

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,
Assalamu Alaikum wa Rahmatullah.

The Board of Directors (BoD) of your company Padma Islami Life Insurance Limited (PILIL), welcome you to the 20th Annual General Meeting (AGM) and would like to thank you for your continued patronage and support over the years. We are pleased to present before you the Annual Report along with the Auditors' Report and audited Financial Statements for the year ended 31st December 2019 for kind consideration and adoption.

This Report has been prepared in compliance with the provisions of relevant Acts, Rules, Regulations, Notifications, etc. issued by the Regulatory Bodies wherein the Directors have made relevant disclosures and explanations pertaining to compliance, transparency and sound corporate governance along with the details of the business performance, operations and achievements of the company for the year ended 31 December 2019.

In fact, the year 2019 is very significant for the company in terms of performance, achievements and a new constructive transformation in all sphere of the company.

INDUSTRY OUTLOOK AND POSSIBLE FUTURE DEVELOPMENT IN THE INDUSTRY

According to the 'World Insurance Report' published by **Swiss Re**, a very large international reinsurer, global premiums collection grew in 2019 steadily at just below 3% in real terms. In comparison, Life sector growth was a bit sluggish at 2.2%, although stronger than the 1.5% average of the previous 10 years. In view of above scenario, PILIL has achieved a commendable growth of 12.45% in collection of premium in 2019.

However, according to the estimate made by **Swiss Re**, the COVID-19 pandemic:

- will spark the deepest recession since the 1930s,
- will contract global gross domestic product (GDP) by around 4% in 2020,
- will lead to a slump in demand for insurance in this year and next, more so for life.
- will slow life premium growth by 4.5% this year and next, leading to 1.5% aggregate market contraction
- will hit hard group and individual savings business because of rising unemployment and falling incomes

The **profitability** of life insurance sector will face tougher challenges for:

- probable losses in invested assets caused by rising corporate defaults.
- Declining sales and fee income due to restricted in-person interactions on account of the lockdown measures imposed to contain virus spread

However, they also forecast that combined life premiums written will recover to above pre-pandemic levels over the course of 2021, a strong and optimistic outcome given the severity of this year's recession. By the grace of Allah SWT, we pray and hope that, COVID-19 will be removed very soon and we will be able to overcome the adverse impacts of the pandemic very early.

SEGMENT-WISE PERFORMANCE OF PILIL

The product wise break-up of premium income and management expenses with corresponding figure of 2018 is presented below:

Particulars	2019 (In crore Taka)	2018 (in crore Taka)	Increase/Decrease over 2018
First year premium:	13.16	8.27	60%
Ekok Bima	10.86	6.80	60%
DPS (Khudra Bima)	2.30	1.47	65%
Renewal Premium	45.98	47.08	-2.5%

Ekok Bima	40.36	39.07	4%
DPS (Khudra Bima)	5.62	8.00	-30%
Group Insurance Premium:	7.05	3.51	100%
Gross Premium	66.21	58.87	12.50%
Life Fund	20.97	45.39	-55%
Claims settlement	68.75	106.59	-37%
Management Expenses	25.48	39.13	-34.85%
Commission to Insurance Agents	4.60	5.94	-23%
Allowances & Commission (Other than Commission included above)	2.55	1.82	40%
Administrative & other expenses	18.33	31.23	-42%

YEAR-WISE PERFORMANCE FOR THE LAST FIVE YEARS

Year-wise Performance of the company for last five years has been depicted in a separate statement under title "Performance of the PILIL at a glance". Some highlights are given in items below:

Amount in Lac Taka

Particulars	2019	2018	2017	2016	2015
First year Premium	1,316.71	827.52	4,213.28	5,302.04	5,289.70
Renewal Premium	4,598.48	4,708.30	6,463.93	7,950.88	8,952.99
Group Insurance Premium	705.88	351.99	175.99	53.33	113.97
Gross Premium	6,621.09	5,887.82	10,853.20	13,306.25	14,356.66
Investment Income	696.51	796.69	726.79	1003.86	1,668.61
Claims	6,875.24	10,659.53	19,282.27	11,455.15	8,732.04
Management Expenses:					
a) Commission	714.81	777.25	1,834.24	2,543.19	2,918.66
b) Admin Expenses	1,833.09	3,123.97	3,858.20	4015.67	3,815.15
Assets	22,388.77	22,386.66	23,894.04	33,133.85	36,372.52
Life Fund	2,097.85	4,539.67	12,882.57	27,303.40	31,429.06

Claims to Premium (%)	102%	181%	177.66%	86%	61%
Management Expenses to Premium (%)	27.60%	67.56%	52.36%	49%	47%
Net Operating Cash Flow per Share	(13.12%)	(17.20%)	(20.15%)	(8.34%)	4.16%

KEY OPERATING AND FINANCIAL DATA

Life Fund:

Total life fund of the Company as at 31st December, 2019 stood at Tk. 20.97 crore as against Tk. 45.39 crore in the preceding year. Life Fund of the Company has been decreased due to maturity of significant amount of claims. The Board hopes that the life fund will increase gradually by virtue of building up consequential margin expected to be achieved from the initiatives taken so far.

Investment Portfolio:

The Investment of the Company for the year of 2019 was Tk. 136.13 crore. The comparative statement of the last five years' investment is given below:

Particulars	2019	2018	2017	2016	2015
Fixed Deposit	4.06	8.32	8.60	19.22	93.95
Investment on Govt. Securities, Bond & Mutual Fund	30.77	31.77	59.67	90.16	46.56
Share & Debenture	10.96	6.81	3.26	5.61	4.75
Land, Building & others	90.34	91.08	96.77	95.14	104.10
Total:	136.13	137.98	168.30	210.13	249.36

RISK AND CONCERN

Over the last decade, the business world has faced unprecedented changes and challenges. Specially, Insurances of all sizes are now more concerned than ever about risk and its management.

Importantly, risk management is a central part of the PILIL's strategic management focus. PILIL's risk management objectives ensure that strategic, operational and tactical risks are identified, documented, managed and controlled appropriately.

We have employed Enterprise Risk Management (ERM) Framework for our risk management system which enables us to act quickly and prudently in the event of risk occurrence, and also helps us create a library of our risk response initiatives developing our core competitive advantages.

DISCLOSURE REGARDING EXTRA-ORDINARY GAIN OR LOSS

There was no extra-ordinary gain or extra-ordinary loss during the year 2019.

DISCLOSURE REGARDING RELATED PARTY TRANSACTION

In ordinary course of business, related party transactions take place with other entities that fall within the term 'related party' as defined in IAS 24: Related Party Disclosure. A statement on the related party transactions has been disclosed under item no.30 of the notes to the financial statements.

DISCLOSURE REGARDING UTILIZATION OF PROCEEDS FROM PUBLIC ISSUES, RIGHTS ISSUES AND/OR ANY OTHER INSTRUMENTS

During the year 2019, the Company did not issue any share or other instruments.

DISCLOSURE REGARDING VARIANCE BETWEEN QUARTERLY FINANCIAL PERFORMANCE AND ANNUAL FINANCIAL STATEMENTS

Statement of Quarterly Financial Statement is given separately. There were some variances in the financial results from quarter to quarter. But they are not very significant or material in nature.

DISCLOSURE ON REMUNERATION OF THE DIRECTORS

The Directors including Independent Directors, all being Non-Executive Directors, are given only Meeting Attendance Fee. During the year 2019, a total amount of BDT 11,04,000 was given to the Directors as Meeting Attendance Fee. However, in 2018 the amount was BDT 15,77,900.

DISCLOSURE ON PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The Board of Directors places before you the financial statements for the year ended 31 December 2019 for their adoption. The Directors confirm, to the best of their knowledge, that-

- (i) The financial statements present fairly its state of affairs, the result of its operations, cash flows and changes in equity;
- (ii) Proper books and accounts of the company have been maintained;
- (iii) Appropriate accounting policies have been applied consistently in preparation of the financial statements and the accounting estimates are based on reasonable and prudent judgment;
- (iv) IAS/IFRS, as applicable in Bangladesh, have been followed in preparation of the financial statements;
- (v) As required by condition 6 of the guidelines, the Chief Executive Officer (CEO, CC) and the Chief Financial Officer have jointly certified to the Board that-
 - (a) They have reviewed the financial statements of the company for the year ended 31 December 2019 and to the best of their knowledge and belief:
 - (i) These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) These statements together present a true and fair view of the company's affairs and are in compliance with existing accounting standards and applicable laws
 - (b) There are, to the best of their knowledge and belief, no transactions entered into by the company during the year are fraudulent, illegal or violating the company's code of conduct.

DISCLOSURE ON INTERNAL CONTROL SYSTEM

The Board states that the systems of internal control are sound in design and have been implemented and monitored effectively.

PILIL follows Committee of Sponsoring Organization (COSO) framework for evaluating internal controls in the organization. The COSO model defines internal control as "a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance of the achievement of objectives in the following categories:

- ✓ Effectiveness and efficiency of operations
- ✓ Reliability of financial reporting
- ✓ Compliance with applicable laws and regulations"

However, the BoD is primarily responsible to establish and review the operational effectiveness of such controls in PILIL. As delegated by the Board, the Audit Committee of PILIL ensures through Internal, External, Compliance, Special and/or other Audits that the system of internal control is adequate and effective.

Internal Audit Unit of PILIL does have valuable contribution to wards improving the effectiveness of its systems of internal control. Its risk-based audit approaches provide reasonable assurance to the Audit Committee and the Management about the adequacy and effectiveness of the internal control system in the company.

PROTECTION OF NON-CONTROLLING SHAREHOLDERS

The Board certifies that non-controlling shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress.

SUBSIDIARY OPERATIONS

PILIL has no subsidiary and therefore, no disclosure is applicable hereto.

COMPANY'S ABILITY TO CONTINUE AS GOING CONCERN

The Directors declare that there are no significant doubts upon the company's ability to continue as a going concern. For this purpose of assessment whether PILIL has ability to continue as a going concern, the following issues have been considered:

- ✓ The commitment towards the claims filed and its ability to meet contractual obligations as they become due;
- ✓ Liquidity-related actions and plans to stabilize the businesses and repay the outstanding debt;
- ✓ The level of PILIL's realized and unrealized losses and the negative impact of these losses on shareholders' equity, and
- ✓ Opinion of Financial and Compliance Auditors

While considering these issues, significant judgments and estimates with respect to the potentially adverse financial and liquidity effects of PILIL's risks and uncertainties have been made.

DIVIDEND

The Board does not propose any dividend for the year 2019 as no distributable surplus was available.

DISCLOSURE REQUIRED UNDER CLAUSE 6(2) OF BSEC NOTIFICATION NO.: SEC/CMRRCD/2009-193/07/ADMIN DATED: 01.09.2020 REGARDING REASONS FOR THE COMPANY'S FAILURE IN OPERATING AND PERFORMING PROFITABLY, IDENTIFY RESPONSIBLE PERSON, MEASURES TAKEN AND BUSINESS PLAN PROPOSED

As we have mentioned earlier, the present BoD was reconstituted on 21 October 2018. At that time, the Company was facing extreme challenges due to huge unsettled claims, severe liquidity crisis, customer dissatisfaction, reputational issues and declining business, etc. In such a situation, the outgoing owners transferred ownership to the present owner and the new Board took the control.

After taking over the charge, the BoD tried to identify the specific reasons and persons responsible for such situation. It found that poor business and investment strategies, excessive management cost, over-staffing, inefficiency and dishonesty of some employees, mismanagement, wanton mishandling of assets, poor IT infrastructure, absence of integrated software and lack of governance were the key reasons. In the process it also identified a number of persons responsible for that situation.

After identifying the specific reasons and persons responsible, The BoD has immediately taken appropriate corrective measures- some of them are ongoing. It has

- Given its best effort primarily in arranging fund for payment of outstanding claims. It has so far paid off tk. 153 crore in outstanding claim up to August 2020 from October 2018.
- Formulated effective strategies for boosting up revenue and market penetration, specially through shifting its business focus on group insurance.
- Established 'one-stop customer service' to provide expedited services and quick redress of grievances to regain the customer satisfaction.
- Directed its tremendous effort to install full-featured integrated ERP software for business process automation.

- Shut down a number of recurrently loss making Units and thus reduced the management cost to a great extent.
- Right-sized the number of employees by removing dishonest, inefficient but highly paid employees at the same time recruiting and upgrading efficient and skilled employees.
- Reduced the usage of office space in Head Office and Units using the spaces optimally and thus reduced the cost materially.
- Also reduced the number of cars used by the staff and in pool and saved huge costs.
- Reengineered most of the core business processes mainly through introduction of computerized system and automation for eliminating redundancies in resource utilization e.g. time, cost, staff etc.
- Strengthened risk management and control system and corporate governance through implementation of ERM Framework, and COSO Framework for Internal Control.

In addition to the above measures taken by the BoD, it has also taken legal measures against dishonest employees identified embezzling the fund of the Company. As of now 34 nos. of litigations are ongoing against them and two are imprisoned and a substantial amount of embezzled money has already been recovered.

As a result of the measures taken, Premium collection during the year reached Tk. 66.21 crore as against Tk. 58.87 crore in 2018 recording a growth of 12.50% in 2019 and group insurance revenue has been increased almost 100% over last year. On the other hand, management expenditure was reduced with a strenuous effort by 34.85% from Tk. 39.13 crore in 2018 to Tk. 25.48 crore in 2019. Also, as part of fulfilling our primary commitment, we have paid off Tk. 68.75 crore in settling overdue claims in the year 2019.

BUSINESS PLAN FOR 2020

Keeping in view the effect of pandemic and the above scenario, Padma Life has revised its business plan and strategy for survival and growth. As, due to restricted in-person interactions on account of the lockdown measures etc. and grave global economic recession, we assume that premium income against Individual (Ekok) and Micro (DPS) insurance may not grow sufficiently despite all possible measures.

Therefore, in addition to taking all necessary steps to boost up selling Individual (Ekok) and Micro (DPS) insurance, collecting renewal premium and reviving lapsed policies, our business plan redirects company's major efforts and focus on 'Group life Insurance' as opposed to individual schemes.

Under group insurance category, every attempt will be made, in addition to increasing sale of employees' life insurance schemes, to bring Banks' depositors and investors of some specific categories under group life insurance coverage. In this regard, considerable progress has already been made. Agreement with corporate clients (e.g. banks, financial institutions and other corporate entities) has already increased manifold. As mentioned above, group insurance revenue has been increased almost 100% over last year.

Our business plan also encompasses elimination of unnecessary costs and optimal use of resources. We are committed to continue our efforts as mentioned above to reduce excessive cost and make the business profitable.

We are hopeful, by the grace of Allah SWT, through implementing our well-crafted and pragmatic business and action plans we will be able to make PILIL one of the country's best life insurance company, Insha-Allah.

BOARD MEETINGS

The Directors of PILIL meet on a regular basis. A detail statement showing attendance of the Directors in the Board Meetings is placed as under:

Sl. No.	Name of Directors	Position	Meeting held	Attended
01	Professor N R M Borhan Uddin Ph.D (Representative of Pavilion International Ltd.)	Chairman	08	08
02	Dewan Nurul Islam, FCA, MBA (Representative of Crest Holdings Ltd.)	Vice Chairman	08	07
03	Mr. Humayun Bokhteyar, FCA, ACPA (Representative of Unitex LP Gas Ltd.)	Director	08	08
04	Md. Zahirul Islam (Representative of Unitex Petroleum Ltd.)	Director	08	06
05	Mrs. Zaman Ara Begum (Representative of Affinity Assets Ltd.)	Director	08	07
06	Dr. Md. Nurul Aktar Chowdhury	Independent Director	08	07
07	Dr. Mohammad Nayeem Abdullah	Independent Director	08	08
08	Professor Dr. Serajul Hoque	Independent Director	08	08
09	Md. Belal Hussain, FCA	Independent Director	08	07

SHAREHOLDING PATTERN

Shareholding position of Directors and other related parties at the end of 2019 is as under:

Sl. No.	Directors	No. of shares held	Share holding Ratio	Comments
01.	Professor N R M Borhan Uddin Ph.D (Representative of Pavilion International Ltd.)	28,10,720	7.23%	
02	Dewan Nurul Islam, FCA, MBA (Representative of Crest Holdings Ltd.)	26,98,120	6.94%	
03	Mr. Humayun Bokhteyar, FCA, ACPA (Representative of Unitex LP Gas Ltd.)	30,93,600	7.96%	
04	Md. Zahirul Islam (Representative of Unitex Petroleum Ltd.)	25,32,780	6.51%	
05	Mrs. Zaman Ara Begum (Representative of Affinity Assets Ltd.)	23,88,320	6.14%	
06	Dr. Md. Nurul Aktar Chowdhury (Independent Director)	1,000	-	
07	Dr. Mohammad Nayeem Abdullah (Independent Director)	1,000	-	
08	Professor Dr. Serajul Hoque (Independent Director)	1,000	-	
09	Md. Belal Hussain, FCA (Independent Director)	-	-	
Total:		1,35,26,540	34.79%	

Shares held by Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and their spouses and minor children, Executives & shareholders holding 10% or more

Sl. No.	Particulars	No. of shares held	Shareholding Ratio	Comments
b.1	Directors/Executives	1,35,26,540	34.79%	
b. 2	Chief Executive Officer	Nil	-	
b. 3	Chief Financial Officer	Nil	-	
b. 4	Head of Internal Auditor	Nil	-	
b.5	Company Secretary	Nil	-	
c	Executives	Nil	-	
d	Shareholders holding 10% or more voting rights	Nil		
Total:		1,35,26,540	34.79%	

RETIREMENT AND ELECTION/RE-ELECTION OF DIRECTORS

Sponsor Directors:

In accordance with the Articles 96 of the Articles of Association of the Company, two directors shall retire by rotation from office at the 20th Annual General Meeting. The retiring directors are:

- i. Mr. Dewan Nurul Islam, FCA, MBA
- ii. Mr. Humayun Bokhteyar, FCA, ACPA

Being eligible they offered themselves for re-election.

Public Shareholder Directors:

In accordance with the provision under Article 96 of the Article of Association of the Company and as provided under Insurance Act & Rules, Public notification with regard to election of Public Subscribers' Director has been published in the 2 (two) national Dailies, but no nomination papers were received from the shareholders for election.

Independent Directors:

As per the BSEC's Corporate Governance Guidelines dated 03 June 2018, (i) At least one fifth (1/5) of the total number of directors in the company's board shall be independent directors, (ii) Independent Director(s) shall be appointment by the Board of Directors and approved by the shareholders in the Annual General Meeting (AGM), and (iii) the tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) term only.

Accordingly, the Board of Director of PILIL appointed 4 (four) Independent Directors and such appointments have subsequently been approved by the shareholders in the last AGM. Therefore, no independent director needs to be appointed in this AGM.

APPOINTMENT/RE-APPOINTMENT OF AUDITORS

Financial Auditor:

The Company's statutory auditors Kazi Zahir Khan & Co., Chartered Accountants, shall retire in the 20th Annual General Meeting and are eligible for reappointment. Since the said auditor is interested for reappointment for the year 2020, the BoD has endorsed the recommendation of Audit Committee for reappointment at a remuneration of BDT 1,20,000 including income tax. As such the matter is placed before the 20th AGM for kind approval.

Compliance Auditor:

Shafiq Basak & Co., Chartered Accountants was the Corporate Governance Auditors for the year 2019. Since the said auditor is interested for reappointment as compliance auditor for the year 2020, the BoD has endorsed the recommendation of Audit Committee for reappointment at a fee of Tk.25,000 including income tax and the matter is placed before the AGM for kind approval.

CORPORATE GOVERNANCE

The Directors of PILIL are committed in adopting the highest governance standard and implementing them in protecting the interests of shareholders, policy holders and all other stakeholders. The Company has complied with all necessary guidelines under BSEC notification no. BSEC/CMRRCD/2006-158/207/Admin/80 dated June 03, 2018. A certificate of Compliance required under the said Guidelines, as provided by Shafiq Basak & Co., Chartered Accountants, is annexed in the Annual Report 2019.

Audit Committee:

The Committee plays an important role to ensure transparency, accountability in the operations of the Company and confirming that the activities are conducted within the framework of principles and policies as laid down by the Board, as well as the guidelines of the Securities and Exchange Commission's notification No. BSEC/CMRRCD/2006-158/207/Admin/80, dated June 03, 2018. The Audit Committee reviewed the financial statements of the company for the year ended 31st December, 2019 audited by the External Auditors stressing on the importance of the successful compliance within the company.

Nomination and Remuneration Committee (NRC):

In compliance with Notification No. BSEC/CMRRCD/2006-158/207/Admin and dated June 03, 2018 issued by the Bangladesh Securities & Exchange Commission, Padma Islami Life Insurance Ltd. formed a Nomination and Remuneration Committee (NRC). The NRC is responsible or accountable to the Board and to the Shareholders of the Company. One meeting of NRC was held during the year 2019.

DECLARATION OR CERTIFICATION BY THE CEO AND THE CFO TO THE BOARD

The Details of discussion of declaration by the CEO and Finance Controller is appended separately.

DECLARATION OR CERTIFICATION BY THE SHARIAH BOARD

A declaration by the Shariah Committee on compliance with Islamic Shariah is appended separately.

MANAGEMENT DISCUSSION & ANALYSIS ON THE COMPANY'S POSITION AND OPERATION**Services to Policyholders:**

The reputation and progress of the company largely depend on rendering prompt and quality service to the policyholders. Keeping this in view, we have further strengthened our Services and launched a One-stop Service center. Additionally, the company has settled and paid off Survival Benefit up to the certain amount from Zonal Head Quarter to expedite services to the Policyholders. During the year, the Company has settled Maturity & Claims of significant amount totaling to Tk. 68.75 crores.

Human Resource Practices:

PILIL is committed to providing equal opportunities to all employees, irrespective of their gender, race, nationality, ethnic origin, or religion. PILIL is an inclusive employer and values diversity in its employees. These extend to recruitment and selection, training, career development, flexible working arrangements, promotion and performance appraisal. Our corporate goal is to improve staff engagement by measuring and responding to staff members' views and willingness to exert extra effort to achieve business success.

We provide necessary support to staff in order to manage change effectively. We credit the strength of our people for our organization's success, their understanding of strategy and goals, as well as their satisfaction with the work they do and how it contributes, are of critical importance.

We continue our efforts to create and maintain a highly skilled and motivated workforce. Through our succession planning initiatives, leadership capacity is identified and developed to ensure ongoing success through adequate training and motivation. The Manpower strength of the company at the end of 2019 was 592.

Information Technology:

Information and Communication Technology (ICT) has become indispensable for Insurance Companies in ensuring smooth operation and providing efficient services. Recognized this fact the Board has adopted a comprehensive ICT policy for the company.

ICT system of PILIL has been revamped by strengthening and securing the automation of services. The highly experienced and trained ICT professionals are working on implementing and developing the company's online integrated full-featured (Enter) ERP System and other ICT infrastructure and constantly innovating and writing in-house programs to meet the needs of the company. Local Area Network (LAN) and other technologies have been in operation in the Head office and Branch offices.

Corporate Social Responsibility:

The Directors are sincere to discharge corporate responsibilities to the society. As a part of discharging corporate social responsibilities, PILIL has initiated a number programs and has been sponsoring various welfare activities, besides patronizing cultural activities in the country since its inception.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I take this unique opportunity to thank all our honorable Shareholders, Directors, our valued policyholders and Managing Director & CEO (CC), all employees of our Company for their continued support & co-operation. I also express my sincere gratitude to our Members of Shariah Board, the Office of the Insurance Development and Regulatory Authority, Concerned Ministries, Registrar of Joint Stock Companies & Firms, Bangladesh Securities and Exchange Commission, Office of Dhaka & Chittagong Stock Exchanges, our Bankers and other esteemed well-wishers for their tremendous co-operation, support & confidence.

On behalf of Board of Directors,



Prof. N R M Borhan Uddin, Ph.D

Chairman, Board of Directors