

## Director's Report

I am pleased to present the annual report and audited accounts for the year ended 31st December 2010. It is my pleasure to inform that in spite of the many challenges the company has returned to profits in 2010. Our premium income though declined during the year straining the results, the improved claims experience has given us reasons to be confident of our business plan and future. The reinsurance arrangements with the existing AA rated re insurers were successfully renewed and company rating is maintained BBB- by JCR. The company conforms with solvency requirement rules.

**The comparative operational details of the last three years are tabulated below.**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>%</b>
Gross Premium	105,080,533	132,579,281	175,567,208	(20.74)
Net Premium	74,157,379	105,363,790	140,800,091	(29.62)
Investment Income	1,910,564	(25,008,889)	(9,010,802)	107.63
Profit/ (Loss) Before Tax	4,605,212	(43,378,915)	(37,399,074)	110.61
Profit/ (Loss) After Tax	3,744,026	(30,482,845)	(37,728,837)	112.28
Total Assets	214,605,828	237,776,231	286,698,340	(9.74)
Earning Per Share (EPS)	0.31	(2.52)	(3.14)	112.30

### Operating Conditions:

The business and investment environment in the country is very challenging. Political and economic uncertainties make the task of capital requirements ever more daunting. The law and order situation is a big concern. Worst floods in country's recorded history were witnessed during 2010. Deaths, destruction to property, loss to agriculture, livestock and infrastructure in the rural areas resulted in unprecedented economic and financial burden for the economy. Growing unemployment in the country and dissatisfaction promises no easy sailings in the future. We hope and expect the government with the will and experience will seek to overcome the difficulties.

The results of 2010 as resulting from operations could have been better. The management expenses stood increased in percentage terms due to declining premium volumes. We will be doing our best to seek improvements in our business volumes. We of course in this period have made strategic changes and concentrated on areas needing improvements. We have restricted credits and sought increases in premium rates where

was necessary. In a relatively uncertain environment we intend to continue with a cautious outlook.

**Minimum Capital Requirement (MCR)/ Minimum Solvency Requirement (MSR):**

The SECP directives of May 2008 were issued without providing us an opportunity to be heard. This was challenged by the company in the Sindh High Court. I am pleased to inform that the High Court upheld our appeal. The SECP action is declared unlawful. The High court ordered that we be heard. The SECP instead has preferred to file an appeal and we will do our best to make a successful defense.

Non availability of a congenial investment climate makes it difficult under existing circumstances for the company to make a successful Rights offer. An event subsequent to 2008 global economic meltdown has exposed the inadequacy and fallacy of MCR/MSR necessitating an immediate review. Growing financial indiscipline in our market prompts us to ask hard questions before moving forward.

The 2008 financial crisis has dawned new realities. The insurance industry in Pakistan is fairly established and tested over the years with relevant experience and expertise. Risk assessment needs for an industry with 60 successful years history was not proper. SECP bid to implement quick fix solution in shape of increased capital/solvency requirements for ensuring financial stability is ill conceived. An idea that failed the stress test and was demonstrated through global economic meltdown of 2008. Instead it has encouraged financial indiscipline in our market which needs to be now checked. Introduction of amendments without careful study and research is harmful for the industry's future. There is a need to review the minimum requirements so that its short comings are removed and stake holder's confidence is restored.

**Flaws highlighted:**

America largest insurer namely AIG failed the stress of 2008 global economic meltdown and needed a financial bailout and is still reeling under. The company was purported to

be the largest capitalised insurance company of North America. Studies have shown it was the financial indiscipline that brought it down. We see a similar fate being repeated here because of the inadequacies of the MCR/MSR. Our regulators have somehow remained unmoved by the AIG episode of 2008. In our 2009 annual report we had suggested that a better basis would be the linking of the minimum requirement with premium underwritten.

The minimum capital and solvency margins for Insurance companies must be to a scale linked to premium underwritten, otherwise the minimum requirements are meaningless and do not serve the objective purpose. The idea is illogically conceived and the AIG event has exposed its fallacy. To continue with a fallacy is complacency, unacceptable. The minimum requirements for capital and solvency can not be the same for a company underwriting Rs 100 Million in risk premium income and a company doing Rs 1 Billion and a company doing Rs.10 Billion in premium income. The business of insurance is related to risk and financial stability and soundness must have an equation with risk volume underwritten. Risk needs differ from company to company with proportional and non proportional reinsurance treaties. Companies underwriting large complicated risks with high net retentions and risk accumulations under non proportional arrangements can not be compared or equated with companies underwriting small, medium sized risks under proportional treaties with AA rated re insurers.

We have explained our view point on the issue and stand firm. We will play the role expected of us. We are willing to debate the issue for working out desired changes that we consider necessary. We have a responsibility to our stakeholders and believe without financial discipline there is no future. Our views are long communicated to IAP for forwarding same to SECP.

We have requested SECP for two years extension for meeting minimum capital requirement which will give time to re draw the rules after discussions with all the stakeholders. By giving the extension, SECP will do good to the industry. We hope, our request will be seen as genuine. We have strong reservations on the methodology adopted.

During the year we have been engaged in negotiations with a privately held dormant insurance company for its merger acquisition in to our company fold, essentially for

making our company compliant of SECP minimum requirements. The negotiations though progressed and in advanced stage, have yet to be successfully concluded. We are optimistic of a favourable outcome but remain cautious.

**The appropriation details are as follows.**

Profit before tax	Rs. 4,605,212
Add: Provision for tax	<u>( 861,186)</u>
Profit after tax	3,744,026
Un-appropriated (Loss)/Profit from last year	<u>(68,100,026)</u>
Balance Un-appropriated Loss at the end of the year	(64,356,000)

The value of investment provident fund maintained by the company based on latest audited financial statement as at 31<sup>st</sup> December 2009 is Rs...13,486,720.

**Compliance with the Code of Corporate Governance:**

**The requirements of the code set out by the stock exchanges in the listing regulations, relevant for the year ended December 31, 2010, have been duly complied with. A statement to this effect is annexed with the report.**

Statement of Directors responsibilities under the code of corporate governance:

The directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Governance for the followings:-

- a) The financial statements, prepared by the Company, present fairly, its state of affair, the results of its operations, cash flows and changes in equity.
- b) The Company has maintained proper books of accounts as required under the Companies Ordinance, 1984.
- c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes where made, have been adequately disclosed and accounting estimates area on the basis of prudent and reasonable judgement.
- d) Financial statements have been prepared by the company in accordance with the International Accounting Standards, as applicable in Pakistan, requirement of Companies Ordinance.1984, Insurance Ordinance, 2000, and the Securities and

Exchange Commission (Insurance) Rules, 2002.

- e) The system of internal control is sound, effectively implemented and monitored. The process of review will continue to strengthen the system for its effective implementation.
- f) There is no significant doubt upon the Company's ability to continue as a going concern..

The Company has followed the best practices of corporate governance, as laid down in the listing regulations of the stock exchanges and there has been no material departure.

**Board Meetings and Attendance:**

During the year four meetings of the Board of directors were held and the number of meetings attended by each director is given hereunder:-

Name of Director	Number of Board Meetings Attended
Mr. Ardeshir Cowasjee	1
Mr. Abdul Razzak E. Jaffer	-
Mr. Qutubddin A. Millwala	4
Mr. Munir I. Millwala	4
Mr. Fida Hussain Samoo	4
Mr. Fayyaz F. Millwala	4
Mr. Hussainai I. Millwala	4
Mr. Mohammadi H. Millwala	3

Leave of absence was granted to directors unable to attend a meeting.

**Auditors:**

The present auditor M/s Moochhala Gangat & Company, Chartered Accountant retires and present themselves for re-appointment as external auditors for the year ended 31<sup>st</sup> December 2011.

**Audit Committee:**

The Company has an audit Committee, and had four meetings during the year 2010. The committee consists of the following members:

Mr. Hussaini I. Millwala	Chairman
Mr. Fida Hussain Samoo	Member
Mr. Qutubuddin A. Millwala	Member
Mr. Mohammadi H. Millwala	Member
Mr. Zoaib A. Quettawala	Member
Mr. Khuzaima Hakimi	Member
Mr. Fakhruddin A. Khetty	Member

**STATEMENT OF ETHICS AND BEST BUSINESS PRACTICES**

The Board has adopted “the Statement of Ethics and Business Practices” and circulated to all the directors and employees for their acknowledgement and acceptance.

**Company Reporting:**

The company reports to the shareholders 4 times a year with its 1<sup>st</sup> quarter, half-yearly, 3<sup>rd</sup> quarter and full year results, along with the director’s reports on the operations and future outlook for the company. All reports are sent to the Stock Exchanges and to the registered shareholders at the address registered with the company.

**Pattern of shareholding**

A pattern of shareholding is shown separately.

On a lighter note since this is World Cup Cricket season, I am pleased to inform that the company Cricket team had a wonderful time last year with many successes under its belt. With cricket fever all around our team also participated in IAP conducted cricket Tournament amongst insurance companies in March of 2011. After scoring some initial success our boys failed to make it to the semis. Well we all wished they could bring home the IAP trophy. We all appreciate the team efforts and wish them good luck for future success.

**Acknowledgement:**

On conclusion, I thank the Board of Directors for their advice and support. In difficult times their cooperation is appreciated. We are playing a role expected of us in a difficult environment. My thanks are also for the general manager, officers, staff and the field force whose continued loyalty and devotion makes us ever more determined to succeed.

My thanks are for our re insurers namely Mitsui Sumitomo Re, Pak-Re and Korea Re for their continuing support. My thanks to the Securities and Exchange Commission of Pakistan for their cooperation and guidance. We appreciate their support that we have always received. We hope to resolve the current difficulties given the opportunity. Finally my thanks go out to our valuable clients and shareholders for having reposed their continuing trust in the company.

Munir I. Millwala  
Chairman & CEO

## **Statement of Compliance with the Code of Corporate Governance for the year ended December 31, 2010**

This statement is being presented to comply with the Code of Corporate Governance contained Regulation No.37 of listing regulations of the stock exchange the purpose of establishing a framework of good governance, whereby a listed company/insurance company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors. At present the Board included six independent non-executive directors, including one non-executive director representing minority shareholders.
2. The directors have confirmed that none of them is serving as director in more than ten listed companies.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFII or, being a member of stock exchange has been defaulter by that stock exchange.
4. No casual vacancy has occurred in the year 2010.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees upon joining the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant accounting policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence by a director elected by the Board for this purpose and the Board

met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. An orientation course was conducted for the directors to apprise them of their duties and responsibilities in the previous year.
10. There was no new appointment of CFO, Company Secretary and head of Internal Audit during the year.
11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than disclosed in the pattern of shareholding.
14. The Company has functioning the committees namely, Underwriting Committee, Claim Settlement Committee and Re-insurance Committee.
15. The Board has formed an audit committee. It comprises of three members, of whom all are non-executive directors including Chairman of the Board.
16. The meetings of the audit committee were held once in every quarter prior to approval of interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The internal audit department of the company is currently being organized.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality Control review program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold the shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountant (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed International Federation of Accountant (IFAC) guidelines in this regard.
20. We confirm that all other material principles contained in the Code have been complied with.

MUNIR I. MILLWALA  
Chairman & CEO