

Directors' Report

The directors are pleased to present the Audited Financial Statements of the Company for the year ended December 31, 2020 together with the auditors' report thereon.

Business Overview 2020

Post COVID-19 and resultant lock down, i.e. from 2nd week of March onwards, around 53 percent households faced financial implications, 37 percent of working population i.e. 20.63 million lost their jobs/could not work while 12 percent i.e. 6.7 million experienced reductions in incomes due to closure of business owing to the Covid-19 lockdowns in Pakistan. (Source: Pakistan Bureau of Statistics)

At the outset, the Directors' of the Company would like to appreciate the efforts of staff of the Company and particularly its technology team who ensured that the business operation of the Company remains up and running during lock down periods with remote working mode.

The Company's Banca Business registered a significant dip in new business from Rs. 3.302 billion in 2019 to Rs. 2.636 billion in 2020, while our Direct Distribution force did a remarkable job by showing a growth in new business by 60%. The dip of 20% in the Banca business is however much lower than the dip of 29% of total new Banca business across the industry.

Our Direct Distribution (Agency) model has continued its expansion plan during the year as per the strategy to increase our new business pie from other than Banca channel. Total number of sales offices has increased to 57 by the end of year from 34 at the beginning of the year.

We are pleased to report that new Banca relationships were established during the year with National Bank of Pakistan and Habib Metropolitan Bank which will further augment the Banca business in ensuing years.

We are also pleased to report that as a socially responsible organization, the Company announced the extension of 90 days in renewal of premium and free additional death cover of Rs. 150,000/- to all our existing and new policy holders.

The persistency, especially of the 2nd year premium was significantly effected in 2020 due to COVID related effect on affordability and lack of follow-ups from our team as well. The Plans are now in place to address the concern of low persistency and to bring it back to the level of 75% for 2nd year and 85% plus for years onwards.

The major boost to our topline gross premium was provided by tremendous growth in single premium business which went up from Rs. 1.6 billion in 2019 to Rs. 5.3 billion in 2020. The low bank deposit rate, fragile equity market and lack of other investment opportunities provided this boost.

The Company was therefore able to achieve its topline target of 2020 and recorded the highest ever gross premium figure of Rs. 17.1 billion as against Rs. 12.9 billion last year registering a growth of 31.86%.

The Company's Group Life business was on track and maintained the same level of business when compared with last year. The Company maintained its cautious approach in Group Life business and avoided entering into the price war.

Investments

The total investment income was recorded at Rs 4.3 billion as compared to last year investment income of Rs 3.5 billion. Out of total portfolio of Rs. 49.26

billion, 33.3% was invested in equity & mutual funds whereas, 31.7% was invested in government securities and debt instruments. An average rate of return on investments as at December 31, 2020 was 9.69% as against 11.40% last year, which seems reasonable considering the market situation. The return earned on individual Statutory Funds were above the set benchmark and above competitors' posted return as well.

Underwriting Results

The Company's acquisition costs and claims expenses are largely on track and as per the budgeted numbers. The total death and disability claim paid by the Company amounted to Rs. 435 million.

After accounting for all direct expenses, the Company has earned an underwriting surplus of Rs. 1.3 billion which is almost at the level of last year's number. The surplus translated into an overall underwriting margin of 7.69% against the margin of 9.94% last year. The drop in margin is attributable to significant increase in single premium sales which carries low margin.

After accounting for Administration expenses of Rs. 1.0 billion which is largely at the same level of last year, the Company recorded the profit before tax of Rs. 310 million and profit after tax of Rs. 191 million.

Audit Report

The external auditors of the Company, M/s. 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 27.1 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:

Provincial Sales tax on life insurance premium

The Company collectively through the forum of Insurance Association of Pakistan ("IAP") had filed a constitutive petition in the Lahore High Court (LHC) and in the High Court of Sindh at Karachi on September 28, 2019 and November 28, 2019 against PRA and SRB respectively on the issue of Sales tax on Life Insurance Premium.

In view of the above the Company has not started billing sales tax to its customers. The amount of sales tax involved is around Rs. 347.54 million computed on the basis of risk based premium, as per the advice of legal advisor, which nonetheless the Company maintains, based on the legal view, can not be levied as the insurance is not a service.

Based on the legal opinion obtained the Company considers that it has a reasonably strong case on the merits in the constitution petition and the writ petition filed in the High Courts. The petition is still pending for hearing.

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, albeit with lesser than historically registered high growth, due to challenges of implementation of new Corporate Insurance

Agents' Regulations which is going to be effective from July 1, 2021.

The Company will continue its expansion plan for its Direct Distribution Sales force and is targeting to touch new business generation of Rs. 1.5 billion by 2022-23.

The Company will continue to pursue Corporate Group Life business with prudent pricing and making difference through servicing.

The Company is also looking forward to build sustainable and mutually beneficial relationship with our new Banca Partners i.e. National Bank of Pakistan and Habib Metropolitan Bank.

The Company also plans to build its capacity to compete in the area of mobile wallet and digitally embedded products as well as in the retail health insurance.

Further improving the quality of training, imparting product awareness and improving Persistency shall be the key focus of the Company in 2021 and ensuing years, thereby reducing the ratio of customers' complaints to less than 1%.

Future Challenges

- The implementation of new Corporate Insurance Regulations poses a major challenge for 2021 which will require re-pricing of all the products and its Sales processes in Banc assurance distribution.
- 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 systems.

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 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, 2021.

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 seven years – (Please refer Annexure-A)
- Total six (6) Board meetings were held during the year ended 31 December 2020. Following is the attendance by each of the director:

S. No.	Name of the Director	No. of meetings attended
1	Mr. Umer Mansha	6
2	Mr. Raza Mansha	2
3	Mr. S.M. Jawed	6
4	Mr. Muhammad Ali Zeb	6
5	Mr. Samir Iqbal Saigol	3
6	Mr. Ahmad Aqeel	6
7	Mr. Imran Maqbool	5

Pattern of Shareholding as at 31 December 2020:

Number of Shareholders	Shareholdings		Shares Held
	From	To	
7	1	250	1,750
1	93,547,650	93,547,650	93,547,650
8			93,549,400

Additional Information as at December 31, 2020:

Categories of Shareholders	Number of Shareholders	Shares held	Percentage of Total
Associated Companies, undertakings and related parties:	1	93,547,650	99.998%
M/S. Adamjee Insurance Company Limited		93,547,650	99.998%
Members/Directors:	7	1,750	0.002%
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. 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, 2020 was 2.04.

Profit for the year as per P & L account (Rupees in 000)	191,014
Weighted average number of ordinary shares (000)	93,549
Earnings per share – basic and diluted	2.04

Date: February 18, 2021



Chief
Executive
Officer

ANNEXURE A

Key Historical Data

Particulars	2014	2015	2016	2017	2018	2019	2020
	Rupees in '000						
Total Gross written premium (GWP)	5,214,947	9,150,640	11,301,714	13,781,044	13,323,759	13,002,853	17,100,887
Topline growth	16.54%	75.47%	23.51%	21.94%	-3.32%	-2.41%	31.52%
New premium growth	11.44%	46.83%	13.88%	18.21%	8.33%	16.47%	-12.87%
Average return on investments	16.33%	10.81%	13.41%	-3.24%	2.42%	11.40%	9.69%
Group Life loss ratio	76%	87%	83%	88%	103%	85%	101.60%
Death & Disability Claims- individual Life	69,049	117,778	190,955	315,031	281,618	299,218	434,500
Net Underwriting surplus	442,129	710,079	1,047,744	613,452	907,091	1,345,919	1,315,283
Underwriting margin	8.02%	7.76%	9.27%	4.45%	6.81%	9.94%	7.69%
Employees, Administration & marketing expenses	388,886	488,873	682,036	919,523	846,092	1,056,861	1,018,365
Expense growth	34.01%	25.71%	39.51%	34.82%	-7.99%	24.91%	-4%
Net profit/(loss) after tax	86,584	306,063	397,300	-202,649	58,949	196,402	171,324
Shareholders' Equity	633,790	939,854	1,266,587	1,063,940	1,122,889	1,319,291	1,490,615
Break-up value per share	6.77	10.05	13.54	11.37	12	14.1	15.93
Statutory fund under management	8,256,342	14,444,778	22,166,399	27,665,128	31,477,249	36,850,881	47,097,939
Capital Expenditure during the year	30,783	39,943	91,294	121,980	104,769	65,822	46,266
Residual solvency in Shareholder's fund	123,955	89,598	63,277	113,241	76,002	154,498	132,222
Residual Solvency in Statutory funds	64,673	309,931	251,690	38,557	-48,093	336,442	563,813