

PAKISTAN REINSURANCE COMPANY LIMITED
STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED DECEMBER 31, 2020

| | Note | 2020 ----- (Rupees) ----- | 2019 |
|---|---------|------------------------------|----------------------|
| Net insurance premium | 34 | 6,708,834,772 | 6,905,155,171 |
| Net insurance claims | 35 | (3,924,588,676) | (4,258,866,001) |
| Net commission and other acquisition costs | 36 | (925,195,332) | (1,242,908,813) |
| | | (4,849,784,008) | (5,501,774,814) |
| Management expenses | 37 | (666,777,957) | (774,944,862) |
| Provision for doubtful debts | 13 & 14 | (426,553,066) | (122,923,613) |
| Underwriting results | | 765,719,741 | 505,511,882 |
| Investment income - net | 38 | 1,043,379,592 | 868,380,788 |
| Rental income - net | 39 | 83,419,433 | 69,900,127 |
| Finance cost | 40 | (2,750,485) | (1,739,500) |
| Other income | 41 | 74,353,871 | 752,368,760 |
| Other expenses | 42 | (22,587,261) | (14,413,545) |
| | | 1,175,815,150 | 1,674,496,630 |
| Total revenue from operations | | 1,941,534,891 | 2,180,008,512 |
| Profit from window retakaful operations - Operator's retakaful fund | 43 | 30,450,665 | 9,240,868 |
| Profit before tax | | 1,971,985,556 | 2,189,249,380 |
| Income tax expense | 44 | (580,546,325) | (704,966,847) |
| Profit after tax | | 1,391,439,231 | 1,484,282,533 |
| Earnings per share - basic and diluted | 45 | 4.64 | 4.95 |

The annexed notes from 1 to 60 form an integral part of these financial statements. 550-

CHAIRMAN

CHIEF EXECUTIVE
OFFICER

DIRECTOR

DIRECTOR

CHIEF FINANCIAL
OFFICER

PAKISTAN REINSURANCE COMPANY LIMITED - WINDOW RETAKAFUL OPERATIONS
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2020

| | | 2020 | 2019 |
|---|------|---------------------|---------------------|
| | Note | -----Rupees----- | |
| PARTICIPANTS' RETAKAFUL FUND | | | |
| Revenue account | | | |
| Contribution earned | 26 | 557,053,169 | 232,593,865 |
| Less: contributions ceded to retrotakaful | 26 | (66,989,829) | (44,274,375) |
| Net contribution revenue | | <u>490,063,340</u> | <u>188,319,490</u> |
| Wakala fee expense | 27 | (128,122,229) | (53,496,589) |
| Net underwriting income | | <u>361,941,111</u> | <u>134,822,901</u> |
| Net claims - reported/ settled - IBNR | 28 | (420,624,751) | (172,856,227) |
| Charge of contribution deficiency reserve | 20 | (19,010,777) | - |
| Deficit before investment income | | <u>(77,694,417)</u> | <u>(38,033,326)</u> |
| Investment income | 29 | 5,661,669 | 471,022 |
| Other income | 30 | 1,856,259 | 1,567,004 |
| Less: Modarib's fee | 31 | (1,879,482) | (509,507) |
| Provision for doubtful contributions | 8.1 | (6,898,427) | - |
| Deficit before taxation | | <u>(78,954,398)</u> | <u>(36,504,807)</u> |
| Taxation | 32 | (1,348,372) | - |
| Deficit transferred to accumulated deficit | | <u>(80,302,770)</u> | <u>(36,504,807)</u> |
| OPERATOR'S RETAKAFUL FUND | | | |
| Revenue account | | | |
| Wakala fee income | 27 | 128,122,229 | 53,496,589 |
| Commission expense | 33 | (102,032,546) | (38,208,941) |
| General, administrative and management expenses | 34 | (6,947,553) | (4,243,734) |
| | | <u>19,142,130</u> | <u>11,043,914</u> |
| Investment income | 29 | <u>1,202,072</u> | <u>83,277</u> |
| Other income | 30 | 20,664,577 | 1,378,609 |
| Modarib's fee | 31 | 1,879,482 | 509,507 |
| | | <u>23,746,131</u> | <u>1,971,393</u> |
| Profit before taxation | | <u>42,888,261</u> | <u>13,015,307</u> |
| Taxation | 32 | (12,437,596) | (3,774,439) |
| Profit after taxation | | <u>30,450,665</u> | <u>9,240,868</u> |

The annexed notes 1 to 44 form an integral part of these financial statements *qim*

Chairman Director Director Chief Executive Officer Chief Financial Officer

PAKISTAN REINSURANCE COMPANY LIMITED

Draft Auditors' report to the members

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PAKISTAN REINSURANCE
COMPANY LIMITED
REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

Qualified Opinion

We have audited the annexed financial statements of **Pakistan Reinsurance Company Limited** (the "Company") which comprise the statement of financial position as at December 31, 2020, and the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

In our opinion and to the best of our information and according to the explanations given to us, expect for the possible effects of the matter discussed in the Basis for Qualified Opinion section of our report, the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2020 and of the profit and other comprehensive income, its cash flows and the changes in equity for the year then ended.

Basis for Qualified Opinion

- 1) As disclosed in note 13 to the financial statements, loans and other receivables include receivable from Sindh Revenue Board (SRB) amounting to Rs. 2,573.89 (2019: Rs. 2,573.89) million which was recovered by SRB against the sales tax liability on reinsurance services. The Company has recorded this amount as an asset, however the Company could not substantiate any control over the underlying asset and the flow of economic benefits is improbable due to ongoing Court case. Had the Company not recorded this asset, total assets, accumulated profit, shareholders' equity and solvency would have been reduced by the same amount accordingly.
- 2) As disclosed in 16, 24, 34, 35, 36, 20, 32, 43 and 50 to the financial statements, certain account balances and class of transactions have been recorded against treaty proportional business. We were unable to obtain sufficient and appropriate audit evidence in respect of such account balances and class of transactions because the Company does not obtain necessary documents from ceding companies for record keeping and verification, but solely relies on the amounts mentioned in

statutory quarterly returns for the purpose of recording transactions. Consequently, we were unable to determine whether any adjustment to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to Note 33.2 to the financial statements which provides details regarding contingency in respect of which decision is pending. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicate in our report.

| S No. | Key audit matters | How the matter was addressed in our audit |
|-------|---|--|
| 1. | <p>Valuation of facultative outstanding claims including Incurred But Not Reported (IBNR)</p> <p>Refer note 5.6 and 23.1 to the financial statements for accounting policy and details in respect of facultative claim liabilities. The Company's facultative claim liabilities represent 30% of the Company's total liabilities. Valuation of these liabilities involves significant management judgment because it requires a number of assumptions to be made with high estimation uncertainty such as loss ratios, estimates of the frequency and severity of claims. Facultative claim liabilities are recognized on intimation of the insured event based on management judgment and estimate. The Company also maintains provision for IBNR claims based on the advice of an independent Actuary. The actuarial valuation process involves significant judgment and the use of actuarial assumptions.</p> | <p>Our audit procedures to address this matter included the following:</p> <p>Assessed the appropriateness of the Company's accounting policy for recording of facultative claims in line with the requirements of applicable accounting and reporting standards;</p> <p>Obtained an understanding of the design of Company's policies and procedures over the capturing, processing and recording of information related to claims. In addition, our procedures included testing and evaluating the appropriateness of established controls and procedures;</p> <p>Examined the report of an external independent actuary to evaluate the actuarial assumptions used by actuary in determining provision for IBNR so that these are in line with industry practices;</p> <p>Re-performance of reconciliations</p> |

| | | |
|-----------|---|--|
| | <p>We have considered this as a key audit matter due to significant estimate and judgement involved. Any change in the estimate and judgment could have significant financial impact.</p> | <p>between the facultative claims data recorded in the policy administration systems and the data used in the actuarial reserving calculations to ensure the integrity, completeness and accuracy of the data used in the actuarial reserving process;</p> <p>We also tested facultative claims transaction on sample basis with appropriate documentation to evaluate that whether the claims reported during the year are recorded in accordance with the requirements of Company's policies and insurance regulations; and</p> <p>Considered the adequacy of Company's disclosures in compliance with accounting and reporting standards about estimates used and the sensitivity to key assumptions.</p> |
| <p>2.</p> | <p>Classification, Valuation and Impairment of Investments</p> <p>Refer note 5.2, 11 and 12 to the financial statements relating to classification and valuation of investments. The Company's total investment portfolio which represents 34% of the Company's total assets. These investments comprise of equity and debt instruments.</p> <p>We identified the valuation and impairment of investments as key audit matter because of the significance of investments and management's judgment involved in valuation and impairment.</p> | <p>Our audit procedures in respect of valuation of investments included the following:</p> <p>Obtained understanding, evaluated the design and implementation of key controls designed for the classification, valuation and impairment of investments;</p> <p>Assessing pricing model methodologies and assumptions against accounting policies, industry practices and valuation guidelines;</p> <p>Tested investments buying and selling trades made during the year and tested classification of investments with underlying documentation;</p> <p>Ensured completeness and existence assertion of investment portfolio with IPS statements and Central Depository Company's report;</p> <p>Re-performing our own valuation assessment of the investment portfolio to identify any potential impairment and review management's assessment in relation to impairment of investments;</p> |

| | | |
|------------------|---|--|
| | | <p>and</p> <p>We also assessed whether the Company's disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.</p> |
| <p>3.</p> | <p>Revenue Recognition Risk of Investment income and Facultative premium</p> <p>Refer notes 5.12, 34, 38 and 50 to the financial statements for accounting policies and details in respect of revenue recognition risk.</p> <p>The Company receives its revenue primarily from two main sources namely; premiums and investments income. Premiums from facultative insurance policies and investment income comprise of 77 % of the total revenue.</p> <p>We identified revenue recognition as a key audit matter as it is one of the key performance indicators of the Company and because of the potential risk that revenue transactions may not be recognized in the appropriate period.</p> | <p>Our audit procedures in respect of premiums from facultative insurance policies and investment income included the following:</p> <p>Obtained an understanding, evaluated the design and tested the controls over the process of capturing, processing and recording of facultative premiums income;</p> <p>Assessed the appropriateness of the Company's accounting policy for recording of facultative premiums and investment income in line with requirements of applicable accounting and reporting standards;</p> <p>For a risk-based sample of policies of which facultative premium was recorded close to year end and subsequent to year end, and evaluated that these were recorded in the appropriate accounting period;</p> <p>Tested the facultative premium recorded on sample basis to test the accuracy from the underlying policies issued to insurance contract holders;</p> <p>Recalculated the unearned portion of facultative premium income and ensured that appropriate amount has been recorded as unearned premium reserve;</p> <p>For a sample of investment income transactions, tested that investment income is recorded based on the effective interest method or where right to receive the dividend is established; and</p> |

| | | |
|----|---|---|
| | | Tested the investment income transaction on sample basis and subsequent to year end, and evaluated that these were recorded in the appropriate period. |
| 4. | <p>Existence and impairment of insurance/ reinsurance receivables</p> <p>Refer note 14 to the financial statements, Company's total insurance/ reinsurance receivables balance stands at Rs. 8,141 million representing 23% of the total assets of the Company.</p> <p>We identified the valuation of insurance / reinsurance receivables as a key audit matter as the determination of impairment / provisions involves a significant degree of judgment.</p> | <p>Our audit procedures included the following:</p> <p>Obtained an understanding, evaluated the design and tested the operating effectiveness of controls designed for the recognition and valuation of receivables;</p> <p>Tested the accuracy of insurance / reinsurance receivables aging report, on a sample basis, by comparing individual balances in the report with underlying documentation to evaluate that the balances appearing in the aging report were classified within appropriate aging bucket;</p> <p>Assessed the appropriateness of assumptions and estimates made by the management for the provision for impairment by comparing, on a sample basis, past experience and historical trends of collection, actual write-offs and receipts and settlement from / with customers and reinsurer subsequent to the financial year end; and</p> <p>Assessed the historical accuracy of provisions for bad debt recorded by examining the utilization or release of previously recorded provisions.</p> |

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material

misstatement in the other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the requirements of Insurance Ordinance, 2000 and, Companies Act, 2017 (XIX of 2017), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Based on our audit, except for the effects of the matters discussed in Basis for Qualified Opinion paragraph, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XXI of 2017), and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Other Matter

PAKISTAN REINSURANCE COMPANY LIMITED
WINDOW RETAKAFUL OPERATIONS
Draft audit report to the members

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
PAKISTAN REINSURANCE COMPANY LIMITED
WINDOW RETAKAFUL OPERATIONS**

Disclaimer of Opinion

We were engaged to audit the annexed financial statements of **Pakistan Reinsurance Company Limited- Window Retakaful Operation** (the Operations), which comprise the statement of financial position as at December 31, 2020, and the statement of profit and loss account, the statement of comprehensive income, the statement of changes in fund and the statement of cash flows, for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have not obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of the audit.

We do not express an opinion on the accompanying financial statements of **Pakistan Reinsurance Company Limited- Window Retakaful Operations**. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. As disclosed in 8, 11, 12, 18, 19, 26, 28, 33 and 36 to the financial statements, certain account balances and class of transactions have been recorded against treaty business. We were unable to obtain sufficient and appropriate audit evidence in respect of such account balances and class of transactions because the Company does not obtain necessary documents from ceding companies for record keeping and verification, but solely relies on the amounts mentioned in statutory quarterly returns for the purpose of recording transactions. Consequently, we were unable to determine whether any adjustment to these amounts were necessary.
2. As stated in note 8 to the financial statements, the balance under the head "Takaful/ Retakaful receivables" includes an amount of Rs. 4,987,509 in respect of which balance confirmation has not been received. In the absence of an independent confirmation we were unable to confirm the existence and valuation related to this amount. Further, gross and net balances of Rs. 57,822,957 and Rs. 10,442,595 remains unreconciled as at December 31, 2020. Due to pending confirmation/reconciliation relating to above mentioned balances, resultant adjustment and consequential impact therefore, if any, on the financial statements remain unascertained.

Emphasis of Matter

We draw attention to the following matters:

1. Note 1.4 to the financial statements, which describes the financial performance of Participant's Retakaful fund of the Window Retakaful Operations.
2. Note 25.1 to the financial statements which explains that the ultimate outcome of the matter stated cannot presently be determined for the reasons as mentioned in the aforementioned note.
3. Note 39.1 to the financial statements, which fully explains the matter that the Participant's Retakaful Fund has not been compliant with the solvency requirements as prescribed under the Insurance Ordinance, 2000.

Our opinion is not further modified in respect of the above matters.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting and reporting standards as applicable in Pakistan and the requirements of Insurance Ordinance, 2000 and, Companies Act, 2017 (XIX of 2017), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Operator's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our ethical responsibilities in accordance with the Code.

Report on Other Legal and Regulatory Requirements

Based on our audit, except for the effects of the matters discussed in Basis for Disclaimer Opinion paragraph, we further report that in our opinion:

- a) proper books of account have been kept by the Operator as required by the Insurance Ordinance, 2000 and the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of comprehensive income, the statement of changes in funds and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Insurance Ordinance, 2000, the Companies Act, 2017 (XXI of 2017), and are in agreement with the books of account;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and

d) no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980),

The engagement partner on the audit resulting in this independent auditor's review report is **Mr. Muhammad Shaukat Naseeb**.

Grant Thornton Anjum Rahman
Chartered Accountants
Karachi
Date:

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