Directors' Report

The directors are pleased to present the Annual Report and Audited Financial Statements of the Company for the year ended December 31, 2019 together with the auditors' report thereon.

Business Overview 2019

The Company's total recognized gross premium of the year was recorded at Rs 13.003 billion as compared to Rs. 13.323 billion last year thus registering a decline of 2.41%.

The new regular premium business from MCB Bank (Rs. 2.8 billion) and from **MCB Islamic Bank** (170 million) grew by 32% and 79% respectively as compared to last year. However, MCB Islamic being a new channel required higher level of training support.
It is pertinent to note that the industry wise growth in bancassurance business was just 1% in 2019. With this background, the growth in MCB Bank and MIB was remarkable.

Silk Bank has shown a growth of 25% and recorded a premium of Rs 69 million. Al-Baraka Islamic Bank has produced Rs 7 million in the first two months of its operation.

Faysal Bank did not generate business as envisaged and there was a negative growth of -17% in Faysal Bank.

Other Banca distribution partners also did not generate business as envisaged but maintained the same level of business as compared to last year.

Direct agency distribution channel has gone through major transformation process during the year and various measures has taken to expand and improve the agency branch network. During the year, the company also set-up dedicated takaful branches. All these measures have resulted in an excellent growth in Agency business, which recorded a gross premium of Rs 336 million with 36% growth as compare to last year.

As advised by the Board, there has been a cleansing effort in **Corporate Group Life & Group Credit Life Business**, especially by avoiding micro finance credit life business in addition to restraining from entering into price war for the sake of securing a big corporate business. The growth in group life is minimal i.e. 8%, however the point pertinent to note is that the loss ratio (before management expenses) has been improved to 85% from 103% during last year.

In the current year, there has been a significant drop down in single premium business which has translated into a big dip in the top line. The annual budget for single premium was set at Rs. 5.8 billion and we have recorded only Rs. 1.6 billion this year. MCB Bank's Investment desk was the key source of this business however lack of interest in the current year was attributable to (a) significant increase in bank's interest rates on deposits and (b) negative and low return posted by the equity funds where most of the single premium funds were parked previously, when interest rates were low.

Renewal Premium recorded a growth of 26% along with 78.64% overall persistency level. Banca and agency business recorded 2nd year persistency at 85% & 70% respectively. The dedicated retention staff has been recently hired to follow lapsed portfolio in agency.

Investments

The total investment income recorded at Rs 3.5 billion shown a phenomenal growth of 950% as compared to last year investment income of just Rs 366 million. Most of this income pertains to policyholders. Out of total portfolio of Rs. 36.8 billion, 36% was invested in equity & mutual funds which registered a positive return of 6.57%. Due to increase in interest rates during the year, average return on interest-based securities and banks placements is more than 12%. During the year, the company has not increased its exposure into the equity market and primarily focused on fixed income securities and bank deposits.

Underwriting Surplus

The acquisition cost related to branch overheads requires some rationalization as it currently hovers around 90% of the total new business.

Significant efforts have been planned including restructuring cost model to bring it down to less than 80% during 2020. Other efforts include setting up small branches with low level of IT setup under the main branch of the city, revision of KPIs for branch management by including weightage of persistency & cost control and significantly reducing stipend model for field sales staff. The result of these measures has been evident from last quarter of 2019.

The increase in acquisition (commission cost) is due to change in sales mix where regular premium has grown significantly and single premium was non-existent unlike last year.

After accounting for all direct expenses, the Company has earned an underwriting surplus of Rs. 1.3 billion against Rs. 907 million generated last year. The surplus translated into an overall underwriting margin of 10.38% against the margin of 6.81% last year. This is mostly attributable to growth in new regular premium business.

Expenses

The Company's total administration & support expenses were Rs. 1.05 billion as against 810 million in last year. This shows an overall increase of 29.42%. During last year, many key managerial positions were vacant and marketing budget was not fully utilized. During 2019, those position were fully occupied and marketing activities were also performed according to plan.

Since 2017, average growth rate of operating expenses is less than 8%.

Claims

Average no. of days of outstanding claims has improved to 107 days from 133 days as at of last year.

Total gross claims including surrenders were Rs. 7.073 billion as compared to Rs. 6.839 billion last year.

Other financial KPIs

- Company generated after tax profit of Rs. 217 million against the last year's profit of Rs. 59 million.
- Shareholders equity has increased to Rs 1.319 billion from 1.12 billion in FY 2018.
- Second year persistency recorded at 78.64% as compare to 77.64 during last year.
- Average return on investment is recorded at 11.40%.
- Break-up value per share has jumped to Rs 14.10/- per share from Rs 12.00/- per share in 2018.
- Size of Statutory Fund Under Management has increased to Rs 36.85 billion from Rs 31.47 billion in last year.
- Residual solvency in shareholders fund improved to Rs 154 million from Rs 76 million during last year.

- Market share of Adamjee Life in private sector has increased to 17.10% from 12.41% during last year.

Audit Report

The external auditors of the Company, M/s. Deloitte Yousuf Adil., Chartered Accountants, Karachi, have issued a clean opinion in their audit report. However, there was an emphasis of matter as discussed in Note 22.1.2 to the financial statements in respect of scope and applicability of Punjab Sales Tax (PST) and Sind Sales Tax (SST) on Life insurance services.

Emphasis of matter paragraph

External auditors, without modifying the audit opinion, has also added an emphasis of matter paragraph in the audit report in respect of the following issue:

Sales tax on life insurance premium

Sindh Revenue Board (SRB)

The exemption from the Sindh sales tax on life insurance premium has expired on June 30, 2019 and subsequently the sales tax has become applicable on the life insurance premium from July 01, 2019. The matter for renewal of the exemption has been taken-up at the collective level of Insurance Association of Pakistan with the SRB through its consultants. However, as the effort remained unconcluded, the Company, along with the other companies within the industry, through the consultant of Insurance Association of Pakistan (IAP) had filed a Constitution Petition bearing No. D-7677 of 2019, titled 'EFU Life Assurance Limited & Others vs The Province of Sindh & Another' with Sindh High Court. However, High Court in its order issued on December 2, 2019, stated that the Sindh Revenue Board ought to consider approving the exemption on the levy of this tax under Section 10 of Sindh Sales Tax on Services Act, 2011.

In view of the fact that the exemption is still pending, the Company and other life insurance companies have not yet billed their customers for SST for the period commencing from July 01, 2019 on the Premium of life insurance coverage.

The aggregate amount of Sindh Sales Tax not yet billed, based on the risk premium, during the period from July 2019 to December 2019 is Rs.21.49 million.

Post Balance sheet Events

Subsequent to the balance sheet date, the Share Purchase Agreement for the transfer of 24,059,855 shares from IVM Intersurer B.V. Netherlands including its 3 nominees (the Sellers) to Adamjee Insurance Company Limited (the Purchaser) was concluded on 25th January 2020. The transfer of shares was approved by the Board on 26th February 2020 which resulted in increase in the shareholding of Adamjee Insurance Company from 74 to 100 percent.

Future Outlook

The Company is now financially stable and will be able to appropriate surplus from statutory fund to the shareholders fund in ensuing years. The Company's bancassurance business will grow steadily as both MCB Bank and MIB has still underutilized the potential of cross selling life insurance to their customer base.

The Company will continue its efforts to project its technology and customer service standards to other banks.

The Company is already on the path to expand its agency distribution model and to reduce its branch overheads in order to make this channel profitable.

The Company aims to reduce dependency on bancassurance business and increase its business pie to agency distribution.

All of the above is highly dependent on the economic situation, which may develop due to global spread of Covid 19 pandemic.

Future Challenges

- New banca regulations are in the process of promulgation, which will make the sale process more difficult along with commission reduction for distribution partners. Further, due to uncertain economic situation, anticipated dip in the income / purchasing power of the customers, induction of various AML / other compliance restrictions, fear factor amongst the customers on taxation matters etc. will pose the challenge in next 12 to 18 months to sustain even historical growth momentum. However, ALAC is continuously supporting Regulator for positive changes in revised bancassurance regulations to reduce element of mis-selling, but at the same time ALAC is the biggest advocate to stop all such measures that are anti-growth or effect business with negative changes.
- Industry is non-compliant on Sind (since July 2019) & Punjab (since October 2018) sales tax on services. Administrative efforts are still in progress at IAP platform where joint petitions have been filed in Sind and Punjab provinces against such laws in both jurisdictions. In recent development with both the revenue authorities, ALAC is continuing its support advocacy for removal of provincial sales tax levied on gross premium of life insurers.
- Rising number of customer complaints with respect to their cash values which declined due to equity market situation.
- Application of IFRS 17 on insurance contracts from 2023 represents the most significant change to insurance accounting requirements in over 20 years. It demands a complete overhaul of insurers' financial statements. This major change to implement IFRS 17 will extend beyond the finance and actuarial functions of the company, and will also have an impact on Data, Systems and Processes of the Company. It is highly probable that for implementing IFRS 17, the Company may have to make substantial amount of investment in the development of integrated IT system to cater the needs of both actuarial and finance functions, retaining technical resources and engaging temporary consulting assistance from the market.

Risk and uncertainty

There are no significant risks evident so far, which is specific to the operations of the Company.

The levy of Provisional Sales Tax on life insurers which is included in the taxable services by the Government of Sindh is a matter of concern for the whole industry. If the sales tax is not permanently exempted, then the products would become unviable for the policyholders and on the other hand, if the sales tax is not passed on to policyholders then the business would not remain viable.

Auditors

The present auditors M/s Deloitte Yousuf Adil, Chartered Accountants has given their consent to act as auditors of the Company including as shariah compliance auditors, for the financial year ending on December 31, 2020.

Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, International Financial Reporting Standards or any other regulation or law (including but not limited to the Shariah guidelines / principles) as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance.
- Key Operating and Financial data of last six years – *(Please refer Annexure-A)*
- Total four (4) Board meetings were held during the year ended 31 December 2019. Following is the attendance by each of the director:

S. No.	Name of the Director	No. of meetings attended
1	Mr. Umer Mansha	4
2	Mr. Raza Mansha	0
3	Mr. S.M. Jawed	3
4	Mr. Muhammad Ali Zeb	4
5	Mr. Samir Iqbal Saigol	3
6	Mr. Ahmad Aqeel	3
7	Mr. Imran Maqbool	4
8	Mr. Frans Georg Prinsloo	0
9	Mr. Fredrik Coenvard De Beer	0
10	Mr. Nashir Omer	0

Pattern of Shareholding as at 31 December 2019:

Number of Shareholders	Shareholdings		Shares Held
	From	To	
10	1	250	2,500
1	24,060,000	24,060,000	24,059,105
1	69,488,000	69,488,000	69,487,795
12			93,549,400

Additional Information as at December 31, 2019:

Categories of Shareholders	Number of Shareholders	Shares held	Percentage of Total
Associated Companies, undertakings and related parties:	2	93,546,900	99.997%
M/S. Adamjee Insurance Company Limited		69,487,795	74.279%
M/S. IVM INTERSURER B.V.		24,059,105	25.718%
Directors:	10	2500	0.003%
Mr. Muhammad Umer Mansha		250	0.000%
Mr. Imran Maqbool		250	0.000%
Mr. S.M. Jawed		250	0.000%
Mr. Muhammad Ali Zeb		250	0.000%
Mr. Nashir Omar		250	0.000%
Mr. Frans Georg Prinsloo		250	0.000%
Mr. Fredrik Coenrard De Beer		250	0.000%
Mr. Samir Iqbal Saigol		250	0.000%

Mr. Ahmad Aqeel		250	0.000%
Mr. Raza Mansha		250	0.000%
TOTAL		93,549,400	100%

Earnings Per Share:

The Basic gain per share for the year ended on December 31, 2019 was 2.32.

Profit for the year as per P & L account (Rupees in 000)	217,106
Weighted average number of ordinary shares (000)	93,549
Earnings per share – basic and diluted	2.32

Date: March 12, 2020

Chief Executive Officer

Chairman

ANNEXURE A

Key Historical Data

Key performance indicators	2013	2014	2015	2016	2017	2018	2019
Total Gross written premium (GWP)	4,474,726	5,214,947	9,150,640	11,301,714	13,781,044	13,323,759	13,002,853
Topline growth	94.79%	16.54%	75.47%	23.51%	21.94%	-3.32%	-2.41%
New premium growth	45.51%	11.44%	46.83%	13.88%	18.21%	8.33%	16.47%
Second year Persistency	76.63%	74.88%	74.32%	79.90%	76.78%	77.64%	78.64%
Average return on investments	9.46%	16.33%	10.81%	13.41%	-3.24%	2.42%	11.40%
Group Life loss ratio	75%	76%	87%	83%	88%	103%	85%
Death & Disability Claims- individual Life	40,929	69,049	117,778	190,955	315,031	281,618	299,218
Branch overhead to Agency premium	-	105.05%	69.12%	75.21%	77.95%	74.81%	94.12%
Net Underwriting surplus	215,889	442,129	710,079	1,047,744	613,452	907,091	1,345,919
Underwriting margin	6.55%	8.02%	7.76%	9.27%	4.45%	6.81%	10.38%
Employees, Administration & marketing expenses	290,184	388,886	488,873	682,036	919,523	846,092	1,056,861
Expense growth	31.19%	34.01%	25.71%	39.51%	34.82%	-7.99%	24.91%
Expense to New premium	18%	22%	19%	23%	26%	22%	23.64%
Expense to GWP	10.77%	10.72%	9.32%	10.06%	10.94%	8.89%	9.14%
Net profit/(loss) after tax	14,592	86,584	306,063	397,300	-202,649	58,949	196,402
Shareholders' Equity	454,693	633,790	939,854	1,266,587	1,063,940	1,122,889	1,319,291
Break-up value per share	4.86	6.77	10.05	13.54	11.37	12	14.1
Statutory fund under management	4,860,342	8,256,342	14,444,778	22,166,399	27,665,128	31,477,249	36,850,881
Capital Expenditure during the year	33,581	30,783	39,943	91,294	121,980	104,769	65,822
Claims payable-average no. of days	178	154	162	154	153	133	107
Residual solvency in Shareholder's fund	225,416	123,955	89,598	63,277	113,241	75,095	150,564
Staff strength	124	183	214	519	709	765	1,144
Market share (private sector only)	12.72%	13.74%	14.77%	14.06%	13.00%	12.41%	17.10%
Embedded value	14.56	13.18	14.61	17.6	20.15	23.38	26.23
Return on Capital	1.56%	9.26%	32.73%	42.49%	-21.67%	6.30%	20.99%
Solvency margin retained for statutory funds	-	202,511	273,673	395,441	455,794	471,184	543,229