Directors' Report on the working of PRCL for the year ended December 31, 2006

The Shareholders,
Pakistan Reinsurance Co. Ltd.,

Gentlemen,

Your directors are pleased to present the 7th Annual Report of the company together with the audited financial statements and Auditors' Report thereon for the year ended 31st December, 2006.

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. There has been an increase in real GDP, growth and a remarkable progress has been made in the privatization program.

Keeping in line with the pace of national economic growth, the domestic insurance market also grew and the general insurance market has crossed Rs.25 billion mark, PRC has been able to achieve insurance market share of 18% and approximately 45% of reinsurance market share during the year 2006 which was the second year without compulsory cession.

PRCL was converted into a company in the year 2000 and is 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 Compulsory cession was withdrawn w.e.f. 01.01.2005.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 or bad business without discrimination. During the year 2006, PRCL was selective in accepting business under treaty and facultative. Profit for the year 2006 rose to Rs.672 million as compared to Rs.594 million in 2005.

The salient features of the business operations during the year, 2006 are as under:-

	Dec. 31, 2006	Dec. 31, 2005
	(Rupees in million)	
Gross Premium	**4,499**	4,159
Retrocession	**3,114**	2,779
	1,385	1,380
Premium Reserve	**+30**	+625
Net Premium	**1,415**	2,005
Net Commission	**367**	620
Net Claims	**777**	823
Management expenses	**146**	171
Underwriting Profit/(Loss)	**125**	391
Investment Income	**772**	465
Exchange gain, rental & other income	**31**	76
Gen. & Admn. expense	**25**	27
Provisions for Doubtful debt/litigation	**120**	123
Profit before tax	**783**	782
Profit after tax	**672**	594

The Gross Premium of the company was Rs.4,499 million in the year 2006 as compared to Rs.4,159 million for the year 2005. The reason for increase in Gross premium is mainly due to increase in Facultative business.

Net premium of the company was Rs.1,415 million in the year 2006 as compared to Rs.2,005 million in the corresponding period last year. In the year 2005, benefit of premium reserve accrued due to higher unearned premium on account of compulsory cession of 2004. The benefit of premium reserve was Rs.625 million in the year 2005 as compared to Rs.30 million in the year, 2006, the huge benefit on this account was unavailable in the form of Premium Reserve in the year 2006 and affected the net premium.

Net claims of the company for the year 2006 was Rs.777 million as compared to Rs.823 million in the last year showing a decrease of Rs.46 million. In the year 2006, the company has been selective in accepting business.

The commission expenses of the company were Rs.367 million in the year 2006 as compared to Rs.620 million for the year 2005 showing a decrease of Rs.253 million. The decrease in net commission expenses is due to commission received from abroad on various projects placed on fronting basis resulting in lower commission expenses.

The investment income in the year 2006 increased to Rs.772 million as compared to Rs.465 million in the year 2005. 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, 2006 was Rs.60.67 per share of Rs.10/= each and the earning per share was Rs.14.93.

The profit before tax was Rs.783 million. After making provision for taxation of Rs.111 million, the profit works out to Rs.672 million.

Department-wise results are as follows:-

Fire Department

The gross premium of Fire deptt. was Rs.1,620 million which contributed about 36% to the company's revenue. The net premium of this department was Rs.718 million. The claim ratio was 57% .

Marine Department

The Gross Premium of Marine dept. was Rs.451 million which contributed about 10% to the company's revenue. The net premium of this department was Rs.171 million. The claim ratio was 6%.

Aviation, Engineering & Accident Departments

The Gross Premium of Aviation, Engineering and Accident dept. was Rs.2,428 million which contributed about 54% to the company's revenue. The net premium of the dept. was Rs.526 million. The claim ratio was 37% .

Investment Plan

Investment Plan of PRC is being updated continually. The main objective of the Investment plan is to make prudent investment in safe 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 20% during the year 2006, which is higher than the average market rate of return on investment during the year.

Investment

The investment as at the end of year 2006 has increased to Rs.3,588 million as compared to Rs.2,873 million in the year 2005, on lower cost or market value and amortised cost basis.

Income from investments

The Investment income in the year 2006 has increased to Rs.772 million as compared to Rs.465 million in the year 2005.

Profit

The profit before tax of the company for the year ended 31st December, 2006 is as follows:-

	(Rupees in million)
Net profit before tax	783.043
Less: Provision for taxation	(111.200)
Profit after tax	671.843
Add: Unappropriated profit brought forward	630.111
Final Dividend 2005	(180.000)
	1,121.954
Less: Transfer to General Reserve	400.000
Unappropriated profit carried forward	721.954

The auditors have qualified their report for the year ended December 31, 2006 in respect of amount due form and due to other persons and bodies carrying on insurance business and premium and claim reserves retained by cedants and retained from retrocessionaires. These amounts represent unreconciled items which are adjusted/recovered in due course after returns and supporting documents are received by the company. The company is in the process of obtaining confirmations and reconciling these balances with respective insurance companies.

Pension, Gratuity and Provident Funds

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

	(Rs. in million)
Provident Fund	
- CPF	50
- GPF	26
Gratuity Fund	53
Pension	
- Staff	35
- Officer	19

Privatization of PRCL

Pakistan Reinsurance Company Limited has been placed on the privatisation 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 2007 will be further challenging as this would be third 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, which it shall vigorously implement.

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.

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, eight 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.	Ms. Naheed Hyder	Eight
2.	Mr.Fazlur Rehman Dittu	Eight
3.	Mr. Kamal Afsar	Three
4.	Mr. S.M. Rafique Akhtar/Alternate Mr. S.Aijaz Akhtar	Three
5.	Syed Yawar Ali	Eight
6.	Mr. Shamim Ahmed Khan	Seven
7.	Mr. Sikander Hayat Jamali	Three
8.	Mr. Haider Raza	Three
9.	Mr. Javed Syed	Three
10.	Mr. Fazal-I-Qadir	Four

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/alternate Mr. S. Aijaz Akhtar	Member
Mr. Fazlur Rehman Dittu	Member
Mr. Shamim Ahmed Khan	Member

Performance of the company during the last five years

	2006	2005	2004	2003	2002
			(Rs. in million)		
Gross Premium	4,499	4,159	5,241	4,697	3,500
Net Premium	1,415	2,005	2,289	2,133	1,612
Net Commission	367	620	774	219	556
Net Claims	777	823	1,329	1,011	848
Management Expenses	146	171	134	140	108
Underwriting Profit/(Loss)	125	391	51	76	76
Investment Income	772	465	360	333	269
Profit before Tax	783	782	391	366	457
Profit after Tax	672	594	326	297	333

Dividend

Your directors are pleased to declare a cash dividend of 20% and 20% Bonus shares for the year 2006.

Earning per share

The earning per share of the Company was Rs.14.93.

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. Rafique Akhtar		827,000/610

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. 532,884/= for conduct of audit for the year 2007.

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 2007 at the fee of Rs.532,884/= for conduct of audit for the year 2007 (including half yearly review and out of pocket expenses). 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.

For and on behalf
of the Board of Directors

Rukhsana Saleem
Chairperson/CEO