

## Directors' Report to the Shareholders

It gives pleasure to the Directors of your company to present their report along with the Accounts and Auditors' Report for the year ended December 31st, 2010.

### 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, the results of your company have drastically improved during 2010 as compared to the previous year. Specifically, our overall income less claims/expenditures figure has turnaround by more than Rs. 269.5 million from a loss exceeding Rs. 263.6

million in 2009 to a positive figure of nearly Rs. 5.9 million in 2010. Accordingly, the earning per share from combined shareholders' and statutory funds has also turned around by Rs. 6.19 per share, which is an excellent achievement for the company. Such results have been possible primarily due to net premium increase of nearly 19% along with a management expense reduction of approximately 22%. It is interesting to note that even when the impact of the equity-related losses or gains (net impairment as well as realized gains/losses) is removed from the company's results, the bottom-line figures (pre-tax and without including impact of policyholders' liabilities) have still improved by more than Rs. 46.1 million, which shows the overall enhancement in the company's operating performance. This

remarkable achievement also points at the efforts of the organization's field personnel, officers, executives and staff members in accurately implementing the company's strategies and plans.

After accounting for the investment-related losses of almost Rs. 205 million in 2009 due to impairment on equity and disinvestment in shares, the company, in 2010, achieved a gain on sale of investments to the tune of more than Rs. 18.5 million after accounting for net impairments. This turnaround of more than Rs. 223.3 million is a noteworthy achievement for the company's investment committee members as well as fund managers. The management of your company is very confident that such achievements in the investment portfolio will continue in the future.

Below you will find a financial comparison of several key figures between the year 2010 and 2009 for shareholders' and statutory funds combined:

All Amounts in Rupees	2010	2009
Net Premium Income	183,761,428	154,488,668
Investment Income	34,126,030	(191,904,242)
Total Net Income	217,887,458	(37,415,574)
Net Claims Expense	109,356,851	94,895,323
Net Management Expense	102,655,202	131,351,382
Total Claims and Expenditures	212,012,053	226,246,705
Excess of Income Over Claims and Expenditures	5,875,405	(263,662,279)
Movement in Policyholders' Liability	(54,636,597)	(37,742,264)
Tax Expense	(2,052,165)	(1,236,232)
Net (Loss) for the Year	(50,813,357)	(302,640,775)

As explained above, the key reasons for the improvement in the company's result is three-fold. Firstly, the net premium income has improved by nearly 19% from almost Rs. 154.5 million to more than Rs. 183.76 million. Secondly, the strict expense control strategy implemented by the company's management for the last couple of years is starting to bear fruit as the net management expenses have reduced by approximately 22% from

Rs. 131.35 million to Rs. 102.65 million in 2010. Thirdly and the final primary reason for improved results is a turnaround of more than Rs. 226 million in investment income principally due to decrease of equity-related impairment and realized losses to the tune of Rs. 223.3 million. Although your management is pleased with the turnaround in the company's results, steps are still being implemented to improve net claim

losses by analyzing and modifying, where necessary, the premium rates as well as underwriting standards. Moreover, despite improvement in investment results, the management is still in-line with the view that operational/underwriting profits are by far more important instead of reliance on erratic/volatile investment income for improved results.



## Directors' Report to the Shareholders

### FINANCIAL PERFORMANCE

The results of our company's exceptional accomplishments are evident in a comparison of the following key figures for 2010 versus 2009, which are indicative of its performance for the year under review:

	2010	2009	% Chg.
Paid-Up Capital	Rs. 500,456,000	Rs. 454,960,000	10.0%
Total Statutory Fund Income	Rs. 190,678,544	Rs. 161,807,373	17.8%
Total Individual Life Renewal Premium	Rs. 33,731,741	Rs. 21,103,667	59.8%
Total Gross Premiums	Rs. 250,053,689	Rs. 235,769,465	6.1%
Total Group Health-Related Premium	Rs. 86,870,912	Rs. 68,790,610	26.3%
Statutory Fund Management Expenses	Rs. 80,692,137	Rs. 107,978,026	-25.3%
Total Gross Claims	Rs. 162,347,316	Rs. 165,142,667	-1.7%
Shareholders' Fund After Tax Profit/(Loss)	Rs. 3,193,684	(Rs. 223,832,535)	N/A
Net Cash Flows from All Activities	Rs. 76,411,466	(Rs. 36,126,056)	N/A
Total Assets	Rs. 403,873,781	Rs. 348,315,824	16.0%
Balance of Statutory Fund	Rs. 213,985,666	Rs. 162,256,110	31.9%
Profit & Loss Account Earning Per Share	Rs. 0.07	(Rs. 5.41)	N/A

- The paid-up capital of the company was increased by 10% during the year under review from Rs. 454.96 million to Rs. 500.456 million exceeding the minimum requirement of our regulator, Securities and Exchange Commission of Pakistan (SECP).
- The statutory fund income of the company increased further in 2010 from Rs. 161.8 million to almost Rs. 190.7 million, which is an increase of nearly Rs. 28.9 million or 17.8%. This income growth is imperative in achieving sufficient volume to produce profitability within the company's statutory funds.
- The company's total individual life renewal premium base has increased by nearly 60% from Rs. 21.1 million to more than Rs. 33.7 million, which shows the excellent growth of our portfolio and importance being given to persistency achievement.
- Reasonable growth in the company's gross premiums have been achieved in 2010 from Rs. 235 million to over Rs. 250 million for the very first time in the company's history. The gain is mainly due to notable increases in the company's group health premium base.
- The company continued its noteworthy growth of corporate/group health insurance premium during 2010 by attaining level of almost Rs. 86.9 million as compared to Rs. 68.8 million in the previous year, which is remarkable increase exceeding 26% over the previous year. This growth has been maintained due to tireless efforts of our marketing personnel and continuous penetration within large clientage base.
- The management's relentless efforts to control excessive costs in the company have resulted in exceptional reduction of statutory fund management expenses by more than 25% in 2010 to Rs. 80.7 million from a large figure of nearly Rs. 108 million in 2009. The main reason for this reduction is a decrease exceeding 41% in the company's business acquisition costs.
- Although our premium base continues to increase at a reasonable pace exceeding 6% in 2010, it is pleasing to note that the gross claims of the company have come under control with a reduction of nearly 2%. This has been achieved as a result of implementation of strict underwriting policies, which will continue in the coming years so as to achieve further decreases and net claim figure improvement.
- The after tax net income in the Profit and Loss account pertaining to the shareholders' fund has turned around in 2010 by more than Rs. 227 million primarily due to reduction in equity-related impairment as well as realized losses to the tune of Rs. 223.3 million.
- It is pleasing to note that the company's cash flows have improved drastically in 2010 through a turnaround of more than Rs. 112.5 million from a negative cash flow in 2009 amounting to Rs. 36.1 million to a positive cash flow in 2010 in the amount of Rs. 76.4 million.



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- The total assets of your company, indicating its net worth, have increased by 16% in 2010 from Rs. 348.3 million to nearly Rs. 403.9 million. Even when the effect of the paid-up capital enhancement is removed from this increase, we notice that the total assets have still swelled by more than Rs. 10 million.
- The company's balance of statutory fund continued to increase in 2010 by nearly 32% from Rs. 162.2 million to almost Rs. 214 million, which is an increase of over Rs. 51.7 million. The growth in this fund points towards the expansion of our portfolio as well as investments.
- The profit and loss account earning per share indicating affect on pure shareholders' equity has turned around by Rs. 5.48 per share from a loss of Rs. 5.41 per share in 2009 to a positive figure of Rs. 0.07 per share in the year under review.

We feel it is important to highlight the several "firsts" that your company has achieved in its financial results during 2010, which are given below:

- Total Paid-Up Capital crosses Rs. 500 million (while Authorized Capital reached Rs. 600 million),
- Total Statutory Fund Income goes above Rs. 190 million,
- Gross Premium Income crosses Rs. 250 million, and
- Balance of Statutory Fund reaches nearly Rs. 214 million.

The management of the company would like to take this opportunity to thank the Securities and Exchange Commission of Pakistan (SECP) for the vital part that the regulator plays in uplifting the image of the life as well as entire insurance industry including their unwavering efforts to improve corporate governance.

### 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.



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- 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 key operating and financial data for the last six years is annexed.
- The statement of shareholding in the Company as December 31st, 2010 is included with the Report.
- The value of investment in the Provident Fund based on the audited accounts as at December 31st, 2010 is Rs. 7,535,008.
- 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.

### 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	03 out of 04
04	Mr. Naved Yunus	04 out of 04
05	Mr. Pervez Yunus	04 out of 04
06	Mr. Javed Yunus	04 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 has become clear in 2010 that use of stable policies is necessary to reduce costs as well as achieve growth in the individual life and group/corporate insurance business. In view of such realization, the company's management is taking significant steps, including the following, to take the organization forward in 2011 and beyond keeping in view the competitive business environment as well as global economic pressures:

- To achieve growth and profitability, it is imperative that the efforts made in the past to reduce management expenses continue tirelessly. Therefore, it is expected that the company will implement policies to reduce expenses further in 2011 and beyond.
- The individual life field force compensation package and structure will be modified with assistance of Consulting Actuary to achieve a fair and attractive system for the field with the view to manage business acquisition expenses within reasonable levels.
- Expansion of sales force structure and monitoring strategy by the talented executives will continue so as to maintain enhanced inflow of premium from the company's individual life plans.
- Efforts will be undertaken to enter into bancassurance business agreements with prestigious banking institutions to expand the company's premium base and take advantage of this extremely efficient as well as cost effective marketing tool.
- Human Resources department with assistance of its committee will modify and enhance (where necessary) its efforts to appoint knowledgeable and capable personnel for all areas of the company, especially sales/marketing team, to maximize results/profitability.
- Promote a professional environment in the company's based on basic principles of ethics and growth.
- Enhance and modify (where necessary) the departmental structure in order to achieve early processing of professionalized underwriting with assistance and co-ordination of available skilled managers and staff.
- The company will also enhance the role of the company's investment committee (in conjunction with the executive committee) and the fund manager to further improve the company's investment strategy in line with the latest circumstances being experienced in the business marketplace.



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Besides taking these concrete steps in 2011, the company will, as always, continue its focus on further increasing its corporate portfolio with regards to both group life and health insurance. Although the results in 2010 have improved, the management of the company feels that the challenge of permanent and long-term betterment still remains. In this regard, the company will keep its concentration on further growth of its premium base within all business areas through existing as well as new marketing channels, drastic improvement in persistency figures especially related to 2nd year recoveries, continued efforts to reduce operating/management expenses and upgrading of customer-oriented services. In this regard, few areas where the management will focus their attention in the future are given below:

- Using the company's Information Technology (IT) department to bring value-added services to our clients, such as mobile alert facility, online policy information availability, etc.
- After some success in this regard, the company will further develop small commission-based units in several areas of the country with strict control and monitoring from concerned zonal office and the company's head office.

In view of the global and local adverse economic situation, your management is confident that focus on the above targets will result in overall improvement of the financial results while developing an enhanced corporate culture within the organization. The company is keenly concentrated on our targets/direction, which, we are certain, will be mutually beneficial for the policyholders and shareholders of the entity.

### 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, 2010 and the Company has not entered into any commitment, which would affect its financial position at that date.

### DIVIDEND

In the light of the adverse environment in the economic sector of the country, the Directors feel that no dividend can be declared for the year ended December 31, 2010.

### 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 appointment of Auditors for the financial year 2011 and fix their remuneration, retiring auditors M/s Anjum Asim Shahid Rahman (Chartered Accountants), in compliance with the Code of Corporate Governance, stand retired after completing five years of their services for the company. M/s BDO Ebrahim & Company (Chartered Accountants), being proposed for appointment by the Board of Directors on recommendation of Audit Committee.

### ACKNOWLEDGEMENT

The directors would like to take this opportunity to extend their gratitude to the Securities and Exchange Commission of Pakistan (SECP) for their continued guidance and support to the company's management. The board would also like to thank The Ministry of Commerce and Government of Pakistan for their efforts in uplifting the insurance industry in the country.

The directors also wish to record their indebtedness for the extraordinary efforts of the able officers, staff and field force of the company towards its development and growth. Their constant dedication to high ethical standards, client service and hard work has made your company an important member among the private sector life insurers. In this regard, the company's management wishes to recognize, in particular, the efforts of (late) Mr. S. M. Hassan, our capable and dedicated executive at Lahore who passed away in September, 2010. Mr. Hassan's untiring efforts, loyalty and commitment to his work have made our Lahore operations one of the best in the country. His presence will be sorely missed by all of the company's executives, officers and staff members. May Almighty Allah rest his soul in eternal peace (Ameen!).

Further, the board would like to record their appreciation to the Insurance Association of Pakistan (IAP) for their guidance, support and invaluable representation of our industry. The board also wishes to sincerely thank the company's loyal policyholders and corporate clients for their constant confidence and encouragement in our organization.

Finally, thanks 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>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>REVENUE ACCOUNT</b>						
Premium - Net of Reinsurance	183,761,428	154,488,668	107,753,058	90,298,899	69,249,291	52,468,839
Interest and Other Income	34,126,030	(191,904,242)	84,419,832	110,087,312	38,095,855	9,028,903
	<b>217,887,458</b>	<b>(37,415,574)</b>	<b>192,172,890</b>	<b>200,386,211</b>	<b>107,345,146</b>	<b>61,497,742</b>
Claims Less Reinsurance	109,356,851	94,895,323	78,077,944	67,192,925	35,863,541	19,962,543
Net Commission and Acquisition Cost	37,817,904	66,544,967	31,370,922	4,606,722	4,138,179	8,713,122
Other Administrative Cost	64,837,298	64,806,415	57,421,498	38,605,582	32,727,824	29,815,578
Movement in Policyholders' Liabilities	54,636,597	37,742,264	10,527,788	9,437,814	19,271,905	20,478,524
Profit/(Loss) Before Tax	(48,761,192)	(301,404,543)	14,774,738	80,543,168	15,343,697	(17,472,025)
Provision for Taxation	(2,052,165)	(1,236,232)	(812,697)	(903,444)	(881,995)	(295,320)
<b>Profit/(Loss) After Tax</b>	<b>(50,813,357)</b>	<b>(302,640,775)</b>	<b>13,962,041</b>	<b>79,639,724</b>	<b>14,461,702</b>	<b>(17,767,345)</b>
<b>BALANCE SHEET</b>						
Investments	194,145,942	197,559,818	376,890,401	198,874,547	159,430,672	87,230,942
Other Assets	167,156,454	100,490,640	139,663,343	276,034,339	106,663,512	139,033,778
Fixed Assets	42,571,385	50,265,366	46,610,645	26,386,792	7,725,734	7,092,083
	<b>403,873,781</b>	<b>348,315,824</b>	<b>563,164,389</b>	<b>501,295,678</b>	<b>273,819,918</b>	<b>233,356,803</b>
Issued, Subscribed and Paid-Up Capital	500,456,000	454,960,000	413,600,000	352,000,000	200,000,000	200,000,000
Advance Against Equity	-	-	-	-	16,000,000	-
Accumulated Surplus/(Deficit)	(353,497,796)	(305,591,480)	1,741,055	20,333,028	(60,529,376)	(76,498,427)
Balance of Statutory Fund	213,985,666	162,256,110	119,822,086	111,940,284	103,725,150	85,960,593
Other Liabilities	42,929,911	36,691,194	28,001,248	17,022,366	14,624,144	23,894,637
	<b>403,873,781</b>	<b>348,315,824</b>	<b>563,164,389</b>	<b>501,295,678</b>	<b>273,819,918</b>	<b>233,356,803</b>

