

MINUTES OF 209TH MEETING OF THE BOARD OF DIRECTORS

DIRECTORS	HELD AT	ON	TIME
MINUTE BOOK	KARACHI	22 ND MARCH, 2010	

CONFIDENTIAL AND RESTRICTED

The 209th Meeting of the Board of Directors of State Life Insurance Corporation of Pakistan was held on Monday, 22nd March, 2010 at 3.00 p.m. in the Board Room, State Life Building No.9, Dr. Ziauddin Ahmed Road, Karachi.

PRESENT:

- | | |
|----------------------------|-----------------|
| 1. Mr. Shahid Aziz Siddiqi | Chairman |
| 2. Mrs. Spenta Kandawalla | Director |
| 3. Mr. Aslam Faruque | Director |
| 4. Mr. Amin Qasim Dada | Director |
| 5. Mr. Rasheed Y. Chinoy | Director |
| 6. Syed A. Wahab Mehdi | Director |
| 7. Syed Hur Riahi Gardezi | Director |
| 8. Mr. Akbarali Hussain | Secretary Board |

LEAVE OF ABSENCE:

- | | |
|-----------------------|----------|
| 1. Mr. Shafqat Naghmi | Director |
|-----------------------|----------|

2. The meeting started with recitation of verses from the Holy Quran by the Chairman.

3. Mr. Allah Rakha Aasi, Executive Director(F&A/ACT), Mr. Ansar Hussain, Senior General Manager(Investment), Mr. Azqar Khan, Divisional Head(F&A), Mr. Nabil Ghafoorzada, Divisional Head(P&M) attended the meeting by invitation to present the Memorandums of their portfolios.

ITEM (1) CONFIRMATION OF MINUTES OF 208TH MEETING OF THE BOARD OF DIRECTORS.

4. The minutes of the 208th meeting of the Board of Directors held on 12th March, 2010 together with implementation report were placed before the Board.

Item No5. Para-47 of 206th meeting – budget proposal for the year 2010 – carry forward of capital expenditure budget.

5. The Secretary Board submitted before the Board that it was erroneously recorded in the resolution in para-47(b) of the 206th meeting that the Board had approved at the request of Real Estate Division the carry forward to the year 2010 of the un-utilized budget for the year 2009 of Rs.573.632 million./The correct position is that the Board had decided that in future the un-utilized budget would lapse at the end of the budgetary period and no carry forward would be allowed, as such the resolution in para-47(b) of the 206th meeting stands corrected as stated above.

Action:
ED(F&A)
DH(F&A)

Action:
Secretary
(Board)

6. Due to paucity of time the confirmation of the minutes was deferred to the next meeting of the Board.

CHAIRMAN'S INITIALS



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<p>Action: ED(Act) DH(Act)</p>	<p>ITEM (2) POSITION PAPER ON LAST THREE YEARS REINSURANCE EXPENSES.</p> <p>7. Due to paucity of time, the above item was deferred to the next meeting of the Board.</p>		
<p>Action: ED(Mkt) DH(Mkt)</p>	<p>ITEM (3) ESTABLISHMENT OF NEW ZONES BY UPGRADING SECTORS/SUB-ZONES.</p> <p>8. Due to paucity of time, the above item was deferred to the next meeting of the Board.</p>		
<p>Action: DH(Inv)</p>	<p>ITEM (4) DETAILED REPORT ON INVESTMENT STRATEGY AND SYSTEMS PREPARED BY M/S. SIDAT HYDER MORSHED ASSOCIATES (PVT) LIMITED.</p> <p>9. The Board Audit Committee in its 31st meeting held on 21st December, 2009 had decided that a copy of "Investment Strategy and Systems Detailed Report" prepared by M/s. Sidat Hyder Morshed Associates (Pvt) Ltd in February 2007 be circulated to all the Board members for their perusal which was agreed to by the Board in its meeting held on 22nd December, 2009.</p> <p>10. As directed by the Board at its 207th meeting held on 2nd March, 2010, SGM(Investment) presented before the Board, a Memorandum regarding critical analysis of investment strategy and systems prepared by M/s. Sidat Hyder Morshed Associates (Pvt) Limited which was noted by the Board.</p>		
	<p>ITEM (5) FINALIZATION OF INVESTMENT POLICY FOR REAL ESTATE DIVISION.</p> <p>11. The Board of Directors at its 205th meeting held on 22nd December, 2009 had confirmed minutes of 7th and 8th meeting of Real Estate Committee held on 10.10.2009 and 04.12.2009 and advised Investment Division to submit the Real Estate Investment Policy to the Board in its next meeting for review and finalization.</p> <p>12. SGM(Investment) discussed the final version of Real Estate Investment Policy Statement with Mr. Omer Morshed, Director, Sidat Hyder Morshed Associates (Pvt) Ltd on 29th January, 2010. The final report as prepared by the above firm after addressing the points raised by SGM(Investment) was submitted to Mr. Ansar Hussain, SGM(Investment) on 2nd February, 2010 which was then submitted to the Board at its 207th meeting held on 2nd March, 2010.</p>		

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<p>13. Mr. Omer Morshed of M/s. Sidat Hyder Morshed Associates attended the 207th meeting of the Board by invitation and explained the report which was prepared in the year 2007 at the request of the Asian Development Bank. The report had suggested that certain proportion of State Life fund should be invested in each class of assets so as to ensure that the assets matched the liability of State Life since most of the policies are sold by State Life under conventional guaranteed policies. The Board requested Mr. Omer Morshed to modify the policy statement to bring it in accordance with prevalent laws and practices. Accordingly, Sidat Hyder Morshed Associates (Pvt) Ltd sent a modified version of the paper to Mr. Ansar Hussain, SGM(Investment) reflecting the discussions with the Board in 207th meeting.</p> <p>14. A Memorandum containing views of Investment Division alongwith the modified version of the revised policy submitted by M/s Sidat Hyder Morshed Associates (Pvt) Ltd on 3rd March, 2010 was submitted to the Board.</p> <p>15. The salient features of the policy suggested by Mr. Ansar Hussain, SGM(Investment) are as under:</p> <ol style="list-style-type: none"> 1. Investment Goals The primary goal of investment in properties is to provide a long term return on investments, to achieve diversification and to provide a hedge against inflation besides providing income through rental yields. The secondary goal is to own offices and reduce impact of rental inflation. The target return net of direct cost is between 13% to 15%. 2. Allocation in form of investment The Corporation's overall strategy provides for 9% of the fund for investment in properties at market value of the assets. The investment in properties can be in the form of outright ownership or real estate investment trust. The investment should be made without taking any loans. 3. Properties suitable for investment The Corporation can invest in commercial buildings construction projects, land and REITs. The minimum amount to be invested should be Rs. 100 million. The properties should be purchased where there is a market and only in urban areas. The Corporation will not invest in buildings to be used for hotels, warehouses and industrial concerns. <p>The Corporation can also invest and construct buildings for sale. The following limits shall apply to all the avenues as a percentage of real estate investment at market values:</p> <table data-bbox="402 1870 901 2011"> <tbody> <tr> <td>Commercial building</td> <td>No limit</td> </tr> <tr> <td>Construction projects</td> <td>10%</td> </tr> <tr> <td>Land</td> <td>15%</td> </tr> <tr> <td>REITs</td> <td>20%</td> </tr> </tbody> </table>				Commercial building	No limit	Construction projects	10%	Land	15%	REITs	20%
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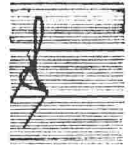
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<p>4. Valuation of Properties The following methods have been proposed for valuation of properties:</p> <ul style="list-style-type: none"> • Replacement cost method • Sales comparison method • Discounted value of income method. <p>5. Responsibility for investment decisions This section of the report defines role of Real Estate and Investment Division as under:</p> <p>a) Real Estate Division This Division shall be responsible for identifying suitable tenants negotiating rent, managing leases and maintenance of buildings.</p> <p>b) Investment Division This Division shall be responsible for record keeping of properties, monitoring market values for sale, purchase, modification decisions, monitoring rental yields and providing support for buy sell decisions in respect of new properties. Responsibility for all investment decisions and of monitoring yield shall rest with Real Estate Investment Committee which shall comprise of:</p> <ul style="list-style-type: none"> ✓ • Chairman State Life ✓ • Executive Director (responsible for investment and real estate) • General Manager Investments • Head of Real Estate section of Investment Division (Secretary of Committee) • General Manager Real Estate • Three non-executive Board Members (other than the Chairman) <p>The Real Estate Committee at its discretion can appoint independent advisors to assist them with the requisite technical support when making buy, sell or hold decisions.</p> <p>Investment proposals received from third parties will be analyzed by Investment Division and submitted to the Committee.</p> <p>Final approval of any buy or sell decisions or decisions relating to construction of buildings on land shall be given by the Board of Directors.</p> <p>6. Portfolio Review and Triggers for Investment Decisions Real Estate portfolio shall be reviewed by Investment Division at least once a quarter and may call meeting of the Real Estate Committee in case there is an opportunity which requires urgent consideration. Whenever meeting of Committee is held, Investment Division will prepare a report containing the following:</p>			

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- An overview of real estate market in the country.
- Movements in any benchmarks
- A summary of portfolio major in terms of market value.
- A summary of rental yields of existing rental properties
- Issues relating to investment performance of Real Estate Portfolio
- Recommendations of Investment Division

Transactions relating to acquisition, disposal or change in the form of real estate assets to acquire a property for less than its market value, and interested purchaser of an existing property for more than Corporation's estimated value, rebalancing of portfolio or simply disposing of an under-performing asset.

7. Process of acquisition or disposal

a) Acquisition

First step in acquiring a new property will be identifying the need for it, followed by locating suitable asset to invest. It may be offered by a third party or will be advertised. In case, where Corporation is looking to invest properties in a particular location without having readily identified, Investment Division will ascertain general market conditions including benchmark prices.

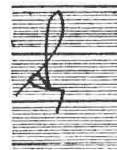
All property purchases will be made under the rules published by the Public Procurement Regulatory Authority. Offers will be received and evaluated by Investment Division and a recommendation will be made to the Real Estate Committee for decision. The Committee may take assistance of a firm of consulting firm of engineers, if necessary. Legal Affairs Division will also be consulted to ensure that the seller has valid title to the property and free from any encumbrance.

Precise valuation of actual property be carried out to arrive at the decision whether to accept the offer or not and if so, the highest price at which this can be accepted. Negotiations will be carried out by at least three members of the Real Estate Committee to try to finalize the deal within the price limit approved by the Committee. The deal will be put up to Board of Directors for final approval. Once the approval has been obtained the remaining transaction will be completed using the Corporation's standard procedures for acquisitions of this size.

b) Disposal

At the time of disposal, the Corporation will establish a minimum price which will be approved by the Committee. Disposal will be through open tender.

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8. Comments on the proposed policy

At present records of properties are maintained at Real Estate Division, it is suggested that the same be continued.

The word market value has been stressed in the policy for calculation of overall asset allocation strategy i.e. 9% which will be creating difficulty in obtaining market values of properties from time to time. Further the ratios of properties in the overall investment portfolio at market price as at 31.12.2009 exceeds 9% threshold and will require sale of existing properties instead of additional investment.

There is already a Real Estate Committee of the Board which may be reconstituted to cater to the proposals made in the report.

Average historical returns on the investments in real estate for the last three years is submitted hereunder:

Closing period	Property Cost WDV	Rs in million	
		Net Income	Yield
31.12.2007	2331	316	14.52%
31.12.2008	2437	342	15.45%
31.12.2009*	2510	335	14.53%

*Estimated.

16. Accordingly, the Board resolved as under:

RESOLVED:

“that the policy regarding investment in Real Estate as recommended by SGM(Investment) and reproduced above was approved by the Board as a guide line till a comprehensive investment policy is finalized and approved by the Board.”

ITEM (6) POSITION PAPER ON “CENTRE POINT” PROJECT – CURRENT STATUS.

POSITION PAPER ON COST BENEFIT ANALYSIS AND RISK AND RETURN ANALYSIS ON CENTRE POINT PROJECT AND REPORT OF INDIVIDUAL VALUER I.E. NESPAK.

17. The Board of Directors at its 208th meeting held on 12th March, 2010 had considered the report and recommendations of the Convenor, Real Estate and Investment Division Committee together with the minutes of the 4th meeting of the Real Estate and Investment Division Committee and agreed in principle to its recommendations subject to the following observations:-

- a) that the issue of management control will be re-examined by Mr. Mahmood Mandviwalla, legal consultants of State Life, ensuring that State

Action:
DH(Inv)

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Life has a equal representation vis a vis M/s TPL Properties (Pvt) Limited on the Board of the joint venture company. However the CEO to be appointed will be a nominee of M/s TPL Properties (Pvt) Limited and his powers and functions will be clearly specified in the contract.

b) that the Chairman State Life who will be the Chairman of M/s TPL Properties (Pvt) Limited will have a final casting vote in case of a deadlock.

c) that M/s NESPAK be asked to verify the increase in rentable area from 161,722 sq.ft. to 191,932 sq.ft., signed off earlier by M/s Arcop Limited, Architect of the project and review and revise its previous valuation report.

d) that the transaction with regard to investment in joint venture will commence only after the title of the property has been transferred from M/s A & A Associates to M/s TPL Properties (Pvt) Limited.

e) that cost over-runs in excess of the agreed project price of Rs.2.95 billion between State Life and M/s. TPL Properties (Pvt) Ltd will be borne by M/s. TPL Properties (Pvt) Ltd from its own resources without any cost to State Life, however in case if M/s. TPL Properties (Pvt) Ltd do not have sufficient funds to meet the overruns, M/s. TPL Properties (Pvt) Ltd will sell/transfer their shareholding of equivalent value to the extent of overruns to State Life Insurance Corporation of Pakistan for funding of overruns.

f) that a counter proposal be made by the Convenor State Life Real Estate and Investment Committee for Centre Point Project Mr. Rasheed Y. Chinoy to M/s TPL Properties (Pvt) Limited at cost incurred to date plus premium instead of its market price on completion of the project minus basis.

18. As directed by the Board at its 208th meeting, Senior General Manager(Investment) submitted before the Board, a letter No.2676/08/FA/01/264 dated March 19, 2010 received from M/s. NESPAK

This is with reference to the valuation of Centre Point carried out by NESPAK and meeting had on March 15 & 19, 2010 with Mr. Rasheed Chinoy.

Based on the additional area information provided by M/s. ARCOP (Pvt) Ltd and its impact on construction cost provided by M/s. A & A Associates (Project Managers). The revised construction value is as follows:-

Description	Present Day Const. Cost (Rs./Sft.)	Covered Area (Sft.)	Value of construction (Rs.)
Centrepoint office Building, Karachi (at the time of Completion)	6050	352,662	2,133,605,100
		Say	2,133,605,100

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The revised market value of the property is as follows:

Description	Area (Sft) (Rs./Sft.)	Present day Rate (Rs./Sft.)	Market value (Rs.)
Saleable area Centrepont (at the time of Completion)	196,618	17,500	3,440,815,000

The rate of Rs.17,500 per sq.ft. is applicable for office floor areas only, which includes lift area and utilities area available on any particular floor. This does not include share in areas coming from other floors. Furthermore, the market value calculated above is the value of Centrepont estimated at present day cost in terms of prospective buying provided that the management completes the project as per finishes and stipulated completion target. At the time of site visit, it was observed that the Project of Centrepont is approximately 60% complete.

It may however, be noted that the multistoreyed state of the art building designed by the reputable architect and constructed by a leading constructor, it has a potential to appreciate in value at the time of completion. Therefore, 15% premium may be applied to the project. This factor is applied on the total value of asset and therefore, addresses any future increase in land value or improvement in real estate scenario.

19. Mr. Rasheed Y. Chinoy informed the Board that in case of increase in cost on completion the advantage would accrue to State Life and not to M/s. TPL Properties (Pvt) Ltd. He further informed that if M/s. NESPAK were to physically verify the area it would take them about 2 to 3 months. They have therefore relied upon the certificate issued by M/s. ARCOP (Pvt) Ltd. The Board was also informed that State Life have got the valuation of Centre Point done by M/s. Oceanic Surveyors (Pvt) Ltd and M/s. National Engineering Services Pakistan (Pvt) Ltd whereas valuation have been done by M/s. Ernst & Young and M/s. Iqbal Nanji on behalf of M/s. TPL Properties (Pvt) Ltd.

Action:
DH(Inv)

20. The Board desired that M/s. NESPAK (Pvt) Ltd should explain certain differences which have been noted in the two reports submitted on March 1, 2010 and March 19, 2010 regarding:-

- a) Constructed and rentable square footage
- b) Construction cost rate

Action:
DH(Inv)

21. Syed A. Wahab Mehdi, observed that while negotiating the final price with M/s. TPL Properties (Pvt) Ltd should ensure that the value of the project at the time of completion on the very first day should at least show a minimum profit of 10% to State Life as well as M/s. TPL Properties (Pvt) Ltd, if the ~~assets~~ with the project were required to be sold off.

ASSETS

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Action:
DH(Inv)

22. The Board also decided that in case of any cost over runs in the Centre Point Project, it would be met by M/s. TPI Properties (Pvt) Ltd who would be given 45 days for financing the cost over runs, failing which M/s. TPL Properties (Pvt) Ltd would sell their shareholding equivalent to cost over runs at par value i.e. Rs.10 per share to State Life.

Action:
ED(F&A)
DH(F&A)
DH(Inv)

23. The Board approved a compensation equivalent to Director's Fee for two meetings of the Board to Mr. Rasheed Y. Chinoy, Director for time spent in two meetings with M/s. NESPAK (Pvt) Ltd and ED(F&A) was authorized to allocate a budget to Investment Division for the above compensation to Mr. Rasheed Y. Chinoy.

Action:
ED(F&A)
DH(F&A)
DH(Inv)

24. The Board also authorized ED(F&A) to allocate budget to Investment Division in respect of Director's Fee and travel and hotel expenses, to be paid to the Directors for attending the meeting of the Real Estate and Investment Division Committee for Centre Point Project.

ITEM (7) STATE LIFE TOWER PROJECT – ISLAMABAD

25. A Memorandum dated 12-03-210 in respect of State Life Tower Project – Islamabad was presented before the Board by Divisional Head(P&M).for approval of the following:-

- a) Additional budget of Rs.563 million thus making the total budget of Rs.1272 million (Rs.709 + Rs.563) for State Life Tower, Islamabad
- b) Award of work to the lowest bidder M/s. Moinsons for contract sum of Rs.571,851,701/-

26. Divisional Head(P&M) submitted that the Honorable Minister of Commerce has allowed the award of work upon which the case is being processed by the Tender Committee of State Life which studied the recommendation of Architectural Consultant M/s. Suhail & Pasha and the Real Estate Consultant M/s. NESPAK. The Tender Committee, upon the clearance by the Minister, held its meeting to study the recommendations of the Architectural Consultant M/s. Suhail & Pasha and the Real Estate Consultant M/s. NESPAK.


27. M/s. Zoom Engineers, one of the disqualified contractors had earlier submitted a plea to the Ministry of Commerce and upon the directive of the Minister, an inquiry was conducted to ascertain it the ground of disqualification was valid. The Committee comprising of ED(F&A) and GM(P&GS), confirmed that M/s. Zoom Engineers was rightly disqualified and in light of their findings, the Hon'ble Minister was requested to allow the award of work.

28. The Tender Committee in its meeting held on 10-03-2010 has recommended the award of work to the lowest bidder M/s. Moinsons for contract sum of Rs.571,851,701 subject to the proviso:-

- a) The contractor confirms in writing that they are willing to work on the tender rates as the award of work has been delayed beyond tender validity period of 120 days.

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	<p>b) The Contractor re-validates the tender guarantee upto 30-04-2010.</p> <p>(l) As per the report of the Consultant, the contractor has missed out to quote the rates of item No.31.1 i.e. painting of 14th floor. The contractor should confirm that they will execute this work, however, the rates will not be paid separately and will be presumed to be a part of the other items.</p> <p>29. The Consultant M/s. Suhail & Pasha contacted M/s. Moinsons, the contractor to comply with the requirements of the Tender Committee. M/s. Moinsons vide letter dated 11-03-2010 have shown their willingness to take up the job and assured to renew the tender validity guarantee.</p> <p>30. Based on the prices quoted by the lowest tenderer for civil, electrical and plumbing works, estimated cost for air-conditioning and lifts and the add-ons approved by the Board, the revised cost of the project has been evaluated as Rs.1272 million.</p> <p>31. Accordingly, the Board was resolved as under:</p> <p>RESOLVED: “that the above case be referred to the Real Estate Committee for its review and consideration and submission of its recommendations to the Board at its next meeting for decision.”</p> <p>ITEM (8) <u>ANY OTHER ITEM WITH THE PERMISSION OF THE CHAIR</u></p> <p>(l) <u>PERQUISITES ALLOWED BY BOARD TO CHAIRMAN AND EXECUTIVE DIRECTORS</u></p> <p>32. The Board of Directors had taken a serious exception to non compliance of the resolution of the Board passed at its 197th meeting and subsequent ratification at its 205th meeting of the recommendation of the 3rd meeting of the HR Committee with regard to perquisites allowed to the Chairman by the Board and directed ED(F&A) to brief the Board at its 209th meeting to be held on 22nd March, 2010 as to reasons for non compliance.</p> <p>33. A Memorandum dated 19th March, 2010 was submitted by Divisional Head(F&A) to the Board on the above subject</p> <p>34. The perquisites of Chairman and the Executive Directors were first approved by the Board of Directors in its 197th meeting held on 3-11-2008 alongwith salary and perquisites of other officers of the Corporation. P&GS Division vide their letter Ref:10(2)/2008 dated 6-2-2009 referred the case for concurrence/approval of the Ministry of Commerce.</p>			<p>CHAIRMAN'S INITIALS</p> 

Action:
ED(RE)
DH(REM)
DH(P&M)

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<p>Action: ED(F&A) DH(F&A)</p>	<p>35. The Board considered the explanation of Executive Director(F&A) and Divisional Head(F&A) and re-iterated the previous decision of the Board and directed for its immediate and unconditional implementation.</p>		
	<p>(II) <u>MANAGEMENT OF STATE LIFE PROPERTIES</u></p>		
<p>Action: ED(RE) DH(REM) DH(P&M)</p>	<p>36. Syed Hur Riahi Gardezi, Director pointed out that the Board of Directors had earlier considered refurbishment of State Life properties and had also allocated budget for the same. The Board directed that Divisional Head(P&M) to submit a Memorandum to the Real Estate Committee at its next meeting explaining the current status of the refurbishment of State Life Buildings including ACs system, lifts etc and the statement of expenditure incurred to date .</p>		
<p>Action: ED(RE) DH(REM) DH(P&M)</p>	<p>37. To a query of Syed Hur Riahi Gardezi as to the methodology of fixation of rents, Mr. Nabil Ghafoorzada, DH(P&M)RE explained that the rent was negotiated with the tenants and it was ensured that the rent recommended to the Real Estate Functional Committee for approval was not less than the rent paid for by the previous tenants.</p>		
<p>Action: ED(RE) DH(REM) DH(P&M)</p>	<p>38. The Board desired that a Memorandum be submitted to the Real Estate Committee at its next meeting explaining the methodology and bench marks on which rents was determined and fixed for State Life properties at the time of renewal of leases and entering into new leases. The Board also desired whether a market survey of nearby buildings was carried out or not. The methodology of fixation of rents should maximize rental income and bring it in line with the market prevalent rents.</p>		
	<p>39. The meeting ended with vote of thanks to the chair.</p>		
	<p style="text-align: right;"> (CHAIRMAN)</p>		
	<p style="text-align: right;">CHAIRMAN'S INITIALS </p>		