17 Net premium revenue	2,264,498	4,097,419	29,056,528	1,569,049,824	14,461,795	-	1,618,930,064	640,424,653
18 Net claims	(475,477)	(1,560,618)	(19,981,606)	(734,935,823)	(6,644,182)	-	(763,597,706)	(516,012,018)
Premium deficiency expense	(1,342,774)	627,816	-	(5,779,018)	-	-	(6,493,976)	(627,816)
19 Management expenses	(4,762,837)	(998,904)	(10,246,112)	(57,665,497)	(6,453,725)	-	(80,127,075)	(34,365,670)
Net commission	1,583,385	(9,985)	2,404,271	(757,406,193)	1,540,392	-	(751,888,130)	(57,958,812)
Underwriting results	(2,733,205)	2,155,728	1,233,081	13,263,293	2,904,280	-	16,823,177	31,460,337
Investment income							181,554,857	63,241,263
Other income							6,647,948	12,923,628
							205,025,982	107,625,228
General and administration expenses							(28,107,569)	(24,276,918)
Profit / (loss) from Window Takatful Operations - net of tax							1,399,867	(774,283)
Profit before tax							178,318,280	82,574,027
Taxation							(53,442,769)	(25,867,292)
Profit after tax							124,875,511	56,706,735
Profit and loss appropriation account:								
Balance at beginning of the year							156,050,784	99,344,049
Profit for the year							124,875,511	56,706,735
Balance unappropriated profit at the end of the year							280,926,295	156,050,784
Earnings per share - basic and diluted							2.43	1.13

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman


  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 Rupees	2016 Rupees
Profit for the year	124,875,511	56,706,735
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b><u>124,875,511</u></b>	<b><u>56,706,735</u></b>

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

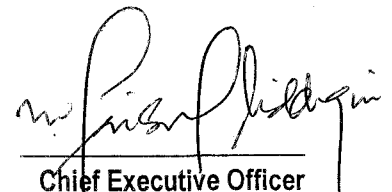
	Issued, subscribed and paid up share	Retained earnings	Total shareholders' equity
	Rupees	Rupees	Rupees
Balance as at 31 December 2015	500,000,000	99,344,049	599,344,049
Profit after tax for the year ended 31 December 2016	-	56,706,735	56,706,735
Other comprehensive income	-	-	-
Total comprehensive income	-	56,706,735	56,706,735
Balance as at 31 December 2016	500,000,000	156,050,784	656,050,784
Profit after tax for the year ended 31 December 2017	-	124,875,511	124,875,511
Other comprehensive income	-	-	-
Total comprehensive income	-	124,875,511	124,875,511
Transaction with owners recorded directly in equity			
Issuance of share capital (Note 3.2.1)	500,000,000	-	500,000,000
Balance as at 31 December 2017	<u>1,000,000,000</u>	<u>280,926,295</u>	<u>1,280,926,295</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED**  
**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017 Rupees	2016 Rupees
<b>OPERATING CASH FLOW</b>		
<i>a) Underwriting activities</i>		
Premiums received	863,597,077	2,365,463,434
Reinsurance premiums paid	(47,518,409)	(307,718,188)
Claims paid	(96,404,748)	(37,099,295)
Reinsurance and other recoveries received	21,243,641	1,405,840
Commissions paid	(762,091,564)	(7,346,452)
Commissions received	11,389,881	8,515,502
Other underwriting payments	(63,472,786)	(32,719,764)
Net cash (used in) / flow from underwriting activities	(73,256,908)	1,990,501,077
<i>b) Other operating activities</i>		
Income tax paid	(60,454,389)	(24,484,470)
Management and administrative expenses paid	(26,162,253)	(14,634,845)
Compensated absences paid	(390,969)	-
Others	7,919,413	(7,200,501)
Net cash used in other operating activities	(79,088,198)	(46,319,816)
<b>Net cash (used in) / flow from operating activities</b>	(152,345,106)	1,944,181,261
<b>INVESTING ACTIVITIES</b>		
Profit / return received on investment	144,005,400	35,798,293
Other income received	6,647,949	12,923,628
Payments for investments	(105,293,247)	(2,736,940,184)
Proceeds from disposal of investments	876,113,016	2,343,451,248
Fixed capital expenditure	(2,594,745)	(2,125,196)
<b>Net cash flow from / (used in) investing activities</b>	918,878,373	(346,892,211)
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital	500,000,000	-
<b>Net cash flow from financing activities</b>	500,000,000	-
<b>Net cash flow from all activities</b>	1,266,533,267	1,597,289,050
Cash and cash equivalents at the beginning of year	1,650,625,692	53,336,642
<b>Cash and cash equivalents at end of year</b>	2,917,158,959	1,650,625,692
<b>Reconciliation to profit and loss account</b>		
Operating cash flow	(152,345,106)	1,944,181,261
Depreciation on fixed assets	(3,130,099)	(2,814,757)
Amortization of intangibles	(1,445,974)	(1,300,007)
Income tax paid	60,454,389	24,484,470
Increase in assets other than cash	(48,370,740)	293,677,132
Increase in liabilities	133,553,138	(2,251,044,680)
Investment income	181,554,857	63,241,263
Gain / (loss) from Window Takaful Operations	1,399,867	(774,283)
Other income	6,647,948	12,923,628
<b>Profit before taxation</b>	178,318,280	82,574,027




## Definition of cash


Cash comprises of cash in hand, policy stamps, cheques in hand, bank balances and other deposits which are readily convertible to cash and which are used in the cash management function on a day-to-day basis.

Cash for the purpose of the statement of cash flows consists of:

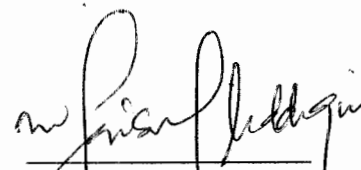
	2017 Rupees	2016 Rupees
<b>Cash and other equivalents</b>		
- Cash in hand	21,451	24,319
- Policy stamps in hand	848,663	507,889
	<u>870,114</u>	<u>532,208</u>
<b>Current and saving accounts</b>		
- Current accounts	-	-
- Savings accounts	51,477,115	69,277,221
	<u>51,477,115</u>	<u>69,277,221</u>
<b>Deposits maturing within 12 months</b>		
- Term deposit - local currency	2,864,811,730	1,580,816,263
	<u>2,917,158,959</u>	<u>1,650,625,692</u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer


**SINDH INSURANCE LIMITED**  
**STATEMENT OF PREMIUMS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

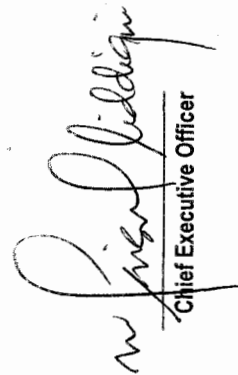
Business underwritten inside Pakistan										
Class	Premium written	Unearned premium reserve		Premium earned	Reinsurance ceded	Prepaid reinsurance premium ceded		Reinsurance expense	Net premium revenue	
		Opening	Closing			Opening	Closing		2017	2016
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Direct and facultative										
Fire and property damage	20,149,956	22,419,740	18,877,068	23,692,628	18,285,827	20,349,343	17,207,040	21,428,130	2,264,498	2,012,715
Marine, aviation and transport	4,226,026	57,654,223	34,765,807	27,114,442	2,052,449	52,180,787	31,216,213	23,017,023	4,097,419	2,090,392
Motor	43,347,842	14,849,829	18,861,930	39,335,741	14,425,988	3,018,188	7,164,963	10,279,213	29,056,528	43,991,365
Accident and health	308,112,470	1,430,238,607	169,301,253	1,569,049,824	-	-	-	-	1,569,049,824	579,747,409
Miscellaneous	27,303,533	192,137,405	118,854,264	100,586,674	22,224,431	167,556,314	103,655,866	86,124,879	14,461,795	12,582,772
Sub total	403,139,827	1,717,299,804	360,660,322	1,759,779,309	56,988,695	243,104,632	159,244,082	140,849,245	1,618,930,064	640,424,653
Treaty										
Proportional / non-proportional	-	-	-	-	-	-	-	-	-	-
Sub total	-	-	-	-	-	-	-	-	-	-
Grand total	403,139,827	1,717,299,804	360,660,322	1,759,779,309	56,988,695	243,104,632	159,244,082	140,849,245	1,618,930,064	640,424,653

Note: The Company does not underwrite business outside Pakistan.

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED**  
**STATEMENT OF CLAIMS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

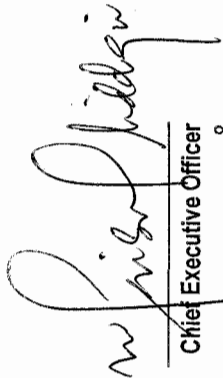
Business underwritten inside Pakistan														
Class	Total claims paid		Outstanding claims		Claims expenses		Reinsurance and other recoveries received		Reinsurance recoveries in respect of outstanding claims		Reinsurance and other recoveries revenue		Net claim expense	
	Rupees	Rupees	Opening	Closing	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Direct and facultative														
Fire and property damage	4,263,728	1,391,827	2,981,409	5,853,310	3,447,292	421,600	2,352,141	5,377,833	475,477	1,116,553				
Marine, aviation and transport	834,800	1,572,281	2,861,323	2,123,842	669,203	480,975	374,996	563,224	1,560,618	1,171,715				
Motor	16,227,817	13,402,145	24,051,778	26,877,450	5,010,743	472,750	2,357,851	6,895,844	19,981,606	19,649,697				
Accident and health	61,903,674	463,866,479	1,136,898,628	734,935,823	-	-	-	-	734,935,823	486,356,707				
Miscellaneous	13,174,729	12,529,970	24,965,988	25,610,747	12,116,403	4,997,674	11,847,836	18,966,565	6,644,182	7,717,346				
Sub total	96,404,748	492,762,702	1,191,759,126	795,401,172	21,243,641	6,372,999	16,932,824	31,803,466	763,597,706	516,012,018				
Treaty														
Proportional / non-proportional	-	-	-	-	-	-	-	-	-	-				
Sub total	-	-	-	-	-	-	-	-	-	-				
Grand total	96,404,748	492,762,702	1,191,759,126	795,401,172	21,243,641	6,372,999	16,932,824	31,803,466	763,597,706	516,012,018				

Note: The Company does not underwrite business outside Pakistan.

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Chief Executive Officer


**SINDH INSURANCE LIMITED**  
**STATEMENT OF EXPENSES**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

Business underwritten inside Pakistan

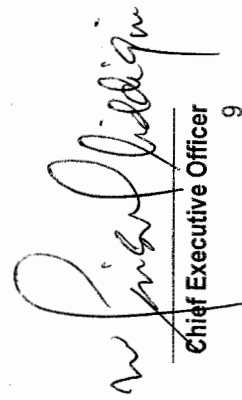
Class	Commission paid or payable	Deferred commission		Net commission expense	Other management expense (Note 19)	Underwriting expense	Commission from reinsurance (Note 20)	Net underwriting expense	
		Opening	Closing					2017	2016
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Direct and facultative</b>									
Fire and property damage	2,868,030	1,234,005	1,572,270	2,529,765	4,762,837	7,292,602	4,113,150	3,179,452	(977,707)
Marine, aviation and transport	661,214	82,245	120,974	622,485	998,904	1,621,389	612,500	1,008,889	1,023,127
Motor	739,419	472,798	161,490	1,050,727	10,246,112	11,296,839	3,454,998	7,841,841	4,837,003
Accident and health	757,406,242	44,462	44,511	757,406,193	57,665,497	815,071,690	-	815,071,690	85,186,861
Miscellaneous	345,452	62,574	80,803	327,223	6,453,725	6,780,948	1,867,615	4,913,333	2,255,198
<b>Sub-total</b>	<b>762,020,357</b>	<b>1,896,084</b>	<b>1,980,048</b>	<b>761,936,393</b>	<b>80,127,075</b>	<b>842,063,468</b>	<b>10,048,263</b>	<b>832,015,205</b>	<b>92,324,482</b>
<b>Treaty</b>									
Proportional / non-proportional	-	-	-	-	-	-	-	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand total</b>	<b>762,020,357</b>	<b>1,896,084</b>	<b>1,980,048</b>	<b>761,936,393</b>	<b>80,127,075</b>	<b>842,063,468</b>	<b>10,048,263</b>	<b>832,015,205</b>	<b>92,324,482</b>

Note: The Company does not underwrite business outside Pakistan.

The annexed notes from 1 to 36 form an integral part of these financial statements

  
**Chairman**


  
**Director**


  
**Chief Executive Officer**  
9

**SINDH INSURANCE LIMITED**  
**STATEMENT OF INVESTMENT INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

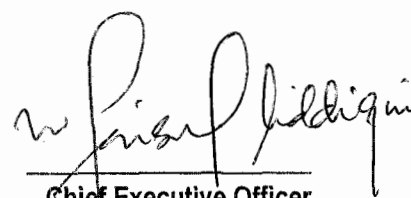
	2017 Rupees	2016 Rupees
<b>Income from non-trading investments</b>		
<b>Held-to-maturity</b>		
Return on Government Securities	6,785,183	5,980,000
Return on other fixed income securities and deposits	139,416,268	13,898,865
Amortization of discount	361,500	362,481
	<u>146,562,951</u>	<u>20,241,346</u>
<b>Available-for-sale</b>		
Return on Government Securities	26,004,121	17,223,917
Dividend income on available for sale investments	2,967,383	1,011,457
Gain on sale of available-for-sale investments	13,232,538	29,220,621
Amortization of premium	(7,212,136)	(4,456,078)
	<u>34,991,906</u>	<u>42,999,917</u>
<b>Net investment income</b>	<u><u>181,554,857</u></u>	<u><u>63,241,263</u></u>

The annexed notes from 1 to 36 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. THE COMPANY AND ITS OPERATIONS**

Sindh Insurance Limited ("the Company") was incorporated under the Companies Ordinance, 1984 (repealed), as a Public Limited Company on 20 December 2013 and obtained the certificate of commencement of business on 22 September 2014. All shares of the Company are beneficially held by Government of Sindh directly and through nominee directors. The Company is engaged in the non-life insurance business comprising of fire, marine, motor, aviation, engineering, transportation, accident and health etc. The registered office and principal place of business of the Company is situated at 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi. The Company operates only in Pakistan through four (2016: three) branches in Pakistan.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied during the year unless otherwise stated.

**2.1 BASIS OF PREPARATION**

**a) Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Boards as are notified under the repealed Companies Ordinance 1984, provisions of and directives issued under the repealed Companies Ordinance 1984, the Insurance Ordinance, 2000 and SEC (Insurance) Rules, 2002 and Takaful Rules, 2012. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984, Insurance Ordinance, 2000, SEC (Insurance) Rules, 2002 (repealed) and Takaful Rules, 2012 shall prevail.

During the year, the Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017 on 30 May 2017. SECP vide its Circular 23 of 2017 has clarified that the companies whose financial year, closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 requires enhanced disclosures about Company's operations and has also enhanced the definition of related parties. Accordingly, these financial statements have been prepared under repealed Companies Ordinance, 1984.

Further, Securities and Exchange Commission of Pakistan (SECP) has issued Insurance Accounting Regulations, 2017, which were applicable with effect from 09 February 2017. However, the Company applied for the extension relating to the applicability of the said regulations for preparation of the financial statements for the year ended 31 December 2017 which was allowed by SECP vide letter ID/OSM/SindhInsurance/17/13365 dated 24 January 2018. Hence, the financial statements for the year ended 31 December 2017 are prepared in accordance with the requirements of SEC (Insurance) Rules, 2002. Major impact in accordance with the format prescribed by SEC Insurance Rules, 2017 is on

presentation and disclosure of financial statements as per Annexure II of SEC Insurance Rules, 2017 and on valuation of available-for-sale investments. However, in case of the Company there is no impact on valuation of available-for-sale investments as the Company did not carry such investments as at 31 December 2017.

The Securities and Exchange Commission of Pakistan (SECP) has allowed the insurance companies to defer the application of International Accounting Standard – 39 (IAS-39) "Financial Instruments: Recognition and Measurement" in respect of valuation of "available-for-sale investments". Accordingly, the requirements of IAS-39, to the extent allowed by SECP have not been considered in the preparation of these financial statements.

**b) Basis of presentation**

These financial statements have been prepared on the format of financial statements issued by the SECP through Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002], vide SRO 938 dated 12 December 2002.

In terms of the requirements of the Takaful Rules, 2012, read with SECP Circular 25 of 2015 dated 09 July 2015, the assets, liabilities and profit and loss of the Operator Fund of the General Takaful operations of the Company have been presented as a single line item in the balance sheet and profit and loss account of the Company respectively. A separate set of financial statements of the General Takaful operations has been annexed to these financial statements as per the requirements of the Takaful Rules, 2012.

**c) Accounting convention**

These financial statements have been prepared under the historical cost convention except certain investments which are stated at lower of cost and market value. Accrual basis of accounting has been used except for cash flow information.

**d) Functional and Presentation Currency**

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

**e) Critical accounting estimates and judgments**

The preparation of the financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from period of revision.

In particular, information about judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements, and

estimates that have a significant risk of resulting in a material adjustment in the subsequent years is included in following notes:

- (i) classification of insurance contracts (note 2.2);
- (ii) provision for unearned premium (note 2.2.2);
- (iii) provision for premium due but unpaid and amount due from other insurers/reinsurers (note 2.2.3);
- (iv) provision for outstanding claims (including IBNR) and reinsurance recoveries there against (note 2.2.5);
- (v) premium deficiency reserve (note 2.2.8);
- (vi) employees benefits (note 2.3);
- (vii) classification of investments (note 2.6);
- (viii) taxation (note 2.7);
- (ix) residual values and useful lives of fixed assets (note 2.8);
- (x) allocation of management expenses (note 2.9);
- (xi) impairment (note 2.18); and
- (xii) segment reporting (note 2.19).

**f) Application of new and revised International Financial Reporting Standards (IFRSs)**

**i) New and amended standards and interpretations became effective during the year**

The following amendments to published approved standards and interpretation are mandatory for the Company's accounting periods beginning on or after 01 January 2017:

- IAS 12 (Amendments regarding deferred tax assets for unrealized losses) - Income Taxes
- IAS 7 (Amendments) - Statement of Cash Flows

The adoption of the above did not have any effect on the financial statements for the current year.

**ii) Standards, interpretations and amendments to published approved accounting standards those are not yet effective**

The following standards, amendments and interpretation of approved accounting standards will be effective for the accounting periods beginning on or after 01 January 2018 or later periods:

	<b>Effective date (accounting periods beginning on or after)</b>
- IFRS 2 (Amendments) - Classification and Measurement of Share-based Payment Transactions.	01 January 2018
- IFRIC 23 - Uncertainty over Income Tax Treatments	01 January 2019
- IFRS 4 (Amendments) - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4	01 January 2018
- IFRS 9 - Financial Instruments	01 July 2018
- IFRS 15 - Revenue from Contracts with Customers	01 July 2018



- IFRS 16 – Leases	01 January 2019
- IFRS 17 – Insurance Contracts	01 January 2021
- IAS 12 (Amendments regarding income tax consequences of dividends) - Income Taxes	01 January 2019
- IAS 40 (Amendments) - Investment Property	01 January 2018
- Annual Improvements 2014 - 2016 cycles	01 January 2018

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods (except for IFRS 4, IFRS 9 and IFRS 17), will have no material impact on the financial statements other than in presentation / disclosures. However, in case of IFRS 4, IFRS 9 and IFRS 17, the Company is assessing the potential impact on its Financial Statements resulting from the application of such standards / amendments which is generally expected to have a significant impact on the financial statements of insurance businesses.

There are other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after 01 January 2018 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.

## 2.2 INSURANCE CONTRACTS

Insurance contracts are those contracts under which the Company as insurer has accepted insurance risk from the insurance contract holder (insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its tenure, even if the insurance risk changes significantly during this period, unless all rights and obligations are extinguished or expire.

Insurance contracts are classified into following main categories, depending on the nature and duration of risk and whether or not the terms and conditions are fixed:

### a) Fire and property insurance

Fire and property insurance contracts generally cover the assets of the policy holders against damages by fire, earthquake, riots and strike, explosion, atmospheric disturbance, flood, electric fluctuation and impact, burglary, loss of profit followed by the incident of fire, contractor's all risk, erecting all risk, machinery breakdown and boiler damage etc.

### b) Marine aviation and transport insurance

Marine aviation and transport insurance contracts generally provide cover for loss or damage to cargo while in transit to and from foreign land and inland transit due to various insured perils including loss of or damage to carrying vessel etc.

**c) Motor insurance**

Motor insurance contracts provide indemnity for accidental damage to or loss of insured vehicle including loss of or damage to third party and other comprehensive car coverage.

**d) Accident and Health insurance**

Accident and Health insurance contracts mainly compensate hospitalization and patient medical coverage to the insured and indemnity for the death as result of an accident. These contracts are generally one year contracts.

**e) Miscellaneous insurance**

Miscellaneous insurance contracts provide variety of coverage including cover against burglary, loss of cash in safe, cash in transit and cash on counter, fidelity guarantee, workmen compensation, travel and crop etc.

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

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

**2.2.1 Reinsurance contracts held**

These are contracts entered into by the Company with reinsurers for compensation of losses suffered on insurance contracts issued. These reinsurance contracts include both facultative and treaty arrangement contracts and are classified in same categories of insurance contracts for the purpose of these financial statements. The Company recognizes the entitled benefits under the contracts as various reinsurance assets.

**2.2.2 Provision for unearned premium**

The provision for unearned portion of premiums is calculated by applying twenty fourths' method as prescribed by repealed SEC (Insurance) Rules, 2002. The deferred portion of reinsurance premium is recognized as a prepayment. The deferred portion of reinsurance premium ceded is calculated by using twenty fourths' method.

**2.2.3 Receivables and payables related to insurance contracts**

Receivables and payables, other than claim payables, relating to insurance contracts are recognized when due. The claim payable is recorded when intimation is received. These include premiums due but unpaid, premium received in advance, premiums due and claims payable to insurance contract holders. These are recognized at cost, which is the fair value of the consideration given less provision for impairment, if any. If there is an objective evidence that any premium due but unpaid is impaired, the Company reduces the carrying amount of that insurance receivable and recognizes the loss in profit and loss account.

#### **2.2.4 Reinsurance ceded**

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

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

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

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

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

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

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

#### **2.2.5 Provision for outstanding claims including IBNR**

A liability for outstanding claims is recognized in respect of all claims incurred as at the reporting date which represents the estimates of the claims intimated or assessed before the end of the reporting period and measured at the undiscounted value of expected future payments. Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates.

The Company takes advice from actuary for the determination of IBNR claims. Provision for IBNR claims have been estimated based on Expected Loss Ratio (ELR) method except for health business, where a mix of Expected Loss Ratio (ELR) and Chain Ladder (CL) method is used. CL method is not completely used since portfolio experience of the Company in health business is small due to long period of claims development, volatility and credibility of experience. Accordingly, provision has been made based on IBNR factors applied on incurred claims determined by the actuary.

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

## **2.2.6 Reinsurance recoveries against outstanding claims**

Claims recoveries receivable from the reinsurer are recognized as an asset at the same time as the claims which give rise to the right of recovery are recognized as a liability and are measured at the amount expected to be received.

## **2.2.7 Commission expense and other acquisition costs**

Commission expense incurred in obtaining and recording policies is deferred and recognized as an expense in accordance with pattern of recognition of premium revenue.

Other acquisition costs are charged to profit and loss account at the time the policies are accepted.

## **2.2.8 Premium deficiency reserve**

At each balance sheet date, liability adequacy tests are performed separately for each class of business under the repealed SEC Rules, 2002 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 underwriting expenses, expected to be incurred after balance sheet date in respect of policies in force at balance sheet date with the carrying amount of unearned premium liability.

The movement in the premium deficiency reserve is recorded as an expense / income in profit or loss account for the year.

The requirement for additional provision for unexpired risks is determined on the basis of an actuarial valuation. The latest valuation was carried out as of 31 December 2017. The actuary determines adequacy of liability of premium deficiency by multiplying unearned premium with the difference between excess of combined ratio over 100%. PDR is required if Loss Ratio exceeds 100% i.e. unearned premium reserve is not enough to cover for future claims and management expenses.

The gross combined ratios and net combined ratios are as follows:

	<b>Gross combined ratio</b>	<b>Net combined ratio</b>
- Fire and property damage	66%	180%
- Marine, aviation and transport	41%	65%
- Motor	79%	82%
- Accidental and health	120%	120%
- Miscellaneous	52%	84%

## **2.3 EMPLOYEES BENEFITS**

### **a) Defined contribution plan**

The Company operates a contributory provident fund scheme for all its eligible employees. For this purpose, the Company has established a separate Staff Provident Fund. Equal monthly contributions to the fund are made by the Company and the employees at the rate of 10% of basic salary.

**b) Employees' compensated absence**

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

**2.4 CREDITORS, ACCRUALS AND PROVISIONS**

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

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

**2.5 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash and bank deposits and exclude bank balances held under lien.

**2.6 INVESTMENTS**

All investments are initially recognized at cost being the fair value of the consideration given and include any transaction costs. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investment.

These investments are classified as 'held-to-maturity' and 'available-for-sale'.

**Held-to-maturity**

Investments with fixed maturity, where management has both the intent and ability to hold to maturity, are classified as 'held-to-maturity'.

Subsequently, these are measured at amortized cost less provision for impairment, if any. Any premium paid or discount availed on acquisition of 'held-to-maturity' investments is deferred and amortized over the term of investment uniformly.

These are reviewed for impairment at year end and any losses arising from impairment are charged to the profit and loss account.

**Available-for-sale**

Investments which are intended to be held for an undefined period of time or till maturity but may be sold in response to the need for liquidity, changes in interest rates, equity prices or exchange rates are classified as available-for-sale.

Subsequent to initial recognition at cost, these are stated at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the repealed SEC (Insurance) Rules, 2002. The Company uses stock exchange quotations at the reporting date to determine the market value of its quoted investments. The Company uses appropriate valuation techniques to estimate the fair value of unquoted investments in unlisted securities. If such estimated fair value is lesser than the cost, the Company recognizes the impairment adjustments.

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

## **2.7 TAXATION**

### **2.7.1 Current**

Provision for current taxation is based on taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period, if enacted.

### **2.7.2 Deferred**

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

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

## **2.8 FIXED ASSETS**

### **2.8.1 Tangible**

Owned fixed assets are stated at cost, signifying historical cost, less accumulated depreciation and any provision for accumulated impairment. Cost of an item of fixed assets consists of historical cost, borrowing cost pertaining to erection / construction period of qualifying asset directly attributable cost of bringing the asset to working condition. Depreciation is charged to income applying the reducing balance method at the rates specified for calculation of depreciation in note 16. The useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit and loss account as and when incurred.

Depreciation on additions is charged from the month the assets are available for use while on disposals, depreciation is charged up to the month in which the assets are disposed off.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount. The useful life and depreciation method are reviewed, and adjusted, if appropriate, at each reporting date.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the assets disposed of. These are taken to profit and loss account.

### **2.8.2 Intangible**

These are stated at cost less accumulated amortization and any provision for accumulated impairment, if any.

Amortization is calculated from the month the assets are available for use using the straight-line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortization methods are reviewed, and adjusted if appropriate, at each reporting date.

Software development costs are only capitalized to the extent that future economic benefits are expected to be derived by the Company.

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

## **2.9 MANAGEMENT EXPENSES**

Management expenses have been allocated to various classes of business as deemed equitable by management. Expenses not allocable to the underwriting business are charged under general and administration expenses.

## **2.10 INVESTMENT INCOME**

### **- Return on fixed income securities**

Return on fixed income securities is recognized on a time proportion basis.

### **- Dividend**

Dividend income is recognized when the Company's right to receive the dividend is established.

- **Gain / loss on sale of available-for-sale investments**

Gain / loss on sale of available-for-sale investments is recognized in profit and loss account in the year of sale.

**2.11 PREMIUM INCOME**

Premiums including administrative surcharge under a policy are recognized as revenue at the time of issuance of insurance policy.

Revenue from premiums is determined after taking into account the unearned portion of premiums. The unearned portion of premium income is recognized as a liability.

Reinsurance premium is recognized as expense after taking into account the proportion of deferred premium expense which is calculated using twenty fourths method. The deferred portion of premium expense is recognized as a prepayment.

**2.12 COMMISSION**

Commission expense incurred in obtaining and recording policies is deferred and recognized as an expense in accordance with pattern of recognition of premium revenue.

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

**2.13 FOREIGN CURRENCIES**

Transactions in foreign currencies are accounted for in Pak Rupees at the rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the reporting date. Exchange differences are taken to the profit and loss account currently.

**2.14 FINANCIAL INSTRUMENTS**

Financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the de-recognition of the financial assets and liabilities is included in the profit and loss account.

Financial instruments carried on the balance sheet include cash and bank, investments, premium due but unpaid, amounts due from other insurers / reinsurers, accrued investment income, loan to employees, sundry receivables, total assets of Window Takaful Operations - Operator's Fund, amounts due to other insurers / reinsurers, other creditors and accruals and total liabilities of Window Takaful Operations -



Operator's Fund. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## **2.15 DIVIDEND AND OTHER APPROPRIATIONS**

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividends are approved by the shareholders and other appropriations are recognized in the period in which these are approved by the Board of Directors.

## **2.16 OFF SETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set-off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## **2.17 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 ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated if there is any potential dilutive effect on the Company's reported net profits.

## **2.18 IMPAIRMENT**

### **Financial assets**

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available-for-sale financial asset is calculated with reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

### **Non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the

carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

## **2.19 SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the board of directors) who is responsible for allocating resources and assessing performance of the operating segments.

The Company accounts for segment reporting using the classes of business as specified under the repealed Insurance Ordinance, 2000 and the repealed SEC (Insurance) Rules, 2002 as the primary reporting format based on the Company's practice of reporting to the management on the same basis.

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

## **2.20 SHARE CAPITAL**

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

## **2.21 WINDOW TAKAFUL OPERATIONS**

The accounting policies adopted for window Takaful Operations are stated in the annexed financial statements of Window Takaful Operation for the period ended 31 December 2017.

### 3. SHARE CAPITAL

#### 3.1 Authorized share capital

Note

2017  
Rupees

2016  
Rupees

Number

2017

2016

150,000,000   150,000,000   Ordinary shares of Rupees 10 each   1,500,000,000   1,500,000,000

#### 3.2 Issued, subscribed and paid up share capital

100,000,000   50,000,000   Ordinary shares of Rupees 10 each fully paid  
in cash   1,000,000,000   500,000,000

3.2.1 The paid up share capital has been increased from 50 million ordinary shares of Rupees 10 each to 100 million ordinary shares of Rupees 10 each under the authority of resolution duly passed in Board of Directors' Meeting dated 31 October 2017.

3.3 As at 31 December 2017, all the shares are beneficially held by Government of Sindh directly and through nominee directors.

### 4. DEFERRED TAXATION

Deferred tax liability arising in respect of:

- accelerated depreciation

1,889,543

1,923,811

### 5. AMOUNTS DUE TO OTHER INSURERS / REINSURERS

Considered good

- foreign

13,889,386

15,669,272

- local

70,951,422

24,761,545

84,840,808

40,430,817

### 6. OTHER CREDITORS AND ACCRUALS

Commission

385,344

456,553

Provincial sales tax on services

1,318,669

361,893

Federal insurance fee

2,690,241

31,291

Withholding tax payable

595,777

278,269

Sundry creditors

19,463,557

9,467,077

Provision for compensated leave absences

6.1

2,566,770

2,144,650

Auditor's remuneration

455,500

372,000

27,475,858

13,111,733

#### 6.1 Provision for compensated leave absences

Opening balance

2,144,650

1,431,567

Provision for the year

813,089

713,083

Payments made during the year

(390,969)

-

Closing balance

2,566,770

2,144,650

### 7. WINDOW TAKAFUL OPERATIONS

#### OPERATOR'S FUND

##### Assets

Cash and bank deposits

467,723

287,159

Investment

51,069,607

50,035,752

Current assets

991,208

108,458

Fixed assets

106,362

82,993

Total assets

52,634,900

50,514,362

Total liabilities - current

2,009,316

1,288,645

Profit / (loss) from Window Takaful Operations

1,399,867

(774,283)

- 7.1 Details of total assets, total liabilities and segment disclosure of window takaful operations are stated in the annexed financial statements of Window Takaful Operations.

## 8. CONTINGENCIES AND COMMITMENTS

There were no contingencies or commitments as at the balance sheet date (2016: Nil).

9.		Note	2017 Rupees	2016 Rupees
	<b>CASH AND BANK DEPOSITS</b>			
	<b>Cash and other equivalents</b>			
	Cash in hand		21,451	24,319
	Policy stamps		848,663	507,889
			<u>870,114</u>	<u>532,208</u>
	<b>Current and other accounts</b>			
	Current accounts		-	-
	Saving accounts	9.1	51,477,115	69,277,221
			<u>51,477,115</u>	<u>69,277,221</u>
	<b>Deposits maturing within 12 months</b>			
	Fixed and term deposits	9.2	2,864,811,730	1,580,816,263
			<u>2,917,158,959</u>	<u>1,650,625,692</u>

- 9.1 The rate of return on these accounts ranges from 2.73% to 5.8% (2016: 2.73% to 5.8%) per annum.

- 9.2 These represent Term Deposit Receipts (TDRs) in local currency carrying interest rates of 8% to 8.5% (2016: 5.95% to 10.25%) per annum.

## 10. INVESTMENTS

### Held-to-maturity

Government securities	10.1	105,487,997	95,887,712
TPL Trakker Sukuk		25,000,000	25,000,000

### Available-for-sale

Pakistan Investment Bonds	10.2	-	314,004,151
Mutual funds	10.3	-	460,034,004
		-	774,038,155
		<u>130,487,997</u>	<u>894,925,867</u>

### 10.1 Government securities

Market treasury bills	10.1.1	53,685,060	44,446,275
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### Pakistan Investment Bonds

Pakistan Investment Bonds - cost		50,481,320	50,481,320
Add: Cumulative amortization of discount at year end		1,321,617	960,117
	10.1.2	<u>51,802,937</u>	<u>51,441,437</u>
	10.1.3	<u>105,487,997</u>	<u>95,887,712</u>

- 10.1.1 This represent a market treasury bills with a face value of Rupees 55,000,000 carrying effective yield rate of 6% with maturity on 24 May 2018.

- 10.1.2 This represent two Pakistan Investment Bonds with face value of Rupees 50,000,000 and Rupees 2,000,000 both carrying coupon rate of 11.5% with maturity on 18 July 2018.

- 10.1.3 These securities are pledged with the State Bank of Pakistan under the provisions of Insurance Ordinance, 2000 (XXXIX of 2000).

## 10.2 Pakistan Investment Bonds

20 Year Pakistan Investment Bonds - cost  
Less: Cumulative amortization of premium for the period

3 Year Pakistan Investment Bonds - cost  
Less: Cumulative amortization of premium for the period

Note	2017 Rupees	2016 Rupees
	-	4,937,276
	-	(51,233)
	-	4,886,043
	-	313,170,600
	-	(4,052,492)
	-	309,118,108
	-	314,004,151

## 10.3 Mutual Funds

At cost	No. of Units			
	2017	2016		
NAFA Income Opportunity Fund	-	23,713,242	-	261,614,629
NAFA Income Fund	-	14,433,317	-	145,000,000
ABL Income Fund	-	5,269,727	-	53,419,375
			-	460,034,004
Less: Impairment loss			-	-
carrying value at year end			-	460,034,004

## 11. PREMIUM DUE BUT UNPAID

Considered good	68,220,897	71,197,939
Considered doubtful	-	-
	68,220,897	71,197,939
Provision for doubtful balances	-	-
	68,220,897	71,197,939

## 12. AMOUNTS DUE FROM OTHER INSURERS / REINSURERS

Considered good		
- foreign	3,687,802	6,048,231
- local	40,845,443	3,545,309
	44,533,245	9,593,540

## 13. ACCRUED INVESTMENT INCOME

Term deposit receipts	43,694,995	4,950,715
Government securities	2,781,530	10,348,392
TPL Trakker Sukuk	519,452	529,315
	46,995,977	15,828,422

## 14. PREPAYMENTS

Prepaid reinsurance ceded	159,244,082	243,104,632
Prepaid insurance expense	662,226	195,052
Prepaid rent	1,852,957	1,524,334
Others	31,850	24,876
	161,791,115	244,848,894

## 15. SUNDRY RECEIVABLES

### Considered good

Advance for health claims	15.1	1,094,653	223,946
Advance for expenses		29,100	52,864
Receivable from Government of Sindh		-	7,734,733
Other receivables		1,282,983	1,574,170
		2,406,736	9,585,713

15.1 This represent the advance given to Third Party Administrator, M/s Health E-Connex (Private) Limited against health claims.

16. Fixed assets - tangible and intangible

Particulars	Tangibles					Intangibles		
	Leasehold Improvements	Owned			Total tangible assets	Owned Computer software	Total intangible assets	Total
	Rupees	Furniture and fixture	Office equipment	Computers	Rupees	Rupees	Rupees	Rupees
<b>As at 31 December 2015</b>								
Cost	12,161,075	2,594,091	6,551,926	1,154,652	6,608,513	29,060,257	3,351,446	32,411,703
Accumulated depreciation / amortization	(997,456)	(347,766)	(855,082)	(341,883)	(1,180,301)	(3,723,488)	(612,413)	(4,335,901)
	<u>11,163,619</u>	<u>2,236,325</u>	<u>5,695,844</u>	<u>812,769</u>	<u>5,428,212</u>	<u>25,336,769</u>	<u>2,739,033</u>	<u>28,075,802</u>
<b>Year ended 31 December 2016</b>								
Opening book value	11,163,619	2,236,325	5,695,844	812,769	5,428,212	25,336,769	2,739,033	28,075,802
Additions	-	255,662	269,300	660,234	-	1,185,196	940,000	2,125,196
Disposal / write offs	-	-	-	-	-	-	-	-
Cost	-	-	-	-	-	-	-	-
Accumulated depreciation / amortization	-	-	-	-	-	-	-	-
Depreciation / amortization charge for the period	(558,181)	(230,868)	(574,996)	(365,069)	(1,085,643)	(2,814,757)	(1,300,007)	(4,114,764)
Closing net book value	<u>10,605,438</u>	<u>2,261,119</u>	<u>5,390,148</u>	<u>1,107,934</u>	<u>4,342,569</u>	<u>23,707,208</u>	<u>2,379,026</u>	<u>26,086,234</u>
<b>As at 31 December 2016</b>								
Cost	12,161,075	2,839,753	6,821,226	1,814,886	6,608,513	30,245,453	4,291,446	34,536,899
Accumulated depreciation / amortization	(1,555,637)	(578,634)	(1,431,078)	(706,952)	(2,265,944)	(6,538,245)	(1,912,420)	(8,450,665)
	<u>10,605,438</u>	<u>2,261,119</u>	<u>5,390,148</u>	<u>1,107,934</u>	<u>4,342,569</u>	<u>23,707,208</u>	<u>2,379,026</u>	<u>26,086,234</u>
<b>Year ended 31 December 2017</b>								
Opening book value	10,605,438	2,261,119	5,390,148	1,107,934	4,342,569	23,707,208	2,379,026	26,086,234
Additions	-	116,800	1,612,595	565,350	-	2,294,745	300,000	2,594,745
Disposal / write offs	-	-	-	-	-	-	-	-
Cost	-	-	-	-	-	-	-	-
Accumulated depreciation / amortization	-	-	-	-	-	-	-	-
Depreciation / amortization charge for the period	(530,272)	(233,429)	(540,394)	(504,363)	(1,321,641)	(3,130,099)	(1,445,974)	(4,576,073)
Closing net book value	<u>10,075,166</u>	<u>2,144,490</u>	<u>6,462,349</u>	<u>1,168,921</u>	<u>3,020,928</u>	<u>22,871,854</u>	<u>1,233,052</u>	<u>24,104,906</u>
<b>As at 31 December 2017</b>								
Cost	12,161,075	2,956,553	8,433,821	2,380,236	6,608,513	32,540,198	4,591,446	37,131,644
Accumulated depreciation / amortization	(2,085,909)	(812,063)	(1,971,472)	(1,211,315)	(3,587,585)	(9,668,344)	(3,358,394)	(13,026,738)
	<u>10,075,166</u>	<u>2,144,490</u>	<u>6,462,349</u>	<u>1,168,921</u>	<u>3,020,928</u>	<u>22,871,854</u>	<u>1,233,052</u>	<u>24,104,906</u>
Depreciation / amortization rate (%)	5	10	10	33.33	20	33.33	33.33	27

<b>17. NET PREMIUM REVENUE</b>	<b>Note</b>	<b>2017 Rupees</b>	<b>2016 Rupees</b>
Premium revenue (net of reinsurance)		1,618,282,162	639,953,543
Administrative surcharge	17.1	647,902	471,109
		<u>1,618,930,064</u>	<u>640,424,652</u>

#### **17.1 Administrative surcharge**

Premium written and net premium revenue include administrative surcharge, class wise detail of which is given below:

Fire and property damage	58,464	64,106
Marine, aviation and transport	144,681	36,689
Motor	317,014	240,243
Accident & health	-	-
Miscellaneous	127,743	130,071
	<u>647,902</u>	<u>471,109</u>

18. This includes provision for incurred but not reported (IBNR) amounting to Rupees 1,148,649,764.

#### **19 MANAGEMENT EXPENSES**

Salaries, allowance and benefits	19.1	21,956,703	22,385,657
Rent, rates and taxes		1,629,528	1,446,987
Legal and professional charges		3,068,534	585,054
Travelling and conveyance		744,375	777,433
Printing and stationary expenses		313,247	1,035,039
Repair and maintenance		342,646	786,376
Depreciation		1,249,596	1,125,903
Amortization of intangibles		578,390	520,003
Advertising		44,030,315	382,008
Utilities		697,725	433,320
Communication		258,714	254,492
Office expenses		730,460	815,745
Other charges		32,729	70,911
Insurance expenses		424,580	385,142
Survey fee		134,920	188,211
Service charges		2,056,950	2,776,337
Miscellaneous expenses		1,877,663	397,052
		<u>80,127,075</u>	<u>34,365,670</u>

19.1 This includes Company's contribution to the staff provident fund of Rupees 705,672 (2016: Rupees 791,341).

**20. COMMISSION FROM REINSURERS**

Class	Commission received or receivable	Unearned commission		2017	2016
		Opening	Closing	Commission from reinsurers	Commission from reinsurers
	Rupees	Rupees	Rupees	Rupees	Rupees
Fire and property damage	4,510,014	2,111,628	2,508,492	4,113,150	3,572,155
Marine, aviation and transport	582,179	266,940	236,619	612,500	234,986
Motor	5,055,430	914,910	2,515,342	3,454,998	592,089
Accident and Health	-	-	-	-	-
Miscellaneous	1,242,258	1,861,634	1,236,277	1,867,615	1,505,574
	<b>11,389,881</b>	<b>5,155,112</b>	<b>6,496,730</b>	<b>10,048,263</b>	<b>5,904,804</b>

21. OTHER INCOME	Note	2017 Rupees	2016 Rupees
Return on saving accounts		5,720,370	12,476,620
Income on generator sharing		436,860	436,860
Other		490,718	10,148
		<b>6,647,948</b>	<b>12,923,628</b>

**22. GENERAL AND ADMINISTRATIVE EXPENSES**

Salaries, wages, allowance and benefits	22.1	14,107,589	11,720,098
Directors meeting fee		700,000	800,000
Rent, rates and taxes		1,680,193	1,156,631
SECP fees for increase in authorized capital		-	3,000,000
Legal and professional charges		3,682,326	427,581
Auditors' remuneration	22.2	700,500	602,000
Depreciation		1,874,393	1,688,854
Amortization of intangibles		867,585	780,004
Printing and stationery		459,386	633,596
Repair and maintenance		482,726	455,878
Travelling, conveyance and entertainment		582,579	393,584
Advertising		103,145	136,611
Utilities		986,701	649,980
Communication		258,521	268,901
Office expenses		980,417	694,426
Other charges		196,015	343,406
Insurance expenses		445,493	525,368
		<b>28,107,569</b>	<b>24,276,918</b>

22.1 This includes Company's contribution to the staff provident fund of Rupees 668,289 (2016: Rupees 443,837).

**22.2 Auditor's remuneration**

Audit fee	287,500	250,000
Other certifications	390,000	315,000
Out of pocket expenses	23,000	37,000
	<b>700,500</b>	<b>602,000</b>



23. TAXATION	Note	2017 Rupees	2016 Rupees
Current	23.1	53,477,037	25,760,743
Prior		-	108,465
Deferred	23.2	(34,268)	(1,916)
		<u>53,442,769</u>	<u>25,867,292</u>

#### 23.1 Relationship between tax expense and accounting profit

The relationship between tax expense and accounting profit is as follows:

Accounting profit before tax	<u>178,318,280</u>	<u>82,574,027</u>
Tax @ 30%	53,495,484	25,597,948
Effect of taxable temporary differences on account of:		
- tax depreciation allowance	(27,792)	(58,261)
- provision for leave encashment	9,345	221,056
	<u>53,477,037</u>	<u>25,760,743</u>

#### 23.2 Deferred tax effect due to temporary difference of:

- tax depreciation allowance	<u>(34,268)</u>	<u>(1,916)</u>
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#### 24. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share which is based on:

Net profit after tax for the year - Rupees	<u>124,875,511</u>	<u>56,706,735</u>
Weighted average number of ordinary shares - Number	<u>51,369,863</u>	<u>50,000,000</u>
Basic earnings per share - Rupees	<u>2.43</u>	<u>1.13</u>

#### 25. REMUNERATION OF DIRECTORS, CHIEF EXECUTIVE OFFICER AND EXECUTIVES

For year ended 31 December 2017

	Chief Executive Officer	Directors	Executives	Total
	Rupees	Rupees	Rupees	Rupees
Basic pay	4,024,992	-	4,994,932	9,019,924
House rent allowance	1,811,244	-	2,247,703	4,058,947
Utilities	402,504	-	499,496	902,000
Medical allowance	402,504	-	499,496	902,000
Conveyance and other allowance	-	-	104,171	104,171
Bonus	670,832	-	799,843	1,470,675
Others perquisites	1,244,004	-	1,111,167	2,355,171
Meeting fee	-	700,000	-	700,000
	<u>8,556,080</u>	<u>700,000</u>	<u>10,256,808</u>	<u>19,512,888</u>
Number of Persons	1	3	4	8

For year ended 31 December 2016

	Chief Executive Officer	Directors	Executives	Total
	Rupees	Rupees	Rupees	Rupees
Basic pay	3,500,000	-	4,671,504	8,171,504
House rent allowance	1,575,000	-	2,102,189	3,677,189
Utilities	350,000	-	467,153	817,153
Medical allowance	350,000	-	467,150	817,150
Bonus	583,322	-	778,582	1,361,904
Others perquisites	1,082,382	-	1,130,327	2,212,709
Meeting fee	-	800,000	-	800,000
	<u>7,440,704</u>	<u>800,000</u>	<u>9,616,905</u>	<u>17,857,609</u>
Number of Persons	1	2	3	6

25.1 In addition to the above, chief executive officer and certain executives are provided with Company maintained cars.

25.2 Executives mean employees, other than the Chief Executive Officer and Directors, whose basic salary exceeds five hundred thousand rupees in a financial year.

## 26. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of associated companies, entities under common control, entities with common Directors, major shareholders and key management personnel of the Company. Transactions with related parties are carried out at arm's length prices determined under "Comparable controlled price method". Transactions and balances with related parties have been disclosed in relevant notes to the financial statements. Other transactions and balances not elsewhere disclosed are summarized as follows:

Transactions	2017 Rupees	2016 Rupees
<b>Companies having common directorship</b>		
<b>Sindh Bank Limited (SBL)</b>		
Income on saving account	5,720,370	12,377,699
Premium written	66,623,958	64,566,730
Claim paid	35,777,090	29,329,628
Premium received	57,847,158	50,661,463
<b>Sindh Modarba Management Limited (SMML)</b>		
Premium written	277,340	506,767
Claim paid	1,470,158	184,116
Premium received	276,441	556,382
Income on sharing of generator	436,860	436,860
<b>Sindh Leasing Company Limited (SLCL)</b>		
Premium written	1,597,545	1,804,400
Claim paid	263,681	1,162,503
Premium received	1,935,313	1,490,824

	2017 Rupees	2016 Rupees
<b>Sindh Micro Finance Bank Limited</b>		
Premium written	1,372,682	158,094
Claim paid	249,497	-
Premium received	158,094	158,094
<b>Health Econnex (Private) Limited</b>		
Health claims paid on behalf of Company	35,503,674	25,765,185
Service charges	4,174,113	2,776,337
<b>Government of Sindh - Shareholder</b>		
Premium written	300,000,000	2,216,160,038
Claim paid	26,400,000	100,000
Expenses incurred on behalf of Government of Sindh	39,337,878	7,734,733
<b>Balances at year end</b>		
<b>Companies having common directorship</b>		
<b>Sindh Bank Limited (SBL)</b>		
Bank accounts	51,477,115	68,940,225
Premium due but unpaid	42,169,650	33,392,850
Claim payable	494,195	12,683,152
Payable to Sindh Bank Limited	6,286,423	7,212,799
<b>Sindh Modarba Management Limited (SMML)</b>		
Premium received in advance	(23,943)	(24,842)
Claim (receivable) / payable	(879)	35,879
Amount receivable for sharing of generator	221,360	218,430
<b>Sindh Leasing Company Limited (SLCL)</b>		
(Premium received in advance) / Premium due but unpaid	(24,192)	313,576
Claim payable	336,880	15,000
Payable to Sindh Leasing Company Limited	1,592,595	-
<b>Sindh Micro Finance Bank Limited</b>		
Premium due but unpaid	913,002	-
Claim payable	150,310	-
<b>Health Econnex (Private) Limited</b>		
Advance for health claim expense	1,094,653	223,946
<b>Receivable from Government of Sindh - Shareholder</b>	-	7,734,733
<b>27. NUMBER OF EMPLOYEES</b>	<b>2017</b>	<b>2016</b>
Number of employees at the end of the year (Number)	22	35
Average number of employees during the year (Number)	29	36

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## 29. FINANCIAL AND INSURANCE RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest / mark-up rate risk, price risk and currency risk). The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance. Overall risks arising from the Company's financial assets and liabilities are limited. The Company consistently manages its exposure to financial risk without any material change from previous year in the manner described in notes below. The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing the Company's risk management policies.

The individual risk wise analysis is given below:

### 29.1 Credit risk and concentration of credit risk

Credit risk is the risk that arises with the possibility that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures by undertaking transactions with a large number of counterparties in various sectors and by continually assessing the credit worthiness of counterparties.

Concentration of credit risk occurs when a number of counterparties have a similar type of business activities. As a result any change in economic, political or other conditions would affect their ability to meet contractual obligations in similar manner. The Company's credit risk exposure is not significantly different from that reflected in these financial statements. The management monitors and limits the Company's exposure and makes conservative estimates of provisions for doubtful assets, if any. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in entities of sound financial standing, covering various industrial sectors.

The carrying amount of financial assets represents the maximum credit exposure, as specified below:

	2017 Rupees	2016 Rupees
Bank balances	2,916,288,845	1,650,093,484
Investments	130,487,997	894,925,867
Premiums due but unpaid	68,220,897	71,197,939
Loan to employees	372,631	1,113,067
Amounts due from other insurers / reinsurers	44,533,245	9,593,540
Accrued investment income	46,995,977	15,828,422
Sundry receivables	2,406,736	9,585,713
Assets of Window Takaful Operations - Operator's Fund	52,634,900	50,427,585
	<u>3,261,941,228</u>	<u>2,702,765,618</u>

Provision for impairment is made for doubtful receivables according to the Company's policy. The impairment provision is written off when the Company expects that it cannot recover the balance due. During the year, receivables of Rupees Nil were further impaired and provided for.

The age analysis of premium due but unpaid from other than related parties is as follows:

Upto 3 months	10,996,554	17,451,184
3 to 6 months	5,773,565	3,787,575
6 to 12 months	10,603,450	15,695,780
More than 12 months	509,921	606,658
	<u>27,883,490</u>	<u>37,541,197</u>

The age analysis of premium due but unpaid from related parties is as follows:

Upto 3 months	8,364,587	1,998,643
3 to 6 months	29,021,063	28,648,265
6 to 12 months	1,464,540	1,536,162
More than 12 months	1,487,217	1,473,672
	<u>40,337,407</u>	<u>33,656,742</u>

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

	Rating		Rating Agency	2017 Rupees	2016 Rupees
	Short term	Long term			
<b>Saving accounts</b>					
Sindh Bank Limited	A-1+	AA	JCR-VIS	51,477,115	69,277,221
<b>Term deposit certificates</b>					
JS Bank Limited	A1+	AA-	PACRA	-	815,000,000
Pak Oman Microfinance Bank Limited	A-2	A-	JCR-VIS	-	15,816,263
Pak Brunei Investment Company Limited	A-1+	AA+	JCR-VIS	-	700,000,000
Khushali Micro Finance Bank Limited	A-1	A+	JCR-VIS	261,402,585	-
National Rural Support Program Micro Finance Bank	A-1	A	JCR-VIS	1,448,796,645	-
Telenor Microfinance Bank Limited - formerly Tameer Microfinance Bank Limited	A1	A+	JCR-VIS	1,154,612,500	50,000,000
				<b>2,916,288,845</b>	<b>1,650,093,484</b>

The credit quality of investments can be assessed with reference to external credit rating as follows:

	Rating	Rating Agency	2017 Rupees	2016 Rupees
<b>Government Securities</b>	Unrated	Unrated	130,487,997	434,891,863
<b>Mutual Funds</b>				
NAFA Income Opportunity Fund	A(f)	PACRA	-	261,614,629
NAFA Income Fund	A(f)	PACRA	-	145,000,000
ABL Income Fund	A(f)	JCR-VIS	-	53,419,375
			-	460,034,004
<b>Less: Impairment</b>			-	-
			<b>130,487,997</b>	<b>894,925,867</b>

The credit quality of amount due from other insurers can be assessed with reference to external credit rating as follows:

A or above	670,195	216,940
Unrated	43,863,050	9,376,600
<b>Total</b>	<b>44,533,245</b>	<b>9,593,540</b>

## 29.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of adequate funds through committed credit facilities. The Company finances its operations through equity, borrowings and working capital with a view to maintaining an appropriate mix between various sources of finance to minimize risk. The management follows an effective cash management program to mitigate the liquidity risk.

The following are the contractual maturities of financial liabilities, including estimated interest payments on an undiscounted cash flow basis:

	2017			
	Carrying amount	Contractual cash flow	Upto one year	More than one year
	Rupees	Rupees	Rupees	Rupees
<b>Financial liabilities</b>				
Premium received in advance	514,640,636	514,640,636	514,640,636	-
Provision for outstanding claims	1,191,759,126	1,191,759,126	1,191,759,126	-
Amount due to insurers / reinsurers	84,840,808	84,840,808	84,840,808	-
Other creditors and accruals	27,475,858	27,475,858	27,475,858	-
Liabilities of Window Takaful Operations - Operator's Fund	2,009,316	2,009,316	2,009,316	-
	<b>1,820,725,744</b>	<b>1,820,725,744</b>	<b>1,820,725,744</b>	<b>-</b>

Financial liabilities	2016				
	Carrying amount	Contractual cash flow	Upto one year	More than one year	More than five year
	Rupees	Rupees	Rupees	Rupees	Rupees
Premium received in advance	376,104	376,104	376,104	-	-
Provision for outstanding claims	492,762,702	492,762,702	492,762,702	-	-
Amount due to insurers / reinsurers	40,430,817	40,430,817	40,430,817	-	-
Other creditors and accruals	69,896,057	69,896,057	69,896,057	-	-
Liabilities of Window Takaful Operations -	1,194,883	1,194,883	1,194,883	-	-
	604,660,563	604,660,563	604,660,563	-	-

### 29.3 Market risk

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The objective is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The market risks associated with the Company's business activities are interest / mark-up rate risk, price risk and currency risk.

#### a) Interest / mark-up rate risk

Interest / mark-up rate risk is the risk that value of a financial instrument or future cash flows of a financial instrument will fluctuate due to changes in the market interest / mark-up rates. Sensitivity to interest / mark-up rate risk arises from mismatching of financial assets and liabilities that mature or repaid in a given year. The Company manages this mismatch through risk management strategies where significant changes in gap position can be adjusted. At the reporting date the interest / mark-up rate profile of the Company's significant interest / mark-up bearing financial instruments was as follows:

	2017		2016	
	Effective interest rate (%age)	Rupees	Effective interest rate (%age)	Rupees
<b>Fixed rate financial instruments</b>				
<b>Financial assets</b>				
Investments-PIBs	11.50%	51,802,937	8.75% to 13%	365,445,588
Investments-T-Bills	6.00%	53,685,060	5.83%	44,446,275
Bank deposits	2.73% to 5.8%	51,477,115	2.73% to 5.8%	69,277,221
Term deposit receipts	8% to 8.5%	2,864,811,730	5.95% to 10.25%	1,580,816,263
<b>Floating rate financial instruments</b>				
<b>Financial assets</b>				
Investments - Sukuk	9.48% to 9.66%	25,000,000	9.66%	25,000,000

#### Financial liabilities

#### Cash flow sensitivity analysis of variable rate instruments

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax and equity based upon average balances and rates:

	Increase / (decrease) in interest rate	Effect on profit before tax	Effect on equity
		Rupees	Rupees
31 December 2017	1%	23,826	16,440
31 December 2016	1%	17,401	12,007

#### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for fixed rate financial assets at fair value through profit and loss. Therefore, a change in interest rates at the reporting date would not affect profit and loss account and equity of the Company.

#### b) 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 factor specific to the individual financial instrument or its issuer, or factors affecting all or similar financial instrument traded in the market. The Company is not exposed to price risk as the Company has no equity investments.

c) **Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is not exposed to foreign currency risk as the Company has no financial assets and financial liabilities in foreign currencies.

**29.4 Insurance risk**

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims and similar procedures are put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts.

Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. Reinsurance policies are written with approved reinsurers on either a proportionate basis or non-proportionate basis. The reinsurers are carefully selected and approved and are dispersed over several geographical regions.

Experience shows that larger the portfolio is in similar insurance contracts, smaller will be the relative variability about the expected outcome. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company principally issues the general insurance contracts e.g. marine and aviation, property, motor and general accidents. Risks under non-life insurance policies usually cover twelve month or lesser duration. For general insurance contracts the most significant risks arise from accidental fire, atmospheric disaster and terrorist activities. Insurance contracts at times also cover risk for single incidents that expose the Company to multiple insurance risks.

a) **Geographical concentration of insurance risk**

To optimize 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 primarily with the commercial / industrial occupation of the insured. 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 are formed part of the reports which are made available to the underwriters / reinsurers for their evaluation. Reference is made to the standard construction specifications laid down by Insurance Association of Pakistan (IAP). For fire and property risk a particular building and neighboring buildings, which could be affected by a single claim incident, are considered as a single location. For earthquake risk, a complete city is classified as a single location. Similarly, for marine risk, multiple risks covered in a single vessel voyage are considered as a single risk while assessing concentration of risk. The Company evaluates the concentration of exposures to individual and cumulative insurance risks and establishes its reinsurance policy to reduce such exposures to levels acceptable to the Company.

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

b) **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 with regulatory requirements, the reinsurance agreements are duly submitted to the Securities and Exchange Commission of Pakistan on an annual basis.

The Company's class wise risk exposure (based on maximum loss coverage in a single policy is as follows):

Class	Gross sum insured	Reinsurance	Net exposure of risk	Net exposure of risk
			2017	2016
	Rupees	Rupees	Rupees	Rupees
Fire and property damage	762,702,868	741,432,581	21,270,287	89,395,077
Marine, aviation and transport	143,222,068	78,222,068	65,000,000	44,465,079
Motor	19,499,000	15,649,000	3,850,000	5,118,488
Accident and Health	1,000,000	-	1,000,000	1,000,000
Miscellaneous	1,800,000,000	1,710,000,000	90,000,000	44,697,538
	<b>2,726,423,936</b>	<b>2,545,303,649</b>	<b>181,120,287</b>	<b>184,676,182</b>

**c) Uncertainty in the estimation of future claims payment**

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.

An estimated amount of the claim is recorded immediately on the intimation to the Company. The estimation of the amount is based on management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims. For the estimation of provision of claims IBNR, the Company follows the recommendation of actuary.

There are several variable factors which affect the amount and timing of recognized claim liabilities. The Company takes all reasonable measures to mitigate 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 significantly different from initial recognized amount. Similarly, the provision for IBNR is based on historic reporting pattern of the claims other than exceptional losses. Hence, actual amount of IBNR may differ from the amount estimated.

**d) Key assumptions**

The principal assumption underlying the liability estimation of IBNR is that the Company's future claim development will follow similar market pattern for occurrence and reporting. The management uses qualitative judgment to assess the extent to which reporting pattern will not apply in future. The judgment includes external factors e.g. treatment of one-off occurrence claims, changes in market factors, economic conditions, etc. The internal factors such as portfolio mix, policy conditions and claim handling procedures are further used in this regard.

**e) Sensitivity analysis**

The insurance claim liabilities are sensitive to the incidence of insured events and severity / size of claims. The impact of variation in incidence of insured events on gross claim liabilities, net claim liabilities, profit before tax and equity is as follows:

	Pre-tax profit		Shareholders' equity	
	2017	2016	2017	2016
	Rupees	Rupees	Rupees	Rupees
<b>10% increase in loss</b>				
Fire and property damage	47,548	111,655	33,283	77,042
Marine, aviation and transport	156,062	117,172	109,243	80,848
Motor	1,998,161	1,964,970	1,398,712	1,355,829
Accident and Health	73,493,582	48,635,671	51,445,508	33,558,613
Miscellaneous	664,418	771,735	465,093	532,497
	<b>76,359,771</b>	<b>51,601,203</b>	<b>53,451,839</b>	<b>35,604,829</b>
<b>10% decrease in loss</b>				
Fire and property damage	(47,548)	(111,655)	(33,283)	(77,042)
Marine, aviation and transport	(156,062)	(117,172)	(109,243)	(80,848)
Motor	(1,998,161)	(1,964,970)	(1,398,712)	(1,355,829)
Accident and Health	(73,493,582)	(48,635,671)	(51,445,508)	(33,558,613)
Miscellaneous	(664,418)	(771,735)	(465,093)	(532,497)
	<b>(76,359,771)</b>	<b>(51,601,203)</b>	<b>(53,451,839)</b>	<b>(35,604,829)</b>

7) **Claim development**

The Company maintains adequate reserves in respect of its insurance business in order to protect against adverse future claims experience and developments. The uncertainties about the amount and timing of claim payments are normally resolved within one year. The following table shows the development of the claims over a year of time. All amounts are presented in gross numbers before reinsurance:

Accident year	2015	2016	2017	Total
	Rupees	Rupees	Rupees	Rupees
Estimate of ultimate claims cost:				
At the end of accident year	14,899,401	52,880,255	124,067,148	191,846,804
One year later	14,112,005	45,832,284	-	59,944,289
Two years later	14,185,778	-	-	14,185,778
	14,185,778	45,832,284	124,067,148	184,085,210
Cumulative payment	(14,185,778)	(44,499,791)	(82,290,278)	(140,975,847)
Liability recognized in balance sheet	-	1,332,493	41,776,870	43,109,363

30. **FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

The carrying values of all financial assets and liabilities reflected in these financial statements approximate to their fair values except for available-for-sale investments which are stated at lower of cost and market value in accordance with the requirements of the SEC (Insurance) Rules, 2002. The carrying and fair value of these investments have been disclosed in note 7 to the financial statements. Since the financial assets are not stated at exact fair values, therefore, analysis under following groups from level 1 to level 3 based on the degree to which fair value is observable is not produced:

Level 1: Quoted Market prices

Level 2: Valuation techniques (market observable)

Level 3: Valuation techniques (non market observable)

The carrying values of all financial assets and liabilities reflected in financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

31. **FINANCIAL INSTRUMENT BY CATEGORIES**

As at 31 December 2017

	Loans and receivables	Held-to-maturity	Total
	Rupees	Rupees	Rupees
<b>Financial assets</b>			
Cash and bank balances	2,917,158,959	-	2,917,158,959
Investments	-	130,487,997	130,487,997
Premiums due but unpaid	68,220,897	-	68,220,897
Re-insurance recoveries against outstanding claims	16,932,824	-	16,932,824
Loan to employees	372,631	-	372,631
Amounts due from other insurers / reinsures	44,533,245	-	44,533,245
Accrued investment income	46,995,977	-	46,995,977
Sundry receivables	2,406,736	-	2,406,736
Assets of Window Takaful Operations - Operator's Fund	991,208	51,069,607	52,060,815
	<b>3,097,612,477</b>	<b>181,557,604</b>	<b>3,279,170,081</b>

As at 31 December 2017

**Financial liabilities**

	At amortized cost
	Rupees
Provision for outstanding claims (including IBNR)	1,191,759,126
Premium received in advance	514,640,636
Amount due to other insurers / reinsures	84,840,808
Other creditors and accruals	27,475,858
Liabilities of Window Takaful Operations - Operator's Fund	2,009,316
	<b>1,820,725,744</b>

As at 31 December 2016

	Loans and receivables	Held-to-maturity	Available-for- sale	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial assets</b>				
Cash and bank balances	1,650,625,692	-	-	1,650,625,692
Investments		120,887,712	774,038,155	894,925,867
Premiums due but unpaid	71,197,939	-	-	71,197,939
Re-insurance recoveries against outstanding claims	6,372,999	-	-	6,372,999
Loan to employees	1,113,067	-	-	1,113,067
Amounts due from other insurers / reinsurers	9,593,540	-	-	9,593,540
Accrued investment income	15,828,422	-	-	15,828,422
Sundry receivables	9,585,713	-	-	9,585,713
Assets of Window Takaful Operations - Operator's Fund	391,833	50,035,752	-	50,427,585
	<u>1,764,709,205</u>	<u>170,923,464</u>	<u>774,038,155</u>	<u>2,709,670,825</u>

As at 31 December 2016

	At amortized cost
	Rupees
<b>Financial liabilities</b>	
Provision for outstanding claims (including IBNR)	492,762,702
Premium received in advance	376,104
Amount due to other insurers / reinsurers	40,430,817
Other creditors and accruals	69,896,057
Liabilities of Window Takaful Operations - Operator's Fund	1,194,883
	<u>604,660,563</u>

### 32. PROVIDENT FUND RELATED DISCLOSURE

The following information is based on un-audited financial information of the provident fund for the year ended 31 December 2017.

	2017 Rupees	2016 Rupees
Size of the funds - Total assets	6,065,568	3,935,000
Cost of investments	4,543,516	3,843,516
Percentage of investments made	75%	98%
Fair value of investments	4,313,618	3,967,198

The details of total assets is as follows:

	2017 Percentage	2017 Rupees	2016 Percentage	2016 Rupees
Treasury bills	-	-	13%	493,350
Investments in mutual funds	71%	4,313,618	85%	3,350,166
Cash at bank - saving account	29%	1,751,950	2%	91,484
	<u>100%</u>	<u>6,065,568</u>	<u>100%</u>	<u>3,935,000</u>

The above investment / placement of funds has been made in accordance with the provisions of section 218 of the Companies Act, 2017 and the rules formulated for this purpose.

### 33. CAPITAL RISK MANAGEMENT

The Company's goals and objectives when managing capital are:

- to be an appropriately capitalized institution in compliance with the paid-up capital requirement set by the SECP. Minimum paid-up capital requirement for non-life insurers is Rupees 500 million. The Company's current paid-up capital is well in excess of the limit prescribed by the SECP;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for the other stakeholders;
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk;
- to maintain strong ratings and to protect the Company against unexpected events/ losses; and
- to ensure a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

34. DATE OF AUTHORIZATION FOR ISSUE

30 MAR 2018

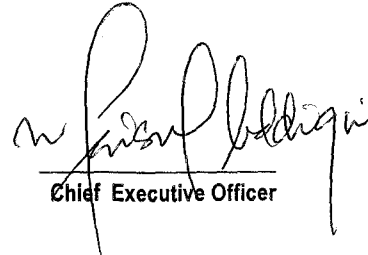
These financial statements were approved and authorized for issue on \_\_\_\_\_ by the Board of Directors of the Company.

35. CORRESPONDING FIGURES

No significant reclassification/re-arrangement of corresponding figures has been made during the year.

36. GENERAL

- Figures have been rounded to the nearest Rupee.

  
Chairman  
Director  
Director  
Chief Executive Officer

# **SINDH INSURANCE LIMITED**

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# **WINDOW TAKAFUL OPERATIONS**

**FINANCIAL STATEMENTS WITH  
ACCOMPANYING INFORMATION**

**FOR THE YEAR ENDED  
31 DECEMBER 2017**

## **AUDITORS' REPORT TO THE MEMBERS OF SINDH INSURANCE LIMITED**

We have audited the annexed financial statements comprising of:

- (i) balance sheet;
- (ii) profit and loss account;
- (iii) statement of comprehensive income;
- (iv) statement of changes in fund;
- (v) statement of cash flows;
- (vi) statement of contributions;
- (vii) statement of claims;
- (viii) statement of expenses; and
- (ix) statement of investment income

of SINDH INSURANCE LIMITED – WINDOW TAKAFUL OPERATIONS ("the Company") as at 31 December 2017 together with the notes forming part thereof for the year then ended.

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

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

In our opinion:

- a) proper books of accounts have been kept by the Company as required by the Insurance Ordinance, 2000 and the repealed Companies Ordinance, 1984;
- b) the financial statements together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000 and the repealed Companies Ordinance,

# Riaz Ahmad & Company

Chartered Accountants

1984, and accurately reflect the books and records of the Company and are further in accordance with accounting policies stated therein;

- c) the financial statements together with the notes thereon, present fairly, in all material respects, the state of the Company's affairs as at 31 December 2017 and of the loss, its comprehensive loss, changes in fund and its cash flows for the year ended 31 December 2017 in accordance with approved accounting standards as applicable in Pakistan, and give the information required to be disclosed by the Insurance Ordinance, 2000 and the repealed Companies Ordinance, 1984; and
- d) no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

We draw attention to note 1.2 to the financial statements which states that the admissible assets of Participant Takaful Fund (PTF) are not in excess of liabilities of the PTF as at 31 December 2017.



**RIAZ AHMAD & COMPANY**  
**Chartered Accountants**

**Name of engagement partner:**  
**Muhammad Waqas**

**Date: 30 March 2018**

**KARACHI**

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**

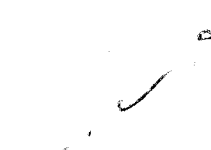
**BALANCE SHEET**

**AS AT 31 DECEMBER 2017**

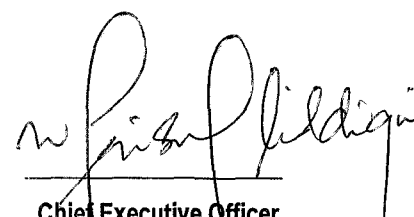
	2017			2016
	Operator's Fund	Participants' Takaful Fund	Aggregate	Aggregate
	Rupees			Rupees
<b>Note</b>				
<b>OPERATOR'S FUND</b>				
Statutory fund	50,000,000	-	50,000,000	50,000,000
Accumulated profit	625,584	-	625,584	(774,283)
	<u>50,625,584</u>	<u>-</u>	<u>50,625,584</u>	<u>49,225,717</u>
<b>Waqf / Participants' Takaful Fund</b>				
Ceded money	-	500,000	500,000	500,000
Accumulated deficit	-	(57,353)	(57,353)	(700,751)
	<u>-</u>	<u>442,647</u>	<u>442,647</u>	<u>(200,751)</u>
<b>LIABILITIES</b>				
<b>Underwriting provisions</b>				
Provision for outstanding claims (including IBNR)	-	199,170	199,170	-
Provision for unearned contribution	-	2,553,329	2,553,329	286,511
Provision for unearned re-takaful rebate	-	367,099	367,099	6,056
Total underwriting provisions	-	<u>3,119,598</u>	<u>3,119,598</u>	<u>292,567</u>
<b>Creditors and accruals</b>				
Amounts due to other takaful / re-takaful operators	-	3,367,809	3,367,809	743,471
Contribution received in advance	-	403,204	403,204	62,056
Provision for unearned wakala fee	709,798	-	709,798	93,762
Wakala and modarib fee payable	-	5,334	5,334	98,974
Taxation - provision less payments	595,031	-	595,031	-
Other creditors and accruals	<u>704,487</u>	<u>650,960</u>	<u>1,355,447</u>	<u>1,281,541</u>
	<u>2,009,316</u>	<u>4,427,307</u>	<u>6,436,623</u>	<u>2,279,804</u>
<b>TOTAL LIABILITIES</b>	<u>2,009,316</u>	<u>7,546,905</u>	<u>9,556,221</u>	<u>2,572,371</u>
<b>TOTAL FUND AND LIABILITIES</b>	<u><u>52,634,900</u></u>	<u><u>7,989,552</u></u>	<u><u>60,624,452</u></u>	<u><u>51,597,337</u></u>
<b>CONTINGENCIES AND COMMITMENTS</b>				

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer



**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2017**

Note	2017			2016
	Operator's Fund	Participants' Takaful Fund	Aggregate	Aggregate
	Rupees			Rupees

**ASSETS**

**Cash and bank deposits**

Current and other accounts	5	467,723	1,915,885	2,383,608	909,848
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**Investment**

	6	51,069,607	-	51,069,607	50,035,752
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**Current assets - others**

Contribution due but unpaid	-	2,356,323	2,356,323	226,923
Wakala and modarib fee receivable	5,334	-	5,334	98,974
Deferred comission expense	323,237	-	323,237	-
Deferred wakala fee expense	-	709,798	709,798	93,762
Amounts due from other takaful/ re-takaful operators	-	1,429,482	1,429,482	106,327
Prepaid re-takaful contribution ceded	-	1,550,150	1,550,150	33,274
Advance income tax	-	5,550	5,550	3,784
Sundry receivables	7	662,637	22,364	685,001
		991,208	6,073,667	7,064,875
				568,744

**Fixed assets**

**Tangible and intangible**


8

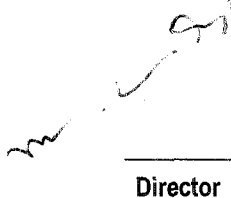
Furniture and fixtures	49,194	-	49,194	54,660
Computer equipment	28,390	-	28,390	28,333
Computer software	28,778	-	28,778	-
	106,362	-	106,362	82,993

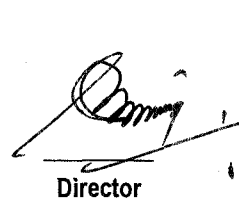
**TOTAL ASSETS**

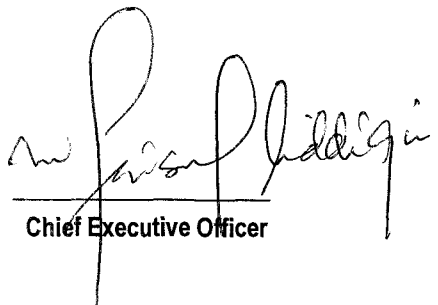
<b>52,634,900</b>	<b>7,989,552</b>	<b>60,624,452</b>	<b>51,597,337</b>
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The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Fire and property damage	Marine, aviation and transport	Motor	Accident and Health	Miscellaneous	2017	From 22 September 2016 To 31 December 2016
Note	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
	58,423	1,046	1,242,033	-	40,195	1,341,697	(694,402)
	(148,939)	(1,751)	(441,960)	-	(39,711)	(632,361)	(5,212)
	(5,842)	(105)	(275,048)	-	(4,020)	(285,015)	-
	116,904	1,449	25,385	-	26,094	169,832	263
	<b>20,546</b>	<b>639</b>	<b>550,410</b>	<b>-</b>	<b>22,558</b>	<b>594,153</b>	<b>(699,351)</b>

**Participant' Takaful Fund revenue account**

Net contribution revenue

Wakala expense

Net claims

Rebate on retakaful

**Underwriting results**

Bank charges

Net investment income

Other income

**Surplus / (deficit) for the year / period**

**Operator's Fund - revenue account**

Wakala fee income

Commission expense

Management expenses

Modarib's share of PTF investment income

Net investment income

General and administrative expenses

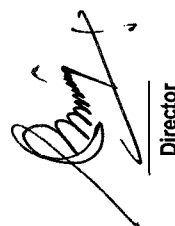
**Profit / (loss) before tax**

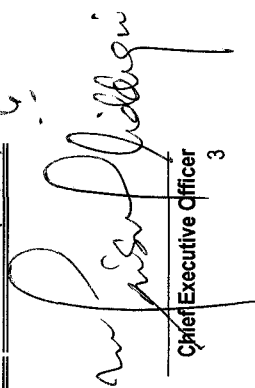
Taxation

**Profit / (loss) after tax**

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
**Chairman**

  
**Director**

  
**Chief Executive Officer**

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	From 22 September 2016 To 31 December 2016
	Rupees	Rupees
Profit / (loss) for the year / period	1,399,867	(774,283)
Other comprehensive income	-	-
<b>Total comprehensive income / (loss) for the year / period</b>	<b><u>1,399,867</u></b>	<b><u>(774,283)</u></b>

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF CHANGES IN FUND**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	Operator's Funds		
	Statutory fund	Accumulated profit	Total
	Rupees	Rupees	Rupees
Contribution made during the year	50,000,000	-	50,000,000
Total comprehensive loss for the period from 22 September 2016 to 31 December 2016	-	(774,283)	(774,283)
<b>Balance as at 31 December 2016</b>	<u>50,000,000</u>	<u>(774,283)</u>	<u>49,225,717</u>
Total comprehensive income for the year ended 31 December 2017	-	1,399,867	1,399,867
<b>Balance as at 31 December 2017</b>	<u><b>50,000,000</b></u>	<u><b>625,584</b></u>	<u><b>50,625,584</b></u>

	Participants' Takaful Fund		
	Ceded money	Accumulated loss	Total
	Rupees	Rupees	Rupees
Contribution received during the period from the operator	500,000	-	500,000
Deficit for the period from 22 September 2016 to 31 December 2016	-	(700,751)	(700,751)
<b>Balance as at 31 December 2016</b>	<u>500,000</u>	<u>(700,751)</u>	<u>(200,751)</u>
Surplus for the year ended 31 December 2017	-	643,398	643,398
<b>Balance as at 31 December 2017</b>	<u><b>500,000</b></u>	<u><b>(57,353)</b></u>	<u><b>442,647</b></u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017			From 22 September 2016 To 31 December 2016
	Operator's Fund	Participants' Takaful Fund	Aggregate	Aggregate
	Rupees			Rupees
<b>Operating cash flows</b>				
<b>a) Takaful activities</b>				
Contribution received	-	2,557,894	2,557,894	137,438
Retakaful contribution paid	-	(953,324)	(953,324)	(100,008)
Wakala fee received / (paid)	1,347,371	(1,347,371)	-	-
Claims paid	-	(85,845)	(85,845)	-
Commissions paid	(453,280)	-	(453,280)	-
Commissions received	-	530,875	530,875	-
Other underwriting payments	(299,742)	-	(299,742)	(134,875)
Net cash inflows / (outflows) from other takaful activities	594,349	702,229	1,296,578	(97,445)
<b>b) Other operating activities</b>				
Income tax paid	(3,344)	(5,550)	(8,894)	(3,784)
General, administration and management expenses paid	(2,435,228)	-	(2,435,228)	-
Ceded money to participants' takaful fund	-	-	-	(500,000)
Other operating receipts - net	-	547,272	547,272	1,095,046
Net cash (outflows) / inflows from other operating activities	(2,438,572)	541,722	(1,896,850)	591,262
<b>Total cash (outflows) / inflows from operating activities</b>	<b>(1,844,223)</b>	<b>1,243,951</b>	<b>(600,272)</b>	<b>493,817</b>
<b>Investment activities</b>				
Profit / return received	71,287	44,403	115,690	37,845
Other income received	-	4,842	4,842	-
Payment for investment	-	-	-	(50,035,752)
Proceeds from sale of investment	2,000,000	-	2,000,000	-
Fixed capital expenditure	(46,500)	-	(46,500)	(86,062)
<b>Total cash inflows / (outflows) from investing activities</b>	<b>2,024,787</b>	<b>49,245</b>	<b>2,074,032</b>	<b>(50,083,969)</b>
<b>Financing activities</b>				
Contribution to operator's fund	-	-	-	50,000,000
Ceded money	-	-	-	500,000
<b>Total cash inflows from financing activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50,500,000</b>
<b>Net cash inflows from all activities</b>	<b>180,564</b>	<b>1,293,196</b>	<b>1,473,760</b>	<b>909,848</b>
Cash and cash equivalents at the beginning of year / period	287,159	622,689	909,848	-
<b>Cash and cash equivalents at end of the year / period</b>	<b>467,723</b>	<b>1,915,885</b>	<b>2,383,608</b>	<b>909,848</b>

**Reconciliation to profit and loss account**

Operating cash flows

Investment income

Other income

Depreciation

Income tax paid

Increase in assets other than cash

Increase in liabilities

Profit before taxation for the period

2017			2016
Operator's Fund	Participants' Takaful Fund	Aggregate	Aggregate
Rupees			Rupees
(1,844,223)	1,243,951	(600,272)	493,817
3,105,142	44,403	3,149,545	37,845
11,100	4,842	-	-
(23,131)	-	(23,131)	(3,069)
3,344	5,550	8,894	3,784
1,491,470	5,607,831	7,099,301	564,960
(741,676)	(6,263,179)	(7,004,855)	(2,572,371)
<u>2,002,026</u>	<u>643,398</u>	<u>2,629,482</u>	<u>(1,475,034)</u>

**Definition of cash**

Cash comprises of cash in hand, policy stamps, cheques in hand, bank balances and other deposits which are readily convertible to cash and which are used in the cash management function on a day-to-day basis.

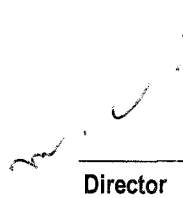
**Current and other accounts**

<u>467,723</u>	<u>1,915,885</u>	<u>2,383,608</u>	<u>909,848</u>
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The annexed notes from 1 to 21 form an integral part of these financial statements.



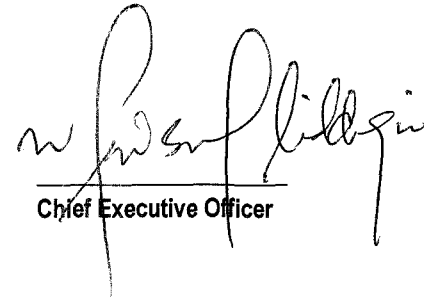
Chairman



Director



Director



Chief Executive Officer

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF CONTRIBUTIONS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**Business underwritten inside Pakistan**

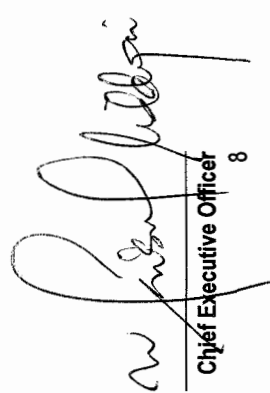
Class	Unearned contribution reserve		Contribution earned		Re-takaful ceded		Prepaid re-takaful contribution ceded		Re-takaful expense		Net contribution revenue	
	Rupees	Rupees	Opening	Closing	Rupees	Rupees	Opening	Closing	Rupees	Rupees	2017	From 22 September 2016 To 31 December 2016
<b>Direct and facultative</b>												
Fire and property damage	2,073,018	-	-	1,473,774	599,244	1,870,817	-	1,329,996	540,821	58,423	58,423	-
Marine, aviation and transport	25,606	-	-	18,255	7,351	21,952	-	15,647	6,305	1,046	1,046	-
Motor	1,906,068	257,131	865,081	1,298,118	95,557	12,288	51,760	56,085	1,242,033	(694,767)		
Accident and Health	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	341,454	29,380	196,219	174,615	266,181	20,986	152,747	134,420	40,195	365		
<b>Sub total</b>	<b>4,346,146</b>	<b>286,511</b>	<b>2,553,329</b>	<b>2,079,328</b>	<b>2,254,507</b>	<b>33,274</b>	<b>1,550,150</b>	<b>737,631</b>	<b>1,341,697</b>	<b>(694,402)</b>		
<b>Treaty</b>												
Proportional / non-proportional	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand total</b>	<b>4,346,146</b>	<b>286,511</b>	<b>2,553,329</b>	<b>2,079,328</b>	<b>2,254,507</b>	<b>33,274</b>	<b>1,550,150</b>	<b>737,631</b>	<b>1,341,697</b>	<b>(694,402)</b>		

Note: The Company does not underwrite business outside Pakistan.

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
**Chairman**

  
**Director**

  
**Chief Executive Officer**


**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF CLAIMS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

Business underwritten inside Pakistan


Class	Total claims paid	Outstanding claims			Re-takaful and other recoveries received			Re-takaful and other recoveries in respect of outstanding claims			Re-takaful and other recoveries revenue			Net claim expense	
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	2017	From 22 September 2016 To 31 December 2016
			Opening	Closing	Claims expenses	Re-takaful and other recoveries received	Opening	Closing	Re-takaful and other recoveries revenue	2017	Rupees	Rupees			
<b>Direct and facultative</b>															
Fire and property damage	-	-	5,842	-	5,842	-	-	-	-	-	5,842	-	-	-	-
Marine, aviation and transport	-	-	105	-	105	-	-	-	-	-	105	-	-	-	-
Motor	85,845	-	189,203	-	275,048	-	-	-	-	-	275,048	-	-	-	-
Accident and Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	4,020	-	4,020	-	-	-	-	-	4,020	-	-	-	-
<b>Sub total</b>	<b>85,845</b>	<b>-</b>	<b>199,170</b>	<b>-</b>	<b>285,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>285,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Treaty</b>															
Proportional / non-proportional	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Grand total</b>	<b>85,845</b>	<b>-</b>	<b>199,170</b>	<b>-</b>	<b>285,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>285,015</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Note: The Company does not underwrite business outside Pakistan.

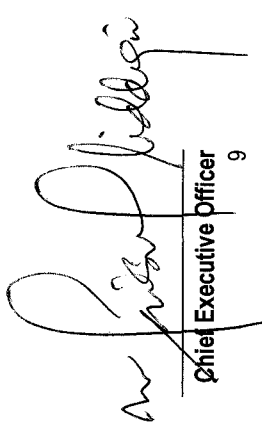
The annexed notes from 1 to 21 form an integral part of these financial statements.



**Chairman**



**Director**



**Chief Executive Officer**

9




## Business underwritten inside Pakistan

\* Rebate from re-takaful operators is arrived after taking the impact of opening and closing unearned re-takaful rebate.

The annexed notes from 1 to 21 form an integral part of these financial statements.

Wm. J. Hall

  
Director

  
\_\_\_\_\_  
**Chief Executive Officer**  
10

**SINDH INSURANCE LIMITED - WINDOW TAKAFUL OPERATIONS**  
**STATEMENT OF INVESTMENT INCOME**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	From 22 September 2016 To 31 December 2016
	Rupees	Rupees
<b>Participants' Takaful fund</b>		
Profit on bank deposit	55,503	-
Less: Modarib's fee	(11,100)	-
<b>Net Investment income</b>	<u>44,403</u>	<u>-</u>
 <b>Operator's Fund</b>		
Profit on bank deposit	71,287	37,845
<b>Income from non-trading investments</b>		
<b>Available-for-sale</b>		
Gain on sale of available-for-sale investments	3,033,855	-
 <b>Net investment income</b>	<u>3,105,142</u>	<u>37,845</u>

The annexed notes from 1 to 21 form an integral part of these financial statements.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer

**SINDH INSURANCE LIMITED – WINDOW TAKAFUL OPERATIONS  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1. THE COMPANY AND ITS OPERATIONS**

Sindh Insurance Limited ("the Company") was incorporated under the repealed Companies Ordinance, 1984, (Now the Companies Act, 2017) as a Public Limited Company on 20 December 2013 and obtained the certificate of commencement of business on 22 September 2014. All shares of the Company are beneficially held by Government of Sindh directly and through nominee directors. The Company is engaged in the non-life insurance business comprising of fire, marine, motor, aviation, engineering, transportation, accident and health etc. The registered office and principal place of business of the Company is situated at 1st Floor, Imperial Court, Dr. Ziauddin Ahmed Road, Karachi. The Company operates only in Pakistan.

The Operator was granted authorization on 22 September 2016 under Rule 6 of the Takaful Rules, 2012 to undertake Takaful Window Operations ("the operations") in respect of general takaful products by Securities and Exchange Commission of Pakistan (SECP) under Takaful Rules, 2012 to carry on general takaful operations in Pakistan.

The Operator transferred statutory fund of Rupees 50 million in a separate Islamic bank account for the window takaful operations as per the requirement of circular 8 of 2014. Thereafter, the Operator has formed a Waqf for Participants' Fund ("PTF") by executing the Waqf deed dated 24 June 2016 by investing a ceded money of Rupees 0.5 million. The ceded money is required to be invested in shariah compliant investments and any profit thereon can be utilized only to pay benefits to participants or defray PTF expenses. Waqf Deed governs the relationship of operator and participants for management of takaful operations, investments of participants' funds and investments of the Operator's funds approved by the shariah advisor of the Operator. The Operator commenced Operations on 22 September 2016.

- 1.2** The admissible assets of the Participant Takaful Fund (PTF) are not in excess of the liabilities of PTF as at 31 December 2017 as required under the Takaful Rules, 2012.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied during the year unless otherwise stated.

**2.1 BASIS OF PREPARATION**

**a) Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the repealed Companies Ordinance, 1984, provisions of and directives issued under the repealed Companies

Ordinance, 1984, the Insurance Ordinance, 2000, repealed SEC (Insurance) Rules, 2002 and Takaful Rules, 2012. In case requirements differ, the provisions or directives of the repealed Companies Ordinance, 1984, Insurance Ordinance, 2000, repealed SEC (Insurance) Rules, 2002 and Takaful Rules, 2012 shall prevail.

During the year, the Companies Ordinance, 1984 has been repealed after the enactment of the Companies Act, 2017 on 30 May 2017. SECP vide its Circular 23 of 2017 has clarified that the companies whose financial year, closes on or before 31 December 2017 shall prepare their financial statements in accordance with the provisions of the repealed Companies Ordinance, 1984. The Companies Act, 2017 requires enhanced disclosures about Company's operations and has also enhanced the definition of related parties. Accordingly, these financial statements have been prepared under repealed Companies Ordinance, 1984.

Further, Securities and Exchange Commission of Pakistan (SECP) has issued Insurance Accounting Regulations, 2017, which were applicable with effect from 09 February 2017. However, the Company applied for the extension relating to the applicability of the said regulations for preparation of the financial statements for the year ended 31 December 2017 which was allowed by SECP vide letter ID/OSM/SindhInsurance/17/13365 dated 24 January 2018. Hence, the financial statements for the year ended 31 December 2017 are prepared in accordance with the requirements of SEC (Insurance) Rules, 2002. Major impact in accordance with the format prescribed by SEC Insurance Rules, 2017 is on presentation and disclosure of financial statements as per Annexure II of SEC Insurance Rules, 2017 and on valuation of available-for-sale investments the impact of which has been disclosed in note 6.1.

**b) Basis of presentation**

These financial statements have been prepared on the format of financial statements issued by the Securities and Exchange Commission of Pakistan (SECP) through repealed Securities and Exchange Commission (Insurance) Rules, 2002 [SEC (Insurance) Rules, 2002], vide SRO 938 dated 12 December 2002. These financial statements reflect the financial position and results of operations of both the Operator's Fund and Participants' Takaful Fund in a manner that the assets, liabilities, income and expenses of the Operator's Fund and PTF remain separately identifiable.

**c) Accounting convention**

These financial statements have been prepared under the historical cost convention except certain investments which are stated at lower of cost and market value. Accrual basis of accounting has been used except for cash flow information.

**d) Functional and Presentation Currency**

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

**e) Critical accounting estimates and judgments**

The preparation of these financial statements in conformity with approved accounting standards requires the Operations to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognized prospectively commencing from period of revision.

In particular, information about judgments made by the management in the application of approved accounting standards, as applicable in Pakistan, that have significant effect on the financial statements, and estimates that have a significant risk of resulting in a material adjustment in the subsequent years is included in following notes:

- (i) classification of takaful contracts (note 2.2);
- (ii) provision for unearned contribution (note 2.2.2);
- (iii) provision for contribution due but unpaid and amount due from other takaful / re-takaful operators (note 2.2.3);
- (iv) provision for outstanding claims and re-takaful recoveries thereagainst (note 2.2.4);
- (v) contribution deficiency reserve (note 2.2.5);
- (vi) provision for unearned wakala fee (note 2.4);
- (vii) classification of investments (note 2.8);
- (viii) taxation (note 2.9);
- (ix) residual values and useful lives of fixed assets (note 2.10);
- (x) allocation of management expenses (note 2.11);
- (xi) impairment (note 2.18); and
- (xii) segment reporting (note 2.19)

**f) Amendments to published approved standards that are effective in current year and are relevant to the Company**

The following amendments to published approved standards and interpretation are mandatory for the Company's accounting periods beginning on or after 01 January 2017:

- IAS 12 (Amendments regarding deferred tax assets for unrealized losses) - Income Taxes
- IAS 7 (Amendments) - Statement of Cash Flows

The adoption of the above did not have any effect on the financial statements for the current year.

There are other new and amended standards and interpretations that are mandatory for the Company's accounting periods beginning on or after 01 January 2017 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.

**h) Standards and amendments to published approved standards that are not yet effective but relevant to the Company**

The following standards, amendments and interpretation of approved accounting standards will be effective for the accounting periods beginning on or after 01 January 2018 or later periods:

	Effective date (accounting periods beginning on or after)
- IFRS 2 (Amendments) - Classification and Measurement of Share-based Payment Transactions.	01 January 2018
- IFRIC 23 - Uncertainty over Income Tax Treatments	01 January 2019
- IFRS 4 (Amendments) - Insurance Contracts: Applying IFRS 9 Financial Instruments with IFRS 4	01 January 2018
- IFRS 9 - Financial Instruments	01 July 2018
- IFRS 15 - Revenue from Contracts with Customers	01 July 2018
- IFRS 16 – Leases	01 January 2019
- IFRS 17 – Insurance Contracts	01 January 2021
- IAS 12 (Amendments regarding income tax consequences of dividends) - Income Taxes	01 January 2019
- IAS 40 (Amendments) - Investment Property	01 January 2018
- Annual Improvements 2014 - 2016 cycles	01 January 2018

The management anticipates that the adoption of the above standards, amendments and interpretations in future periods (except for IFRS 4, IFRS 9 and IFRS 17), will have no material impact on the financial statements other than in presentation / disclosures. However, in case of IFRS 4, IFRS 9 and IFRS 17, the Company is assessing the potential impact on its Financial Statements resulting from the application of such standards / amendments which is generally expected to have a significant impact on the financial statements of insurance businesses.

There are other standards and amendments to published approved standards that are mandatory for accounting periods beginning on or after 01 January 2018 but are considered not to be relevant or do not have any significant impact on the Company's financial statements and are therefore not detailed in these financial statements.

## 2.2 TAKAFUL CONTRACTS

The takaful contracts are based on the principles of Wakala. The takaful contracts so agreed usually inspire concept of tabarru (to donate for benefit of others) and mutual sharing of losses with the overall objective of eliminating the element of uncertainty.

Contracts under which the Participant Takaful Fund (PTF) accepts significant takaful risk from another party (the participant) by agreeing to compensate the participant if a specified uncertain future event (the takaful event) adversely affects the participant are classified as takaful contracts. Takaful risk is significant if a takaful event could cause the PTF to pay significant benefits due to the happening of the takaful event compared to its non-happening. Once a contract has been classified as a takaful contract, it remains a

takaful contract for the remainder of its lifetime, even if the takaful risk reduces significantly during this year, unless all rights and obligations are extinguished or expired.

The Operations underwrite non-life takaful contracts that can be categorized into following main categories:

**a) Fire and property takaful**

Fire and property takaful contracts mainly compensate the participants for damage suffered to their properties or for the value of property lost. Participants who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities. These contracts are generally one year contracts.

**b) Marine aviation and transport takaful**

Marine takaful covers the loss or damage of vessels, cargo, terminals, and any transport or property by which cargo is transferred, acquired, or held between the points of origin and final destination. These contracts are generally for three months period.

**c) Motor takaful**

Motor takaful provides protection against losses incurred as a result of theft, traffic accidents and against third party liability that could be incurred in an accident. These contracts are generally one year contracts.

**d) Accident and Health takaful**

Accident and health takaful contract mainly compensate hospitalization, outpatient medical coverage to the participant and personal accident. These contracts are generally one year contracts.

**e) Miscellaneous takaful**

All other various types of takaful contracts are classified in miscellaneous category which includes mainly engineering, workmen compensation, travel and products of financial institutions etc. These contracts are normally one year takaful contracts except some engineering takaful contracts that are of more than one year period, whereas, normally travel takaful contracts expire within one month time.

**2.2.1 Re-takaful contracts held**

These are contracts entered into by the Operation with re-takaful operators for compensation of losses suffered on takaful contracts issued. These re-takaful contracts include both facultative and treaty arrangement contracts and are classified in same categories of takaful contracts for the purpose of these financial statements. The PTF recognizes the entitled benefits under the contracts as various retakaful assets.

**2.2.2 Provision for unearned contribution**

The provision for unearned portion of contribution is calculated by applying twenty fourths' method as prescribed by the repealed SEC (Insurance) Rules, 2002. The deferred portion of retakaful contribution is recognized as a prepayment.

The deferred portion of retakaful contribution ceded is calculated by using twenty fourths' method.

### **2.2.3 Receivables and payables related to takaful contracts**

Receivables and payables, other than claim payables, relating to takaful contracts are recognized when due. The claims payable is recorded when intimation is received. These include contributions due but unpaid, contribution received in advance, contributions due and claims payable to participants. These are recognized at cost, which is the fair value of the consideration given less provision for impairment, if any.

If there is an objective evidence that any contribution due but unpaid is impaired, the Operations reduces the carrying amount of that contribution receivable and recognizes the loss in profit and loss account.

### **2.2.4 Provision for outstanding claims including IBNR**

A liability for outstanding claims is recognized in respect of all claims incurred as at the reporting date which represents the estimates of the claims intimated or assessed before the end of the reporting period and measured at the undiscounted value of expected future payments. Provision for outstanding claims include amounts in relation to unpaid reported claims, claims incurred but not reported (IBNR) and expected claims settlement costs.

Provision for liability in respect of unpaid reported claims is made on the basis of individual case estimates.

Provision for IBNR is made for the cost of settling claims incurred but not reported at the reporting date, on the basis of management's judgment and the Company's prior experience.

The Company takes advice from actuary for the determination of IBNR claims at the year end. The actuary has assumed a simplified approach to determine IBNR at 10% of earned premium, due to small scale of operations and low experience period. Accordingly, provision has been made based on actuary's recommendation.

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

### **2.2.5 Contribution deficiency reserve**

At each balance sheet date, liability adequacy tests are performed separately for each class of business under the repealed SEC Rules, 2002 to ensure the adequacy of the unearned contribution liability for that class. It is performed by comparing the expected future liability, after retakaful, from claims and other expenses, including retakaful expense, commissions and other underwriting expenses, expected to be incurred after balance sheet date in respect of policies in force at balance sheet date with the carrying amount of unearned contribution liability.

The movement in the contribution deficiency reserve is recorded as an expense / income in profit or loss account for the year.

The requirement for additional provision for unexpired risks is determined on the basis of an actuarial valuation. The latest valuation was carried out as of 31 December 2017. No contribution deficiency reserve is required as at 31 December 2017 as determined by actuary.



## **2.3 TAKAFUL SURPLUS**

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

## **2.4 WAKALA FEE**

The Operator manages the general takaful operations for the participants and charges wakala fee to PTF on gross contributions recognized for each class of business to meet the general and administrative expenses of the Operator including commissions to agents at following rates:

<b>Class</b>	<b>2017</b>	<b>2016</b>
Fire and property damage	25.00%	25.00%
Marine, aviation and transport	25.00%	25.00%
Motor	35.00%	35.00%
Health	25.00%	25.00%
Miscellaneous	22.50%	22.50%

Wakala fee is recognized as income in Operator's Fund on the same basis on which the related contribution revenue is recognized. Unearned portion of wakala fee is recognized as a liability of Operator's Fund.

## **2.5 MODARIB'S FEE**

The Operator also manages the participants' investment as Modarib and charges 20% of the investment income earned by the PTF as Modarib's fee. It is recognized on the same basis on which related revenue is recognized

## **2.6 QARD-E-HASNA**

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

## **2.7 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash and bank deposits and excludes bank balances held under lien.

## **2.8 INVESTMENTS**

All investments are initially recognized at cost being the fair value of the consideration given and include any transaction costs. All purchases and sales of investments that require delivery within the time frame established by regulations or market convention are accounted for at the trade date. Trade date is the date when the Company commits to purchase or sell the investment.

These investments are classified as 'held-to-maturity' and 'available-for-sale'.

### **Held-to-maturity**

Investments with fixed maturity, where management has both the intent and ability to hold to maturity, are classified as 'held-to-maturity'.

Subsequently, these are measured at amortized cost less provision for impairment, if any. Any contribution paid or discount availed on acquisition of 'held-to-maturity' investments is deferred and amortized over the term of investment using the effective yield.

These are reviewed for impairment at year end and any losses arising from impairment are charged to the profit and loss account.

### **Available-for-sale**

Investments which are intended to be held for an undefined period of time but may be sold in response to the need for liquidity, changes in interest rates, equity prices or exchange rates are classified as available-for-sale.

Subsequent to initial recognition at cost, these are stated at the lower of cost or market value (market value being taken as lower if the reduction is other than temporary) in accordance with the requirements of the repealed SEC (Insurance) Rules, 2002. The Company uses stock exchange quotations at the reporting date to determine the market value of its quoted investments. The Company uses appropriate valuation techniques to estimate the fair value of unquoted investments in unlisted securities. If such estimated fair value is lesser than the cost, the Company recognizes the impairment adjustments.

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

## **2.9 TAXATION**

### **2.9.1 Current**

Provision for current taxation is based on taxable income for the period determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the period, if enacted.

### **2.9.2 Deferred**

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

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

## **2.10 FIXED ASSETS**

### **2.10.1 Tangible**

Owned fixed assets are stated at cost, signifying historical cost, less accumulated depreciation and any provision for accumulated impairment. Cost of an item of fixed assets consists of historical cost, borrowing cost pertaining to erection / construction period of qualifying asset directly attributable cost of bringing the asset to working condition. Depreciation is charged to income applying the reducing balance method at the rates specified for calculation of depreciation in note 8. The useful lives and depreciation method are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit and loss account as and when incurred.

Depreciation on additions is charged from the month the assets are available for use while on disposals, depreciation is charged up to the month in which the assets are disposed off.

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the assets disposed of. These are taken to profit and loss account.

### **2.10.2 Intangible**

These are stated at cost less accumulated amortization and any provision for accumulated impairment, if any.

Amortization is calculated from the month the assets are available for use using the straight-line method, whereby the cost of the intangible asset is amortized over its estimated useful life over which economic benefits are expected to flow to the Company. The useful life and amortization methods are reviewed, and adjusted if appropriate, at each reporting date.

Software development costs are only capitalized to the extent that future economic benefits are expected to be derived by the Company.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that this carrying value may not be recoverable. If any such indications exist and

where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amount.

## **2.11 MANAGEMENT EXPENSES**

Management expenses have been allocated to various classes of business as deemed equitable by management. Expenses not allocable to the underwriting business are charged under general and administration expenses.

## **2.12 INVESTMENT INCOME**

From available-for-sale investments

- **Return on fixed income securities**  
Return on fixed income securities is recognized on a time proportion basis.
- **Dividend**  
Dividend income is recognized when the Company's right to receive the dividend is established.
- **Gain / loss on sale of available-for-sale investments**  
Gain / loss on sale of available-for-sale investments is recognized in profit and loss account in the year of sale.

## **2.13 CONTRIBUTION INCOME**

Contribution including administrative surcharge under a policy are recognized as revenue at the time of issuance of takaful policy.

Revenue from contribution is determined after taking into account the unearned portion of contribution. The unearned portion of contribution income is recognized as a liability.

Retakaful contribution is recognized as expense after taking into account the proportion of deferred contribution expense which is calculated using twenty fourths method. The deferred portion of contribution expense is recognized as a prepayment.

## **2.14 COMMISSION**

Commission expense incurred in obtaining and recording policies is deferred and recognized as an expense in accordance with pattern of recognition of contribution revenue.

Commission and other forms of revenue (apart from recoveries) from reinsurers are deferred and recognized as liability and recognized in the profit and loss account as revenue in accordance with the pattern of recognition of the retakaful contribution.

## **2.15 FOREIGN CURRENCIES**

Transactions in foreign currencies are accounted for in Pak Rupees at the rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the reporting date. Exchange differences are taken to the profit and loss account currently.

## **2.16 FINANCIAL INSTRUMENTS**

Financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provisions of the instrument and de-recognized when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on the de-recognition of the financial assets and liabilities is included in the profit and loss account.

Financial instruments carried on the balance sheet include cash and bank deposit, investments, contribution due but unpaid, amounts due from other takaful / retakaful, sundry receivables, amounts due to other takaful / retakafulwakala and modarib fee payable, contribution received in advance and other creditors and accruals. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

## **2.17 OFF SETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet when the Company has a legally enforceable right to set-off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

## **2.18 IMPAIRMENT**

### **Financial assets**

A financial asset is considered to be impaired if objective evidence indicate that one or more events had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as a difference between its carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of available-for-sale financial asset is calculated with reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

### **Non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of such asset is estimated. An impairment loss is recognized wherever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit and loss account.

## **2.19 SEGMENT REPORTING**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (the board of directors) who is responsible for allocating resources and assessing performance of the operating segments.

The Company accounts for segment reporting using the classes of business as specified under the Insurance Ordinance, 2000 and the repealed SEC (Insurance) Rules, 2002 as the primary reporting format based on the Company's practice of reporting to the management on the same basis.

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

	2017			2016
	Operator's Fund	Participants' Takaful Fund	Aggregate	Aggregate
	Rupees			Rupees
<b>3. OTHER CREDITORS AND ACCRUALS</b>				
Sindh sales tax on services	-	5,262	5,262	41,865
Federal insurance fee	-	1,139	1,139	3,023
Withholding tax	36,102	3,438	39,540	3,030
Commission payable	376,382	-	376,382	-
Payable to Sindh Insurance Limited	-	5,249	5,249	1,013,518
Payable to Shareholders' Fund	-	530,475	530,475	-
Sundry creditors	161,006	105,397	266,403	220,105
Accrued expenses	130,997	-	130,997	-
	<u>704,487</u>	<u>650,960</u>	<u>1,355,447</u>	<u>1,281,541</u>
<b>4. CONTINGENCIES AND COMMITMENTS</b>				
There were no contingencies or commitments as at the balance sheet date.				
<b>5. CASH AND BANK DEPOSITS</b>				
<b>Current and other accounts</b>				
Saving accounts	<u>467,723</u>	<u>1,915,885</u>	<u>2,383,608</u>	<u>909,848</u>
<b>5.1</b>	Saving accounts carry expected profit ranging from 2.40% to 2.50% per annum (2016: 2.73% to 5.23%) per annum.			
<b>6. INVESTMENTS</b>				
<b>Available-for-sale</b>				
<b>Mutual Funds</b>				
	No. of Units			
Meezan Islamic Income Fund	-	-	-	25,546,333
Meezan Sovereign Fund	999,796.54	<u>51,069,607</u>	<u>51,069,607</u>	<u>24,489,419</u>
		<u>51,069,607</u>	<u>51,069,607</u>	<u>50,035,752</u>
<b>6.1</b>	On 31 December 2017, the fair value of available-for-sale securities was Rupees 51,859,447 (2016: Rupees 51,575,949). As per the Company's accounting policy, available-for-sale investments are stated at lower of cost or market value (market value being taken as lower if the reduction is other than temporary). However, International Accounting Standard (IAS) 39, 'Financial Instruments: Recognition and Measurements' dealing with the recognition and measurement of financial instruments requires that these instruments should be measured at fair value. Accordingly, had these investments been measured at fair value, their carrying value as at 31 December 2017 would have been higher by Rupees 789,840 (2016: Rupees 1,540,197).			
<b>7. SUNDRY RECEIVABLES</b>				
<b>Considered good</b>				
Sindh sales tax on services refundable	14,865	22,364	37,229	-
Receivable from Participant Takaful Fund	530,475	-	530,475	5,700
Receivable from Sindh Insurance Limited	117,297	-	117,297	-
	<u>662,637</u>	<u>22,364</u>	<u>685,001</u>	<u>5,700</u>
<b>8. FIXED ASSETS - OPERATOR'S FUND</b>				
	Tangibles		Intangibles	
	Furniture and fixtures	Computer equipment	Computer software	Total
	Rupees	Rupees	Rupees	Rupees
<b>Year ended 31 December 2017</b>				
Opening book value	54,660	28,333	-	82,993
Additions	-	9,500	37,000	46,500
Depreciation / amortization charge for the year	(5,466)	(9,443)	(8,222)	(23,131)
Closing net book value as at 31 December 2017	<u>49,194</u>	<u>28,390</u>	<u>28,778</u>	<u>106,362</u>

**As at 31 December 2017**

	Tangibles		Intangibles	Total
	Furniture and fixtures	Computer equipment	Computer software	
	Rupees	Rupees	Rupees	
Cost	56,062	39,500	37,000	132,562
Accumulated depreciation / amortization	(6,868)	(11,110)	(8,222)	(26,200)
	<u>49,194</u>	<u>28,390</u>	<u>28,778</u>	<u>106,362</u>

**Year ended 31 December 2016**

Opening book value	-	-	-	-
Additions	56,062	30,000	-	86,062
Depreciation / amortization charge for the year	(1,402)	(1,667)	-	(3,069)
Closing net book value as at 31 December 2016	<u>54,660</u>	<u>28,333</u>	<u>-</u>	<u>82,993</u>

**As at 31 December 2016**

Cost	56,062	30,000	-	86,062
Accumulated depreciation / amortization	(1,402)	(1,667)	-	(3,069)
	<u>54,660</u>	<u>28,333</u>	<u>-</u>	<u>82,993</u>

**9. WAKALA FEE - OPERATOR'S FUND**

	2017			2016
	Wakala fee	Reserved for unearned wakala fee	Net Wakala fee	Aggregate
	Rupees			Rupees
Direct and Faculative				
Fire and property damage	515,239	366,300	148,939	-
Marine, aviation and transport	6,098	4,347	1,751	-
Motor	736,487	294,527	441,960	4,938
Accident & Health	-	-	-	-
Miscellaneous	84,335	44,624	39,711	274
	<u>1,342,159</u>	<u>709,798</u>	<u>632,361</u>	<u>5,212</u>

**10. MANAGEMENT EXPENSES**

	Note	2017	From 22 September 2016 To 31 December 2016
		Rupees	Rupees
Salaries, allowances and benefits		374,974	111,875
Ceded money		-	500,000
Printing and stationary expenses		-	23,000
Miscellaneous		36,901	-
		<u>411,875</u>	<u>634,875</u>

**11. GENERAL & ADMINISTRATIVE EXPENSE**

Salaries, allowance and benefits		941,588	-
Depreciation		14,909	3,069
Amortization		8,222	-
Printing and stationary expenses		15,125	-
Auditors' remuneration	11.1	210,750	150,000
Advertising		2,000	25,800
Other charges		12,065	3,596
		<u>1,204,659</u>	<u>182,465</u>



		From 22 September 2016 To 31 December 2016
	2017 Rupees	Rupees
<b>11.1 Auditors' remuneration</b>		
Audit fee	109,250	95,000
Half-yearly review fee	50,000	-
Other certifications	40,000	40,000
Out of pocket	11,500	15,000
	<u>210,750</u>	<u>150,000</u>
<b>12. TAXATION</b>		
Current	<u>602,159</u>	<u>-</u>

### 13. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of associated companies, entities under common control, entities with common Directors, major shareholders and key management personnel of the Company. Transactions with related parties are carried out at arm's length prices determined under "Comparable controlled price method". Transactions and balances with related parties have been disclosed in relevant notes to the financial statements. Other transactions and balances not elsewhere disclosed are summarized as follows:

#### Transactions

##### Companies having common directorship

##### Sindh Bank Limited (SBL)

Premium written	441,600	-
Premium received	178,373	-

##### Sindh Modarba Management Limited (SMML)

Premium written	246,778	226,923
Premium received	164,703	-

	2017 Rupees	2016 Rupees
<b>Balances at year end</b>		

##### Companies having common directorship

##### Sindh Bank Limited (SBL)

Bank accounts	2,383,608	909,848
Premium due but unpaid	263,227	-

##### Sindh Modarba Management Limited (SMML)

Premium due but unpaid	308,997	226,923
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14. OPERATING SEGMENTS

	Fire and Property			Marine, Aviation & Transport			Motor			Accident and health			Miscellaneous			Un-allocated			Total		
	2017	2016	Rupees	2017	2016	Rupees	2017	2016	Rupees	2017	2016	Rupees	2017	2016	Rupees	2017	2016	Rupees	2017	2016	Rupees
<b>Segment results</b>																					
Net contribution revenue	58,423						1,242,033	(694,767)					40,195	365				1,341,697		(694,402)	
Wakala expense	(148,939)						(441,960)	(4,938)					(39,711)	(274)				(632,361)		(5,212)	
Net Claims	(5,842)						(275,048)	-					(4,020)	-				(285,015)		-	
Net Rebate on takaful	116,904						25,385	53					26,094	210				169,832		263	
<b>Underwriting results</b>	20,546						550,410	(699,651)					22,558	301				594,153		(699,351)	
Net Investment income																		44,403		(1,400)	
<b>Surplus / (deficit) for the year / period</b>																		638,556		(700,751)	
<b>Operator's Fund - revenue account</b>																					
Wakala fee income																		632,361		5,212	
Commission expense																		(130,043)		-	
Management expenses																		(411,875)		(634,875)	
Modarib's share of PTF Investment income																		11,100		-	
Net Investment income																		3,105,142		37,845	
General and admin expense																		3,206,685		(591,818)	
<b>Profit / (loss) before tax</b>																		(1,204,659)		(182,465)	
Taxation																		2,002,026		(774,283)	
<b>Profit / (loss) after tax</b>																		(602,159)		-	
																		1,399,867		(774,283)	
<b>Other Segment Information</b>																					
Segment assets	3,599,711			44,464			3,309,809	413,607					592,921	46,680				7,546,905		460,287	
Un-allocated assets																					
- Participant Takaful fund																		442,647		622,688	
- Operator's Fund																		52,634,900		50,514,362	
																		60,624,452		51,597,337	
Segment liabilities	3,599,711			44,464			3,309,809	1,153,538					592,921	130,188				7,546,905		1,283,726	
Un-allocated liabilities																					
- Operator's Fund																		2,009,316		1,288,645	
																		9,556,221		2,572,371	
Capital expenditure																		46,500		86,062	
Depreciation																		8,222		3,069	

## 15. FINANCIAL INSTRUMENTS

The operations has exposure to the following risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Credit risk

### 15.1 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate Because of Changes in market prices. Market risk comprise of interest rate risk, foreign currency risk and other price risk. The objective of market risk management is to manage and control market risk Exposures within an acceptable range.

#### Profit rate risk

Profit rate risk is the risk that the value of a financial instrument will fluctuate due to change in the market profit rate.

#### Foreign Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Operations, at present, is not materially exposed to currency risk as majority of the transactions are carried out in Pak Rupees.

#### Other price risk

Other price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar Financial instruments traded in the market. The Operations at present, is not materially exposed to other price risk.

### 15.2 Liquidity risk

Liquidity risk is the risk that the Operations will not be able to meet its financial obligations as they fall due. The Operations' approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the operation's reputation. The following are the contractual maturities of financial liabilities based on the remaining period at the reporting date to maturity date.

	2017			
	Within one year	Over one year to five years	Over five years	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial Liabilities - Participants' Takaful Fund</b>				
Contribution received in advance	403,204	-	-	403,204
Amounts due to other takaful / re-takaful operators	3,367,809	-	-	3,367,809
Wakala and modarib fee payable	5,334	-	-	5,334
Other creditors and accruals	650,960	-	-	650,960
	<b>4,427,307</b>	<b>-</b>	<b>-</b>	<b>4,427,307</b>

	2017			
	Within one year	Over one year to five years	Over five years	Total
	Rupees	Rupees	Rupees	Rupees
<b>Financial Liabilities - Operator's Fund</b>				
Other creditors and accruals	704,487	-	-	704,487

**Financial Liabilities - Participants' Takaful Fund**

2016			
Within one year	Over one year to five years	Over five years	Total
Rupees	Rupees	Rupees	Rupees
Contribution received in advance	62,056	-	62,056
Amounts due to other takaful / re-takaful operators	743,471	-	743,471
Wakala and modarib fee payable	98,974	-	98,974
Other creditors and accruals	41,770	-	41,770
	946,271	-	946,271

**Financial Liabilities - Operator's Fund**

2016			
Within one year	Over one year to five years	Over five years	Total
Rupees	Rupees	Rupees	Rupees
Other creditors and accruals	1,194,883	-	1,194,883

**15.3 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 management monitors exposure to credit risk through regular review of credit exposure, undertaking transactions with a large number of counter parties in various industries and by continually assessing the credit worthiness of counter parties.

Concentration of credit risk arises when a number of counterparties have a similar type of business activities. As a result, any change in economic, political or other conditions would affect their ability to meet contractual obligations in similar manner. Due to the nature of financial assets, the Operator believes it is not exposed to any major concentration of credit risk.

The carrying amounts of the following financial assets represent the Operator's maximum exposure to credit risk:

	2017		
	Operator's Fund	Participants' Takaful Fund	Aggregate
Current and other accounts	467,723	1,915,885	2,383,608
Investments	51,069,607	-	51,069,607
Contribution due but unpaid	-	2,356,323	2,356,323
Wakala and modarib fee receivable	5,334	-	5,334
Amounts due from other takaful/ re-takaful operators	-	1,429,482	1,429,482
Sundry receivables	662,637	22,364	685,001
	52,205,301	5,724,054	57,929,355

	2016		
	Operator's Fund	Participants' Takaful Fund	Aggregate
Current and other accounts	287,159	-	287,159
Investments	50,035,752	-	50,035,752
Contribution due but unpaid	-	226,923	226,923
Wakala and modarib fee receivable	98,974	-	98,974
Amounts due from other takaful/ re-takaful operators	-	106,327	106,327
Sundry receivables	5,700	-	5,700
	50,427,585	333,250	50,760,835

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

	Rating		Rating	2017	2016
	Short term	Long term	Agency	Rupees	Rupees
<b>Saving accounts</b>					
Sindh Bank Limited - Operator's Fun	A-1+	AA	JCR-VIS	467,723	287,159
Sindh Bank Limited - Participants'					
Takaful Fund	A-1+	AA	JCR-VIS	1,915,885	622,689

The credit quality of investments can be assessed with reference to external credit rating as follows:

	Rating	Rating Agency	2017	2016
			Rupees	Rupees
<b>Operator's Fund</b>				
Meezan Islamic Income Fund	A(f)	JCR-VIS	-	25,546,333
Meezan Sovereign Fund	AA-(f)	JCR-VIS	51,069,607	24,489,419
			51,069,607	50,035,752

#### 16. TAKAFUL RISK

The risk under any takaful contract is the possibility that the covered event occurs and uncertainty in the amount of compensation to the participant. Generally, most takaful contracts carry takaful risk for a period of one year (refer note 2.2).

The Operations accept takaful through issuance of general takaful contracts. For these general takaful contracts the most significant risks arise from fire, atmospheric disturbance, earthquake, terrorist activities and other catastrophes. For health takaful contracts, significant risks arise from epidemics.

#### Frequency and severity of claims

Risk associated with general takaful contracts includes the reasonable possibility of significant loss as well as the frequent occurrence of the takaful events. This has been managed by having in place underwriting strategy, re-takaful arrangements and proactive claim handling procedures.

The operations's class wise risk exposure (based on maximum loss coverage in a single policy is as follows):

	Maximum gross risk exposure	Maximum gross risk exposure
	2017	2016
Class	Rupees	Rupees
Fire and Property	195,773,149	-
Marine, Aviation & Transport	9,172,295	-
Motor	9,690,000	5,715,000
Accident and health	-	1,000,000
Miscellaneous	3,000,000	-
	217,635,444	6,715,000

#### Uncertainty in the estimation of future claims payment

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

An estimated amount of the claim is recorded immediately on the intimation to the operations. The estimation of the amount is based on management judgment or preliminary assessment by the independent surveyor appointed for this purpose. The initial estimates include expected settlement cost of the claims.

## 17. RE-TAKAFUL RISK

Re-takaful ceded does not relieve the PTF from its obligation towards participants and, as a result, the PTF remains liable for the portion of outstanding claims covered through re-takaful to the extent that re-takaful operators fails to meet the obligation under the re-takaful agreements.

To minimize its exposure to significant losses from re-takaful operators' insolvencies, the operations obtain re-takaful rating from a number of re-takaful operators, who are dispersed over several geographical regions.

An analysis of all re-takaful assets recognised by the rating of the entity from which it is due is as follows:

	Amount due from other takaful / re-takaful operators	Re-takaful recoveries against outstanding claims	Other re-takaful assets	2017
Rating	Rupees	Rupees	Rupees	Rupees
Unrated	1,429,482	-	-	1,429,482

	Amount due from other takaful / re-takaful operators	Re-takaful recoveries against outstanding claims	Other re-takaful assets	2016
Rating	Rupees	Rupees	Rupees	Rupees
Unrated	106,327	-	-	106,327

## 18. FINANCIAL INSTRUMENT BY CATEGORIES

As at 31 December 2017

### Financial assets - Participants' Takaful Fund

	Loans and receivables	Held-to-maturity	Available-for-sale	Total
	Rupees	Rupees	Rupees	Rupees
Cash and bank balances	1,915,885	-	-	1,915,885
Contribution due but unpaid	2,356,323	-	-	2,356,323
Amounts due from other takaful/ re-takaful operators	1,429,482	-	-	1,429,482
Sundry receivables	22,364	-	-	22,364
	5,724,054	-	-	5,724,054

### Financial assets - Operator's Fund

Cash and bank balances	467,723	-	-	467,723
Investments	-	-	51,069,607	51,069,607
Wakala and modarib fee receivable	5,334	-	-	5,334
Sundry receivables	662,637	-	-	662,637
	391,833	-	50,035,752	52,205,301

As at 31 December 2017

### Financial liabilities

	At amortized cost	
	Participants' Takaful Fund	Operator's Fund
	Rupees	Rupees
Contribution received in advance	403,204	-
Amounts due to other takaful / re-takaful operators	3,367,809	-
Wakala and modarib fee payable	5,334	-
Other creditors and accruals	650,960	704,487
	4,427,307	704,487

As at 31 December 2016

**Financial assets - Participants' Takaful Fund**

	Loans and receivables Rupees	Held-to- maturity Rupees	Available-for- sale Rupees	Total Rupees
Cash and bank balances	622,689	-	-	622,689
Contribution due but unpaid	226,923	-	-	226,923
Amounts due from other takaful/ re-takaful operators	106,327	-	-	106,327
	955,939	-	-	955,939

**Financial assets - Operator's Fund**

Cash and bank balances	287,159	-	-	287,159
Investments	-	-	50,035,752	50,035,752
Wakala and modarib fee receivable	98,974	-	-	98,974
Sundry receivables	5,700	-	-	5,700
	391,833	-	50,035,752	50,427,585

As at 31 December 2016

**Financial liabilities**

	At amortized cost	
	Participants' Takaful Fund Rupees	Operator's Fund Rupees
Contribution received in advance	62,056	-
Amounts due to other takaful / re-takaful operators	743,471	-
Wakala and modarib fee payable	98,974	-
Other creditors and accruals	41,770	1,194,883
	946,271	1,194,883

19. **DATE OF AUTHORISATION FOR ISSUE**

These financial statements were approved and authorized for issue on 30 MAR 2018 by the Board of Directors of the Company.

20. **CORRESPONDING FIGURES**

No significant reclassification/re-arrangement of corresponding figures has been made during the year.

21. **GENERAL**

Figures have been rounded to the nearest Rupee.

  
Chairman

  
Director

  
Director

  
Chief Executive Officer