



Directors' Report on the working of PRC for the year ended 31st December, 2005

The Shareholders,
Pakistan Reinsurance Co. Ltd.,
Gentlemen,

Your directors are pleased to present the 6th Annual Report of the company together with the audited financial statements and Auditors' Report thereon for the year ended 31st December, 2005.

Review of business activities

Economic growth and distribution of economic benefits to the people is the prime goal of the Government. The economic reforms agenda has laid the foundation of a stable and growing economy. These has been an increase in real GDP, growth reserves increased and there has been a remarkable progress in privatization program.

The pace of the economic activities gained ground and with strong economic fundamentals, persuasion of policy of privatization and availability of financing at lower interest rates, the year closed with better performance in line with the growth of insurance industry.

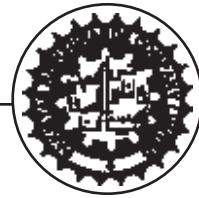
With the growth of domestic insurance market, the general insurance market has crossed Rs.19 billion mark and PRC has been able to achieve market share of 22% during the year 2005 which is the first year without compulsory cession.

PRCL was converted into a company in the year 2000 and now operating under Insurance Ordinance, 2000, and Companies Ordinance, 1984. A number of steps to run it on commercial lines have already been taken. Paid up Capital has been enhanced. Corporate culture is being introduced. Compulsory cession was withdrawn w.e.f. 01.01.2005. As already mentioned above, this was the first year of the company without compulsory cession since the inception of the company (formerly Corporation). The volume of the compulsory cession vis-a-vis market was 32% of the total business of the company. Withdrawal of compulsory cession was a good step because under compulsory cession, PRCL was bound to accept good and bad business. During the year 2005, PRCL was selective in accepting business under treaty and facultative. By the grace of God profit for the year 2005 rose to Rs.594 million as compared to Rs.326 million in 2004.

The salient features of the business operations during the year, 2005 are as under:-

	Dec. 31, 2005	Dec. 31, 2004
	(Rupees in million)	
Gross Premium	4,159	5,241
Retrocession	<u>2,779</u>	<u>2,850</u>
	1,380	2,391
Premium Reserve	+ 625	- 102
Net Premium	<u>2,005</u>	<u>2,289</u>
Net Commission	620	774
Net Claims	823	1,330
Management expenses	171	134
Underwriting Profit/(Loss)	391	51
Investment Income	465	360
Exchange gain, rental & other income	76	59
Gen. & Admn. expense	27	19
Provisions for Doubtful debt/litigation	123	60
Profit before tax	782	391
Profit after tax	594	326

The Gross Premium of the company was Rs.4,159 million in the year 2005 as compared to Rs.5,241 for the year 2004. The reason for this decrease is mainly because 2005 was the first year without compulsory cession which contributed about 32% of the market share of the Gross premium.



However, this decrease was restricted to 21% by increasing business in Treaty and Facultative.

The net premium of the company was Rs.2,005 million in 2005 as compared to Rs.2,289 million in the year of 2004. As already mentioned under the heading "Gross Premium" above, the decrease was mainly due to absence of compulsory cession but the advantage of unearned premium improved the situation.

The net claims for the year 2005 were Rs.823 million as compared to Rs.1,330 million for the year of 2004. The main reason for decrease in claim was that heavy chunk of claims under compulsory cession were reported in 2004 being the last year of compulsory cession. In 2005 very nominal left over claims under this head have been reported.

As regards the commission expenses of the company were Rs.620 million in the year 2005 as compared to Rs.774 million for the year 2004. Commission figures reveals that although the amount paid under this head is less in 2005 compared to 2004. The reason for low commission in 2005 is mainly due to withdrawal of compulsory cession under which PRC was obliged to accept business.

The investment income in the year 2005 increased to Rs.465 million as compared to Rs.360 million in the year 2004. The increase in investment income was mainly due to increase in dividend income received from NIT, PICIC/PICIC.G.F., SNGPL/SSGC. The break-up value of PRC's share as at 31st December, 2005 was Rs.49.73 per share of Rs.10/= each and the earning per share was Rs. 13.21.

The profit before tax was Rs.782 million. After making provision for taxation of Rs.188 million, the profit works out to Rs.594 million.

Department-wise results are as follows:-

Fire Department

The gross premium of Fire dept. was Rs.1,498 million which contributed about 36% to the company's revenue. The net premium of this department was Rs. 848 million. The claim ratio was 32% .

Marine Department

The Gross Premium of Marine dept. was Rs.349 million which contributed about 8% to the company's revenue. The net premium of this department was Rs.184 million. The claim ratio was 6%.

Aviation, Engineering & Accident Departments

The Gross Premium of Aviation, Engineering and Accident dept. was Rs.2,312 million which contributed about 56% to the company's revenue. The net premium of the dept. was Rs.973 million. The claim ratio was 62% .

Investment Plan

Investment Plan of PRC is being updated continually. The main objective of the Investment plan is to make prudent investment in most secured securities as well as to ensure regular and maximum return on the investments. Accordingly, PRC has adopted the strategy of diversification, and the portfolio is being balanced between fixed income securities and equities.

Earlier, due to low interest rates and unstable market conditions, the return on investment income was low, however, with the diversification of investments and market stabilization, your company has been able to achieve average return of more than 16% during the year 2005, which is higher than the average market rate of return on investment during the year.

Investment

The investment as at the end of year 2005 has increased to Rs.2,872 million as compared to Rs.2,720 million in the year 2004, on lower of cost or market value and amortised cost basis.

Income from investments

The Investment income in the year 2005 has increased to Rs.465 million as compared to Rs.360 million in the year 2004.

Profit

The profit before tax of the company for the year ended 31st December, 2005 is as follows:-



	<u>Rupees in '000'</u>
Net profit before tax	782,386
Less: Provision for taxation	<u>(187,959)</u>
Profit after tax	594,427
Add: Unappropriated profit brought forward	148,183
Final Dividend 2004	<u>(112,500)</u>
	630,110
Less: Transfer to General Reserve	<u>400,000</u>
Unappropriated profit carried forward	<u>230,110</u>

Pension, Gratuity and Provident Funds

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

	(Rs. in million)
Provident Fund	
- Employees	59
- General	25
Gratuity Fund	49
Pension	
- Employees	30
- General	15

Privatization of PRCL

Pakistan Reinsurance Company Limited has been placed on the private list by the Privatization Commission. Privatization Commission has also issued Guidelines to all such organizations who are under privatization list for strict compliance which are being observed by PRCL.

Vision of the future

The operating environment for PRCL in 2006 will be further challenging as this would be second year without compulsory cession. PRCL will have to compete in the market for enhanced facultative business, to enable it to increase its profits.

In order to achieve the target/goal its business strategy is to provide prompt service to insurance companies particularly with reference to facultative offers. PRCL is also concentrating on quality treaty and facultative business and profitable treaty cession and is in the process of increasing its retention capacity.

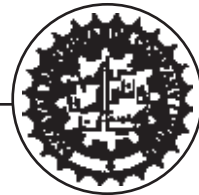
In view of above, the directors do not foresee any problem arising as a result of the above factor and a corporate plan has been prepared by the Company.

Insurance Rules, 2002

The Insurance Rules, 2002 have been issued by the Federal Government in December, 2002. Moreover, SECP has also prescribed a new format for preparing financial statement by the insurance companies. The overall regulatory framework for the Insurance industry has become more stringent. Your company has taken every possible measure to comply with the requirements of Insurance Rules, 2002.

Statement on Corporate and Financial Reporting Frame Work

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



- a) The financial statements, prepared by 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 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 are 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, presently in place, is being continually reviewed by the internal audit dept. The process of review will continue to strengthen the system for its effective implementation.
- f) There are no significant doubts upon the Company's ability to continue as a going concern, except as disclosed in the financial statements.
- g) 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, seven meetings of the Board of Directors were held and the number of meetings attended by each Director is given hereunder:-

S.No.	Name of Director	No. of meetings attended
1.	MAJ. ® MUHAMMED FAZAL DURRANI	Five
2.	MS. NAHEED HYDER	One (since 21.11.2005)
3.	MR.IMTIAZ KAZI	Five
4.	MR. KAMAL AFSAR	Five
5.	MR. S.M. RAFIQUE AKHTAR/ Mr. S.Aijaz Akhtar	Three
6.	SYED YAWAR ALI	Six
7.	MR.FAZLUR REHMAN DITTU	Seven
8.	MR. SHAMIM AHMED KHAN	Seven
9.	MR. SIKANDER HAYAT JAMALI	Five

Compliance with the Code of Corporate Governance

The Board is pleased to announce that your company has adopted and complied with the Code of Corporate Governance as per the provisions set out by the SECP and the consequent listing regulations of the Karachi and Lahore Stock Exchanges, on which your company is listed.

Audit Committee

The Board, in compliance with the Code of Corporate Governance, has established an Audit Committee consisting of the following members and has also approved its terms of reference.

Syed Yawar Ali	Chairman
Mr. S.M. Rafique Akhtar	Member
MR. Fazlur Rehman Dittu	Member
Mr. Shamim Ahmed Khan	Member



Performance of the company during the last five years

	2005	2004	2003	2002	2001 (Feb.15 to Dec.2001)
	(Rs. in million)				
Gross Premium	4,159	5,241	4,697	3,500	2,278
Net Premium	2,005	2,289	2,133	1,612	1,231
Net Commission	620	774	219	556	462
Net Claims	823	1,329	1,011	848	900
Management Expenses	171	134	140	108	97
Underwriting Profit/(Loss)	391	51	76	76	42
Investment Income	465	360	333	269	206
Profit before Tax	782	391	366	457	108
Profit after Tax	594	326	297	333	66

Dividend

Your directors are pleased to declare a dividend of 40% for the year 2005.

Earning per share

The earning per share of the Company was Rs.13.21.

Trading in Company Shares

Except as detailed below, no trading in the shares of the Company were carried out by the Directors, CEO, CFO, Company Secretary, their spouses and minor children:-

Name	No. of Shares	
	Purchased	CDC/Physical/Disposal
Mr. S.M.Rafiq Akhtar	1,58,000	

Appointment of Auditors

The present auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants retire, and being eligible offer themselves for re-appointment at the enhanced fee of Rs.440,400/= for conduct of audit for the year 2006.

Appointment of M/s. KPMG Taseer Hadi & Co., Chartered Accountants has been endorsed by Audit Committee and the Board of Directors of the Company for shareholders consideration at the forthcoming annual general meeting for re-appointment as external auditors of the company for year 2006 at the fee of Rs.440,400/= for conduct of audit for the year 2006. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

Pattern of shareholding

A statement of pattern of shareholding is separately shown in report.

Acknowledgement

In the end, your directors would like to thank all insurance companies their Chairmen, Directors, Officers and staff for the co-operation extended by them in running the affairs of the company.

Haider Raza
Director

Fazlur Rehman Dittu
Director

Naheed Hyder
Chief Executive