

The Directors' Report

for the year ended December 31, 2010

The Directors are pleased to present the annual report and the audited accounts for the year ended December 31 2010.

Industry Review

The country's economy continues to remain under stress due to various factors including delay in implementing key economic reforms, and as a consequence will miss three key targets – GDP growth (2.5% against target of 4.5%), fiscal deficit (6.5% against 4.0%) and inflation (16% against 9.5%). The unprecedented floods too did not allow the economy to recover.

The above factors have resulted in growth of 4% to 5% (2.2% in 2009) of the non-life insurance industry. Low growth in premium Induced insurance companies to Slash Premium Rates below economic levels in most classes of Business. The Fire, Engineering and Crop portfolios have also been mauled by the losses Due to the catastrophic Floods which occurred in July and August 2010.

Performance Highlights

Despite the difficult economic and business conditions, the Company has posted a growth of 6.30% in written premium to achieve Rs.4.28 billion and the net premium revenue increased by 6.70% to Rs.2.45 billion. The unprecedented floods also impacted the Company's underwriting result (which but for this unfortunate Event would have shown a healthy profit of Rs.142 million i.e. 25% more than 2009) to produce an underwriting loss of Rs.64 million.

Investment income also declined Due to lower return on bank deposits and less capital gains realized on securities available for sale the key performance indicators of the year 2010 are summarized below:

	2010	2009
	(Rupees in 000)	
Gross Premium	4,285,248	4,030,643
Net premium Revenue	2,451,227	2,297,720
Underwriting Result	(64,085)	114,121
Investment Income including Capital gain and Rent	586,715	673,537
Profit before tax	546,682	771,898
Profit after tax	450,151	656,464
Earning per share of Rs.10 each	5.69	8.30

Fire & Property

The Fire & Property portfolio contributed gross premium of Rs.1,101 million which equals 26% of the total gross premium written by the Company and 7% more than the previous year DUE TO the flood this portfolio resulted in an underwriting loss of Rs.20 million, as compared to profit of Rs.18 million in the previous year.

Marine, Aviation & Transport

This portfolio contributed Rs.535 million to the gross premium of the Company which represents 12% of the total gross premium written. The premium increased by a robust 22% and the underwriting profit under this class is Rs.20 million (Rs.69 million in 2009).

Motor

Motor portfolio constituted 15% of our business with a written premium of Rs.642 million during 2010 which is almost the same as in the previous year. Although vehicle production has increased in the country but the Company has maintained its portfolio with selective underwriting, resulting in an underwriting profit of Rs.10 million (Rs.51 million in 2009) despite extra-ordinary increase in vehicle theft during 2010.

Liability

The liability portfolio constituted 7% of our business with a written premium of Rs.319 million (2009: Rs.358 million) and contributed Rs.29 million to the profit of the Company during 2010 (2009: 27 million). We continue to focus on this line of business to grow it profitably.

Accident & Health

The Accident & Health portfolio contributed 10% of our business. Due to consolidation undertaken in this class of business during 2010, the premium of Rs.410 million did not show any growth over previous year. The loss increased to Rs.59 million (2009: loss Rs.20 million). Despite the continuous increase in hospitalization costs, the Company is confident of turning around this portfolio profitable in 2011.

Other Classes

Miscellaneous class constituted 30% of Company's total portfolio and posted 10% growth in written premium to Rs.1,279 million (2009: Rs.1,159 million). Engineering and Crop insurance were badly effected by the unprecedented floods and consequently this portfolio posted a loss of Rs.41 million (2009: loss Rs.26 million).

Investment Income

The investment income of the Company from all sources including returns on bank deposits, realized capital gain and income from real estate holdings generated Rs.587 million in 2010 (2009 : Rs.674 million). The decrease is mainly due to lower income from bank deposits as substantial funds were invested in Government Treasury Bills and in money market funds and less capital gains realized from sale of securities due to imposition of capital gain tax.

However, our investment portfolio as on December 31, 2010 shows an unrealized gain of Rs.1,901 million inclusive of appreciation of Rs.1,262 million on our real estate holdings.



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Dividend and Appropriations of profit:

The amount available for appropriation is:

Amount brought forward from previous years
Profit after tax for the year
Amount available for appropriation

(Rupees in 000)
56,953
450,151
507,104

The Directors recommend that this amount be appropriated in the following manner:

Appropriation

Transfer to General Reserve
Proposed final cash dividend @ 20% (2009: 30%)
Proposed issue of bonus shares @ 25% (2009:20%)
Carry forward to next year

100,000
158,195
197,744
51,165
507,104

Market Share

NJI's market share OF PREMIUM has increased from 7.6% in 2005 to 11.60% in 2009. It is expected to increase further in 2010, when the statistics for all the companies are compiled by the Insurance Association of Pakistan.

Reinsurance

Due to the adverse law and order situation, increasing number of catastrophes and small volume of premium. Pakistan market is not very attractive for international reinsurers. However, the Company was able to negotiate all treaty renewals successfully. In view of Company's expanding capital base and increasing premium volume business, it has been possible to increase reinsurance capacity which will further enhance the level of Company's security.

Insurer Financial Strength Rating

Both Pakistan Credit Rating Agency (PACRA) and JCR-VIS have reaffirmed the "AA" rating of NJI's financial strength with "Positive Outlook" which is an improvement over the "Stable Outlook" assigned in previous years. The AA rating denotes a very strong capacity to meet policy holder and contract obligations.

NJI continues to maintain its unique distinction of being the only Pakistan insurer with "AA" rating from both rating agencies of Pakistan.

Liquidity Management

During the year, an amount of Rs. 474 million (2009: Rs 217 million) was generated from operating activities which has been invested in short term T-bills and for payment of dividend to shareholders. The company manages its liquidity to ensure its ability to meet contractual obligations promptly.

Achievements

During the year, the company has secured 1st position in the Best Corporate Award, in the Non-Banking Financial Sector. The award was jointly organised by the Institute Chartered Accountants of Pakistan and Institute of Cost and Management Accountants of Pakistan to encourage and recognize excellence in annual corporate reporting as well as to promote corporate accountability and transparency through publication of timely information in a factual and reader friendly manner.

The South Asia Federation of Accountants (SAFA) has also awarded a Certificate of Merit to the Company for the best presented Accounts for the year 2009 in the category of non-banking sector.

During the year the Company also received ISO 9001:2008 Certification, which is an international recognition and approval of operating processes and systems. The certificate provides an additional tool and opportunity to concentrate on meeting customer expectations in all business areas.

Contribution to the National Exchequer

The company has contributed Rs.834 million (2009: Rs.596 million) to the National Exchequer during the year in the form of direct and indirect taxes and other mandatory contributions.

Corporate Social Responsibility

NJI endeavors to play its role as a good corporate citizen by supporting worthy causes which aim to improve the lives of our people, and make our country a better place to live in.

In the year 2010, the company has donated Rs.2.92 million to welfare institutions working in the health, education and environment sectors.

The Board also approved a donation of Rs.2.50 million for rehabilitation of flood victims. The employees of the Company also contributed one or two days salary for flood relief efforts, reflecting CSR spirit at large in the Company.

Human Resource Development

NJI's growth over the years clearly speaks for the quality of its Human Resource. Our training and development activities ensure that employees at all levels are nurtured with required skills and knowledge, to enable to perform their jobs more productively. The company has its in-house training facility. Employees are also sent for external trainings both locally and overseas. In addition, NJI also facilitates its employees by providing financial assistance, to achieve the internationally recognized insurance professional qualification, known as ACII (Associate of the Chartered Insurance Institute, UK).

Business Risk and Business Process Re-Engineering (BRP)

Details of Business Risk and BRP are annexed to this report (Page 28).



The Directors' Report

Board Meetings

The Board of Directors held five (5) meetings in 2010. Attendance of Directors is indicated below:

Name of Director	Meetings attended
Towfiq H. Chinoy	04
Akbarali Hashwani	05
Masood Noorani	05
Akbarali Pesnani	03
John Joseph Metcalf	05
Aly Noormahomed Rattansey	05
M. Akhtar Bawany (Alternate Director to Sadruddin Hashwani)	04
R. Zakir Mahmood	03
Tahir Ahmed	05

Board Committees

During the year the Board Audit Committee, Human Resource & Remuneration Committee and Finance & Investment Committee held four, two and four meetings respectively. The names of the members of the Board Committees and terms of reference are given in the annexure to this report (Page 29). Except for the Managing Director and CFO, all others are non-executive Directors.

Management Committees

The Company has three management committees which cover the core areas of business; these are Underwriting Committee, Claims Settlement Committee and Re-insurance & Co-insurance Committee. During the year four meetings were held by each committee. The names of members and the terms of references of these committees are given in the annexure to this report (Page 31).

Statement of Directors Responsibilities

In compliance with the Corporate and Financial Reporting Framework of the Code of Governance the Directors confirm the following:

- the financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- proper books of accounts of the Company have been maintained.
- appropriate accounting policies have been consistently applied in preparation of Financial Statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standard as applicable in Pakistan have been followed in the preparation of financial statements and any departure there from has been adequately disclosed.
- the system of internal control is sound in design and has been effectively implemented and monitored.
- there are no significant doubts upon the Company's ability to continue as a going concern.
- there is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Pattern of Shareholding and trading in the shares

The Pattern of Shareholding and the information regarding trading in the shares of the Company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary are annexed to this report (Pages 32).

Key Financial Data

Key financial data for the last ten years is annexed to this report (Page 34).

Value of investments in Provident Fund and Gratuity Fund

The Values of investments in employees retirement funds based on audited accounts for the year ended December 31, 2009 are as follows:

	(Rupees in 000)
Staff Provident Fund	100,651
Employees' Gratuity Fund	49,098

Auditors

Messrs Ernst & Young Ford Rhodes Sidat Hyder have audited the accounts for the year 2010, and have offered themselves for re-appointment. The Board Audit Committee recommends that they be re-appointed as the statutory auditors for a further term of one year, and the Board endorses this recommendation.

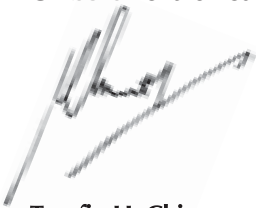
Future Outlook

While the global scenario for 2010 shows signs of a recovery, the domestic economy would remain under stress due to pressures of fiscal deficit and high inflation resulting in low GDP growth. The Company plans to face this challenging situation by focusing its efforts to grow ITS insurance business in a profitable manner.

Acknowledgement

We thank our valued clients and shareholders of the Company for their support which has enabled us to achieve healthy growth over the years. We also thank our brokers and reinsurers for their valuable services and would like to record our appreciation for the cooperation of Securities & Exchange Commission of Pakistan. We also acknowledge the hard work and dedication of our development officers, staff members and executives without whom we could not have achieved our goals.

On behalf of the Board.



Towfiq H. Chinoy
Chairman
Karachi: 24 February 2011

