

Directors' Report to the Shareholders

The Directors of your company are pleased to present their report along with the Accounts and Auditors' Report for the year ended December 31st, 2009.

PRINCIPAL ACTIVITY

The Company is actively engaged in life and health insurance business. We extend individual life insurance and group/corporate life, accidental and health insurance to companies all over Pakistan.

OPERATING RESULTS

By the grace of Almighty Allah, your company has continued to reach new heights during 2009 with regards to premium income. This was primarily achieved as a result of the field development conducted by the company all of over the past two (2) years, which has resulted in total premium increase of over 21% as compared to the previous year. The recognition for this remarkable premium increase in our organization's history definitely goes to the commitment of the company's management and field personnel in achieving the expansion strategy implemented by the capable and professional team of officers, development staff and employees.

However, during 2009, the company recognized, in its entirety, the impairment on equity investment amounting to Rs. 79 million. Moreover, it was decided by the management to disinvest certain equity-related investments, which resulted in a loss of

Rs. 142 million. This negative impact of Rs. 221 million led to a loss in the company's investment income to the tune of Rs. 191.9 million. Nevertheless, on the positive side, the company's management is confident that resulting liquidity from sale of loss-making investments will allow the organization to invest in profitable instruments resulting in favorable investment income in the immediate future.

The primary reasons for the company's decrease in net profit during 2009 are two-fold. Firstly, the disinvestment/impairment of equity-related investments resulted in loss exceeding Rs. 221 million (as explained above) leading directly from the crash of the Karachi Stock Exchange in mid-2008. Secondly, the company's underwriting results have suffered during the year under review due to the high ratio of group/corporate claims and management expenses. The management of the company has taken serious actions in this regard and has commenced the process of gradually switching all equity-related investments into interest-based/secure investments. Moreover, steps are being taken to improve group / corporate underwriting in order to reduce claims and control management expenses with the view that it is imperative to achieve operational/underwriting profits rather than relying on unpredictable investment income to improve results.

Below you will find a financial comparison of several key figures between the year 2009 and 2008:

All Amounts in Rupees	2009	2008
Net Premium Income	154,488,668	107,753,058
Investment Income	(191,904,242)	84,419,832
Total Net Income	(37,415,574)	192,172,890
Net Claims Expense	94,895,323	78,077,944
Net Management Expense	131,351,382	88,792,420
Total Claims and Expenditures	226,246,705	166,870,364
Excess of Income Over Claims and Expenditures	(263,662,279)	25,302,526
Movement in Policyholders' Liability	(37,742,264)	(10,527,788)
Tax Expense	(1,236,232)	(812,697)
Net Profit for the Year	(302,640,775)	13,962,041
Earning Per Share	(6.65)	0.34

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FINANCIAL PERFORMANCE

The results of our company's primary accomplishments are evident in a comparison of the following key figures for 2009 versus 2008, which are indicative of its performance for the year under review:

	2009	2008	% Inc.
Paid-Up Capital	Rs. 454,960,000	Rs. 413,600,000	10.0%
Total Statutory Fund Income	Rs. 161,807,373	Rs. 130,051,017	24.4%
Total 1st Year Individual Life Premium	Rs. 35,827,997	Rs. 18,281,843	96.0%
Total Individual Life Renewal Premium	Rs. 21,103,667	Rs. 10,287,366	105.1%
Total Gross Premiums	Rs. 235,769,465	Rs. 194,537,680	21.2%
Total Group Health-Related Premium	Rs. 68,790,610	Rs. 43,200,549	59.2%
Total Group Gross Premiums	Rs. 176,374,551	Rs. 161,458,471	9.2%
Balance of Statutory Fund	Rs. 162,256,110	Rs. 119,822,086	35.4%

- The paid-up capital of the company was increased by 10% during the year under review from Rs. 413.6 million to Rs. 454.96 million exceeding the minimum requirement of our regulator, Securities and Exchange Commission of Pakistan (SECP).
- The statutory fund income of the company continues to increase in 2009 from Rs. 130.1 million to over Rs. 161.8 million, which is an increase of over Rs. 31.7 million equivalent to more than 24%. This income growth is imperative in striving for profitability within the company's statutory funds.
- The company has achieved growth of 96% in its 1st year individual life premium as a result of the performance of the expanded field force marketing the company's new investment-linked product-line.
- The company's total individual life renewal premium has increased by more than 105% from nearly Rs. 10.3 million to Rs. 21.1 million, which shows the excellent growth of our portfolio.
- Significant growth in the company's gross premiums have been achieved in 2009 from Rs.194 million to over Rs. 235 million, which is remarkable increase of more than 21% over the previous year. The gain is primarily due to remarkable increases in the company's group health/individual life premium.
- The company continued its noteworthy growth of corporate/group health insurance premium during 2009 by attaining level of Rs. 68.7 million as compared to Rs. 43.2 million in the previous year, which is an outstanding increase exceeding 59% over the previous year. We have maintained this growth as a result of untiring efforts of our marketing personnel and sustained breakthroughs of large clientage.
- The total corporate/group gross premiums have achieved a reasonable increase exceeding 9% from nearly Rs. 161.5 million to Rs. 176.4 million. This growth has been achieved primarily due to the excellent grow within the group/corporate health portfolio.
- The company's balance of statutory fund continues to increase in 2009 from Rs. 119.8 million to over Rs. 162.2 million, which is an increase of over Rs. 42.4 million equivalent to more than 35%. The growth in this fund indicates the growth of our portfolio and corresponding investments.

We are proud to highlight the several "firsts" that your company has achieved in its financial results during 2009, which are given below:

- Total Individual Life Premium Income goes above Rs. 57 million,
- Gross Corporate Premium Income crosses Rs. 176 million,
- Gross Premium Income crosses Rs. 235 million, and
- Balance of Statutory Fund exceeds Rs. 162 million.

The management of the company would like to thank the Securities and Exchange Commission of Pakistan (SECP) for the part that the commission is playing in lifting the image of the life insurance industry along with their constant efforts to enhance corporate governance.

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CORPORATE AND FINANCIAL REPORTING FRAMEWORK

The Board is mindful of its responsibilities as established by the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan (SECP). Accordingly, the following statements are given:

- 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.
- Accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, 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. The Board is ultimately responsible for the Company's system of internal control and reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve objectives, and by its nature can provide only reasonable and not absolute assurance against material misstatement or loss. The process used by the Board to review the effectiveness of system of internal control include, inter-alia, the following:
 - An audit committee has been formed. The audit committee has written terms of reference and reports to the Board. It reviews the approach adopted by the company's internal audit department and the scope of and the relationship with, the external auditors. It also receives reports from the internal audit department and the external auditors on the system of internal control and any material control weaknesses that have been identified. Further, the committee discusses the actions to be taken in areas of concern with the relevant executive directors.
- An organization structure has been established, which supports clear lines of communication and tiered levels of authority with delegation of responsibility and accountability.
- Business strategies agreed to divisional level are approved by the Board. In addition, there is an annual budgeting and strategic planning process. Financial forecast are prepared quarterly and these strategies are reviewed during the year to reflect significant changes in the business environment.

The principal features of control framework include:

- Evaluation and approval procedures for major capital expenditure and other transactions.
- Regular reporting and monitoring of financial performance of the divisions, and the group as a whole, using operating statistics and monthly management accounts, which highlight key performance indicators and variance from budgets and quarterly forecasts.
- Review of the group's health, safety, environment contingency management processes and other significant policies.
- There are no 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 as detailed in the listing regulations of The Karachi Stock Exchange (Guarantee) Limited.
- The value of investment in the Provident Fund based on the audited accounts as at December 31st, 2009 is Rs. 5,816,428.
- There has been no trading during the year in the shares of the Company carried out by the directors, CEO, CFO, Company Secretary and their spouses and minor children.

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BOARD MEETINGS

- During the year, four (4) meetings of the Board of Directors were held and attendance position was as under:

Serial No.	Name of Director	Number of Meetings Attended
01.	Chief Justice (R) Mian Mahboob Ahmad	04 out of 04
02.	Mr. Maheen Yunus, CPCU	04 out of 04
03.	Mr. A. K. M. Sayeed	04 out of 04
04.	Mr. Naved Yunus	04 out of 04
05.	Mr. Pervez Yunus	03 out of 04
06.	Mr. Javed Yunus	03 out of 04
07.	Mr. Omar P. Yunus	03 out of 04

Leave of absence was granted to Directors who could not attend the Board meetings.

FUTURE OUTLOOK

It is clear to the company's management that 2010, in fact the next three to four years, will be vital for the long-term future of the company with regards to its individual life insurance business, which showed a reasonable growth in the current year. The company's management is taking significant steps, including the following, to reposition the company strategically in the year 2010:

- In view of the high management expenses experienced within the individual life business during the past year, the management is urgently reassessing the current high expenses as well as non-viable branches and taking necessary steps, including closure or move of branches, to reduce expenses on a war-footing basis.
- The individual life field force compensation and structure will be modified with emphasis on persistency and business target achievement.
- Further expansion of sales force structure and monitoring strategy will be enhanced for the marketing and follow-up of the company's new individual life plans.
- A new program will be instituted to open small branches all over Pakistan with branch expenses directly linked to business/target achievement.

- High standards with regards to educational qualification and training are being created for the company's sales force personnel at all levels. In this regard, additional training centers will be established at several cities throughout the country.
- Further enhancements in the working of underwriting, policyholder services and agency / commission departments will take place in 2010 to meet the latest requirements with regards to highly professional underwriting and customer services for policyholders, proposers and agents/sales consultants.
- The company will also engage services of a professional and experienced fund manager to reassess the company's investment strategy in line with the latest scenarios being experienced in the business environment.
- In consultation with the actuary, the company will further refine and develop the individual product-line to better meet the latest needs and requirements of the prospective policyholders. In this regard, the company will develop products with regards to commencing further relations with our large corporate clients to market our individual life insurance products to their employees to further improve their protection and investment planning for the future.

Besides taking these concrete steps in 2010, the company will continue its focus on further expanding its corporate portfolio with regards to both group life and health insurance. The management of the company also takes on the challenge to turn-around the disappointing financial performance achieved during 2009. In order to achieve this aim, the company will continue its focus on further growth of its premium base within all business areas, drastic improvement in persistency figures, reduction in operating expenses and added improvements in customer-oriented services. In this regard, certain areas where the management will focus their attention in the future are given below:

- Further enhancement of the software systems already developed by the company's Information Technology (IT) department to improve client services, productivity and preparation of management information reports.

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- Development of Enterprise Resource Planning (ERP) software, which is an integrated computer-based system used to manage internal and external resources including tangible assets, financial resources, materials, and human resources. The software architecture will facilitate the flow of information between all business functions inside the boundaries of the organization and manage the connections to outside stakeholders.
- Development of a more refined and detailed expense budget for the company's overall expenses, which is required to further the goal of expense control and improved profitability of the company.

In view of the current competitive scenario within the life insurance industry, your company's management has taken on the task of improving the financial performance by concentrating on the targets given above. We are certain that our renewed focus and new direction will surely be mutually beneficial for the policyholders and shareholders of the company in the ever-changing environment of the country.

AUDIT COMMITTEE

The Boards' Audit Committee comprises of the following members:

1. Chief Justice (R) Mian Mahboob Ahmad
2. Naved Yunus
3. Pervez Yunus
4. A. K. M. Sayeed
5. Nadeem Akhtar, Secretary

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has adopted the statement of Ethics and Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to business and regulations.

MATERIAL CHANGES

There have been no material changes since December 31, 2009 and the Company has not entered into any commitment, which would affect its financial position at that date.

DIVIDEND

In the light of the environment in the economic sector of the country, especially on account of negatives of investment income, the Directors feel that no dividend can be declared for the year ended December 31, 2009.

PATTERN OF SHAREHOLDING

The pattern of shareholding, as required by section 236 of the Companies Ordinance 1984 and Code of Corporate Governance is enclosed.

AUDITORS

The retiring auditors, M/s Anjum Asim Shahid Rahman (Chartered Accountants), being eligible, have offered themselves for reappointment. The Audit Committee has recommended their reappointment.

ACKNOWLEDGEMENT

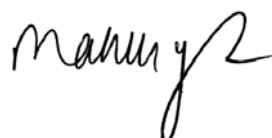
The directors would like to take this opportunity to express their sincere gratitude to The Ministry of Commerce, Government of Pakistan and Securities and Exchange Commission of Pakistan (SECP) for their continued guidance and support.

The directors also wish to record their appreciation for the remarkable efforts of the able officers, staff and field force of the company towards its development and growth. Their continuous dedication to high ethical standards, client service and hard work has helped your company emerge and maintain its position as an important member among the private sector life insurers.

Further, we also wish to record our appreciation for the Insurance Association of Pakistan (IAP) for their support and valued representation of our industry. We would also like to sincerely thank the company's loyal policyholders and corporate clients for their continued encouragement and confidence in our organization.

Finally, we would like to give thanks and appreciation to the thousands of our shareholders, whose loyalty and dedication for the company is a source of encouragement for us to make East West Life a strong and dependable financial organization and a symbol of security for the marketplace.

For and on behalf of the Board of Directors,



Maheen Yunus, CPCU

Managing Director and Chief Executive

Key Financial Data for the Last Six Years

All Amounts in Rupees	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUE ACCOUNT						
Premium - Net of Reinsurance	154,488,668	107,753,058	90,298,899	69,249,291	52,468,839	35,222,788
Interest and Other Income	(191,904,242)	84,419,832	110,087,312	38,095,855	9,028,903	15,128,296
	<u>(37,415,574)</u>	<u>192,172,890</u>	<u>200,386,211</u>	<u>107,345,146</u>	<u>61,497,742</u>	<u>50,351,084</u>
Claims Less Reinsurance	94,895,323	78,077,944	67,192,925	35,863,541	19,962,543	20,908,359
Net Commission and Acquisition Cost	66,544,967	31,370,922	4,606,722	4,138,179	8,713,122	8,420,003
Other Administrative Cost	64,806,415	57,421,498	38,605,582	32,727,824	29,815,578	25,997,770
Movement in Policyholders' Liabilities	37,742,264	10,527,788	9,437,814	19,271,905	20,478,524	18,848,606
Profit/(Loss) Before Tax	<u>(301,404,543)</u>	<u>14,774,738</u>	<u>80,543,168</u>	<u>15,343,697</u>	<u>(17,472,025)</u>	<u>(23,823,654)</u>
Provision for Taxation	(1,236,232)	(812,697)	(903,444)	(881,995)	(295,320)	(246,741)
Profit/(Loss) After Tax	<u>(302,640,775)</u>	<u>13,962,041</u>	<u>79,639,724</u>	<u>14,461,702</u>	<u>(17,767,345)</u>	<u>(24,070,395)</u>
BALANCE SHEET						
Investments	197,559,818	376,890,401	198,874,547	159,430,672	87,230,942	142,763,844
Other Assets	100,490,640	139,663,343	276,034,339	106,663,512	139,033,778	74,896,102
Fixed Assets	50,265,366	46,610,645	26,386,792	7,725,734	7,092,083	6,865,976
	<u>348,315,824</u>	<u>563,164,389</u>	<u>501,295,678</u>	<u>273,819,918</u>	<u>233,356,803</u>	<u>224,525,922</u>
Issued, Subscribed and Paid-Up Capital	454,960,000	413,600,000	352,000,000	200,000,000	200,000,000	200,000,000
Advance Against Equity	-	-	-	16,000,000	-	-
Accumulated Surplus/(Deficit)	<u>(305,591,480)</u>	<u>1,741,055</u>	<u>20,333,028</u>	<u>(60,529,376)</u>	<u>(76,498,427)</u>	<u>(61,063,848)</u>
Balance of Statutory Fund	162,256,110	119,822,086	111,940,284	103,725,150	85,960,593	67,814,835
Other Liabilities	36,691,194	28,001,248	17,022,366	14,624,144	23,894,637	17,774,935
	<u>348,315,824</u>	<u>563,164,389</u>	<u>501,295,678</u>	<u>273,819,918</u>	<u>233,356,803</u>	<u>224,525,922</u>