

**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

ACTORS	HELD AT	ON	TIME
E BOOK	KARACHI	3 <sup>RD</sup> APRIL' 2004	

**CONFIDENTIAL AND RESTRICTED**

The one hundred and seventy sixth (176<sup>th</sup>) Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on 3<sup>rd</sup> April' 2004 at 10:00 a.m., in the Board Room, State Life Building No.9, Principal Office, Karachi.

**PRESENT:**

- |   |                 |
|---|-----------------|
| 1. Mr. Rasool Bakhsh Baloch               | Chairman        |
| 2 Mr. Nessar Ahmed                        | Director        |
| 3. Air Marshal (Retd) Sharbat A. Changazi | Director        |
| 4. Mrs. Spenta Kandawalla                 | Director        |
| 5. Mr. Umar Ata Bandial                   | Director        |
| 6. Ch. Javaid Hussain                     | Director        |
| 7. Mr. Shahid Aziz Khan                   | Board Secretary |

2. Mr. Muhammad Javed Khan, Executive Director (B&A/PHS/INV.), Mr. Zafar Mahmood, Executive Director (MKT/G&P/INTL/CD), Mr. Rahat ul Ain, Executive Director(RE/ACT.) and Mr. Zahid Murad, Executive Director (P&GS/LAW), attended the meeting by special invitation.

3. The meeting started with recitation from the Holy Quran and the Board Secretary was provided the honour of recitation.

4. Mr. Bashir Ahmed, Director, has requested for leave of absence. The Board granted him leave. Mr. Javed Syed, Ex-Joint Secretary, Ministry of Commerce has been retired from the government service and his substitute has yet not been nominated.

5. The Board appreciated the valuable contribution made by Mr. M Sharif Ijaz Ghauri in the proceedings of the Board of State Life and wished him prosperity, success and good health. The Board also extended warm welcome to Mr. Rahat ul Ain the newly posted Executive Director.

**ITEM (1) CONFIRMATION OF MINUTES OF 175TH MEETING OF THE BOARD OF DIRECTORS HELD ON 12-02-2004.**

6. The minutes of the 175th Meeting of the Board of Directors held on 12<sup>th</sup> February' 2004 were placed before the Board.

7. Mrs. Spenta Kandawalla proposed and Air Marshal (Retd) Sharbat A. Changazi seconded that the minutes be confirmed.

Accordingly, it was resolved as under;

**RESOLVED:**

"that the Minutes of the 175<sup>th</sup> Meeting of the Board of Directors held on 12<sup>th</sup> February' 2004 be and were hereby confirmed."

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Action:  
Board  
Secretary

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**ITEM (2) IMPLEMENTATION REPORTS ON DECISIONS TAKEN IN THE 174<sup>TH</sup> & 175<sup>TH</sup> MEETINGS OF BOARD OF DIRECTORS.**

8. The Board Secretary presented before the Board the implementation reports on decisions taken at the 174<sup>th</sup> and 175<sup>th</sup> meetings of the Board which were respectively held on 24<sup>th</sup> January, 2004 and 12<sup>th</sup> February, 2004. During the course of discussion, Mr. Nessar Ahmad suggested that while presenting the memorandums the concerned Divisional Head/Executive Director should invariably make specific recommendations in the memorandums for approval. Similarly, he suggested that while recording the minutes the resolution passed should mention the number of the memorandum. The Chairman agreed to look into the matter. The minutes 174<sup>th</sup> and 175<sup>th</sup> meetings of the Board were noted with above referred observation.

**ITEM (3) PRESENTATION ON STATE LIFE TOWER, ISLAMABAD.**

9. At this juncture of time, Mr. Talib Ali, General Manager(RE) and M/s. Sohail & Pasha, Architects/Consultants and M/s. Adnan Asdar & Associates, Project Management Consultants, also joined the meeting. Mr. Naeem K. Pasha, Architect made the presentation before the Board with the help of multi media. Mrs. Spenta Kandawalla and Air Marshal (Retd) Sharbat A. Changazi asked if the project had been approved by the Board in the year 1996, then why a considerable delay occurred to start the construction work. General Manager(RE) explained that the project was approved in 128<sup>th</sup> meeting of the Board of Directors held on 10-03-1996. However, when the designing work was under progress, Ministry of Commerce conveyed Prime Minister's directive on 9-6-1996 that Corporations under the control of various Ministries should not undertake any ventures without the approval of the Ministry of Finance. In compliance to the above mentioned Government's directive, the designing work of the project was stopped. Proposal and PC-1 of the project was referred to the Planning and Development Division through Ministry of Commerce. However, till February, 1998 the matter was not resolved. Subsequently, Real Estate Division placed the matter in 137<sup>th</sup> meeting of the Board of Directors which was held on 5<sup>th</sup> & 6<sup>th</sup> February' 1998. The Board directed General Manager(RE) to review the new projects, to house its own offices. Such projects which were beyond the need of State Life be pursued only where there was a large demand for office space on rental basis. In 138<sup>th</sup> meeting of the Board held on 12<sup>th</sup> April' 1998, the Board of Directors decided to defer the building projects in Karachi, Islamabad and Lahore. In 145<sup>th</sup> meeting of the Board of Directors held on 25<sup>th</sup> & 27<sup>th</sup> February' 1999, the Board reiterated its previous decision to keep pending the further work of new projects till better time. The matter was placed again in 156<sup>th</sup> meeting of the Board of Directors held on 07-10-2000. In this meeting, the Board instructed the General Manager(RE) to conserve the drawings of building projects, so that these could be used in future if a decision was made to construct the buildings. The Board also felt that since the above projects were not financed through the Federal Budget therefore these did not require approval of Central Development Working Party(CDWP) and Economic Coordination Committee of the Cabinet. In November' 2000 Capital Development Authority informed State Life to start the construction work, otherwise Capital Development Authority would withdraw the allotment of plot. The matter was discussed with Chairman and it was decided to retain the plot for construction of the building and to make compliance to Capital Development Authority's rules accordingly. Subsequently, State Life applied for extension of construction period to Capital Development Authority. The matter was once again

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Board  
Secretary

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placed in 162<sup>nd</sup> meeting of Board of Directors held on 11-08-2001, wherein the Board resolved to construct ground plus four floors with three basements in first phase and the rest of the building was allowed to be constructed as and when the Real Estate Market improved. Thereafter, the approval process of drawings was started with Capital Development Authority which ultimately got approved on 16<sup>th</sup> April' 2002. The tender documents and other paper work were got completed for Civil and Plumbing works for Phase-I by the Architects/Consultants. Pre-qualification of civil works contractors was completed, tender process was carried out and the work was awarded to the successful bidder namely M/s. Moin Sons. After the award of contract, the contractor mobilised on the site and started preliminary construction activities. Formally, on 12<sup>th</sup> February' 2004 the foundation stone laying ceremony was held at the site.

10. During the course of presentation, Mr. Naeem K. Pasha, the architect of the project stated that State Life Tower Islamabad would have all the basic facilities of modern days buildings. Replying to different queries of the members of the Board, the architect briefed about the car parking space, total size of the plot, covered area and other salient features of the building. Mr. Umar Ata Bandial suggested that we might involve some more architects and should try to improve the design and utility of the building. Mrs. Spenta Kandawalla gave her observation and pointed out that being on the Board of State Life, the members feel more concerned and responsible for the project, the construction of which was being made during the tenure of present Board. While joining the discussion, Mr. Nessar Ahmad mentioned that the details which have been supplied during the course of presentation are not sufficient and Board would like to know more details in one of the next meetings. Mrs. Spenta Kandawalla observed that on graphic presentation, the proposed building appears to be normal but after construction such buildings have less use and utility. Similarly the proposed building's design was not carrying aesthetic sense as it was not appearing beautiful and eye catching as Habib Bank Plaza Karachi, which has become a symbol of Karachi's skyline. At this juncture of time with the permission of the Chair, Mr. Adnan Asdar, the Project Management Consultant also briefed the Board and stated that the proposed State Life Tower would be constructed according to the approved plan and keeping in view the aesthetic sense and use and utility of its rental value. Mr. Nessar Ahmad suggested that the possibility be explored for using the ground floor for shopping mall on the pattern of Forum Shopping Mall in Karachi. Chairman also briefed the Board and mentioned that as per the observations made by the members of the Board, the model of the building be shifted to the Principal Office Karachi and three more design of the facades be prepared considering the above observations and be placed before the Board within a month's time. It was also discussed in the meeting, whether the State Life Tower, Islamabad should be centrally airconditioned and be constructed in one go instead of three phases. The Project Management Consultant informed the Board, that they had only 90 days to decide, whether the building should be centrally airconditioned and be constructed in one go. However they have approximately a period of 9 months to improve the facades. Mr. Zafar Mahmood, ED with the permission of the Chair, suggested that a presentation should be made before the Board with the help of charts, diagrams, photographs or blow-

Action:  
ED(RE)

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ups and the matching of surrounding/adjoining areas and skyline should be considered while remodeling and making fresh feasibility report. The Board agreed and directed the Real Estate Division to arrange a comprehensive presentation as soon as possible after considering the above referred observations. At this point, Mr. Talib Ali, GM(RE) and M/s. Sohial & Pasha, Architects/Consultants and M/s. Adnan Asdar & Associates left the meeting.

After thorough discussion, the Board resolved as under:

**RESOLVED:**

“(a) that the presentation on State Life Building Islamabad after considering the guidelines be made before the Board, be and was hereby approved.”

Action:  
RE)

“(b) that three new design of facades of State Life Building Islamabad be prepared keeping in view the guidelines given by the Board, be and was hereby approved.”

Action:  
ED(RE)

“(c) that revised feasibility report be prepared mentioning therein whether proposed building be constructed in phases or in one go, whether building would be airconditioned, semi airconditioned or non airconditioned, whether the proposed changes would require fresh approval from Capital Development Authority, be and was hereby approved.”

Action:  
ED(RE)

“(d) that the time span of one month for presentation of above resolved items, before the Board, be and was hereby approved.”

Action:  
ED(RE)

**ITEM (4) CONSIDER / APPROVE - ADDITIONAL RECRUITMENT.**

11. Executive Director (P&GS) presented before the Board a memorandum for consideration and approval of additional recruitment.

12. The Board of Directors in its 162<sup>nd</sup> meeting held on 11<sup>th</sup> August, 2001 approved staff strength of the Corporation as 4050 ( Officers 1350 and Staff 2700) empowering the Executive Committee to approve the grade-wise/designation-wise staff position within the above approved strength (Annex-A). The Executive Committee in its 266<sup>th</sup> meeting held on 30<sup>th</sup> October, 2001 approved designation-wise staff strength of the Corporation (Annex-B). The Executive Committee while approving the grade-wise staff strength reserved the following 123 posts for direct recruitment.

General Manager	02
Deputy General Manager	02
Assistant General Manager	04
Manager	15
Deputy Manager	25
Assistant Manager	50
Executive Officer	25
<b>Total:</b>	<b>123</b>

13. Out of the 50 posts of Assistant Managers reserved for direct recruitment 4 posts were filled by Computer Division in January, 2002.

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14. The management has now decided to fill in all vacancies available for direct recruitment. In this regard an advertisement was got published in all leading National/Regional newspapers on 7<sup>th</sup> December, 2003. The advertisement included 115 posts from Assistant General Manager to Executive Officer. It was worth mentioning here that in response thereof about 20,000 applications have been received and the process of Selection is in progress. In the meanwhile Ministry of Commerce has been requested to constitute a Selection Committee for recruitment of two General Managers and two Deputy General Managers.

15. Promotion exercise for the year 2004 was also due. An overview of the vacancies available for promotions was attached as (Annex-C). It may be noticed that the Corporation have 130 vacancies of Assistant Managers available for promotion from Superintendent and Executive Officers (Superintendent are promoted directly to Assistant Manager cadre as per CBA Agreement). Generally Superintendents refuse promotion to officer cadre mainly due to difference in rate of various allowances in staff and officer cadres amongst other reasons. Moreover 70% vacancies of Assistant Managers were available for Supdts to be promoted. The remaining 30% were available for Executive Officers. In case vacancies available for Superintendents were not fully filled due to their refusal, the remaining vacancies may be filled by promoting Executive Officers.

16. As a result of the reluctance of Superintendents to accept promotion as Assistant Manager as explained above it was expected that only 30 Superintendents might be promoted as Assistant Manager. Moreover 30 Executive Officers were expected to qualify for promotion as Assistant Manager.

17. In view of the above it was expected that only 60 posts of Assistant Manager will be filled in by promotion and the remaining 70 posts may remain vacant. After promotion of 30 Executive Officers to Assistant Managers it was estimated that there will be 21 vacant posts of Executive Officers.

18. The Board was therefore requested that since the Corporation have sufficient number of candidates available in the process of fresh recruitment the Board may allow to enhance the number of posts available for fresh recruitment as under:

Designation	Already reserved for direct recruitment	Additional suggested	Total direct recruitment
Assistant Managers	46	70	116
Executive Officers	25	21	46

19. Number of posts for fresh recruitment in other cadres i.e Deputy Manager to General Managers will remain unaltered.

After thorough discussion, the Board resolved as under:-

**RESOLVED:**

“that as proposed by ED(P&GS) in the memorandum No.4 dated 24<sup>th</sup> March, 2004, to enhance the total number of posts for direct recruitment i.e. (i) Assistant Managers: 116 posts) and (ii) Executive Officers: 46 post), be and was hereby approved.”

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Action:  
ED(P&GS)

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<p><b>ITEM(5) PRESENTATION ON BUSINESS FIGURES OF MARKETING, GROUP &amp; PENSIONS, INTERNATIONAL, INVESTMENT AND REAL ESTATE DIVISIONS.</b></p> <p>20. The Business Review Memorandums of ED(Marketing), ED(G&amp;P), ED(International), ED(Investment) and ED(Real Estate) for business review of Marketing, Group &amp; Pension, International, Investment and Real Estate Divisions respectively were submitted to the Board which were noted with concern.</p> <p><b><u>MARKETING DIVISION:</u></b></p> <p>21. ED(Marketing) presented before the Board a memorandum pertaining to business figures of Marketing Division. The Corporation procured FYP of Rs.214 million for the period ended February 29, 2004 as compared to Rs.159 million during corresponding period of last year, thus registering an increase of 34.28% over the corresponding period of last year.</p> <p>22. The Corporation collected Rs.98 million second year premium, as compared to Rs.159 million during the corresponding period of last year. The second year persistency for the period January to February 2004 was 61.75%. The third year and later year's premium was Rs.550 million as against Rs.554 million during the same period of 2003. The renewal persistency ratio for the period January to February, 2004 was 99.23%.</p> <p>23. The Board of Directors appreciated the achievements made by Marketing Division.</p> <p><b><u>GROUP &amp; PENSION DIVISION:</u></b></p> <p>24. ED(G&amp;P) presented before the Board, the business figures of G&amp;P Division. The collection of premium for G&amp;P business for the period ended February 29, 2004 stood at Rs.193.506 million as compared to Rs.180.265 million, for corresponding period of last year showing an increase of 7.35%. G&amp;P Division secured 34 new groups during this period having total premium of Rs.6.020 million as against 20 new groups having premium of Rs.2.283 million, showing an increase of 164% in premium income under new groups. G&amp;P Division lost 5 policies having a total premium of Rs.0.450 million The persistency of G&amp;P Division was 99.75% upto February 29, 2004.</p> <p>25. The Board appreciated the achievements made by G&amp;P Division.</p> <p><b><u>INTERNATIONAL DIVISION:</u></b></p> <p>26. ED(International) presented before the Board, the business figures of International Division. International Division has procured US\$:93,418 FYP, for the period ended February 29, 2004 as against US\$: 73,540 during the corresponding period of last year showing an increase of 27%. The policies sold by International Division during the period January to February, 2004 was 88 as against 56, registering an increase of 57%. Second year persistency achieved during the period January to February, 2004 was 111%, as against 55% through collection of second year premium of US\$: 81,588. Renewal premium collection for the period ended February 29, 2004 was US\$: 401,688 during the corresponding period of last year, showing an increase of 107% over the collection of last year, with Renewal persistency of 107% as against 73% during the corresponding period of last year, showing an increase of 34%.</p>			

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<p>27. The Board appreciated the achievements made by International Division.</p> <p><b><u>INVESTMENT DIVISION:</u></b></p> <p>28. Executive Director(Investment) presented before the Board the business figures of Investment Division. At this juncture of time, Mr. Ansar Hussain, GM(Investment) also joined the meeting and briefed the Board. The book value of investment portfolio, which was Rs.96,831 million as on December 31, 2003, was estimated to have increased to Rs.97,847 million as on January 31, 2004, reflecting an increase of Rs.1,016 million and a percentage increase of 1.05%, during the month ended January 31, 2004. State Life has been investing in Pakistan Investment Bonds floated by Government of Pakistan in December 2000. The Corporation has placed Rs.2,433 million in these bonds during the month under review raising the total investments in PIB's inclusive of accrued interest to Rs.55,188 million. This constituted about 76.26% of total investment in Government Securities. State Life has so far invested Rs.1,350 million in WAPDA Bonds, balance of which was Rs.1,269 million as on January 31, 2004. Balance outstanding against TFCs of other companies was Rs.744 million as on January 31, 2004.</p> <p>29. State Life equity portfolio which was Rs.8,833 million as on December 31, 2003 has increased to Rs.8,849 million as on January 31, 2004. State Life purchased shares with a book value of Rs.15.962 million during the period ended January 31, 2004 and State Life has not sold any share during this period. The book value of quoted equity portfolio stood at Rs.8,507 million while its market value was Rs.23,574 million showing an appreciation of Rs.15,067 million as on January 31, 2004.</p> <p>30. State Life, has earned Rs.798 million (estimated) on its investment portfolio, excluding unrealised gains on investment for the period ended January 31, 2004, as compared to Rs.10,068 million earned during the year of 2003.</p> <p>31. The Board of Directors appreciated the results achieved by Investment Division. At this point, Mr. Ansar Hussain, GM(Investment) left the meeting.</p> <p><b><u>REAL ESTATE DIVISION:</u></b></p> <p>32. ED(RE) presented before the Board the business figures of Real Estate Division. The gross income of Real Estate as at February 2004 was Rs.61 million as against prorated projection of Rs.70 million. The gross income upto February 2003 was Rs.62 million. Total expenses upto February 2004 came to Rs.58 million as against budgeted amount of Rs.68 million, which was 15% less. Net income upto February 2004 was Rs. 3 million which was 50% higher to the targeted figure upto the month.</p> <p>33. The Board appreciated the results achieved by Real Estate Division.</p> <p><b><u>ITEM (6) CONSIDER/APPROVE – CONSTRUCTION OF NEW BUILDING FOR GUJRANWALA ZONE.</u></b></p> <p>34. Executive Director(Real Estate) presented before the Board a memorandum for consideration and approval of construction of new building for Gujranwala Zone.</p> <p>35. A plot on G. T. Road of size 4767 sq. yds. was purchased by State Life in July 1995 for the construction of building as per decision of 200<sup>th</sup> Executive Committee meeting held on July 01, 1995. (which was ratified in 125<sup>th</sup> Board of Directors meeting held on July 16, 1995).</p>			

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36. Zonal Head of Gujranwala Zone, during May 2000 requested the Chairman on his visit of Gujranwala Zone, for the construction of a new building on the State Life owned plot at Gujranwala to accommodate the Zonal Office; to promote and consolidate the life insurance business of Gujranwala Zone. Subsequently State Life Management decided to undertake the conceptual designing of the building project in view of the requirement of the Zone.

37. Real Estate Division went through various procedural technical as well as administrative phases, starting from study, discussions, reviews, selection of Architects, conceptual designing and proceedings at Real Estate Functional Committee, Management Committee (twice), Executive Committee (twice), Board of Directors (twice) and in informal meeting of the Members of Board of Directors, after the close of 170<sup>th</sup> BOD meeting due to lack of quorum. Thereafter in 171<sup>st</sup> meeting of Board of Directors held on May 17, 2003, it was decided that the project approval should be processed through Executive Committee and after the Executive Committee's recommendation it should be placed before the Board of Directors.

38. A Memorandum for consideration and onward recommendation to the Board of Directors was placed before the Executive Committee in its 271<sup>st</sup> meeting held on October 04, 2003. Complete proceeding in this regard was enclosed at Annex-A. The decision of the Executive Committee meeting was mentioned as under:

"After detailed discussions, on the construction of Gujranwala building and regarding purchase of plot for State Life Building at Quetta, the Executive Committee constituted a Sub-committee consisting of the Chairman, Air Marshal (Retd) Sharbat A. Changazi and Mr. M. Sharif Ijaz Ghauri and Executive Director (RE), who will visit Gujranwala and Quetta and would submit their recommendations to Executive Committee for consideration. Executive Director (RE) would coordinate and finalize the visit of Sub-committee."

39. In implementation to the decision of Executive Committee, the Sub-committee had planned to visit Gujranwala plot after Eid-ul-Fitr (December 2003), but the visit could not be materialized due to some pre-occupation of Mr. M. Sharif Ijaz Ghauri, Member Sub-committee. Now he stands retired and another Director has been nominated in his place.

40. It was suggested that Board of Directors may nominate another member of Board of Directors in place of Mr. M. Ijaz Ghauri, as a member of Sub-committee, so that the sub-committee may visit plot site at Gujranwala & submit its recommendation for consideration of Executive Committee as decided in the 271<sup>st</sup> Executive Committee meeting.

41. Board of Directors may also give a second thought in connection with the visit of plot at Gujranwala while taking into consideration that the plot was purchased in line with State Life's policy and requirement, duly approved by the Board of Directors to construct the building to in-house its Zonal Offices.


42. Presentations of proposals No. 1 and 2 of the Architects M/s. International Design Group and M/s. Naqvi Siddiqui & Associates respectively were made before Chairman, two remaining Directors and Senior Officials of State Life in the informal

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<p>Action: ED(RE)</p> <p>Action: ED(RE)</p>	<p>meeting which took place when the 170<sup>th</sup> Board of Directors meeting held on February 01, 2003, was adjourned due to lack of quorum as some of the Directors left the meeting for other assignments. Real Estate recommended the decision of meeting that proposal # 1 of M/s. International Design Group with an estimated cost of Rs. 52.48 million may be considered and approved.</p> <p>43. Board of Directors may authorize ED (RE) to take all necessary steps in this respect including negotiation, finalization and execution of the agreements with contractors as per laid down procedures.</p> <p>After thorough discussion, the Board resolved as under:-</p> <p><b>RESOLVED:</b></p> <p>“(a) that the proposal of ED(RE) contained in memorandum No.06, for the visit of Gujranwala site, the name of Mr. M. Sharif Ijaz Ghauri was substituted by the name of Ch. Javaid Hussain, be and was hereby approved.”</p> <p>“(b) that for the proposed visit of Quetta, the name of Mr. M. Sharif Ijaz Ghauri was substituted by the name of Mr. Umar Ata Bandial, be and was hereby approved.”</p> <p><b>ITEM (7) PRESENTATION ON NEW PROPOSED FUND TO MEET UNFORESEEN BIG EVENTS LIKE WAR, EARTHQUAKE, EPIDEMICS AND FLOODS.</b></p> <p>44. Executive Director (Actuarial) presented before the Board a memorandum on new proposed fund to meet unforeseen big events like war, earthquake, epidemics and floods. At this juncture of time, Mr. S. S. Akhter, the Appointed Actuary and Mr. Shahrukh Sabzwari, DH(Act.) also joined the meeting.</p> <p>45. It was decided in the 174<sup>th</sup> meeting of the Board of Directors held on 24<sup>th</sup> January 2004 that Actuarial Division should make a presentation on whether or not a new fund could be created to meet unforeseen big events like war, earthquakes, epidemics and floods.</p> <p>46. In this regard it was submitted that State Life already maintains a General Contingencies Reserve as part of policyholder liabilities. Part of this fund was specifically earmarked as catastrophe reserve to meet any claims arising from unforeseen events like war, earthquakes, epidemics and floods.</p> <p>47. The amount of the General Contingency Reserve in the Pakistan Life Fund was approximately Rs. 10 billion out of which approximately Rs. 6 billion was earmarked for unforeseen catastrophes. A similar proportionately smaller reserve was also being maintained in the Overseas Life Fund.</p> <p>48. In the light of the above, there was seemingly no need to create a separate fund to back catastrophe risk. Actuarial Division recommended that the catastrophe reserve should continue to be a part of the General Contingency Fund in line with the current practice since creation of a separate and distinct catastrophe reserve may attract the</p>			<p>CHAIRMAN'S INITIALS</p> 

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attention of the income tax authorities which could lead to a significant additional tax liability for State Life.

49. Members of the Board were requested to consider and approve the proposal contained above. It may be noted that the term "War" mentioned above, was limited only to the type of wars experienced by Pakistan since 1947. An unlimited exposure to future wars (including Nuclear war God forbid) was outside the financial resources of State Life.

At this point, Mr.S.S.Akhter, the Appointed Actuary and Mr.Shahrukh Sabzwari, DH(Act.) left the meeting.

After thorough discussion, the Board resolved as under:-

**RESOLVED:**

"that the recommendations of Actuarial Division mentioned in the memorandum No.07 dated 24<sup>th</sup> February, 2004 pertaining to the catastrophe reserve should continue to be a part of the General Contingency Fund in line with the current practice, be and was hereby approved."

Action:  
ED(Act.)

**ITEM (8) CONSIDER/APPROVE – ADDITIONAL BUDGET FOR INVESTMENT DIVISION FOR THE YEAR 2004.**

50. Executive Director(B&A) presented before the Board a memorandum for consideration and approval of additional budget for Investment Division for the year 2004. At this juncture of time, Mr. Ansar Hussain, GM(Investment) joined the meeting.

51. It was desired by the Management of the Corporation in 2001 to transfer shares of various companies held in safe custody at United Bank Ltd., to CDC account of the Corporation. An advertisement was placed in Daily Dawn and Daily Jang on 21<sup>st</sup> April, 2002 inviting various firms to quote their rates for transferring 208 million shares held in physical custody at that time. Only five parties namely M/s. Globe Securities, Citibank, First Capital Equities Ltd., Khalid Majid Hussain Rehman and Alfa Adhi Securities (Pvt) Ltd., collected the tender documents while only M/s. Khalid Majid Hussain Rehman and Alfa Adhi Securities (Pvt) Ltd., submitted their bids. M/s. Alfa Adhi Securities quoted the rate of Rs.0.03 per share while M/s. Khalid Majid Hussain Rehman quoted Rs.0.015 per share. The tenders were rejected as the fee quoted by M/s. Khalid Majid Hussain Rehman, who were the lowest, came to approximately Rs.3 million.

52. It was desired by the Board of Directors of the Corporation in 2002 that the shares of the Corporation lying in physical custody be transferred to CDC immediately. A proposal was submitted by Investment Division to do the job in house. It was requested to provide an additional amount of budget for Rs.700,000 under the heads of overtime, entertainment, labour charges and conveyance so as to do the work after office hours. At that time, 209 million shares were eligible for transfer to CDC and till December, 2003, 51 million shares were

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transferred in CDC in about nine months. The budget position for this assignment, provided to Investment Division in 2003, was as follows.

(Rs. in 000's)

Head of account	Budget allocated in 2003	Budget utilized in 2003	Un-utilized budget
Overtime	400	70	330
Labour charges	100	8	92
Conveyance - Staff	75	4	71
Conveyance - Officers	75	8	67
Entertainment- Officers	50	6	44
Total	700	96	604

53. At present, 155.890 million shares including 28.089 million shares of 41 companies which have subsequently become eligible for CDC are yet to be transferred to CDC. While preparing budget proposals for 2004, Investment Division due to oversight did not request to carry forward their unutilized budget for this assignment.

54. The Board was requested to kindly approve a budget of Rs.6,04,000/- for the year 2004 for the above stated assignment.

At this point, Mr. Ansar Hussain, GM(Investment) left the meeting.

After thorough discussion, the Board resolved as under:-

**RESOLVED:**

“that the proposal of ED(Inv) contained in memorandum No.08 dated 5<sup>th</sup> March, 2004 for additional budget of Rs.6,04,000 for Investment Division for the year 2004, be and was hereby approved. “

**ITEM (9) CONSIDER/APPROVE – AMENDMENT IN SURETY BOND REQUIRED FROM ACTUARIAL TRAINEES.**

55. Executive Director(Actuarial) presented before the Board a memorandum for amendment in surety bond required from Actuarial Trainees. At this point, Mr. Shahrukh Sabzwari, DH(Act.) joined the meeting.

56. At the 156<sup>th</sup> meeting of the Board of Directors held on 7<sup>th</sup> October, 2000 a revised scheme of technical allowance and accelerated promotion structure for employees taking actuarial examinations of Society of Actuaries, USA and Institute of Actuaries, UK was considered and approved. At the same time all existing actuarial students and Associates and all new actuarial students were required to execute a bond that they would serve State Life for a period of at least three years after qualifying as Fellow.

57. All actuarial students, Associates who leave State Life either before qualifying as Fellow or before completing three years after qualifying as Fellows were required to reimburse to State Life all the expenses incurred on them as subsidies for examination fees, cost of books, reading material, travelling expenses, professional subscription during the last three years subject to minimums as follows:

Action:  
ED(Inv.)

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		<p><i>Minimum Amount refundable in case of existing Associates and Students.</i></p>	<p><i>Minimum Amount in case of students recruited in future.</i></p>	
	<p>If he leaves before completing examination requirements for Associateship.</p>	<p>Rs. 100,000</p>	<p>Rs. 150,000</p>	
	<p>If he leaves after completing examination requirements for Associateship but before completing examination requirements for Fellowship.</p>	<p>Rs. 150,000</p>	<p>Rs. 225,000</p>	
	<p>If he leaves after completing examination requirements for Fellowship.</p>	<p>Rs. 200,000</p>	<p>Rs. 300,000</p>	
	<p>58. However, if a person had served State Life for a period of ten years from the date of joining State Life, no amount was refundable by him.</p>			
	<p>59. According to opinion of Law Division, there was a weakness in this arrangement, that while it was obligatory for all students to serve State Life for at least three years after qualifying as Fellow, if a person has completed ten years of service before completing three years of service after qualifying as Fellow, no penal action can be taken against him by way of recovery of expenses.</p>			
	<p>60. State Life has to invest a lot of its resources and money on actuarial students studying for their fellowship examinations but it has been experiencing a high turnover of Actuarial staff before and after qualification as fellows, hence causing substantial loss to the Corporation. In order to arrest the trend of high turnover and to minimize Corporation's financial loss on this account, it was appropriate that in return of Corporation's investment, persons qualifying as fellows should serve State Life for at least three years after completion of fellowship, irrespective of length of service in the Corporation.</p>			
	<p>61. It was therefore proposed that exemption allowed to persons having completed ten years of service be withdrawn. Also present limitation of recovering only the last three years expenses be removed and students who leave before completing the surety bond should be required to reimburse all expenses incurred by State Life on them as subsidies for examination fees, cost of books, reading material, travelling expenses, professional subscription etc., and the surety bond be revised accordingly.</p>			
	<p>62. It was proposed that the revised terms of the surety bond would be applicable to all actuarial trainees joining State Life in the future. Proposal contained in para No.06 and 07 of the memorandum was submitted for consideration and approval of the Board.</p>			
	<p>At this point, Mr. Shahrukh Sabzwari, DH(Act.) left the meeting.</p>			

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After thorough discussion, the Board resolved as under:-

**RESOLVED:**

"(a) that the proposal of Actuarial Division contained in the memorandum No.9 dated 03-03-2004 for the withdrawal of exemption from liability to pay expenses given to the Actuarial Trainees who have completed ten years of service as per Clause-C and limit of recovery of only last three year expenses as per Clause-A of the Surety Bond, whose terms were approved by the Board in its 156<sup>th</sup> meeting held on 07-10-2000, be and was hereby approved."

Action:  
ED(Act.)

"(b) that the proposal, that in future all Actuarial Trainees will serve the Corporation after completion of Fellowship at least for a period of three years, irrespective of his period of past service in the Corporation. In case an Actuarial Trainee leaves the Corporation before qualifying as Fellow or before completing the minimum service of three years after completing Fellowship, he shall be liable to pay all amounts incurred by the Corporation on him as examination fee, cost of books, reading material, travelling expenses, professional subscriptions etc., be and was hereby approved."

Action:  
ED(Act.)

"(c) that the revised Surety Bond after incorporation of above mentioned changes be drafted and all Actuarial Trainees in future shall execute the revised Surety Bond, be and was hereby approved."

Action:  
ED(Act.)

**ITEM (10) CONSIDER/APPROVE – DOWNWARD REVISION OF PROFIT OR RETURN CHARGED ON POLICY LOANS AND OUTSTANDING PREMIUMS UNDER US DOLLAR AND UAE DIRHAM POLICIES.**

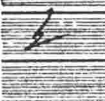
63. Executive Director(PHS) presented before the Board a memorandum for consideration and approval of downward revision of profit or return charged on policy loans and outstanding premiums under US Dollar and UAE Dirham policies. At this time, Mr. M. Aslam Sabir, GM(PHS) joined the meeting.

64. The Board of Directors in its 172nd meeting held on September 20, 2003 decided to reduce profit or return of Policy Loans and Outstanding Premiums under Pak rupee policies equal to previous calendar years' average of State Bank of Pakistan discount rate plus 2.5% compound with effect from 1st October 2003 (i.e. 10%). It was also directed to submit the proposal for reduction of profit or return on US Dollar and Dirham policies for consideration and approval after getting relevant information from the Gulf Zone.

65. Last revision for foreign currency policies was made with effect from 01.08.1994 when rate was reduced from 12% to 10% per annum.

66. Profit or return charged on policy loans and outstanding premiums generally mirror the money market. Presently, there has been continuous declining trend in interest rate of banks and other saving and investment channels. In view of this trend, the rate presently charged i.e. 10% per annum compound appears quite high. The demerits were twofold: firstly, considering the loan on policy expensive, many policyholders surrender

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their policies altogether to meet their financial exigencies; secondly, a marginal number of those who avail loans face discontinuance of life insurance coverage because of non-refund of loan and so passively let their insurance policies auto-surrendered.

67. As directed in above meeting of Board of Directors, the PHS Division have collected the relevant information from Gulf Zone. At present Life Insurance Companies operating in UAE were charging following interest rates from their policyholders against cash loan and delayed payment of the premium installments:

American Life (ALICO)	8% p.a
Alliance Life	8% p.a
Oman Life	9% p.a

68. Historically, the profit or return charged on policy loans and outstanding premiums have generally been adjusted to broadly maintain parity with the yield on life fund. The rate charged on policy loans and outstanding premiums of foreign currency policies also appears too high if compared with the yield on life fund. The yield on life fund for few recent years was as under:

Years	Yield on life fund
2002	4.56%
2001	5.40%
2000	6.60%
1999	7.17%

69. The prevailing money market rates, rates charged by the competitors and yield on life fund drive the Corporation to consider a reduction in profit or return charged on policy loans and outstanding premiums under US Dollar and Dirham policies.

70. It was therefore, proposed that the profit or return charged on policy loans and outstanding premiums in US\$ and UAE Dh policies may be reduced from 10% to 8% per annum compound with effect from March 1, 2004.

71. During the course of discussion, Mr. Nessar Ahmad opined that the interest rate should be linked with the market rate and it should be reviewed from time to time keeping in view the increase or decrease in the interest rate prevailing in the market. At this point, Mr.M.Aslam Sabir, GM(PHS) left the meeting.

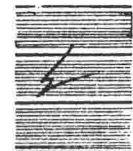
After thorough discussion, the Board resolved as under:-

**RESOLVED:**

**"that the proposal of ED(PHS) contained in the memorandum No.10 dated 27<sup>th</sup> February, 2004 to reduce the profit or return charged to policy loans and outstanding premiums in US Dollar and UAE Dhirman policies from 10% to 8% per annum compound with effect from March 1, 2004, be and was hereby approved."**

Action:  
ED(PHS)

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<p align="center"><b>ITEM (11) CONSIDER/APPROVE – DEALING WITH FOREIGN AND LOCAL PRIVATE BANKS.</b></p>			
<p>72. Executive Director(Investment) presented before the Board a memorandum for consideration and approval of dealing with foreign and local private banks. At this juncture of time, Mr. Ansar Hussain, GM(Inv) joined the meeting.</p>			
<p>73. Finance Division vide its Office Memorandum No. F.4(1)/2002-BR.II dated 2<sup>nd</sup> July,2003 placed at Annexure A has issued instructions for depositing working balances as well as investment of surplus funds of the public sector enterprises. The instructions regarding depositing of working balances were summarized below:</p>			
<ul style="list-style-type: none"> <li>a) The bank/financial institution accepting the deposit should have a minimum "A" rating (long term) by PACRA or JCR-VIS for local banks and by S&amp;P, Moody's or Fitch's for foreign banks</li> <li>b) The process of selection of banks should be transparent.</li> <li>c) Prior to placing deposits with a bank and in case the total working balances exceed Rs.10 million the selection of banks as well as the terms of deposits should be approved by the concerned Board of Directors on the basis of at least three competitive bids.</li> <li>d) Risk of keeping deposits be diversified. Hence in case total working balances exceed Rs.10 million not more than 50% of such balances be kept with one bank.</li> <li>e) In case the rating of the bank drops below "A" the balances be shifted to the new bank with at least "A" rating.</li> </ul>			
<p>74. Based on this criterion the working balances of the Corporation can be placed with following foreign and local banks which were "A" rated.</p>			
<ul style="list-style-type: none"> <li>i) Foreign banks. <ul style="list-style-type: none"> <li>a) American Express.</li> <li>b) Citi bank.</li> <li>c) Standard Chartered Bank,</li> <li>d) ABN AMRO Bank</li> <li>e) Bank Alfalah.</li> </ul> </li> <li>ii) Local banks. <ul style="list-style-type: none"> <li>a) Metropolitan Bank.</li> <li>b) PiCIC Commercial Bank.</li> <li>c) Muslim Commercial Bank.</li> <li>d) Askari Commercial Bank.</li> <li>e) Faysal Bank.</li> <li>f) Crescent Bank.</li> <li>g) Prime Bank.</li> <li>h) Soneri Bank.</li> <li>i) Bank Al Habib.</li> <li>j) Saudi Pak Bank.</li> </ul> </li> </ul>			
<p>75. The instructions regarding surplus funds were not applicable to the Corporation as opined by Law Division. The matter of appointment of Funds Manager was being taken up separately.</p>			

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	<p>76. Executive Committee at its 269<sup>th</sup> meeting held on August 1, 2002 considered the presentation of Executive Director (Investment) on policy for:</p> <ul style="list-style-type: none"> <li>a) Placement of Funds and</li> <li>b) Opening of accounts for normal banking transaction with selected foreign and local private banks.</li> </ul> <p>77. The following criteria was considered and approved by the Committee.</p> <ul style="list-style-type: none"> <li>i Foreign banks for placement of funds. <ul style="list-style-type: none"> <li>a) Credit Rating minimum 'A' by Standard and Poor's or Moody's Investors services.</li> <li>b) Profitability over last three years.</li> <li>c) Deposit base of substantially more than Rs.10 billion.</li> <li>d) Ratio of net assets to deposits equal to 8%.</li> </ul> </li> <li>ii Local banks for placement of funds/opening of accounts for normal banking transaction. <ul style="list-style-type: none"> <li>a) Credit rating minimum 'A' by PACRA or any other approved local agency.</li> <li>b) Profitability over last 3 years.</li> <li>c) Deposit base of substantially more than Rs.10 billion.</li> <li>d) Ratio of net assets to deposit equal to 8%.</li> </ul> </li> </ul> <p>78. Based on the above criteria the Committee approved the following banks.</p> <ul style="list-style-type: none"> <li>i) Foreign Banks for placement of funds. <ul style="list-style-type: none"> <li>a) Citi Bank NA</li> <li>b) Standard Chartered Bank</li> </ul> </li> <li>ii) Local banks for placement of funds as well as for normal banking transactions. <ul style="list-style-type: none"> <li>a) Metropolitan Bank</li> <li>b) Faysal Bank</li> <li>c) Soneri Bank</li> </ul> </li> </ul> <p>79. Performance of all the local bank has been reviewed on the basis of their 9 months financial results of 2003, where as performance of the foreign banks has been reviewed on the basis of their half year 2003 financial results. Based on the criteria mentioned above, the following banks now meet these criteria</p> <ul style="list-style-type: none"> <li>i) Foreign banks. (Annexure FB 1,2,3,4,5) <ul style="list-style-type: none"> <li>a) Citi Bank</li> <li>b) Standard Chartered Bank</li> </ul> </li> <li>ii) Local Banks (Annexure LB-1,2,3,4,5)</li> </ul>			<p>CHAIRMAN'S INITIALS</p> 



**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

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- a) Faysal Bank
- b) Prime Bank
- c) Soneri Bank
- d) Askari Commercial Bank
- e) Metropolitan Bank

80. At present the Corporation was placing its working balances with United Bank Ltd. and Habib Bank Ltd. which were in public sector in the past. Some of the funds have also been placed with National Bank of Pakistan. The Corporation kept its funds in the banks till such time it was able to invest them. Sometimes the bank balances accumulate in billions

81. The Board was requested to consider the consolidated instruments for depositing working balances as well as investment for surplus funds of the Corporation as mentioned in paras 1 & 3 of the memorandum and provide guidelines for implementation of these instructions.

After thorough discussion, the Board resolved as under:-

**RESOLVED:**

“that the proposal of ED(Inv) contained in paras 1 & 3 of the memorandum No.11, be and was hereby approved.”

**ITEM (12) CONSIDER/APPROVE – PRIVATE PLACEMENT IN THE TERM FINANCE CERTIFICATES OF DAWOOD LEASING COMPANY LIMITED.**

82. Executive Director(Investment) presented before the Board a memorandum for consideration and approval of private placement in the Term Finance Certificates of Dawood Leasing Company Limited. At this point, Mr. Ansar Hussain, GM(Investment) also joined the meeting.

**The Investment Proposal:**

Dawood Leasing Company (DLC) has approached State Life for private placement in Term Finance Certificates. The issue is for Rs.75 million and the tenor is 5 years.

**The Instrument:**

The details of the subject TFCs along with the terms and conditions can be seen at Annexure A.

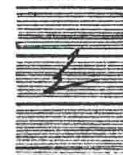
**The Issuer:**

Dawood Leasing Company was established and commenced operations in 1995. Since then the company is on the path of progress. Not only Net Investment in Lease has grown but also the company managed to diversify it through acquisition of other modaraba and leasing companies. State Life has representations on its Board.

**Purpose of Issuing TFCs:**

DLC intends to raise money to finance working capital requirements and to procure fresh leased assets.

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**Return on Investment:**

The profit would be paid semi annually in arrears. The rate would be based on cut-off yield of last auction of 5 years PIBs plus premium of 1.75%. In the current scenario the rate comes to 6.75% p.a. where as effective rate comes to 6.83% p.a.

**Security against the Debt:**

First pari passu charge on all the leased assets and receivables of the company. The existing charge of Rs.110 million assigned to Islamic Investment Bank Limited (i.e. Trustee) will be used.

**Outstanding Balance:**

State Life earlier at its Board meeting held on 7<sup>th</sup> October 2000 had decided to disburse Rs.75 million in three tranches to DLC subject to financial soundness. All the three tranches were released. Repayments of installments are satisfactory. As of January 31, 2004 Rs.9.908 million were outstanding.

**Financials:**

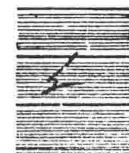
It is obvious from the following financials that there is considerable increase in total liabilities of the entity, which roused to Rs.3,359.90 million in the year 2003 from a level of Rs.384.59 million in the year 1997. However, with the increase in total liabilities of the company, there is corresponding increase in Net investment in Leases which has too doubled during the same period i.e. from Rs.408 million in 1997 to Rs.878 million in 2003, which itself is an indicator of better utilization of available financial resources. Though an enhanced level of liabilities has created imbalance in debt to equity ratio but the current and Interest Coverage ratios still meet the criteria prescribed under Prudential Regulations.

(Rupees in million)

YEARS	1997	1998	1999	2000	2001	2002	2003	3m04
Net Investment in Leases	403.14	453.65	576.09	661.45	735.37	833.40	878.15	1,885.30
Lease Income	121.29	133.36	154.05	171.04	184.58	203.90	216.53	57.35
Other Income	0.66	7.93	9.16	43.38	88.11	1.04	2.44	1.074
Total Revenue	121.95	141.29	163.21	214.42	272.69	279.23	398.21	139.39
Profit after Tax	45.2	10.2	19.9	31.1	31.51	22.10	280.85	10.20
EPS	1.81	0.41	0.8	1.24	1.26	1.31	11.60	2.09
BV	11.8	12.2	12.2	12.3	12.5	12.81	23.53	24.31
Fin Charges/Exp(%)	53.9	60.8	78.1	83.3	86.71	88.88	88.58	39.32
TIER (X)	2.03	1.69	1.35	1.41	1.40	1.16	2.46	1.28
Current Ratio	1.53	1.26	1.37	1.04	1.03	0.99	1.00	1.00
LTD	215.96	260.61	559.74	490.3	562.92	663.06	1,014.80	1,087.75
Total Liabilities	384.59	620.89	1,220.35	1,222.93	1,744.43	2,009.03	3,359.90	3,716.03
T.Liab/Equity	1.30	2.03	4.06	3.99	5.57	5.90	5.55	5.82
LTD/Equity	0.73	0.85	1.86	1.60	1.80	1.95	1.67	1.70
Debt/Equity (including current liabilities)	57.43	67.33	80.20	80.20	85.15	66.34	62.38	62.38

**The Risks:**

The real risk of the financial sector is that of the economy. No doubt the economy affects any industry but the fact is some industries have a beta of more than one. This means that few industries decline more than the economy when there is a decline in the economy. Financial sector falls into that category. In the leasing industry, the cash

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flows are severely affected by the downturn of the economy. When recession hits the market, the ability of the lessee deteriorates which in turn makes the earnings of a leasing company volatile. However, entity rating of A1 for short term and A for long term by PACRA suggests low possibility of default by Dawood Leasing Company on its financial commitments.

**Other avenues of Investment.**

Besides placing the funds in TFCs State Life can place its funds in Pakistan Investment Bonds of different tenures which at present are providing the following yields.

Tenure	Yield (%)
3 years	3.55
5 years	4.62
10 years	6.27
15 years	7.15
20 years	8.15

State Life can also place its funds in equities where it can get a yield in the range of 6% to 10% depending on the market conditions.

**Proposal to be considered by the Board:**

Attention is drawn to the provisions of S37(2) and S37(3) of the Insurance Ordinance, 2000 which reads as under:-

*37(2):-Except with the prior approval of the Board of Directors at regularly convened meeting by the vote of not less than two-third of the total number of directors, no insurer shall grant any loan or temporary advance to any firm or company in which any director, manager, actuary, auditor or officer of the insurer, any member of the family of such director, manager, actuary, auditor or officer has any interest as proprietor, partner, director, manager or managing agent: Provided that no such approval shall be required if the loan is secured by a life policy issued by the insurer and is an amount not exceeding 80% of the surrender value of that policy.*

*37(3):- The director concerned shall not vote at, or otherwise participate in the proceeding of the meeting of the Board considering the grant of any such loan or advance as is referred to in sub-section (2).*

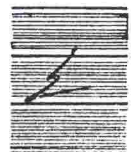
*Mr. Ansar Hussain General Manager Investment is on the Board of DLC. As such this memo is being submitted directly to the Board instead of the Executive Committee.*

**Recommendation:**

The rate of return on these TFC i.e cut-off of last auction of 5 years PIBs plus premium of 1.75% seems reasonable as the effective yield comes to 6.83% p.a. in the current scenario.

The Times Interest Earned Ratio (TIER) is 1.28(X), which is fine keeping in view the industry trend. For instance the TIER of some of the major leasing companies e.g: Orix leasing 1.24 (X), Askari Leasing 1.08(X), PICIC 1.36 (X).

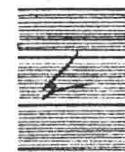
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<p>ion: ED(Inv.)</p>	<p>The issue is not rated but PACRA has assigned DLC an entity rating of A1 for short term and A for long term.</p> <p>83. The proposal of investment in the proposed TFCs up to Rs.75 million was submitted for consideration by the Board.</p> <p>After thorough discussion, the Board resolved as under:-</p> <p><b>RESOLVED:</b></p> <p>“that the proposal of ED(Inv) contained in the memorandum No.12 for investment upto Rs.75 million in the proposed TFCs of Dawood Leasing Company Limited, modified for investment upto Rs.25 million, be and was hereby approved.”</p> <p><b>ITEM (13) CONSIDER/APPROVE – PRIVATIZATION OF NATIONAL REFINERY LIMITED (NRL).</b></p> <p>84. Executive Director(Investment) presented before the Board a memorandum for consideration and approval of proposal of privatization of National Refinery Limited.</p> <p>85. State Life had received a letter dated 27<sup>th</sup> October, 2003 from Privatization Commission asking State Life to deliver its holdings in National Refinery to the Commission. State Life vide its letter dated 16<sup>th</sup> September,2003 requested Ministry of Commerce to ask Privatization Commission to exclude shares held by State Life in the Privatization process of NRL on the following grounds:</p> <ol style="list-style-type: none"> <li>The shares of National Refinery have been purchased out of life fund of the Corporation, which belong to the policy holders.</li> <li>The investments of the Corporation are highly regulated and there are only few opportunities for the Corporation to invest its funds.</li> <li>The receipt of proceeds of National Refinery will add to the cash flow of the Corporation making its investment difficult in future.</li> <li>The experience of the Corporation has not been good in case of privatization of Burma Oil Mills where the Corporation was not paid anything on the plea that the Commission had overspent in the payment of Golden Handshake.</li> </ol> <p>86. In reply Privatization Commission vide its letter dated 27<sup>th</sup> October 2003 which was received through Ministry of Commerce replied as under:</p> <ol style="list-style-type: none"> <li>State Life has earlier participated in privatization of Wazir Ali Industries, National Motors, Metropolitan Steels Ltd and Bankers Equities Ltd for which the Corporation has received Rs. 54,534,210/-.</li> <li>Policyholders of State Life will benefit out of profit realized from the sale of shares National Refinery Ltd.</li> <li>The case of Burma Oil Mills is quite different. It was a loss making company. Hence State Life did not receive any amount.</li> <li>Without participation of State Life the Commission will not be able to privatize National Refinery Ltd.</li> </ol>		

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87. In view of stand taken by Privatization Commission that it would not be able to privatize National Refinery Ltd. in case State Life did not participate in the privatization process of National Refinery Ltd. State Life expressed its willingness to deliver shares of National Refinery to the Commission.

88. Privatization Commission thereafter vide its letter dated 29<sup>th</sup> January 2003 sent a draft agreement for sale of entire holding of 4,447,160 shares of National Refinery held by State Life. The letter of the Commission has not yet been responded.

89. It may be mentioned that the Government of Pakistan in order to have effective control on State owned enterprises had frozen some of the shares held by various organizations so that the total holding of the Government comes to over 51%. The bonus and the right shares issued on the frozen portfolio were also frozen.

90. Accordingly 851,000 shares of National Refinery held by State Life were treated as frozen in 1983. National Refinery thereafter issued bonus and right shares on different occasions. This has increased the frozen holding of the Corporation to 2,127,500 shares.

91. State Life's total holding in National Refinery stands at 4,446,560 shares at an average holding cost of Rs.31.82 per share. State Life return on the investment over the year has been as under:

Years:	1999	2000	2001	2002	2003	HY04
Cash Div(Rs/Shr):	4.00	4.50	5.00	6.00	10.00	2.50

92. Return on Investment over the years on current holding cost and market price has been as under (Current market price of National Refinery is Rs.181 per share as on 9<sup>th</sup> March 2004.

Years:	1999	2000	2001	2002	2003
Yield on:					
Holding Cost:	12.57%	14.14%	15.71%	18.85%	31.42%
CM Price:	7.20%	2.45%	2.76%	3.31%	5.52%

93. Over the years the company in fact has not only strengthened its operating performance but also positioned itself as a vibrant and growing company. The sales touched its new peak and the networth consolidated further to ensure sustainable growth in future.

Years:	1999	2000	2001	2002	2003	HY04
Sales (Rsmn)	19,100	29,762	34,331	29,762	36,077	18,775
Net Profit (Rsmn)	643.3	706.7	775.7	780.8	1,352	838
Networth (Rsmn)	1,980	2,387	2,829	3,210	3,896	4,567
Book Value(Rs/Shr)	29.71	35.82	42.46	48.17	58.47	68.54

94. The process of deregulating the petroleum sector continues to offer an opportunity for further growth through better margin on the product. The lube base oil alone contributed Rs.4.5 billion to the total refinery sales for the financial year ended June 30, 2003. Furthermore, the government has also introduced new scheme of tariff protection and removal of guaranteed rate of return to the fuel refineries on their paid up capital. As a result, gross refining margin on fuel products has been encouraging and helped in improving profitability.

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**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

CTORS	HELD AT	ON	TIME
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95. The company produces LPG, naptha, motor gasoline, kerosene, lube base oils, asphalt, aviation fuels, diesel oils and fuel oil from its fuel and lube refineries. However, recent initiative of thermal power plants to convert themselves from fuel oil to natural gas has resulted into decline in the consumption of fuel oil but reconstruction activities in Afghanistan may generate higher demand of asphalt. The management of the company seems be to well aware of the development taking place in the external environment and repositioning itself to capitalize the upcoming opportunities and to address the possible threat effectively. The lube revamp project and the steps to maximize the production of asphalt could be termed as efforts in this direction.

96. Increasing trend in net worth is indicative of continuing growth in the operating assets of the company consequently higher profits in future. Therefore, selling off holding in market or delivering the same to Privatization Commission is tantamount to deprive the Corporation of 31.44% Return on its Investment.

97. It was to be noted that State Life was a liability management company and thereby has obligations to protect the interest of its policyholders by managing its assets in a way that facilitates in meeting its financial obligation in term of paying sum assured and better return to policyholder as and when they become due. Keeping the very facts in mind investment or divestment are made.

98. The Board was requested to decide whether entire holding of the Corporation in National Refinery be delivered to the Commission or the Corporation should deliver the frozen portion only and ask the Commission to quote indicative sale price.

99. Mr. Nessar Ahmed while joining the discussion, opined that delivery of 2,127,500 frozen shares of National Refinery Limited could not be objected. However, State Life should negotiate the price of remaining shares and get the best price.

At this point, Mr. Ansar Hussain, GM(Inv) left the meeting.

After thorough discussion, the Board resolved as under:-

**RESOLVED:**

“(a) that in view of proposal, contained in memorandum No.13 of ED(Investment), 2,127,500 frozen shares of National Refinery Limited were allowed to be delivered to Privatization Commission with the request to the Commission to quote indicative sale price, be and was hereby approved.”

“(b) that State Life should negotiate the price of remaining shares and get the best price, be and was hereby approved.”

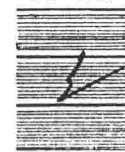
**ITEM (14) CONSIDER/APPROVE – MARK UP ON LOANS AND ADVANCES TO FIELD WORKERS.**

100. Executive Director(B&A) presented before the Board a memorandum for consideration and approval of mark up on loans and advances to field workers.


Action:  
ED(Inv.)

Action:  
ED(Inv.)


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MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME	
TE BOOK	KARACHI	3 <sup>RD</sup> APRIL' 2004		
Action: ED(B&A)	<p>101. The Board of Directors in its 173<sup>rd</sup> meeting held on 27<sup>th</sup> December, 2003 had resolved that rate of 12% mark up earlier fixed by the Board, was reduced from 12% to State Bank discount rate as on 31<sup>st</sup> December each year plus 2.5% w.e.f. 1<sup>st</sup> January of the following year for all new/outstanding balances of loans and advances to officers paid from the Shareholders Fund and to staff to be paid after this decision and that no mark will be charged against two month salary advance to employees (officers/staff) and temporary advances to agents was approved.</p> <p>102. In the above stated decision, mark up on loans and advances being paid to field workers (agents/employers of agents) was omitted. It was proposed that the rate of mark up on loans and advances paid from Shareholders Fund to agents/employers of agents may also be allowed in line with the rate of mark up allowed by the Board of Directors to officers and staff in its 173<sup>rd</sup> meeting held on 27<sup>th</sup> December, 2003.</p> <p>After thorough discussion, the Board resolved as under:-</p> <p><b>RESOLVED:</b></p> <p><i>"that the proposal of ED(B&amp;A) contained in the memorandum No.14 dated 18<sup>th</sup> March, 2004, the rate of mark up on loans and advances paid from Shareholders Fund to agents/employers of agents be allowed in line with the rate of mark up allowed by the Board to officers and staff in its 173<sup>rd</sup> meeting of Board, be and was hereby approved."</i></p> <p><b>ITEM (15) CONSIDER/APPROVE – APPOINTMENT OF CHAIRMAN FOR:</b></p> <p>(I) STATE LIFE EMPLOYEES CONTRIBUTORY PROVIDENT FUND.  (ii) STATE LIFE EMPLOYEES PENSION FUND.  (III) STATE LIFE OFFICERS GRATUITY FUND.</p> <p>103. Executive Director(B&amp;A) presented before the Board a memorandum for consideration and approval of appointment of Chairman for (i) State Life Employees Contributory Provident Fund, (ii) State Life Employees Pension Fund and (iii) State Life Officers Gratuity Fund.</p> <p>104. Mr. Muhammad Latif, Ex-Executive Director (B&amp;A) was holding the position of Chairman of following three Funds relating to the employees retirement benefits, till his retirement:</p> <p>i) State Life Insurance Corporation Employees Contributory Provident Fund  ii) State Life Employees Pension Fund  iii) State Life Officers Gratuity Fund</p> <p>105. After the retirement of Mr. Muhammad Latif, the position of Chairman of all three funds has fallen vacant. The Corporation has the authority to appoint Administrators/Trustees of the Fund. The Chairman of the Fund, who presides over the meeting of the Administrators/Trustees, was also appointed by the Corporation. Since under the terms of LINO, the Corporation' business was transacted through its Directors, the appointment of a Chairman for each of the above mentioned fund was required to be made by the Board of Directors.</p> <p>106. In view of the above, it was submitted that the Board may kindly approve the appointment of Mr. Muhammad Javed Khan, Executive Director (B&amp;A), as Chairman of following funds:</p>			<p>CHAIRMAN'S INITIALS</p> 

**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

DIRECTORS	HELD AT	ON	TIME	
E BOOK	KARACHI	3 <sup>RD</sup> APRIL' 2004		
<p>Action" ED(B&amp;A)</p>	<p>i) State Life Insurance Corporation Employees Contributory Provident Fund ii) State Life Employees Pension Fund iii) State Life Officers Gratuity Fund</p> <p>After thorough discussion, the Board resolved as under:-</p> <p><b>RESOLVED:</b> "that as proposed by ED(B&amp;A) and contained in the memorandum No.15 dated 16<sup>th</sup> March, 2004, the appointment of Mr. Muhammad Javed Khan, Executive Director (B&amp;A), as Chairman of above funds, in place of Mr. Muhammad Latif, Ex-Executive Director(B&amp;A), be and was hereby approved."</p> <p><b>ITEM (16) CONSIDER/APPROVE – APPOINTMENT OF ADMINISTRATOR OF STATE LIFE EMPLOYEES CONTRIBUTORY PROVIDENT FUND.</b></p> <p>107. Executive Director(B&amp;A) presented before the Board a memorandum for consideration and approval of appointment of Administrator of State Life Employees Contributory Provident Fund.</p> <p>108. The Regulation 4(1) of State Life Insurance Corporation Employees Contributory Provident Fund provides that the Fund shall have 12 Administrators, who will be appointed by the Corporation. The said Regulation is reproduced below:</p> <p><i>"4. Administration – (1) The fund shall be held by the Corporation and shall be administrated by a committee of twelve persons, including a Chairman, appointed by the Corporation in such manner and for such term as it may determine from time to time (hereinafter referred to as the Administrators). The management, custody, investment and control of the Fund shall vest in the Administrators."</i></p> <p>109. Consequent upon retirement of Mr. Muhammad Mazharuddin, Ex-Executive Director, upon attaining age of superannuation, the administrators of the Fund have resolved to nominate Mr. Shahrukh Sabzwari, D.G.M. (Actuarial Division) as an Administrator of the State Life Employees Contributory Provident Fund in place of Mr. Muhammad Mazharuddin. A copy of the resolution was attached.</p> <p>110. The matter is, therefore, placed before the Board of Directors for consideration and approval for appointment of Mr. Shahrukh Sabzwari as an Administrator, State Life Employees' Contributory Provident Fund in place of Mr. Muhammad Mazharuddin.</p> <p>After thorough discussion, the Board resolved as under:-</p> <p><b>RESOLVED:</b> "that as proposed by ED(B&amp;A) contained in the memorandum No.16 dated 5<sup>th</sup> March, 2004 for appointment of Mr. Shahrukh Sabzwari, as an Administrator, State Life Employees' Contributory Provident Fund in place of Mr. Muhammad Mazharuddin, be and was hereby approved."</p>			<p>CHAIRMAN'S INITIALS</p> 
Action: ED(B&A)				



**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

MEMBERS	HELD AT	ON	TIME
MEMORANDUM	KARACHI	3 <sup>RD</sup> APRIL' 2004	

**ITEM (17) VISIT OF DIRECTORS TO COMPUTER DIVISION, PRINCIPAL OFFICE AND KARACHI(SOUTHERN) ZONE, TO WITNESS THE PROGRESS OF COMPUTERIZATION.**

111. The members of the Board of Directors visited the Computer Room situated at 4<sup>th</sup> floor of Principal Office, Karachi and witnessed the progress made by Computer Division. During the course of visit, the members of the Board asked different questions to ascertain the progress of computerization. The members of Board appreciated the achievements and pointed out that there was lot of room for improvement in the computer system. The Board also stressed that the update online facility be made available to the policyholders as early as possible so that a policyholder could watch and ascertain the status of his policy as well as may get other information through online facility.

Action:  
ED(CD)

112. The visit to Zonal Office Karachi(Southern) Zone was deferred for one of the next meetings of the Board.

**ITEM 18(I) CONSIDER/REVIEW – MINUTES OF 11<sup>TH</sup> MEETING OF BOARD AUDIT COMMITTEE HELD ON 26<sup>TH</sup> DECEMBER, 2003.**

Action:  
GM(LA&F)

113. Mr. Bashir Ahmed, Chairman Board Audit Committee, presented before the Board, the Minutes of 11<sup>th</sup> meeting of Board Audit Committee held on 26<sup>th</sup> December, 2003, which were noted.

**ITEM 18(II) CONSIDER/APPROVE - COMPENSATION AMOUNTING TO RS.56.008 MILLION RECEIVABLE FROM GOVERNMENT OF PAKISTAN BEING PAYMENT MADE TO DEFUNCT INSURERS.**

114. Mr Khizar Hayat Aamir, DH(B&A) and Mr. Latif A. Chaudhry, DH(Law) joined the meeting and they briefed the Board on the financial and legal aspects of the memorandum respectively.

115. At the time of nationalization of the life insurance business in Pakistan, the defunct insurers, whose life business was transferred and vested in the Corporation, were required to be paid compensation in terms of Article 39 of Life Insurance (Nationalization) Order, 1972 (LINO). Compensation was approved by the Federal Government in the amount of Rs.56.008 million, which was paid by the Corporation to the defunct insurers under Article 39 of LINO, which reads as follows:

*“39. Compensation. (1) Where the life insurance business of the insurer has been transferred to and vested in a Corporation, compensation shall be paid by the Corporation to that insurer.”*

116. However, the Life Fund of the Corporation, after payment of 2.5% of the actuarial surplus to the Government of Pakistan as dividend, belongs to policyholders and the Corporation could not make any payment out of this fund to the erstwhile insurers under the provisions of section 10(3) of the repealed Insurance Act, 1938, which reads as under:

*“10 Separation of accounts and funds. (3) The life insurance fund shall absolutely the security of the life policyholders as though it belonged to an insurer carrying on no other business than life insurance business and shall not be liable f*

CHAIRMAN'S  
INITIALS



**MINUTES OF 176<sup>TH</sup> MEETING OF THE BOARD OF DIRECTORS**

RS OK	HELD AT <b>KARACHI</b>	ON <b>3<sup>RD</sup> APRIL' 2004</b>	TIME
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*contracts of the insurer for which it would not have been liable had the business insurer been only that of life insurance and shall not be applied directly or indirectly for any purposes than those of the life insurance business of the insurer."*

117. Anyway, since the payment was made on the directives of the Government of Pakistan but was not refunded by the Govt. of Pakistan, an asset titled "Balance of Compensation Receivable" was created at that time, in order to create the entry in the books of accounts.

118. As the matter remained unresolved because the Government of Pakistan refused to refund this amount on the plea that the Corporation was required to bear this expense under Article 39 of LINO, this amount of Rs.56.008 million was appearing in books of accounts since long. Our statutory auditors have been qualifying this amount for last so many years. The auditors have again repeated their qualification in accounts for the year 2002. The Board Audit Committee while approving the accounts for the year 2002, recommended to write off this amount if it was not receivable.

119. It was likely that the qualification will again be repeated by the Auditors. The matter was therefore discussed in the meeting of Management Committee, which was attended by Chairman and all Executive Directors. Divisional Heads (B&A) and (Law) were also invited to attend the meeting. After the detailed discussion, a general consensus was emerged in the meeting that the payment of compensation to defunct insurers was the responsibility of State Life under Article 39 of LINO and Govt. of Pakistan was not liable to refund the amount to the Corporation. Therefore, the amount so paid should have been charged to Revenue Account instead of showing it receivable. However, the amount was shown as "amount receivable" because it was thought at that time that the Government of Pakistan is the sole shareholder of the Corporation.

120. The Board of Directors was therefore requested to kindly accord approval to the Management to reverse the amount of Rs.56.008 million from "Amount Receivable" and charge the same to Revenue Account for the year 2003.

After thorough discussions, it was decided that legal opinion from external legal advisor should be obtained and thereafter be placed before the Board for consideration.


**RESOLVED:**

*"that in relation to memorandum No.18(II) of E1(B&A), the legal opinion from external legal advisor to ascertain the legal position be obtained and be placed before the Board for their consideration, be and was hereby approved."*

**ITEM 18(II) CONSIDER/APPROVE - EQUITY INVESTMENT.**

121. Executive Director(Investment) presented before the Board a memorandum for consideration and approval of equity investment. At this point, Mr. Ansar Hussain, GM(Investment) also joined the meeting.

122. State Life has to invest its funds in ordinary shares keeping in view the provisions of Insurance Ordinance 2000, Insurance Rules 2002 and SRO(309)K of 1970 as amended to date. Clause (d) of SRO(309)K reads as under:

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Action:  
D(B&A)  
D(Law)

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(d) Preference or ordinary shares, modaraba certificates of any company incorporated in Pakistan, other than a private limited company and listed on any stock exchange in Pakistan, up to 30% of the sum referred to in sub-section (1) of section 27 of the Act, subject to the following conditions, namely:-

(i) in the case of ordinary shares of any such company, dividend of not less than 5% including bonus have been paid on such shares for the five years immediately preceding the date of investment or for at least five of the seven years immediately preceding the date of investment.

123. The above clause has become a restrictive clause for the Corporation. The Corporation could not invest in equities in growing company like HUBCO till it declared its interim dividend in 2004 which was the fifth consecutive year of declaration of dividend for HUBCO.

124. The matter has been considered in depth by the Corporation and it has been felt the Ministry of Commerce be requested to consider amendment in clause d(i) of SRO(309)K so that the Corporation can invest in equities of the companies which dividend regularly for three years or for three out of five years preceding the date of investment.

125. The Board was requested to consider and approve the amendment in SRO(309)K placed as Annexure. At this point, Mr. Ansar Hussain, GM(Investment) left the meeting.

After thorough discussion, the Board resolved as under:

**RESOLVED:**

"that the proposal of ED(Investment) contained in the memorandum No.18(III), for proposed amendment in SRO 309(K)/70 dated 21.03.1970, be and was hereby approved."

126. The meeting ended with mutual vote of thanks.

*M K H*  
CHAIRMAN

Action:  
ED(Inv.)  
ED(Law)

CHAIRMAN'S  
INITIALS

