

## Report of the Directors to the Members



*EFU Life Assurance Ltd. Board of Directors (Left to Right) Ashraf W. Tabani; Saifuddin N. Zoomkawala, Chairman; Jahangir Siddiqui; Rafique R. Bhimjee; Sultan Ahmad; Taher G. Sachak, Managing Director & Chief Executive; Hasanali Abdullah; Muneer R. Bhimjee.*

The Directors of your Company are pleased to present to you the Thirteenth Annual Report of the Company for the year ended 31 December 2004.

Pakistan's economy achieved a GDP growth of 6.4 % in fiscal year 2004 and is likely to achieve a GDP growth in the range of 6.5 % to 7.1 % in fiscal year 2005. This growth has been achieved mainly on the back of expansion in the industrial sector which has benefited from increased domestic and external demand. The economy is expected to achieve its growth forecast of 6.6 % for fiscal year 2005 on the basis of a strong global economy and sustained domestic demand. The downside risk to the economy (which is also relevant from the perspective of life insurance business) is increase in inflation rate due to a combination of supply issues for key commodities such as wheat, high international oil prices and increased domestic demand for goods and services.

A continued and sustained growth in the economy bodes well for the life insurance industry - a recent World Bank study of 68 countries found that each 10 % increase in real per capita GDP was associated with a 19 % rise in life insurance in force. The same study also found that each percentage point increase in inflation reduces life insurance in force by 1.4 %. Inflationary pressures in the economy, therefore, may have a dampening effect on expected life insurance business growth as a result of GDP growth.

Individual life regular premium new business is source of growth of any life insurance company. Your company's

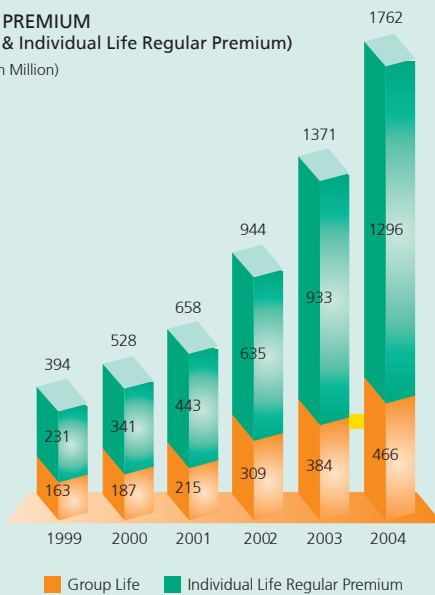
individual life regular premium new business grew by 22 % to Rs. 437 million as at 31 December 2004 compared to Rs 358 million in 2003. Although this growth has been lower than your Company's expectation, what is satisfying, however, is the continuous increase in the Company's highly productive team of sales people. In 2004, your Company produced 100 qualifiers for the Million Dollar Round Table – an association of the most successful life insurance sales personnel from the world over. Your company is the only life insurance company in Pakistan to have produced 100 MDRT qualifiers in a single calendar year. These top sales people form the pillar of your Company's sales force and are a source of sustainable long term growth in new business.

Individual life regular renewal premium is the source of long term profitability of any life insurance company. As result of your Company's continuous effort, the renewal persistency of your Company has improved even further. This has resulted in renewal premium growing to Rs. 859 million compared to Rs. 575 million in 2003, an increase of 49 %. A good renewal persistency is also a measure of overall client satisfaction.

The Group Benefits business of your Company showed a growth of 21 % during the year, gross premium increasing from Rs. 384 million in 2003 to Rs. 466 million in 2004. The Group Benefits profitability has shown a substantial increase, partly because your Company had made a strategic decision to shed loss-making cases. The other reason for this increase in Group Benefits profitability has been the success your Company has

had in making inroads in the group credit life market. Your company enjoys the leading position in the provision of life insurance cover to asset products customers in the banking sector.

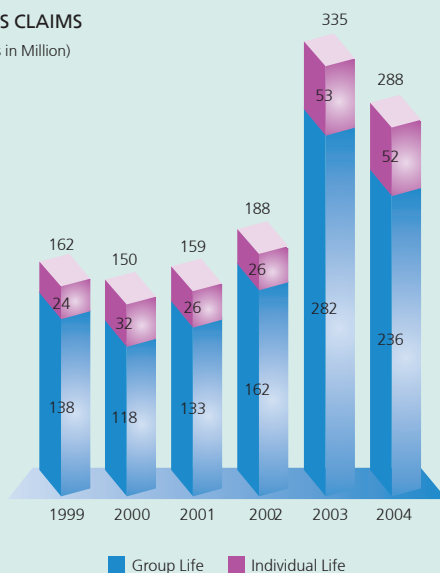
**GROSS PREMIUM**  
(Group & Individual Life Regular Premium)  
(Rupees in Million)



The policyholders' fund (statutory funds) of the Company stood at Rs. 3.5 billion at the end of 2004 compared to Rs. 2.7 billion at the end of 2003 (restated due to change in the method of valuing investments).

During the year 2004 the Company incurred death & disability claims of Rs. 288 million with individual and group life claims amounting to Rs. 52 million and Rs. 236 million, respectively.

**GROSS CLAIMS**  
(Rupees in Million)



Introduction of innovative and pioneering products and tapping new markets are parts of your Company's strategy to remain at the leading edge. Your Company launched a new product - EFU Savings Plan, in 2004. The Savings Plan is a high investment allocation unit linked endowment assurance plan specifically designed for group schemes where there is a need to provide higher cash values and a rapid accumulation of fund value. Your Company has submitted a Family Takaful (Islamic life insurance) product for approval to SECP which is pending promulgation of Takaful Rules. Your Company also introduced a number of new products targeted towards the group home mortgage market.

To provide better value to our policyholders, the Company decided to increase the investment allocation for new policies with effect from 1 February 2004. We are confident these enhancements in investment allocation make our products unbeatable in the market.

During the period under review, your Company finalized two bancassurance agreements. Under these agreements, our bank partners will distribute EFU Life's products through their branches. This in the long term should prove to be a major alternative distribution channel and additional source of growth for your Company.

Your Company continued to invest in its human resource by conducting internal training programs as well as sending its staff to external programs.

In order to give a better view of the Company's financial position than the policy being previously followed, your Company reclassified fixed income investments in the linked funds from held to maturity to available for sale and valued all available for sale investments of linked funds at fair value. This was done to bring the basis of valuation for financial reporting in line with the basis for valuation of units. The auditors are of the view that the Accounting Regulations issued by the SECP require the basis of valuing such investments to be determined once and then followed consistently and have therefore qualified their audit opinion accordingly. Your Company has taken up this issue with SECP and is awaiting its response. As is clear from the auditors report this change in policy has no impact on the determination of surplus or profit for the year, the only impact being on the value of investments and policyholder liabilities in the balance sheet.

Your Company's Profit after tax during the year amounted to Rs 141 Million as compared to Rs 78 million (as restated) in 2003 showing an increase of 80 %. Your Board proposes to make the following appropriation:

	Rupees (000)
Profit after tax	140 830
Add: Un-appropriated Profit brought forward	<u>9 332</u>
	150 162
Less: Dividend declared on 29th March 2005	24 750
Reserve for issue of bonus shares	45 000
Transfer to General Reserve	<u>80 000</u>
Profit appropriated	<u>149 750</u>
Un-appropriated Profit carried forward	<u>412</u>

Your Directors have pleasure in recommending dividend of Rs 1/50 (i.e. 15 %) per share and issuance of 3 (three) bonus shares for every 11 (eleven) shares held by the Shareholders of the Company whose name appear in the Share Register of the Company at the close of business on 19 April 2005.

#### Compliance with Code of Corporate Governance:

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange in its Listing Rules have been duly complied with. A statement to this effect is annexed with the report.

The Directors of your Company were elected for a period of three years' term expiring on June 21, 2005. The number of meetings attended by each director is given hereunder:-

Sr. No.	Name of Directors	Number of Meetings attended
1.	Saifuddin N. Zoomkawala	4 out of 4
2.	Taher G. Sachak	4 out of 4
3.	Ashraf W. Tabani	3 out of 4
4.	Jahangir Siddiqui	2 out of 4
5.	Rafique R. Bhimjee	4 out of 4
6.	Muneer R. Bhimjee	4 out of 4
7.	Hasanali Abdullah	4 out of 4
8.	Sultan Ahmed	3 out of 4

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

#### 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.

#### Audit Committee:

The Board's Audit Committee comprises of the following members:

1. Rafique R. Bhimjee (Chairman)
2. Hasanali Abdullah
3. Sultan Ahmed

#### Corporate and Financial Reporting Framework:

- a) The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flow and changes in equity.
- b) Proper books of accounts have been maintained by the Company.
- c) Appropriate accounting policies have been consistently applied, except as mentioned in note 4.2 to the financial statements, in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) The International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e) system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h) The key operating and financial data for the last six years is annexed.
- i) The value of investments of provident and pension funds based on their un audited financial statement as on December 31, 2004 were the following.

Provident Fund	Rs. 35 Million
Pension Fund	Rs. 9 Million

The value of investments includes accrued interest.

- j) Trading of Shares by Chief Executive, Directors, Chief Financial Officer, Company Secretary, their spouses and minor children:

<u>Purchase of Shares</u>	<u>No. of Shares</u>
Mr. Saifuddin N. Zoomkawala Chairman	1 000
Mr. Taher G. Sachak Chief Executive	1 300
Mr. Hasanali Abdullah Director	2 600
Sale of Shares	NIL

- k) The statement of shareholding in the Company as at 31 December 2004 is included with the Report.

Messrs. Gardezi & Co., Chartered Accountants and Taseer Hadi Khalid & Co., Chartered Accountants, retire and being willing to continue are recommended for reappointment as Auditors of the Company for the year 2005.

The Company continues to receive valuable guidance from Mr. Michael J de H Bell, an actuary of international fame who acts as an advisor to the Board. We wish to record our grateful appreciation for the expert guidance provided by him to your Company. We further wish to

recognize and place on record our appreciation of the contribution made by our Appointed Actuary Mr. Omer Morshed for his invaluable advice on actuarial, administrative and marketing policies of the Company.

We would also like to record our appreciation and gratitude to Munchener Ruckversicherungs Gesellschaft (Munich Re) of Germany who are your Company's main reinsurers and who continue to provide full support to your Company.

Our thanks are also due to E F U General Insurance Ltd for their continuous support and guidance, which has enabled the Company to establish a strong presence in the market.

The Directors wish to record their appreciation for the tremendous contribution made by the able and eminent officers, staff and field force of the Company towards its development and growth. Their continuous commitment to high ethical standards, client service and hard work has helped your Company emerge and maintain its position as a clear market leader amongst private sector life insurers.

Finally, we would like to thank our clients for the confidence expressed in us and also to the Insurance Division of the Securities and Exchange Commission of Pakistan for the co-operation extended to us throughout the year.

MUNEER R. BHIMJEE  
Director

HASANALI ABDULLAH  
Director

TAHER G. SACHAK  
Managing Director &  
Chief Executive

SAIFUDDIN N. ZOOMKAWALA  
Chairman