

Directors' Report on the Working of PRCL

For The Year Ended December 31, 2016

The Directors of your company are pleased to present the 17th Annual Report of the Company together with the Audited Financial Statements and Auditors' Report thereon for the year ended 31st December, 2016.

ECONOMIC OVERVIEW

Pakistan's economy continues to maintain its growth momentum for the 3rd year in a row with real GDP growing at 4.71 percent in FY 2016 which is the highest in eight years. GDP posted a reasonable growth over last year despite a major setback in agriculture growth on account of massive decline in cotton production. However, the loss to some extent is compensated by remarkable growth in industrial and services sector as both these sectors crossed their targets growth, while other key macroeconomic indicators like inflation, fiscal and current account balance recorded improvement.

COMPANY'S PERFORMANCE

PRCL was converted into a company in the year 2001 and is now operating under Insurance Ordinance, 2000, and Companies Ordinance, 1984. The Company is the Sole Re-insurer in the country. A number of steps to run it on commercial lines have already been taken. Authorized Capital has been enhanced from Rs.4 billion to Rs.25 billion and Paid-up Capital from Rs.540 million to Rs.3 billion with a view to strengthen the equity base as the company has been planning to expand locally as well as abroad.

PRCL has continuously been trying through strategic and concerted efforts to avoid outflow of foreign exchange from the country and improve the performance of insurance sector in Pakistan. The Company's business strategy would continue to focus on providing prompt services to insurance companies with reference to facultative business.

The salient features of the business operations during the year, 2016 are as under:-



(Rs in millions)

	2016	2015
Gross Premium	8,807	8,135
Retrocession	(2,952)	(2,763)
Net Retention	5,855	5,372
Premium Reserve	(53)	(153)
Net Premium	5,802	5,219
Net Commission	(1,264)	(1,101)
Net Claims	(3,336)	(2,775)
Management expenses	(657)	(621)
Underwriting Profit	545	722
Investment Income	961	935
Rental & other income	142	47
General & Admin. Expenses	(54)	(38)
Exchange Gain/(Loss)	(1)	106
Other charge	(166)	0
Profit before tax	1,427	1,772
Taxation	(453)	(395)
Profit after Tax	974	1,377

During the period under review, Company has underwritten Rs.8,807 million as compared to Rs.8,135 million in the year ended December 31, 2015. The break-up is as follow:

(Rs. in millions)

Facultative Premium	2016	2015
Fire	1,594	1,572
Marine Cargo	31	37
Marine Hull	112	117
Accident and others	148	169
Aviation.	1,163	1,070
Engineering	1,443	971
Total Facultative	4,491	3,936
Treaty Premium	4,316	4,199
Total Premium	8,807	8,135

During the period under review, the net premium of the Company was Rs.5,802 million showing an increase of Rs.583 million (11%) over the corresponding year. This was mainly due to acceptance of more business from local insurance companies, as shown below.

(Rs. in millions)

Particulars	2016	2015
Premium Written	8,807	8,135
Reinsurance Ceded	(2,952)	(2,763)
Net Retention	5,855	5,372
Premium Reserve	(53)	(153)
Net Premium	5,802	5,219

The commission expenses of the company during the year ended December 31, 2016 were Rs.1,264 million as compared to Rs.1,101 million during the year December 31, 2015, showing an increase of Rs.163 million (15%) due to increase in business.

Net claims of the company for the year 2016 were Rs.3,336 million as compared to Rs.2,775 million in the year ended December 31, 2015 showing an increase of Rs.561 million (20%) as shown below.

(Rs. in millions)

Particulars	2016	2015
Facultative Claims	692	876
Treaty Claims	2,644	1,899
Total	3,336	2,775

INVESTMENT INCOME

The investment income in the year 2016 was Rs.961 million as compared to Rs.935 million in the year 2015. The breakup is as follows:-

(Rs. in millions)

Particulars	2016	2015
Capital gain	3	-
Dividend Income	418	378
Return on Government Securities	418	429
Return on other fixed income securities and deposits	97	135
Gain on revaluation on investments	35	2
Investment related expenses	(10)	(9)
Total	961	935

PROFIT AFTER TAX

The profit after tax is Rs.974 million as compared to Rs.1,377 million of last year, showing decrease of Rs.403 million.

APPROPRIATIONS

	(Rs. in millions)
Profit before tax	1,427
Less: Tax	453
Profit after tax	974
Add: Unappropriated profit brought forward	1,880
Add: Comprehensive Income	1,215
Less: Final cash dividend 2015 @ 25%	(750)
Unappropriated profit carried forward	2,345

CREDIT RATING

M/s. PACRA Credit Rating Company Limited has reaffirmed the Insurer Financial Strength (IFS) rating of Pakistan Reinsurance Company Limited at “AA” (Double A). Outlook on the assigned rating has also been maintained as “Stable”.

INFORMATION TECHNOLOGY

The company is fully aware of the importance of information technology and undertaken to implement ERP for which initial work has been started. In the interim period existing network was upgraded and disaster recovery plan is under implementation.

CORPORATE SOCIAL RESPONSIBILITY

The Company had in place a welfare fund to provide welfare facilities to its employees whereby 5 employees are sent for Hajj every year. Besides, cash awards to the Employees’ Children who are Hafiz-e-Quran and secure A-I grade in Secondary Education & Higher Education, retirement grants to the retiring employees having long association with the company, Burial & compensation packages for family of employees who die during service. To encourage healthy activities in house sports and recreation facilities are provided.

BOARD STRUCTURE AND COMMITTEES

The Board structure is in accordance with the Code of Corporate Governance 2012, Public Sector Companies (Code of Corporate Governance) Rules, 2013 and Code of Corporate Governance for Insurers, 2016, issued by the Securities and Exchange Commission of Pakistan.



In order to ensure effective implementation of sound internal control system and compliance with the Code of Corporate Governance, the Board has constituted various committees which are ten (10) in number. The composition of the Board committees is separately shown in the report under the section of Corporate Information.

FUTURE PROSPECTS

In order to achieve the company's short and long term objectives, its business strategy will continue to focus on providing prompt service to insurance companies particularly with reference to facultative offers. PRCL with strengthened balance sheet and enhanced equity structure will continue to concentrate on quality treaty, facultative business and profitable retrocession by gradually increasing its retention capacity and adoption of risk management measures.

WINDOW RE-TAKAFUL OPERATION

Takaful, the Islamic alternative to conventional insurance has grown from a regional business to a global one, over the past 5 years. The gross Takaful contributions nearly doubled during this period. The Takaful industry worldwide has enjoyed growth rates between 15% and 20% which is much higher than the worldwide growth observed for conventional insurance.

According to the annual results of 2015, the market share of Takaful by gross contributions in the industry is around 5%. With only three dedicated General Takaful companies present in the industry having a complete monopoly on Takaful for over 7 years, the penetration of Takaful is still limited.

The entrance of the window Takaful operators in Pakistan has continuously been demanding a local Re-Takaful operator because the Takaful Rules place a condition that the Takaful business can only be ceded to the Re-Takaful Operators whereas no such local Re-Takaful operator is available in Pakistan. Due to this condition and absence of any local Re-Takaful operator, many foreign Re-Takaful operators are taking advantage of the current situation and they have entered into the market and got all the business from Pakistan upon their own monopolistic terms and conditions.

In view of this continuous market loss, the PRCL has initiated the exercise to establish a Window Retakaful function in the Company. This plan has been approved by the PRCL Board of Directors in its 118th Meeting held on 2nd December, 2016. Consequently approval from shareholders has been

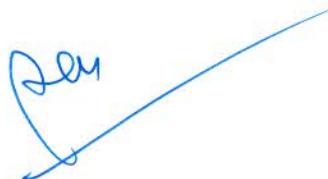


obtained in the Extraordinary General Meeting held on 31-12-2016. The rest of the operational steps are actively in process and will hopefully completed by the end of half year.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

PRCL being a Listed Company adheres to Code of Corporate Governance and all listing regulations. The Company is also public sector enterprise and operates under the framework of Public Sector Companies (Code of Corporate Governance Rules), 2013 and Code of Corporate Governance for Insurers, 2016. The Directors confirm compliance with all reporting and disclosure requirements as envisaged in the Companies Ordinance 1984, Insurance Ordinance 2000, and Rules, made thereunder. The Directors confirm compliance with the corporate and Financial Reporting Framework of the SECP Code of Corporate Governance for the following:-

- a) 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;
- b) The Company has maintained proper books of accounts;
- c) The Company has followed consistently appropriate accounting policies in preparation of the financial statements, changes have been adequately disclosed and accounting estimates are made 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, requirements of Companies Ordinance, 1984, Insurance Ordinance, 2000, and the Securities and Exchange Commission (Insurance) Rules, 2002;
- e) The system of internal control is in place and internal audit department is in the process of strengthening;
- f) There are no doubts upon the Company's ability to continue as a going concern;
- g) There is no material departure from the best practices of Code of Corporate Governance, as laid down in the listing regulations and Public Sector Companies (Code of Corporate Governance) Rules, 2013, and Code of Corporate Governance for Insurers, 2016;
- h) The directors are qualified under directors Training Programme;
- i) Presentation was given to newly appointed Directors to acquaint them with the relevant laws and their responsibilities;
- j) The Company has 8.34% (of the paid-up capital) share-holding of National Investment Trust Limited (NITL) and as such has its representation on the Board of NITL by one of its



Directors. Currently the PRCL board approved the name of CEO (Mr. Muhammed Siddique Memon) to represent the Company on NITL Board.

- k) The appointment of the Chairman and other members of the Board and the terms of their appointment along with the remuneration policy are adopted in the best interests of the Company as well as in line with the best practices;
- l) The Non-executive Directors do not have fixed remuneration and are being paid a fixed fee for each meeting attended. Disclosure on remuneration of Chief Executives, Directors and Executives as applicable is separately shown in the report;
- m) Summarised key operating and financial data of the last 6 years is separately shown in the report;
- n) The statement of pattern of shareholding is separately shown in the report;

- o) The value of investment in pension, gratuity and provident fund is as follows:

	(Rs. in millions)
Pension and Gratuity Fund	<u>943.124</u>
General Provident Fund / Provident Fund	<u>491.531</u>

BOARD MEETINGS AND ATTENDANCE

In the year 2016, the Board formed various Committees, the detail of the meetings held and the attendance of each director is given hereunder:-



Sl.	Name Of Directors	No. of Meetings									
		Board of Directors	Audit Committee	Remuneration / HR Committee	Underwriting Committee	Claim Settlement Committee	Ethics and Compliance Committee	Risk Management Committee	Nomination Committee	Investment Committee	Reinsurance / Co-insurance Committee
		Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended	Attended
1	Mr. Mumtaz Ali Rajpar	14	-	12	-	-	2	2	-	6	-
2	Mr. Muhammed Siddique Memon, CEO	1	-	-	-	-	-	-	-	-	-
3	Mr. Abdul Sami Kehar*	13	2	11	-	-	2	-	-	6	-
4	Mr. Taufique Habib	14	5	1	-	-	-	-	-	2	-
5	Syed Arshad Ali	10	4	1	-	1	-	3	-	2	-
6	Dr. Kausar Ali Zaidi	9	3	-	-	-	-	1	-	4	-
7	Mr. Etrat H. Rizvi	9	3	-	-	1	-	-	-	3	-
8	Mr. Iftikhar Ahmed	8	-	-	1	-	-	-	-	-	1
9	Mr. Faisal Mumtaz	11	-	8	1	-	-	2	-	-	1
10	Mr. Shoaib Mir**	4	-	-	-	-	-	-	-	-	-

* Mr. Abdul Sami Kehar resigned December, 2016 from Directorship of PRCL.

** Mr. Shoaib Mir appointed as Director by SLIC in October, 2016 in place of Mr. Iftikhar Ahmed.

In addition to the above Committees, the Board also formed a Procurement Committee however; no meeting of the Committee could be convened during the year.

Leave of absence was granted by board to the Directors who could not attend some of the meetings and intimated the board in advance.

CHANGE IN THE BOARD OF DIRECTORS

The Board places on record its sincere appreciation to the outgoing Director Mr. Faisal Mumtaz to whom the Board indebted for their prudent, professional and diligent guidance.

The Board welcomed the new CEO of the Company Mr. Muhammed Siddique Memon, Messrs Shoaib Mir, Etrat H. Rizvi Dr. Kausar Ali Zaidi on their joining the board during the year.

CONTRIBUTION TO NATIONAL EXCHEQUER

Your Company contributed an amount of Rs.552.809 million into the government treasury on account of Taxes, Levies and other duties.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the regulatory authorities have been duly complied with.

AUDIT COMMITTEE

The Board, in compliance with the Code of Corporate Governance, has constituted an Audit Committee and its terms of reference have been approved. The names of the members of Committee are given in the section of Corporate Information.

PERFORMANCE OF THE COMPANY DURING THE LAST SIX YEARS

	(Rs. in millions)					
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Gross Premium	8,807	8,135	8,661	8,659	8,153	6,893
Net Premium	5,802	5,219	4,784	4,724	4,096	3,535
Net Commission	(1,264)	(1,101)	(950)	(937)	(868)	(785)
Net Claims	(3,336)	(2,775)	(2,793)	(2,831)	(2,217)	(2,018)
Management Expenses	(657)	(621)	(526)	(503)	(448)	(353)
Underwriting Profit/(Loss)	545	722	515	453	563	379
Investment Income	961	935	1,079	1,101	918	891
Profit before Tax	1,427	1,772	1,565	1,706	1,537	1,258
Profit after Tax	974	1,377	1,244	1,321	1,160	845

PROPOSED DIVIDEND

The Board of Directors proposed a Cash dividend of Rs. 3/- per share (30%) subject to the approval of shareholders.

EARNING PER SHARE

The earning per share of the Company was Rs. 3.25 for the year 2016 as compared to Rs.4.59 in the year 2015.

TRADING IN THE COMPANY SHARES

Trading in the shares of the Company by directors, executives, their spouses and minor Children, if any, has been disclosed in the pattern of shareholding.

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APPOINTMENT OF AUDITORS

Based on the consent received from the company's existing auditors M/s BDO Ibrahim and Co., Chartered Accountants, to continue to act as auditors of the company, the Audit Committee has recommended their name to be appointed as external auditors of the company for the year-2017.

The external auditors have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the Institute of Chartered Accountants of Pakistan, and that the firm and all their partners are compliant with the International Federation of Accountants' (IFAC) Guidelines on Code of Ethics, as adopted by the Institute of Chartered Accountants of Pakistan, and meet the requirements for appointment under all applicable laws.

ACKNOWLEDGEMENT

In the end, your directors would like to thank all insurance companies, Securities and Exchange Commission of Pakistan and Pakistan Stock Exchange for their support and guidance. We also acknowledge the hard work and dedication of the officers and staff of Company.

For and on behalf
of the Board of Directors.



Chairman / Director
