Report of the Committee on IFRS compliance in Indian Insurance Industry

(Chairman: Dr. R. Kannan)

Insurance Regulatory and Development Authority

June 22, 2009

डॉ. आर. कण्णन
सदस्य (बीमांकक)

Dr. R.Kannan
Member (Actuary)

बीमा विनियामक और विकास प्राधिकरण
INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

22nd June, 2009

To
The Chairman
Insurance Regulatory and Development Authority
3rd Floor, Parishramabhavan
Basheerbagh, Hyderabad

Sir,

Please refer press release dated 21st August, 2009. On behalf of the Committee I have great pleasure in submitting this report.

On behalf of the Committee members and on my personal behalf, we thank you for giving us an excellent opportunity to work on a topic which is very important to the industry.

With kind regards,

Yours faithfully

(R. Kannan)
Chairperson
Committee on IFRS

परिश्रम भवन, तीसरा तल, बशीरबाग, हैदराबाद–500 004. भारत Parishram Bhavan, 3rd Floor, Basheer Bagh, Hyderabad-500 004. India.
दूरभाष/Tel.: 91-040-66820960, 66820964 फैकस/Fax: 91-040-6682 3334 ई–मेल: rkannan@irda.gov.in वेब: www.irda.gov.in / www.irdaindia.org

Acknowledgement

I thank Mr. J. Hari Narayan Chairman, IRDA for his constant encouragement in completing the task assigned. I thank each and every member of this Committee for their excellent contribution.

I also thank KPMG and 'E&Y' for their useful and informative presentations on the IFRS implementation in other countries. I also thank ICICI Prudential Life Insurance Co., Ltd and Bharti Axa Life Insurance Co., Ltd for hosting some of the meetings.

I thank Sri S. P. Chakraborty, Deputy Director, IRDA and Sri Satyan Jambunathan, of ICICI Pru for their excellent contribution in finalizing the report.

(R. Kannan)
Chairperson
IFRS Committee

Hyderabad
22nd June, 2009

Report of the Committee on IFRS compliance

Contents

Executive Summary

Globalization and break down of cross border barriers have encouraged the need to move towards a single set of consistent and understandable financial information reporting standards. The International Accounting Standard Board (IASB) has developed uniform global financial reporting standards which are termed as the 'International Financial Reporting Standards (IFRS)'. The background of IFRS with a particular reference to the Indian scenario and its implementation challenges are discussed in detail in Chapter – 1 of the report. The convergence of banking and insurance, decreasing international acceptance of historical cost as a sound conceptual accounting principle, and the realisation that solvency focused reporting for insurers does not provide an accurate picture of financial performance are other factors contributing to this development.

In order to keep pace with international development, the Government of India have committed that India would comply with the IFRS provisions by 2011. As a part of the commitment, the Insurance Regulatory and Development Authority appointed a committee to prepare the road map for insurance industry to move towards compliance with IFRS. It is important to note here that the move towards implementation of IFRS will give enough opportunity for us to meet a lot of disclosure which could help both the current and prospective policyholders and investors to make timely decisions. The structure of the committee is provided in **Appendix – 1**. Major findings of the committee are as follows:

1. Various provisions of IFRS are examined and differences which are significant are separated out from those having insignificant differences relative to the current Indian GAAP. The following items are identified with significant differences:

    a) Disclosure of change in accounting policy and accounting of errors.

    b) Presentation of financial statements with regard to 'Going Concern', 'Sources of estimation uncertainty' and 'Comprehensive Income' issues in particular.

    c) Investment property measurement principle.

    d) Classification of financial assets.

    e) General reporting of assets at fair value.

    Entity should take utmost care in preparing the first financial statements under IFRS. No voluntary changes in presentation and classification in a subsequent period shall not be allowed unless operation of the entity changes significantly.

    With regard to 'Measurement after Initial Recognition', infrequent revaluation will not be permitted. Choice has to be made at the time of accounting policy formulation whether to apply the cost model or the revaluation model for subsequent measurement of a particular class of asset.

2. Analysis of international experience confirms that more than 100 countries including countries of European Union (EU), Australia, New Zealand, Russia and China currently require or allow the use of IFRS's in their countries. The key learning's from the experience on implementation of IFRS in respect of few specific countries highlights the following issues:

    a) The IFRS conversion process should be treated as a major business project in order to ensure a smooth transition.

    b) System up gradation is a prerequisite of the implementation programme with a particular reference to the time constraints involved.

    c) Companies need to maintain adequate expertise even after the implementation of IFRS.

    d) There should be an appropriate governance system. IFRS adoption has the potential to significantly affect major components of reported financial performance. Other issues include effect on management compensation structures and taxation implications. The stakeholders should be made aware in this regard.

    e) One of the most significant elements in the convergence process is the 'Disclosure Requirements'. The FRRP (Financial Reporting Review Panel) survey reveals that many companies did not fully comply with IFRS because of extensiveness of disclosure requirements.

- IFRS does not specific how particular types of reporting entities (e.g. insurers) prepare their financial statements as opposed to specifying how certain types of transactions are accounted for irrespective of the type of reporting entities. Thus not all policies issued by insurers will be classified as insurance contracts; some may be classified as investment contracts which are accounted for in a different manner. Thus the IFRS 'Product Classification' provision is one area where insurance companies will feel significant impact of adoption of IFRS. IFRS does not provide any quantitative guidance on significant risk which is the test that needs to be satisfied before a contract can be classified as an insurance contract. That said, in the Indian context, most contracts are likely to be classifiable as insurance contracts. The 'zero death benefits' pension products remain to be debatable. However, for the purpose of having a uniform practice in the industry with regard to significant risk classification, it is proposed that a contract would be an insurance contract if the benefit payable on death is higher by
    - at least 5% of the fund value at any time during the life on the contract for unit linked products, or
    - at least 5% of the premium at any time during the life on the contract for other than unit linked products

3. Currently the investment valuation is prescribed by the IRDA investment regulations which are required to be aligned with IAS 39 or AS 30 and AS 31 of the Institute of Chartered Accountants of India. Classification of investments under IFRS is expected to have a considerable impact on insurance companies. Classification of securities under 'Held to Maturity (HTM)' category could be an issue if sold off before maturity, even in preceding two years, because of the 'Tainting' provisions. Adoption of IFRS for investment measurements shall bring about volatility in the revenue account.

4. During the 'Phase – 1' of implementation, the 'Acquisition Costs' shall be expensed in the period in which they are incurred.

5. With regard to 'Life Insurance' business, the existing methods for determining actuarial liabilities for life insurance contracts can be carried forward into the 'Phase – 1' implementation of IFRS in India. The liabilities for contracts classified as investment contracts cannot be determined using the existing approach; Guidance to Actuaries is required in this regard. All contracts under 'General Insurance' business shall come under the category of significant risk. Issues in general insurance, like discounting of reserves, sensitivity analysis of profit and loss on equity, recognition of deficiency and claim costs, booking and closure of liabilities may be taken up in 'Phase -2' and hence existing practices shall continue.

6. In accordance with the disclosure requirements of IFRS, detailed disclosure is needed broadly in respect of the following items:

    a) Accounting Policies
    b) Assets, Liabilities, Income and Expense
    c) Changes in assumptions.
    d) Changes in insurance liabilities and related items.
    e) Nature and extent of risks arising from insurance contracts.
    f) Risk management objectives and policies for mitigating risks arising from insurance contracts.
    g) Insurance Risk.
    h) Sensitivity to insurance risks.
    i) Concentration of Insurance risk.
    j) Claims development
    k) Credit risk, liquidity risk and market risk.
    l) Exposure to market risk under embedded derivatives.
    m) Key performance indicators.

    Disclosure requirements with regard to intangible assets, description of the process in determining the assumptions for estimation of assets, liabilities, income and expenses arising from insurance contracts and the nature and extent of uncertainties affecting specific assumptions are considered to be significant. However, the disclosure on key performance indicators is not recommended at the 'Phase – 1' level.

Chapter – 1

Back ground of IFRS

1.1 International Accounting Standards Board (IASB):-

The International Accounting Standards Board (IASB) founded on July 1, 2000 is the successor of the International Accounting Standards Committee (IASC) founded in June 1973 in London. On April 1, 2001, the IASB took over from the IASC the responsibility for setting International Accounting Standards. It is responsible for developing the International Financial Reporting Standards (new name for the International Accounting Standards issued after 2001) and promoting the use and application of these standards.

The IASB (International Accounting Standards Board) is an independent standard-setting board, appointed and overseen by a geographically and professionally diverse group of Trustees of the IASC Foundation who are accountable to the public interest. It is supported by an external Standards Advisory Council (SAC) which advises the IASB on various technical and strategic issues, for example; selection of topics for future development into standards. In addition the IASB is also supported by the International Financial Reporting Interpretations Committee (IFRIC) which is mandated to interpret the standards and produce binding guidance when divergences occur in the application of the standards.

In the public interest, the IASB is developing a single set of high quality, understandable and enforceable International Financial Reporting Standards (IFRSs) for general purpose financial statements. The standards developed by the IASB follow a rigorous due process involving various stakeholders that include accountants, users of financial statements and regulators to mention but a few. The due process ensures through public debate and exposure that the views of the various stakeholders are incorporated in the requirements mandated by the IASB in the form of the final standards. Many countries committed to the objective of global “harmonization”.

The aim of the IASB is to issue principles based standards that can be applied across the globe.

Convergence with International Accounting Standards (IASs) / International Financial Reporting Standards (collectively referred to as IFRSs), issued by the IASB has gained momentum in recent years all over the world. The reason for this is obvious – as the capital markets become increasingly global in nature, more and more investors see the need for a common set of International Accounting Standards. About 109 countries presently require or permit use of IFRSs in preparation of financial statements in their countries. By 2011 the number is expected to reach 150.

1.2 Why IFRS:-

The past few decades have seen the advent of globalization whereby many entities have and are expanding or making significant acquisitions in the global arena, for which huge capital is required. One of the key challenges that faced by all such entities is the compliance requirements imposed by various stock exchanges across the world for financial information. Today majority of stock exchanges across the world will accept or require financial statements to be prepared under IFRS. India being one of the key global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the

cumbersome conversion and filing process that is currently required. Migration to IFRS will lower the cost of raising funds, as it will eliminate the need for preparing a dual set of financial statements. It will also reduce accountants' fees and enable faster access to all major capital markets as IFRS is globally acceptable.

IFRSs by bringing in a global language for accounting, that is understood by all reduces the risk premiums charged by markets on capital raising as information barriers are removed. Consequently, adoption of IFRS by India will allow Indian entities to raise capital without the risk premium involved in Indian GAAP financial statements.

Adoption of IFRS will enable Indian entities to gain a broader and deeper understanding of the entity's relative standing by looking beyond country and regional milestones. Further, adoption of IFRS will facilitate companies to set targets and milestones based on global business environment, rather than merely local ones.

Convergence to IFRS, by all group entities, will enable company managements to get all components of the group on one financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.

1.3 Indian Scenario:-

The Institute of Chartered Accountants of India (ICAI) has announced convergence with IFRS issued by IASB from accounting periods commencing on or after April 1, 2011. All listed entities and public interest entities such as banks, insurance entities and large sized entities are required to adopt IFRS. This is subject to regulatory endorsements.

Entities need to apply accounting policies in its IFRS financial statements that are in compliance with IFRS principles/norms, effective as of the balance sheet date of the first IFRS financial statements. IFRS requires minimum one year of comparatives to be presented. Therefore, when an entity follows IFRS for the first time in its financial statements for the year ending March 31, 2011, it needs to give the financial information for the year ending March 31, 2010 as a comparative. The date to follow IFRS is actually 2010 since comparatives of previous year also have to comply with IFRS.

1.4 IRDA Committee:-

Insurance Regulatory and Development Authority (IRDA) has constituted a Committee to prepare the insurance industry to meet all the requirements of IFRS and to position various policy measures so as to ensure compliance and draw the road map for moving towards the same. The list of Committee members is given in **Appendix – 1**.

The committee was mandated to examine the requirements of IFRS, current availability of various requirements including accounting standards, identify gaps and suggest various measures required to fill the gaps so that the industry can move towards IFRS compliance by 2011. In this exercise the group may also draw lessons from international experience.

The Committee had several sittings to understand the implications of IFRS on Indian Insurance Industry. The Committee also invited international audit firms like KPMG and E&Y to understand the international experience and learning of implementation in various countries like

China, Canada, UK, Australia and Singapore. The Committee further deliberated on the presentations and the uniqueness of Indian Insurance industry of being nascent in nature. The Committee took note of the fact that the IASB has published IFRS 4 with a view to make limited improvements to insurance accounting and disclosures and that the Phase II due to be published in 2011 would be addressing the insurance industry more comprehensively.

1.5 Transformation and Associated Challenges:-

IFRS adoption should not be looked as a mere technical exercise limited to change from one set of accounting principles to another. The consequences are far more than financial reporting issues and extend to significant business and regulatory matters including implications on performance indicators, compliance with debt covenants, structuring of ESOP schemes, training of employees and modification of IT systems, implication of mergers and acquisitions and tax planning and solvency capital for regulated entities. With IFRS, basic definitions could change. Premium income could go direct to balance sheet, preference equity might become loans, dividends could become interest while hedge accounting and fair value will arrive in all its glory and complexity to mention but a few of the areas that would be impacted by IFRSs.

As of date, there are differences between Indian GAAP and IFRS that will need to be addressed by entities on adoption. As per the study done by the ICAI only two of the existing Indian accounting standards are in compliance with IFRSs. All other standards will require amendment in varying degree to achieve convergence with IFRSs.

IFRS can be considered as being based on tripod of principles that address recognition, measurement and disclosure.

While this will present minimal challenges in certain areas, other areas will require substantial modification, even at the conceptual level to achieve compliance. One such area is business combinations. Under Indian GAAP, business combinations, with few exceptions, are recorded at carrying values and not at fair values of net assets taken over. Purchase consideration paid for intangible assets not recorded in the acquiree's books is usually not reflected separately in the financial statements; instead the amount gets added to goodwill. Hence, true value of the business combination is not communicated through financial statements. IFRS will overcome this issue as it mandates accounting for net assets taken over in a business combination at fair value. It also requires recognition of intangible assets, even though they have not been recorded in the acquiree's financial statements.

IFRS requires significant additional disclosures – particularly in the areas of enterprise risk management, asset liability matching, management commentary on profitability drivers and sensitivity thereof. In order to comply with the disclosure requirements, significant changes would be required to the IT systems to capture additional information.

Another area that will undergo significant change will be the accounting for financial instruments. Current Indian GAAP has limited guidance in the area, while IFRS contains a substantial body of literature on the topic. Current practice varies when it comes to accounting for derivative products under Indian GAAP. Under IFRS this is an area that will have significant implications as it introduces fair value accounting for such products. In addition IFRS will also require significant changes to current accounting practice for investments and other financial assets. IFRS follows a classification system that is different from the one that is currently followed under Indian GAAP e.g. Available For Sale (AFS), Held to Maturity (HTM) and Held For Trading (HFT).

Consequently, measurement of such investments and financial assets will change on adoption of IFRSs by Indian entities.

Even areas as mundane as accounting for property, plant and equipment will be impacted as IFRS requires componentization of fixed assets to much a greater degree. Current practice does not require a fixed asset to broken down to its individual components to determine useful life and residual value, which is a requirement under IFRSs. In addition cost that can or cannot be capitalized under fixed assets differs between IFRS and Indian GAAP.

Several legislative changes will have to be made such as amendments to the Companies Act, the Income-Tax Act, SEBI Regulations, IRDA Regulations, etc. Further, current accounting and presentation guidance that's not in line with the IFRS requirements would need to be amended.

On a structural level there are two key challenges for India in the changeover to IFRS.

Firstly, understanding the accounting and regulatory landscape that will prevail in 2011. Accounting framework in India has multiple influencers and accounting standard-setters, such as the ICAI, SEBI, Companies Act (NACAS), Income-tax Authorities, and industry regulators such as the RBI, IRDA, etc. All of them need to work in tandem and see the broader picture of the proposed accounting landscape in 2011 and work towards that in a concerted manner.

Secondly, there is limited availability of a large pool of trained resources. The changeover to IFRS brings about significant changes in terms of complexities of accounting standards, requiring significant use of judgment in applying new and complex requirements. To achieve the end objective of comparability in financial reporting, all of these requirements need to be understood and applied in a consistent manner by a wide group of accountants, both within the industry and the profession.

1.6 IFRS on Insurance

There was no international accounting framework until IASB issued IFRS 4 *Insurance Contracts*. The IASB saw an insurance standard as a very high priority because of the ever increasing presence in world capital markets and in cross-border M&A of insurance companies. Also, there is significant lack of consistency on accounting for insurance across the globe. In view of the above the IASB decided to issue IFRS 4 as an interim measure to make limited improvements to accounting for insurance contracts. The aim of the project was not to make fundamental changes to the accounting for insurance contracts but to try and achieve a degree of harmonization and set the path for the second phase of the project (Phase II) which would re-look at the entire gamut of insurance accounting.

However, even in its current form its requirements will entail amendments to current accounting for insurance contracts under Indian GAAP.

The first critical issue to note is that IFRS 4 focuses on types of contracts rather than types of entities. Consequently, it applies to all entities dealing in insurance contracts and not just regulated entities. IFRS 4 defines an insurance contract as one that transfers significant insurance risk. Consequently, the accounting in IFRS 4 applies to all contracts that meet the definition whether regulated or unregulated.

Secondly, IFRS 4 only applies to insurance and re-insurance contracts that an entity issues and re-insurance contracts that it holds. It does not apply to insurance contracts held by entities that are entered into in the normal course of business i.e. it does not address the accounting of insurance contracts by policyholders other than holders of reinsurance contracts.

Even though IFRS 4 allows entities to continue with existing accounting policies in most cases, it does make some changes in the area of product classification and disclosures.

In addition IFRS 4 also requires a liability adequacy test to determine adequacy of liability provision based on actuarial input.

The overall principle used is to present information to users to enable them to evaluate the nature and extent of risks arising from insurance contracts for the entity.

Looking ahead the IASB has issued a discussion paper on the Phase II of the insurance project which proposes certain radical changes. The primary one is measuring insurance liabilities at current exit value which is akin to fair value. However, given the current environment it has decided to refocus its activities on other areas and has postponed deliberation on the Phase II project for the time being.

1.7 Scheme of lay out of report of the IRDA Committee on IFRS

The Committee deliberated various aspects of IFRS 4 like product classification, actuarial valuation and disclosures in sub groups and finally deliberated all reports as a full group. The finalized report from each of the above topic is reproduced in the ensuing chapters of this report.

Chapter – 2

Various Provisions of IFRS and their status in India.

2.1 Introduction

This chapter identifies various provisions under IFRS and assesses its significance in the light of the existing accounting practice in the Indian Insurance industry. Many of the important issues recognized in this chapter have been analyzed in detail in the remaining part of the report also.

This chapter first divides the issues into two parts – Differences which are insignificant and Differences which are significant in the context of Indian GAAP and IFRS. The micro issues under those two broad categories are then summarized.

2.2 Differences which are insignificant.

2.2.1 Accounting Policy, Accounting Estimates and Errors

Change in Accounting Policy

a. Indian GAAP permits a change in accounting policy if it is required by statute, or by an AS. Voluntary change is permitted only if it results in more appropriate presentation.

b. IFRS permits a change in accounting policy if it is required by an IFRS. Voluntary change is permitted only if it results in information that is more reliable and relevant.

Applying changes in accounting policies.

a. Indian GAAP requires that the impact of, and adjustments resulting from, a change in accounting policy, if material, should be shown in the financial statements for the period in which such change is made, to reflect the effect of such change.

b. IFRS requires that when a change in accounting policy is applied retrospectively, the entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

Limitations on retrospective application.

a. Indian GAAP does not provide for limitations on retrospective application.

b. IFRS provides that when it is impracticable to estimate either the periodic-specific effects or cumulative effect of the change, the entity shall apply the change from the beginning of the earliest period for which the retrospective application is practicable.

Change in Accounting Estimates.

a. Indian GAAP requires that the effect of change in an accounting estimate should be included in profit or loss in the period of change or in the period of change and future periods, if the change affects both.

b. Requirements in IFRS are the same as those in the Indian GAAP except that to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognized by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Prior period errors: definitions.

a. Indian GAAP defines prior period items as income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

b. Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse, reliable information that:
- was available when financial statements of those periods were authorized for issue; and
- could reasonably expect to have been obtained and taken into account in the preparation and presentation of those financial statements.

2.2..2 Events occurring after the balance sheet date

No major difference except that under IFRS, dividends declared after the balance sheet date should not be disclosed as a liability.

2.2.3 Presentation of Financial Statements

Consistency and Presentation

a. Indian GAAP: There is no specific stipulation on consistency and presentation.

b. IFRS: An entity should retain the presentation and classification of items in financial statements from one period to the next unless:

- it is apparent, following significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be **more appropriate** having regard to the criteria for the selection and application of accounting policies in IAS 8; or

- an IFRS requires a change in presentation.

When the entity changes the presentation and classification of items in financial statements, the entity should reclassify comparative amounts unless reclassification is impracticable.

Current and non current distinction

a. Indian GAAP: No rigid classification of assets and liabilities between the current and the non-current is required.

b. IFRS: Rigid classification of assets and liabilities between the current and the non-current is required.

2.2.4 Property, Plant and Equipment.

Component Accounting

a. Indian GAAP: Rigorous application of component accounting is absent.

b. IFRS:

- Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item should be depreciated separately.

- Parts having same useful lives and same depreciation methods may be grouped together.

- Parts that are replaced during the useful life of an item should be derecognized as per the derecognition provision.

When a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as replacement if the recognition criteria are satisfied.

Subsequent Expenses

a. Indian GAAP: Subsequent expenditure is recognized only if it adds to the service potential of the asset

b. IFRS: Principles for initial recognition are to be applied. There is no second recognition principle.

Measurement Cost

a. Indian GAAP: There is no specific stipulation in the Indian GAAP.

b. IFRS:

- The cost of an item of PPE is the cash price equivalent at the recognition date.
- In an exchange transaction, except in rare situations, the cost is measured at the fair value of the item.

Cost of dismantling and removing the item and restoration of site.

a. Indian GAAP:

- There is no specific stipulation in AS 10. However illustration C (3) in AS 29 refers to provision to be created for obligation arising from installation of an item of PPE.
- AS 29 does not allow an entity to consider the time value of money in estimating a provision.

b. IFRS:

- Elements of cost include the initial cost of dismantling and removing the item and restoring the site on which it is located.
- IAS 37 requires an entity to consider the time value of money, if its impact is material in estimating a provision.
- IFRIC Interpretation 1 requires that if the estimate of liability changes due to change in the estimate (timing and amount) and the discount rate, the change should be adjusted to the carrying amount of the asset if, the entity is using the cost model. If the adjustment results in deduction of an amount that is higher than the carrying amount, the carrying amount should be reduced to zero and the excess should be recognized in profit or loss immediately. If the entity is using the revaluation model, the change should be adjusted to revaluation reserve and correspondingly should be recognized as other comprehensive income.

Measurement after Initial Recognition

a. Indian GAAP: Cost model is used to measure an item of PPE after initial recognition. Revaluation is permitted.

b. IFRS:

- An entity has a choice to use either the cost model or the revaluation model.
- Cost model may be used for some classes of assets while for others revaluation model may be used.
- When revaluation model is used, the carrying amount should not deviate materially from the current value at the balance sheet date.

Useful Life, Residual Value and depreciation method.

a. Indian GAAP

- There is no specific requirement for review.
- Change in depreciation method is a change in accounting policy.

b. IFRS:

- Useful life, residual value, and depreciation method should be reviewed at least at the end of each financial year.
- Change in depreciation method is a change in accounting estimate.

Compensation for impairment.

a. Indian GAAP: There is no specific requirement.

b. IFRS: Compensation from third parties for items of PPE that were impaired, lost or given up should be included in profit or loss when the compensation becomes receivable.

2.2.5 Intangible Assets

Amortisation

a. Indian GAAP:

- Depreciable amount of all the intangible assets should be amortised.
- There is a rebuttable presumption that the useful life of an asset cannot exceed ten years from the date it is available for use.

b. IFRS:

- Intangible Assets with indefinite useful life (e.g., brand) should not be amortised. They should be tested for impairment at least annually.

- Intangible assets with finite useful life should be amortised over their useful life. There is no rebuttable presumption as to the useful life.

2.2.6 Investment Property

Investment property held by a lessee under an operating lease.

a. Indian GAAP: There is no specific stipulation as to the measurement of investment properties held under operating lease. Therefore, an entity can not recognise a property held under operating lease as an investment property.

b. IFRS:

- An entity has the option to recognise an item held under an operating lease as an investment property, provided it measures investment properties at fair value.

- If it recognises the item as investment property, it should account for the lease as 'finance lease'.

2.2.7 Provisions, Contingent Liabilities and Contingent Assets.

Constructive Obligation.

a. Indian GAAP: There is no concept of constructive obligation.

b. IFRS: A constructive obligation is an obligation that derives from an entity's actions where:

- By an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

- As a result, the entity has created a valid expectation on the part of other parties that it will discharge those responsibilities.

An entity should recognize a constructive obligation if it meets the recognition criteria, which could fall under 'Policyholders' Reasonable Expectations'.

Measurement: Time Value of Money

a. Indian GAAP: The amount of provision should not be discounted to its present value.

b. IFRS: Where the time value of money is material, the amount of a provision shall be the present value of the expenditure expected to be required to settle the obligation.

2.2.8 Financial Instruments.

Initial Recognition

a. IRDA Regulation: There is no specific stipulation as to initial recognition of financial instruments.

b. IFRS: When a financial asset or financial liability is recognised initially, an entity should measure it at fair value. In case of financial assets and financial liabilities not measured at fair value through profit and loss, transaction cost should be added to the fair value for initial measurement.

Subsequent Measurement: Unlisted and other than actively traded Equity Securities and Derivative Instruments.

a. IRDA Regulation: Measure at historical cost; Provide for diminution in value.

b. IFRS

- Measure at cost only if the fair value cannot be measured reliably; If the fair value can be measured reliably, the instrument should be measured at fair value; Test for impairment.

- Fair value can be measured reliably if (a) the variability in the range of reasonable fair value estimates is not significant for the instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

- Normally, it is possible to estimate the fair value of a financial asset that an entity has acquired from an outside party.

Subsequent Measurement: Loans and Advances.

a. IRDA Regulation: At historical cost subject to impairment provisions.

b. IFRS: At amortised cost using effective interest rate method; to be tested for impairment.

Derecognition of Financial Assets.

a. IRDA Regulation: No specific provision; Indian accounting practice follows the principles stipulated in IFRS.

b. IFRS:

- If risks and rewards of ownership are transferred substantially to the counter party, the asset or part of the asset should be derecognized.

- If risks and rewards of ownership are retained substantially, the asset or part of the asset should continue to be recognized.

- If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and has not retained control, it should derecognize the financial asset and recognize separately as assets or liabilities any rights or obligations created or retained in the transfer.

- If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset and has retained control, it should continue to recognize the financial asset to the extent of its continuing involvement with the asset.

Hedge Accounting.

a. IRDA Regulation: No specific provision.

b. Special accounting if hedge effectiveness is established.

2.3 Differences which are significant.

2.3.1. Accounting Policy, Accounting Estimates and Errors.

Disclosure in change in accounting policy.

a. Indian GAAP does not require disclosure of a new AS that has been issued but not yet effective.

b. IFRS requires that an entity which has not applied a new IFRS that has been issued but not yet effective to disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on entity's financial statements in the period of initial application.

Accounting for errors.

a. Indian GAAP requires that the nature and amount of prior period items should be separately disclosed in the profit and loss account in a manner that their impact on the current profit or loss can be perceived.

b. IFRS requires that an entity should correct material prior period errors retrospectively by **restating** the comparative amount of prior periods presented in which the error occurred; or if the error occurred before the earliest prior presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

2.3.2 Presentation of Financial Statements

Going Concern

a. Indian GAAP: Requires disclosure if financial statements are not prepared on 'going concern' basis. No other disclosure is required.

b. IFRS: In addition to Indian GAAP requirement, IFRS requires that when management is aware of material uncertainties related to investments and conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity should disclose those uncertainties.

Comprehensive Income

a. Indian GAAP: There is no concept of comprehensive income.

b. IFRS:

- Change in equity during the year, excluding change arising from transactions with shareholders, measures comprehensive income.

- Thus comprehensive income is the total of profit or loss for the period and other comprehensive income (items of income/gain and expenses/losses directly taken to equity under IFRS).

Sources of Estimation - Uncertainty.

a. Indian GAAP: There is no specific disclosure requirement under the Indian GAAP.

b. IFRS: An entity should disclose information about the assumption it makes about the future and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Capital.

a. Indian GAAP: There is no disclosure requirement.

b. IFRS: An entity should disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. An entity discloses:

- Qualitative information about its objectives, policies and processes for managing capital; and
- Summary of quantitative data about what it manages as capital.

2.3.3 Investment Property

Measurement Principle

a. Indian GAAP:

- An enterprise holding investment properties should account for them as long term investments.
- Therefore, entities use the principles stipulated in AS 10 for accounting for PPE.
- IRDA Regulation for the life insurance business requires:
  - The value of investment property shall be determined at historical cost, subject to revaluation at least once in every three years.
  - The change in the carrying amount of the investment property shall be taken to Revaluation Reserve.

b. IFRS:

- An entity has a choice to use either the cost model (as stipulated in AS 10) or the fair value model. A choice is to be applied to all investment properties.
- If an entity uses the fair value model, the change in fair value should be recognized in profit or loss.

2.3.4 Financial Instruments.

Classification of Financial Assets

a. IRDA Regulation:

- Debt Securities
- Equity Securities and Derivative Instruments that are traded in active markets

- Unlisted and other than actively traded Equity Securities and Derivative Instruments

- Loans

b. IFRS:

- Financial assets at fair value through profit or loss (Securities held for trading and derivative instruments that are not designated as hedging instruments are necessarily to be classified in this category)

- Held to maturity investments (Debt instruments which the entity intends to hold to maturity; Tainting provision prohibits an entity to classify debt instruments in this category for the current year and in next two years if, it sells more than an insignificant part of the assets classified in this category).

- Loans and receivables (Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market).

- Available for sale financial assets.

Reclassification

a. IRDA Regulation: No regulation

b. IFRS:

- An entity should not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

- If, as a result of change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it should be reclassified as available for sale and re-measured at fair value.

Subsequent Measurement: Debt

a. IRDA Regulation: Debt securities, including government securities and redeemable preference shares, shall be considered as "held to maturity" securities and shall be measured at historical cost subject to amortisation.

b. IFRS

- If classified as held to maturity: Amortised cost using effective interest method.

- If classified as held for sale: Fair value; Change in fair value is to be taken to equity; On sale accumulated gain or loss is to be transferred to profit or loss; To be tested for impairment.

- If classified as fair value through profit or loss: Fair value; Change in fair value is to be taken to profit or loss.

Subsequent Measurement: Equity Securities and Derivative Instruments that are traded in active markets.

a. IRDA Regulation: Measure at fair value; Recognise change in fair value in equity; Transfer accumulated gain or loss to profit or loss on sale; Test for impairment at each balance sheet date.

b. IFRS:

- If classified as held for sale: Fair value; Change in fair value is to be taken to equity; on sale accumulated gain or loss is to be transferred to profit or loss; To be tested for impairment.

- If classified as fair value through profit or loss: Fair value; Change in fair value is to be taken to profit or loss.

2.4 Other Provisions

Leases: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS although there is an important practical difference. Lease of land is excluded from the scope of AS 19, whereas IAS 17 is applicable to lease of land. Although there are some differences in methods stipulated in AS 19 and those stipulated in IAS 17, in most situations, the results from application of both the methods are expected to be the same.

Impairment of Assets: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS. Although there are some differences in methods stipulated in AS 19 and those stipulated in IAS 17, in most situations, the results from application of both the methods are expected to be the same. However, additional guidance is available in IAS 36.

Valuation of Inventories: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS.

Revenue Recognition and Construction Contracts: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS.

Government Grants: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS, except that the IFRS does not permit recognition of non-monetary government grants at nominal value. IFRS requires that non-monetary grants and corresponding assets should be recognized at fair value.

Employee Benefits: There is no major difference between the principles stipulated in Indian GAAP and those stipulated in IFRS, except that, IFRS provides a choice to entities to use the **corridor approach** for recognizing actuarial gains and losses. Although IFRS clearly identifies 'Fair Value' (FV) approach as central fulcrum in valuation, given the macroeconomic situation prevalent in India, we have accepted intrinsic value approach. However, FV approach could be included in the notes.

Income Tax: AS-22 has adopted the income statement approach. IFRS has adopted the balance sheet approach. However, in most situations the results obtained by applying the principles stipulated in IFRS will be the same as those obtained by applying principles stipulated in the Indian GAAP.

Chapter – 3

International Experience in implementing IFRS

3.1 An overview

The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are increasingly being recognized as Global Reporting Standards. More than 100 countries such as countries of European Union (EU), Australia, New Zealand, Russia and China currently require or permit the use of IFRSs in their countries. Canada has announced an intention to adopt IFRSs from 2011 onwars. United States of America has also taken-up convergence projects with the IASB with a view to permit filing of IFRS compliant Financial Statements in the US Stock Exchanges without requiring the presentation of reconciliation statement.

The Institute of Chartered Accountants of India (ICAI) had also in its concept paper "Convergence with IFRS in India" specified the approach and roadmap for convergence with IFRS in India. As per the plan, all IFRS shall be adopted at the same time and it shall be applicable to the public interest entities for accounting years commencing from April 2011 onwards. It would thus be a daunting task for the Companies in India to gear up for such convergence and thus looking at some of the international experiences in implementing IFRS would provide meaning insights into processes to be adopted and test its preparedness for seamless IFRS convergence.

This note highlights key IFRS implementation issues and lessons learned for implementation of IFRS. The note is divided into two parts:

1. General experience and learnings worldwide in implementing IFRS[1] and
2. Experience specific to a select few countries i.e. Australia, United Kingdom & China and specific to the Insurance sector.

3.2 General experience and learning worldwide in implementing IFRS

Technical issues

There was a widespread and understandable belief that because local GAAP and IFRS were similar, the conversion process would not be onerous. For many straightforward manufacturing or service businesses, this may have been the case, but often international and complex organizations took a great deal of time to resolve. Companies did face implementation issues in some of the complex accounting standards like those on financial instruments and business combinations.

[1]**Source**: United Nations Conference - Trade and Development Board, Investment, Enterprise and Development Commission – intergovernmental Working Group of Experts on International Standards of Accounting and Reporting - Twenty-fifth session.

Timing

The study conducted by the working group, suggested that work to prepare for IFRS was well underway, but greater effort was needed, given the requirement to restate comparatives. The survey results indicate that, despite the encouragement of regulators and auditors, many companies left the process of preparation and communication until a later stage than was ideal, perhaps as the volume of work required was under-estimated.

Cost

The cost of implementation was substantial, although this varied significantly between companies. Evidence on truly incremental costs is limited. However, the Institute of Chartered Accountants in England and Wales (ICAEW) survey of EU implementation of IFRS indicates that incremental implementation costs for EU-listed companies ranged from an average of €0.5 million (for companies with a turnover of less than €500 million) to €3.4 million (for companies with a turnover in excess of €5 billion). Incremental recurring costs of implementation were estimated at between €0.1 million and €0.6 million. As a percentage of total policy administration cost, these costs are insignificant.

IFRS expertise

Most companies faced a lack of practical IFRS expertise within their financial reporting teams. The Companies had not previously needed to possess any IFRS knowledge, but it undoubtedly slowed the conversion process and led to a greater reliance on external advisors, adding to the cost of implementation.

Larger listed companies invested heavily in staff training to enable them to tackle the conversion exercise with confidence and to minimize the risk of material errors. In many cases, issues had to be referred to audit firms' technical committees, slowing the process further.

Systems

Many companies upgraded their systems to deal with IFRS conversion. Some instituted a system of shadow accounts which would maintain individual financial statements in Local GAAP for statutory reporting and taxation purposes. Others decided that their accounting system would be used solely for IFRS compliance and that any adjustments back to local GAAP would be managed offline. A third approach was to keep the existing systems producing local GAAP information intact and build a consolidation module that would control the adjustments required to produce IFRS-compliant consolidated accounts of the group. In each case, substantial costs were incurred in connection with the systems upgrades.

The IFRS implementation status across some of the jurisdictions is given below:

Jurisdiction	IFRS applicability	IFRS convergence expected by:	Comments
Canada	No	2011	
Mexico	Yes	-	IFRS is permitted for listed companies
Bermuda	Yes	-	IFRS is permitted
India	No	2011	
China	Yes		
Hong Kong	Yes		
United Kingdom	Yes		
Ireland	Yes		
Singapore	Yes		
Australia	Yes		

3.3 IFRS implementation experience specific to the insurance sector in a select few countries

3.3.1 Australia

Overview

In Australia, IFRS was applicable for accounting periods beginning on or after January 1, 2005. Most insurers did a dry run for their 2004 year end in order to provide comparatives and many commenced work in 2003 or even earlier. Those involved in the preparatory work included the insurers themselves, a multitude of industry bodies, the Institute of Actuaries of Australia (IAA) and accounting professional bodies, Big 4 audit firms, etc. We must also recognize that the insurance regulator, APRA played a significant role in ensuring the integrity of prudential standards. The professional body (APRA) issued various standards to be followed. Hence we see a clear coordinated approach adopted by the regulator and the professional body.

The Institute of Actuaries of Australia (IAA) was very active in the development of IFRS by way of presenting submissions and lobbying. Subsequent to IFRS being issued, IAA had working groups and conferences at which issues were discussed and positions reached. These forums would include representatives from the insurance industry as well as accounting / consulting firms. The industry leaders typically engaged advisors / consultants to assist with IFRS implementation. Inevitably this resulted in much debate on detailed implementation issues, largely with consensus being reached. The Big 4 accounting firms including their technical groups maintained contact with each other to discuss and resolve apparent difficulties. This enabled the rationale for different positions adopted to be understood and often reconciled.

Implementation issues

Australia already had a comprehensive framework for insurance accounting. While there were separate standards for general insurance business and life insurance business, the underlying principles were similar and modern.

IFRS implementation had a greater impact on life insurers, for example, the need for investment contracts issued by life insurers to be accounted for under IAS39 caused significant issues compared to the previous accounting.

The net impact of IFRS implementation in Australia caused significant reductions in the net assets for some insurers (because, for example, of the need to expense non-incremental acquisition costs, defer fee revenue etc) which did not reflect the underlying solvency or capital adequacy of business. The regulator had to revise the prudential framework to decouple some aspects of regulatory reporting from financial reporting.

Disclosure requirements were hard for every insurer and for life insurers, in particular, the consequences of insurance contracts falling into the scope of IAS39 was the biggest gap.

The need to use risk free discount rates caused issues for annuity products as they are typically backed with higher yielding assets resulting in some reporting loss on sale. Also significant debate may be required to define a risk free discount rate.

Customisation of IFRS

There were already insurance accounting standards prior to IFRS, where the existing practices were more detailed than IFRS. In some cases, the IFRS norms were less stringent than in previous GAAP.

Australia has taken a view that there should be no (or minimal) change to IFRS wherever the pre-existing insurance accounting standards had stricter requirements than IFRS.

The limited areas of "Customisation" included IAS 39 where insurers were required to classify those investment backing policy liabilities / insurance liabilities as trading so that the accounting on the asset and liability side of the balance sheet would be 'symmetrical' and consistent with established Australian practice (this avoided the need for shadow accounting type provisions).

Impact of implementation of IFRS

- IFRS had little impact on product design.
- Systems often needed significant change where core systems were integrated with general ledgers.

- Management and external stakeholders / analysts typically experienced significant education needs.

3.3.2 United Kingdom

Overview

EU law gave member states the option of permitting or mandating the use of IFRS for all other entities within their jurisdiction. In the United Kingdom, all companies were allowed to use IFRS for accounting periods beginning on or after January 1, 2005. The London Stock Exchange required companies listed on its Alternative Investment Market (AIM), its second-tier market comprising over 1,600 domestic and overseas companies, to comply with IFRS for financial periods commencing on or after January 1, 2007.

Comments were invited from Industry bodies, public firms through CFO forum, the Association of British insurers and Institute of Chartered Accountants in England and Wales on IFRS prior to its implementation.

There was also comparison of accounting treatments by Insurers with peers and in the process, number of areas of uncertainty were identified. Key discussion was on definition of insurance contract and on classification of financial instruments.

Implementation issues

Some of the issues / challenges faced by the companies in implementing IFRS were on:

- Classification of contracts into Insurance and / or Investment contracts
- Determination of significant insurance risks: General consensus among UK insurers was that greater than 10% is definitely insurance risk and less than 5% is not insurance
- Contracts that were legally treated as insurance but which actually passed little or no insurance risks got classified as investment contracts
  - Recognition of premium changed as a result of such classification – contract revenue got replaced by margin revenue
- Classification and valuation of financial assets:
  - Choice between designating financial assets as ‘at fair value through profit and loss’ (FVTPL) or as ‘available for sale’ (AFS). In UK, most insurers used FVTPL designation
- Issues were faced on making significant disclosures especially for insurance liabilities such as claims development tables, insurance sensitivity risks etc.
- For non-life insurers, IFRS 4 disallowed equalization and catastrophe provisions which were previously allowed under UK GAAP
- Liability adequacy tests established under UK GAAP were found to be sufficient to meet the principles under IFRS, no adjustment was required

Impact of implementation of IFRS

- Conversion projects took significant effort (2-3 years) as a result of the complexity of the rules
- There was significant Impact on IT systems and information
- Some improvements made in comparability of financial statements, however, volatility of results has increased
- UK insurers file various regulatory forms with Financial Services Authority (FSA) for their capital adequacy returns (Solvency returns), the regulator accepted either UK GAAP/IFRS financial statements as a starting point. IFRS had minimal impact in terms of FSA requirements
- Tax authorities (Inland Revenue) permitted entities to file either IFRS / UK GAAP accounts for tax returns purposes, if companies chose to adopt IFRS
- Risk management disclosures, including sensitivity analysis, provide additional (and meaningful) information, but suffered from comparability / consistency
- Investors put significant emphasis on supplementary information like EEV, ROCE and economic capital / profit

3.3.3 China

Overview

Adoption of IFRS in China for an Insurance company is a joint effort of Chinese Insurance Regulatory Authority (CIRC), Ministry of Finance (MOF), Tax authority and accounting body of China, Industry bodies were also consulted. Again, key discussion was definition of insurance contract. All companies were allowed to use IFRS for accounting periods beginning on or after April 1, 2007.

Implementation issues

- Determination of significant insurance risks – as there are no rules under IFRS 4 quantify what is *significant,* Insurers used different percentages to determine significant risk
- A company listed in China follows China GAAP and in Hong Kong follows US GAAP - there are accounting differences for the same company on treatment of insurance contract, shadow accounting and Liability adequacy tests

Impact of implementation of IFRS

- Classification of contracts into Insurance and / or Investment contracts; most companies in China strived to classify as many contracts as possible as insurance
- There were changes in product designs carried out adding additional death benefits in order to meet definition of insurance
- Contracts that were legally treated as insurance but which actually passed little or no insurance risks got classified as investment contracts. Recognition of premium changed as a result of such classification. Contract revenue got replaced by margin revenue

- Classification and valuation of financial assets - choice between designating financial assets as 'at fair value through profit and loss' (FVTPL) or as 'Available For Sale' (AFS). In China, most insurers used FVTPL designation
- In China, where companies have issued high interest guarantee products will have a reserve deficiency and additional liability will be required which will require additional capital
- Risk management related measurement is also being developed by a lot of companies adopting IFRS (e.g., Economic capital, Market consistent Embedded Value, etc)

3.3.4 Key international learning's from implementation of IFRS summarized

Process

A key message for IFRS implementation is that it is never too early to start the transition process, especially because, when the Companies present their first IFRS financial statements, they will need to present comparative IFRS information for the prior year(s). The process should therefore begin no later than the start of the year before IFRS adoption is mandated, and preferably earlier, to ensure that all data required are captured.

The IFRS conversion process should be treated like any other major business project, and not as a technical accounting issue. A robust project plan from the outset was thus a prerequisite for a smooth transition to IFRS. All staff involved in the accounting process need to be made aware of how the change to IFRS will impact their work.

The choice is between recruiting experienced, IFRS knowledgeable employees or relying on external advisors – the auditors, subject to independence constraints, and other professional and training firms. As IFRS knowledge is needed on an ongoing basis after implementation, recruitment or the thorough training and retention of existing employees may be regarded as the most desirable option. Using in-house expertise also means that the ability to take quick corrective action as delays and problems identified would be enhanced.

The companies should also take a call to limit double reporting and take a view on no (or minimal) change to IFRS.

Systems

Systems may well need to be upgraded, for example to deal with the extensive fair value data required under IFRS, particularly in the area of financial instruments. If systems changes are to be made, these need to be specified very early on in the project, in order to allow time for development, testing and corrective action, and also to ensure that the system is ready for operation when required. The time taken to achieve this should not be underestimated.

Many companies met project deadlines by "workarounds" – the use of spreadsheets to produce certain figures and disclosures which were not embedded in the accounting systems. Whilst this may have been necessary in the first instance, it is generally not

desirable because companies had to do more work the following year to bring information within their normal accounting systems. There is also an increased risk of error.

Training

It is important to train all staff involved in adoption of IFRS. This is not only limited to finance teams but extends to budget holders and any other internal or external stakeholder who needs to understand and interpret IFRS accounting information, or who is rewarded based on such information.

The Actuarial function of an insurance company is crucial and need to make sure that all actuarial related IFRS 4 items can be properly handled for both life and non life insurers thus covering training of all impacted functions is critical.

Governance

The board of directors / officers should be engaged from the start of the process. IFRS adoption has the potential to significantly affect earnings and net assets, and senior management needs to be aware of this fact early on inviting the regulatory intervention. The company's auditors should also be consulted early on in the process, where key judgments and estimations would be required, to avoid last-minute revisions of the financial statements will be necessary.

Business issues

The company must consider the effect that IFRS adoption will have on, among other things:

- Management compensation structures (profits may become more volatile under IFRS adoption, especially if the company is exposed to the extensive use of fair values for financial instruments)
- Taxation implications
- Key performance indicators, which may need to be amended as a result of the switch to IFRS.

Disclosures

Once faced with producing the first annual report and accounts under IFRS, it became evident that the disclosure requirements of IFRS are far more extensive than those of GAAP and, as discussed above, the FRRP survey showed that many companies did not fully comply with IFRS requirements. It is generally recognized that the quality of disclosures improved in the second year of IFRS implementation. Since the introduction of IFRS compliance in India, IRDA has to work out the likely changes in the financial statements submitted by the insurers so that both the regulator, the market and policyholders (both current and prospective) could use the standards effectively and at the same time reasonable degree of transparency is ensured.

Chapter – 4

Specific issues in the implementation of IFRS

4.1 Product Classification and Significant risks

4.1.1 Need for product classification

IFRS 4 is the first Standard from the International Accounting Standards Board (IASB) on insurance contracts. The Standard is designed to make limited improvements to accounting practices and to provide users with an insight into the key areas that relate to accounting for *insurance contracts*. All entities that issue policies that meet the definition of *an insurance contract* under IFRS 4 have to apply this Standard. The Standard does not apply to other assets and liabilities of the insurance companies, such as financial assets and financial liabilities, which fall within the scope of IAS 39.

Classification of products into insurance products and other than insurance products is thus a *pre-requisite* for applying IFRS 4.

4.1.2 Basis of classification of Insurance Contract

The conceptual basis of an insurance contract is the presence of significant insurance risk and insurance risk is defined as a transferred risk other than financial risk.

IFRS 4 defines an insurance contract **as** *a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.*

Various aspects viz. financial risk, insurance risk, transferred risk, significance of insurance risk and uncertainty of future event, that need to be considered while determining whether a contract or product would classify as Insurance contract have been detailed below.

Financial risks include the risk of a possible change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index. It also includes non–financial variables which are not specific to one of the parties of the contract.

Examples of non–financial variables not specific to a party to the contract and therefore included in the definition of financial risk

- Weather or catastrophe indices such as an index of temperatures in a particular city or an index of earthquake losses in a particular region;
- Mortality rates of a population;
- Claims indices of an insurance market.

Examples of non–financial variables specific to a party to the contract and therefore excluded from the definition of financial risk

- The claims index, cost or lapse rate of that party;
- The state of health of the party.

Financial risk products are not presently sold by insurance companies in India and hence none of our products would fall under the purview of exclusion for *financial risk*. We understand that the general insurance industry has introduced products based on weather indices. These products would be exemptions to the above statement.

Transferred risks: Insurance risk is always a transferred risk which means that only risks accepted by the insurer, which were pre–existing for the policyholder at the inception of the contract, meet the definition of insurance risk. Lapse, persistency or expense risks, resulting from contracts written, do not constitute insurance risk as they are not transferred risks – even if these risks are triggered by the same events that trigger insurance risk. It therefore follows that the loss of future earnings for the insurer, when the contract is terminated by the insured event, is not insurance risk as the economic loss for the insurer is not a transferred risk.

Significance: IFRS 4 does not provide quantitative guidance for assessing the significance of insurance risk.

The standard however provides that when assessing the significance of insurance risk two factors should be considered. The insured event should have a

- a sufficient probability of occurrence and
- a sufficient magnitude of effect.

The probability of occurrence and the magnitude of effect are measured independently to determine the significance of the insurance risk.

The occurrence of an event is viewed as sufficiently probable if the occurrence thereof has *commercial substance*. Any event, which policyholders see as a threat to their economic position and for which they are willing to pay for cover, has commercial substance. Therefore even if its occurrence is considered less likely, commercial substance is considered to be sufficient. Following the same logic, the magnitude of the effect of an event is considered sufficient if the effect on the policyholder is significant when compared to the minimum benefits payable in a scenario of commercial substance. Payments made which do not compensate the policyholder for the effect of the insured event, e.g. payments made for competitive reasons, are not taken into consideration in the assessment of insurance risk.

The significance of insurance risk would have to be measured at contract level without considering the risk exposure of the entire portfolio. Therefore, the effect of risk equalisation in the portfolio would be ignored. However, IFRS 4 provides that where a

portfolio of homogenous contracts are known to generally contain significant insurance risk, each contract can be treated as an insurance contract, without applying the requirement to assess the significance of insurance risk to each individual contract. Hence, for group contracts the classification to be done at the contract level.

In order to ensure consistency across Insurance companies in assessing significance of `Insurance risk' for classification of products as Insurance products, it is proposed that a contract would be an insurance contract if the benefit payable on death is higher by

- at least 5% of the fund value at any time during the life on the contract for unit linked products, or

- at least 5% of the premium at any time during the life on the contract for other than unit linked products

All insurance companies would accordingly have to document the extent of 'Insurance Risk' identified as per the rules given above and also document the measures used in quantification.

(It should further be noted that Insurance Companies are also allowed to sell Zero death benefit pension product as an Insurance contract, however IFRS 4 states that a Contract that does not transfer any significant insurance risk cannot be treated as an Insurance contract. Thus treatment of zero death benefit pension products during the accumulation phase is an investment contract.)

IFRS 4 further requires that the insurable interest is embodied in the contract as a precondition for providing benefits.

IFRS 4 also clarifies that survival risk, which reflects uncertainty about the required overall cost of living, qualifies as insurance risk.

4.1.3 Areas of uncertainty to be considered in determining insurance risk

Uncertainty of the insured event can result from uncertainty over:
• the occurrence of the event;
• the timing of the occurrence of the event; or
• the magnitude of the effect, if the event occurs.

Uncertainty over the occurrence of the event
Uncertainty over the occurrence of the event may take various forms. Under some insurance contracts the insured event occurs during the period of cover specified in the contract, even if the resulting loss is discovered after the end of this period of cover. For others the insured event is the discovery of a loss during the period of cover of the contract, even if the loss arises from an event that occurred before the inception of the contract.

Uncertainty over the timing of the event
In whole life insurance contracts the occurrence of the insured event, within the duration of the contract, is certain but the timing is uncertain.

Uncertainty over the magnitude of the effect
Some insurance contracts cover events that have already occurred, but whose financial effect is still uncertain.

Further, the insured event must be specified, i.e. the event cannot be a general protection against adverse deviations from targets, but must be explicitly or implicitly described in the contract. Where the contract provides an option to extend cover, this will only qualify as insurance risk at the start of the contract if the contract specifies the terms of the extended cover. The probability that the option will be exercised is taken into consideration when assessing the significance of the future insurance risk.

Insurance risk should be assessed at the inception of the contract. Where cash flows after inception differ from those expected and if the contract subsequently meets the requirement of transferring significant insurance risk, when assessed on the new information, it should be re-classified as an insurance contract at that date. Once a contract is classified as an insurance contract, it remains an insurance contract until the ultimate settlement of all rights and obligations under that contract. The level of insurance risk may vary during the period of the insurance contract.

If a contract contains an option which if executed would introduce insurance risk into the contract, the specific terms of the option need to be considered in determining the classification of the contract at inception. If the insurer is able to determine the terms of the option at execution, the execution of the option is in substance a new two–sided agreement.

The above factors need to be considered while determining whether a product or a contract would fall within the definition of an insurance contract. The standard states that if a contract does not meet the definition of an Insurance contract then it shall be accounted as per the requirements of the standard IAS 39 on financial instruments.

4.1.4 Classification of products under Indian context

Presently there is no standard in India that governs the accounting of Insurance contracts and hence the classification of Insurance/non – insurance products does not exist and is not required. However under IFRS 4 product classification is a pre-requisite as it gives clear guidance on accounting for Insurance products as well as for Investment products. It would mean that all Indian insurance companies will need to categorize/classify their products into insurance/investment products based on the above guidance on classification. It should further be noted that riders attached to the base products need not to be independently classified and accounted. Its accounting treatment would be similar to that of the base product.

Contracts issued that do not meet the definition of an insurance contract contained in IFRS 4 (also referred to as investment contracts) will be accounted for as financial instruments under IAS 39. Such contracts would be accounted at fair value or on amortized cost basis, based on classification of such contracts done by the company.

Product classification for broad category of products currently existing in India is discussed and enclosed as **Appendix- 5 and** a write up on definition of 'Insurance Contract' and significant risk are given in **Appendix – 2**.

4.1.5 Accounting for insurance contracts under IFRS

IFRS 4 permits the company to continue with its existing accounting policies on Insurance contracts i.e. accounting followed under Indian GAAP (prescribed by IRDA) except for the following:

(a) measuring insurance liabilities on an undiscounted basis.

(b) measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services

(c) using non-uniform accounting policies for the insurance liabilities of subsidiaries
It further,

(a) prohibits provisions for possible claims under contracts that are not in existence at the reporting date (such as catastrophe and equalisation provisions).

(b) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.

(c) requires an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets

Further the standard requires deposit element (if any) inherent in the insurance contract to be separated (unbundled) in case certain conditions are satisfied, as failure to separately account for the deposit element inherent in an insurance contract may result in material liabilities and assets not being fully recognised on the balance sheet of an entity, under the existing accounting policies which continue to apply in terms of IFRS 4.

4.1.6 Unbundling of deposit component is mandated if:

- the deposit component can be measured separately and the insurer's accounting policies do not otherwise require recognition of all obligations and rights arising from the deposit component

- it is permitted but not required, if the deposit component can be measured separately and the insurer's accounting policies require recognition of all obligations and rights arising from the deposit component.

- it is prohibited, if the deposit component cannot be measured separately

If unbundled, the insurance component is accounted for under IFRS 4 and the deposit component under IAS 39 Financial instruments: recognition and measurement. The impact of unbundling would mean that only the net revenue for the company being recognised as top line (premium income) thereby eroding the top line to the extent of unbundling.
The above has been illustrated by way of an example:

Product: Unit linked product with the premium of Rs. 1,000/- with initial charges of Rs. 200/-
Unbundling required / opted then the revenue would be Rs. 200/- (Rs. 1000/- minus Rs. 800/-) and Rs. 800/- would not be recognised in the income statement, but as deposit liabilities in the balance sheet.

Considering the existing accounting policies and product features in India, for most of the Insurance contracts unbundling would be optional.

However considering the following factors and to maintain consistency in accounting and reporting by all Insurance companies it is decided that unbundling would be prohibited in India:

- The components are closely interrelated and the value of the bundled product may differ from the sum of the individual values of the components

- Insurance contracts are designed, priced, managed and regulated as packages of benefits. Furthermore, the insurer cannot unilaterally terminate the agreement or sell parts of it. Any unbundling required solely for accounting would be artificial and often require significant and costly systems changes

- Surrender options may cause interdependencies between the components. In principle, the deposit component does not include the part of the surrender value needed to compensate the policyholder for forfeiting the right to future insurance coverage. However, it may not be straightforward to identify that part. Thus, the measurement of the deposit component might be arbitrary in some cases

In respect of accounting of insurance contracts the key points to be noted are:

- Under IFRS 4, the company has an option to continue to account for contracts as per its current accounting policies (subject to some pre conditions) except when the contract falls under the definition of Investment Contracts (IAS 39)

- Some contracts could get classified as Investment contract (i.e. contracts with insignificant risk – zero death benefit, etc) which would warrant:
    - Revenue to be recognised only to the extent of charges (i.e. unbundling)
    - The deposit component would be accounted as a deposit liability and recognised at fair value or on amortised cost as per IAS 39

4.1.7 Challenges with respect to product classification in the Indian context

Until now, product classification had no accounting implications per se; however under IFRS, product classification would become an inherent part of the product design process as the same would have a significant impact on the company's financials.

Assess the existing accounting systems capabilities of tracking disclosure requirements required by IFRS 4.

4.2 Investment Accounting and Valuation under IFRS

4.2.1 The current Indian context

Presently, investment recognition, measurement & disclosures related requirements for an insurance company are governed by the regulations prescribed by IRDA in this respect.

Under the existing regulations the investments of an insurance company are required to be segregated as Linked, Non Linked and Shareholders Investments.

All Investments in the Linked portfolio are recognized at market value in the Balance Sheet and the marked to market unrealized gains / losses are routed through the Revenue Account. However, to the extent marked to market unrealized gains / losses are booked in the Revenue Account a corresponding effect is given under the head `Increase in Policyholders liability' in the Revenue Account making the impact to the Revenue Account neutral.

Investments in the Non Linked & Shareholders portfolio are further classified as Equity and Mutual Fund and Other investments including debt instruments. Equity and Mutual Fund investments are recognized at market value in the Balance Sheet and the corresponding mark to market unrealized gain / loss is shown in the Balance Sheet under `Fair Value Change Account'. Other investments including debt instruments are recognized at amortized cost in the Balance Sheet; the amortization basis used is straight-line basis over the period of holding till maturity/sale..

Investments in Derivatives (other than fixed income derivatives) are not allowed as per the IRDA investment regulations.

Investment accounting and valuation requirements under IFRS:

- Recognition and measurement of Investments under IFRS are governed by IAS 39 - `Financial Instruments: Recognition and Measurement'.

4.2.2 Scope of IAS 39 - `Financial Instruments: Recognition and Measurement'

Financial instrument refers to any *contract* that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In this definition, *contract* refers to an agreement between two parties that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. An asset or liability that is not contractual (e.g., an obligation to pay income taxes) is not a financial instrument even though it may result in the receipt or delivery of cash
Financial asset refers to any asset that is

- Cash;
- An equity instrument of another entity; or
- A contractual right to receive cash or another financial asset from another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity; or
- A contract that may or will be settled in the entity's own equity instrument and is not classified as an equity instrument of the entity

Financial liability refers to any liability that is

- A contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the entity; or
- A contract that will or may be settled in the entity's own equity instruments and is not classified as an equity instrument of the entity

Thus IAS 39 is not restricted to Financial Instruments currently held as Investment, but also applies to:

- Other financial assets like cash, deposits, receivables, loans, etc
- Financial liabilities like payables, deposits, loans, other debt instruments issued by the entity etc
- Derivative financials instruments like call options, put options, forwards, futures, swaps etc.
- Other instruments which are similar to derivative financial instruments. For example commodity market derivatives like Gold, Silver, Iron, etc. However those contracts should satisfy following two conditions:
    1. The contract is subject to potential net settlement i.e. can be settled other than by actual delivery of the commodity.
    2. Should not be for own consumption

IAS 39 prescribes the rules for:

- Recognition (and de-recognition) of financial instruments
- Measurement of various types of financial instruments in the financial statements, including derivative financial instruments
- Hedge accounting

Embedded Derivatives

IAS 39 has introduced the newer concept of identification & measurement of **embedded derivatives**.

When a derivative feature is embedded in a non derivative contract, the derivative is referred to as an ***embedded derivative*** and the contract in which it is embedded is referred to as a *host contract*.

As the Derivatives are to be valued at Fair Value; the derivative portion of an embedded derivative also has to be valued at Fair Value. Hence it is utmost important to identify the embedded derivatives in the investment portfolio.

As per IAS 39, entities are required to identify any embedded derivatives and account for them separately from their host contracts if following three conditions are met:

1. On a stand-alone basis, the embedded feature meets the definition of a derivative.

2. The combined (hybrid) contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e., if the combined contract is already accounted for similar to a derivative, there is no need to separate the embedded feature).

3. The economic characteristics and risks of the embedded feature are *not* closely related to the economic characteristics and risks of the host contract.

4.2.3 Key aspects of the investment accounting under IAS 39 are detailed below:

4.2.3.1 Recognition and De-recognition of financial instruments

IAS 39 has clearly defined rules for recognition of investments & the Company should recognize a financial asset on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument. This means that an entity recognizes *all* its contractual rights and obligations that give rise to financial assets or financial liabilities on its balance sheet.

A consequence of IAS 39's recognition requirement is that a contract to purchase or sell a financial instrument at a future date is itself a financial asset or financial liability that is required to be recognised in the balance sheet today. The contractual rights and obligations are recognised when the entity becomes a party to the contract. In a regular

purchase or sale transaction the standard provides the flexibility to adopt either trade date or transaction date for recognition / de-recognition of investments.

Under IAS 39, de-recognition of a financial asset is appropriate if either of these two criteria is met:

1. The contractual rights to the cash flows of the financial asset have expired, *or*

2. The financial asset has been transferred (e.g., sold) and the transfer qualifies for de-recognition based on an evaluation of the extent of transfer of the risks and rewards of ownership of the financial asset.

If the entity transfers substantially all of the risks and rewards of ownership, then it derecognises the entire asset. If an entity neither transfers nor retains substantially all of the risks and rewards of ownership of a financial asset, then it evaluates whether it has retained control of the financial asset.

Sometimes new financial assets or financial liabilities are created in the transfer (e.g. a credit guarantee). New financial assets or financial liabilities created as a result of the transfer are recognised separately and measured at fair value.

If an entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it shall recognise either a servicing asset or a servicing liability for that servicing contract. Servicing assets and servicing liabilities are not considered financial assets and financial liabilities, respectively.

On derecognition of a financial asset in its entirety, the difference between

(1) the carrying amount of the financial asset or portion of the financial asset transferred; and

(2) the sum of the proceeds received, including the fair value of any new financial assets acquired or financial liabilities assumed in the transfer, and the cumulative amount previously recognised directly in equity in respect of the transferred financial asset, or the portion of the financial asset that is transferred shall be recognised in profit and loss.

However in the Indian context, presently there are no explicit guidelines on the timing of recognition & de-recognition of investment i.e. a financial instrument can be recognised either on transaction or settlement date.

4.2.3.2 Measurement of financial instruments

As against measurement criteria defined by IRDA which is restricted to three broad categories of investments i.e. equity, mutual fund & other instruments; IAS 39 has detailed guidelines on measurement based on classification of the financial assets.

4.2.4 Classification of financial assets prescribed under IAS 39:

Financial assets at fair value through profit or loss - This category includes financial assets that the entity either

- holds for trading purposes or
- otherwise has elected to classify into this category

A financial asset is considered to be held for trading if the entity acquired or incurred it principally for the purpose of selling or repurchasing it in the near term or is part of a portfolio of financial assets subject to trading. Trading generally reflects active and frequent buying and selling with an objective to profit from short-term movements in price or dealer's margin.

Held-to-maturity (HTM) investments - Financial assets with fixed or determinable payments and fixed maturity that the entity has the positive intention and ability to hold to maturity can be classified as HTM. This category is intended for investments in bonds and other debt instruments that the entity will not sell before their maturity date irrespective of changes in market prices or the entity's financial position or performance.

Loans and receivables - This includes financial assets with fixed or determinable payments that are not quoted price in an active market. For example, an entity may classify items such as account receivables, note receivables, and loans to customers in this category. Financial assets with a quoted price in an active market and financial assets that are held for trading, including derivatives, cannot be classified as loans and receivables.

Available for sale (AFS) financial assets - Any financial assets which does not fall under any of the above categories has to be recognised as AFS.

The following table illustrates the measurement requirement of IAS 39 for each of the class of assets:

Fair value through profit and loss	Held-to-maturity assets	Loans and receivables	Available for sale financial assets
I. Classification requirements:			
a. Held for trading (acquired for the purpose of selling, or evidence of a recent actual pattern of short-term profit taking, or a derivative)	a. Fixed or determinable payments and fixed maturity with the positive intention to hold till maturity	a. Financial assets with fixed or determinable payments	a. The financial assets not classified in any of the other categories, shall be classified under this category
b. Upon initial recognition, it is designated as at fair value through profit or loss	b. If the entity has during the preceding two financial years , sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity, then it shall not classify any financial assets as held-to-maturity	b. Not quoted in an active market	
II. Initial measurement (at the time of purchase):			
Fair value	Fair value + transaction cost that are directly attributable to the acquisition of the financial asset	Fair value + transaction cost that are directly attributable to the acquisition of the financial asset	Fair value + transaction cost that are directly attributable to the acquisition of the financial asset
III. Subsequent measurement:			
Fair value	At amortised cost using effective interest rate method	At amortised cost using effective interest rate method	Fair value
IV. Recognition of gains / losses through change in fair value:			

Fair value through profit and loss	**Held-to-maturity assets**	**Loans and receivables**	**Available for sale financial assets**
Recognised in profit or loss account	Not applicable	Not applicable	Shall be recognised in the equity account (i.e. the reserves and not through profit or loss account) (Similar to the current practice of accounting for the fair value change for non linked funds)
V. Impairment loss:			
Not applicable as the gains/losses through change in fair value are already recognised in the profit or loss account	**Amount of loss** - difference between the assets carrying amount and the present value of estimated future cash flows	**Amount of loss** - difference between the assets carrying amount and the present value of estimated future cash flows	**Amount of loss** - the difference between the acquisition cost and the current fair value
	Recognition - loss shall be recognised in the profit or loss account and the carrying value of the financial asset shall be accordingly reduced	**Recognition** - loss shall be recognised in the profit or loss account and the carrying value of the financial asset shall be accordingly reduced	**Recognition** - the cumulative loss previously recognised shall be reduced from the equity (reserves) account and shall be recognised in profit or loss account

4.2.5 Tainting provisions:

- An investment can not be classified into or out of fair value through profit or loss category. Reclassification between AFS & HTM categories is possible. However, if the significant amount is reclassified under AFS from HTM; the remaining HTM investment has also to be reclassified into AFS.

- If an entity sells or reclassifies more than an insignificant amount of HTM investments (i.e., a very small amount in proportion to the total amount of HTM investments) prior to maturity, such sales or reclassifications normally will disqualify the entity from using the HTM classification for any investments during the following two-year period. This is because sales of held-to-maturity investments call into question (or "taint") the entity's intentions with respect to holding such investments.

Thus the standard in addition to prescribing definite investment classification also restricts subsequent change in classification.

4.2.6 Other aspects to be considered in measurement of investments

- The amortisation basis prescribed under IFRS is ***Effective interest method*** as against current simple interest method currently being followed by insurers

- In the current context, ***transaction cost*** (related to acquisition, issuance or disposal of investment) is capitalised i.e. added in the value of the investment. However, as per IAS 39, the same has to be recognised in the Revenue / Profit & Loss Account.

4.2.7 Classification & Measurement of Investments by Insurance Companies:

The approach suggested below for investment classification and measurement is recommendatory and based on the premise that an insurance industry uses an asset-liability matching approach to manage its risk exposure. It is suggested that the nature of the insurance liability be the deciding factor for classification of Investments into Fair value through P&L (FVTPL), Held to Maturity (HTM) or Available for Sale (AFS).

Classification of investments should be determined for Linked business and other than Linked business separately. Other than linked business would mainly include Participating and Non participating lines of business (including Health).

Illustration for classification of Investments:

- Investments under Linked line of business should be classified as Fair value through P&L, as corresponding linked liabilities are valued at fair value and assets are exactly matched with such liabilities

- Investments under Participating and Non participating lines of business

- For Investments, which are in the nature of assets with fixed or determinable payments and fixed maturity, which are held as a backing for Liabilities and are duration matched can be classified as Held to Maturity
- Investments, although duration matched, if are held to meet the liquidity requirements of the Company and are intended to sell in the near future should be classified as AFS

- For other investments, Company can classify them as AFS, unless it is clear that, Company has purchased investments for the purpose of selling or repurchasing it in the near term or is part of a portfolio of financial assets subject to trading, wherein it shall be classified as FVTPL

- Investments should be classified/measured at the time when security is acquired or allocated across various lines of business

It should be further noted that asset-liability approach often requires the rebalancing of portfolios (e.g. the sale of securities that an insurance company had originally intended to hold to maturity) from time to time because liabilities' characteristics are not static.

Insurance companies should put in place framework for appropriate investment classification.

4.2.8 Effective Interest Rate

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

4.2.9 Transaction where effective interest rates are used

On subsequent measurement, loans and receivables, held-to-maturity investments and some financial liabilities are measured at amortised cost using the effective interest method.

A transfer from the available-for-sale category to the held-to-maturity category generally is permitted. The fair value immediately prior to transfer becomes the "cost" in the new

category. In the case of a financial asset with a fixed maturity, the previous gain or loss should be amortised to the statement of profit and loss over the remaining life of the held-to-maturity investment using the effective interest method. Any difference between the new amortised cost and maturity amount should also be amortised over the remaining life of the financial asset using the effective interest method, similar to the amortisation of a premium and a discount.
Interest is calculated using the effective interest method and recognised in the statement of profit & loss account.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

Any adjustment arising from discontinuation of hedge because the hedge no longer meets the criteria for hedge accounting, to the carrying amount of a hedged financial instrument for which the effective interest method is used (or, in the case of a portfolio hedge of interest rate risk, to the separate balance sheet line item described in paragraph 89A) should be amortised to the statement of profit and loss. Amortisation begins when the adjustment exists and begins when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. The adjustment is based on a recalculated effective interest rate at the date amortisation begins. However, if, in the case of a fair value hedge of the interest rate exposure of a portfolio of financial assets or financial liabilities (and only in such a hedge), amortising using a recalculated effective interest rate is not practicable, the adjustment should be amortised using a straight-line method. The adjustment should be amortised fully by maturity of the financial instrument or, in the case of a portfolio hedge of interest rate risk, by expiry of the relevant repricing time period.

4.2.10 Calculation of Effective Interest rate

When calculating the effective interest rate, an entity should estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but should not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity should use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

In some cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Entities include such incurred credit losses in the estimated cash flows when computing the effective interest rate.

When applying the effective interest method, an entity generally amortises any fees, points paid or received, transaction costs and other premiums or discounts included in the calculation of the effective interest rate over the expected life of the instrument. However, a shorter period is used if this is the period to which the fees, points paid or received, transaction costs, premiums or discounts relate. This will be the case when the variable to which the fees, points paid or received, transaction costs, premiums or discounts relate is repriced to market rates before the expected maturity of the instrument. In such a case, the appropriate amortisation period is the period to the next such repricing date. For example, if a premium or discount on a floating rate instrument reflects interest that has accrued on the instrument since interest was last paid, or changes in market rates since the floating interest rate was reset to market rates, it will be amortised to the next date when the floating interest is reset to market rates.

This is because the premium or discount relates to the period to the next interest reset date because, at that date, the variable to which the premium or discount relates (i.e., interest rates) is reset to market rates. If, however, the premium or discount results from a change in the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates, it is amortised over the expected life of the instrument.

For floating rate financial assets and floating rate financial liabilities, periodic re-estimation of cash flows to reflect movements in market rates of interest alters the effective interest rate. If a floating rate financial asset or floating rate financial liability is recognised initially at an amount equal to the principal receivable or payable on maturity, re-estimating the future interest payments normally has no significant effect on the carrying amount of the asset or liability.

If an entity revises its estimates of payments or receipts, the entity adjusts the carrying amount of the financial asset or financial liability (or group of financial instruments) to reflect actual and revised estimated cash flows. The entity recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised as income or expense in the statement of profit and loss.

4.2.11 Illustration for accounting transaction cost

The following example illustrates the accounting for transaction costs on the initial and subsequent measurement of an available-for-sale financial asset. An asset is acquired for Rs. 100 plus a purchase commission of Rs. 2. Initially, the asset is recognised at Rs. 102. The next financial reporting date occurs one day later, when the quoted market price of the asset is Rs. 100. If the asset were sold, a commission of Rs. 3 would be paid. On that date, the asset is measured at Rs. 100 (without regard to the possible commission on sale) and a loss of Rs. 2 is recognised in the appropriate equity account. If the available-for-

sale financial asset has fixed or determinable payments, the transaction costs are amortised to the statement of profit and loss using the effective interest method. If the available-for-sale financial asset does not have fixed or determinable payments, the transaction costs are recognised in the statement of profit and loss when the asset is derecognised or becomes impaired.

4.2.12 Impairment losses and reversal of impairment losses

IAS 39 requires an entity to assess at each balance sheet date whether there is any *objective evidence* that a financial asset or group of financial assets is impaired. Objective evidence of impairment that a financial asset or group of financial assets is impaired includes observable data about these loss events, such as:

1. Significant financial difficulty of the issuer or obligor
2. A breach of contract, such as a default or delinquency in interest or principal payments
3. A troubled debt restructuring
4. It becomes probable that the borrower will enter bankruptcy or other financial reorganization
5. The disappearance of an active market for that financial asset because of financial difficulties
6. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group (i.e., a loss that is incurred but not yet reported). Such data may include changes in unemployment rates or property prices that affect borrowers in a group

The effect of the impairment would be applicable only for financial assets classified under AFS, HTM & Loans and Receivables.

Impairment losses for loans and receivables, held-to-maturity investments, and investments in debt instruments classified as available for sale are reversed through profit or loss if the impairment losses decrease and the decrease can be objectively related to an event occurring after the impairment was recognised (e.g., an improvement in an external credit rating). In other words, a gain would be recognised in profit or loss to reverse some or all of the previously recognised impairment loss in these circumstances. Such reversals are limited to what the asset's amortised cost would have been had the impairment not been recognised at the date the impairment loss is reversed.

Impairment losses for investments in equity instruments are never reversed in profit or loss until the investments are sold. A reason for the difference in treatment of reversals between investments in equity and debt instruments is that it is more difficult to objectively distinguish reversals of impairment losses from other increases in fair value for investments in equity instruments.

In the Indian context, presently there are no specific guidelines on impairment of investment. However as per IRDA investment guidelines, any reversal of impairment loss, earlier recognised in Revenue/ Profit & Loss Account shall be recognised in Revenue/ Profit & Loss Accounts.

4.2.13 Hedge accounting: Derivatives and Embedded Derivatives

Derivatives are contracts such as options, forwards, futures, and swaps. Because they are often entered into at no cost, many times derivatives were not recognised in financial statements prior to IAS 39. The potential gains and losses that may arise on settlement of derivatives, however, bear little relation to their initial cost and can be significant. To provide more useful information about derivatives, therefore, IAS 39 requires derivatives to be measured at fair value in the balance sheet.

IRDA does not permit investment in derivatives others than fixed income derivatives as below:

- Forward Rate Agreements – only plain vanilla
- Interest Rate Swaps – only plain vanilla
- Exchange traded interest rate futures

The permitted purpose of the above fixed income derivatives is restricted to hedging interest rate risk of investment in fixed income securities or for hedging forecasted transactions.

Hedge accounting of fixed income derivatives designated as hedging instrument should be valued:

- at fair value for listed hedging instruments
- at present value calculated using expected cash flows and current interest rate for unlisted hedging instruments

IRDA has defined the rule for Fair Value hedge and Cash Flow hedge as follows:

Fair Value hedge is a hedge of the exposure to changes in the fair value of a recognized investment in Fixed Income Security or an identified portion of the same, that is attributable to interest rate risk, and that will affect reported income.

The Fair Value hedge should be accounted as follows:

- the gain or loss from re-measuring the hedging instrument at fair value should be recognized immediately in the respective income statement; and
- the gain or loss on the hedged item attributable to the interest rate risk should be adjusted from the carrying amount of the hedged item and be recognized immediately in the respective income statement.

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to an interest rate risk on a recognized Fixed Income Security or a forecasted transaction that will affect the reported income

The accounting of Cash Flow hedge should be as follows:

- The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge should be recognized directly in equity (Fair Value Change Account with appropriate Sub-head); and

- The ineffective portion should be reported in the same manner as a derivative instrument which is not a hedging instrument is reported.

The above rules specified by IRDA for valuation of Hedge instruments are the same as prescribed under IFRS and hence no change would be required.

Effectiveness test

As per IAS 39,the effectiveness of the hedge can be reliably measured, i.e., the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured. The hedge is expected to be highly effective (80-125%) in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the originally documented.

The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated. Effectiveness is assessed, at a minimum, at the time an entity prepares its annual or interim financial statements. If the hedge in not highly effective i.e. the change in fair value is not in the range of 80-125%, the hedge is treated as ineffective and hedge accounting should be discontinued.

Hedge swap termination

Gains/losses on the termination of the hedge is recognised in the profit and loss account

Hedge de-designation

If an entity were hedging a financial asset or liability that is carried at amortized cost (e.g., a long-term borrowing), the basis adjustment would be treated as a premium or discount and amortized over the expected remaining life of the interest-bearing instrument using the effective-yield method.

IAS 39 has introduced the newer concept of identification & measurement of **embedded derivatives**.

When a derivative feature is embedded in a non derivative contract, the derivative is referred to as an ***embedded derivative*** and the contract in which it is embedded is referred to as a *host contract*.

As the Derivatives are to be valued at Fair Value; the derivative portion of an embedded derivative also has to be valued at Fair Value. Hence it is utmost important to identify the embedded derivatives in the investment portfolio.

As per IAS 39, entities are required to identify any embedded derivatives and account for them separately from their host contracts if the following three conditions are met:

1. On a stand-alone basis, the embedded feature meets the definition of a derivative.
2. The combined (hybrid) contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e., if the combined contract is already accounted for similar to a derivative, there is no need to separate the embedded feature).
3. The economic characteristics and risks of the embedded feature are *not* closely related to the economic characteristics and risks of the host contract.

Example

An entity may issue a bond with interest or principal payments that are indexed to the price of gold (e.g., the interest payments increase and decrease with the price of gold). Such a bond is a contract that combines a host debt instrument and an embedded derivative on the price of gold.

Under the IFRS scenario Insurance companies would be required to identify insurance contracts / products which may fall under the definition of embedded derivative as per IAS 39. Some of the examples of embedded derivative feature in an insurance contract are any indexed linked guaranteed additions and maturity payouts. However in India none of the insurance companies have such product. *However, embedded derivatives have to be looked into more detailed at the time of product classification by an insurance company.*

In the current context following investments may fall under the definition of embedded derivatives:

- Floating Rate Note (MIBOR linked interest rate)
- NCD with put/ call option

4.2.14 Foreign Currency Gain or Loss

An entity applies IAS 21 to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. Under IAS 21, any foreign exchange gains and losses on monetary assets and monetary liabilities are recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge or a hedge of a net investment. For the purpose of recognising foreign exchange gains and losses under IAS 21, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in accordance with paragraph 55(b). For available-for-sale financial assets that are not monetary items under IAS 21 (for example, equity instruments), the gain or loss that is recognized in other comprehensive income under paragraph 55(b) includes any related foreign exchange component. If there is a hedging relationship between a non-derivatives monetary asset and a non-derivative monetary

liability, changes in the foreign currency component of those financial instruments are recognized in profit or loss

4.3 Deferred Acquisition Costs

4.3.1 Product Classification

The classification of product into Insurance contract and other than Insurance contract is a pre requirement for applying IFRS 4. If the contract falls within the definition of Insurance Contract, then it shall be accounted as per the requirement of the Local GAAP or IFRS 4 if adopted. 'Investment contract' is an informal term referring to a contract issued by an insurer that does not expose the insurer to significant insurance risk and is therefore within the scope of IAS 39.

4.3.2 Exemption under IFRS

As per IFRS 4 – IN4 "The IFRS exempts an insurer temporarily (i.e., during phase I of this project) from some requirements of other IFRSs, including the requirement to consider the Framework in selecting accounting policies for insurance contracts. However, the IFRS:

(a) prohibits provisions for possible claims under contracts that are not in existence at the end of the reporting period (such as catastrophe and equalisation provisions).

(b) requires a test for the adequacy of recognised insurance liabilities and an impairment test for reinsurance assets.

(c) requires an insurer to keep insurance liabilities in its statement of financial position until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets."

4.3.3 Consolidation procedures

A per IAS 27-IN6, a group must use uniform accounting policies for reporting like transactions and other events in similar circumstances. The consequences of transactions, and balances, between entities within the group must be eliminated.

4.3.4 Acquisition costs

As per para 13 of IFRS 4, paragraphs 10–12 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify criteria for an entity to use in developing an accounting policy if no IFRS applies specifically to an item. However, this IFRS exempts an insurer from applying those criteria to its accounting policies for:
(a) insurance contracts that it issues (including related acquisition costs and related intangible assets, such as those described in paragraphs 31 and 32); and
(b) reinsurance contracts that it holds.

As per BC115 – IFRS 4, the IFRS does not address:

a) acquisition cost (paragraph BC 116-BC 119)
b) salvage and subrogation (paragraph BC120 and BC121) and
c) policy loans (paragraph BC122)

IFRS 4 BC116 - *"neither prohibits nor requires the deferral of acquisition costs, nor does it prescribe which acquisition costs are deferrable, the period and method of their amortisation and whether an insurer should present deferred acquisition costs as an asset or as a reduction in insurance liabilities. The treatment of deferred acquisition costs is an integral part of existing models and cannot be amended easily without a more fundamental review of those models in phase II."*

As per IFRS 4, acquisition costs are the costs that an insurer incurs to sell, underwrite and initiate a new insurance contract. This may include agent and broker commissions, certain underwriting and policy issue costs, and medical and inspection fees that are primarily related to the acquisition of insurance contracts.

4.3.5 Treatment of Acquisition costs

Currently, there is an inconsistency in the treatment of acquisition cost for insurance and investment contracts. In phase 1, IFRS 4 gives an option for continuation of the local GAAP and if followed, the acquisition costs are to be expensed and not deferred as per the existing practices. However, if group has a policy on deferral of acquisition cost, the same policy needs to be followed by all the group companies to be consistent as per the requirements of IFRS. No restrictions are placed on the amount or the amortisation method. In contrast, for investment contracts under IAS 39, the acquisition cost that may be deferred is limited to the external acquisition cost.

The treatment of acquisition costs for insurance contracts in phase I may differ from the treatment of transaction costs incurred for investment contracts (i.e., financial liabilities). IAS 39 requires specified transaction costs to be presented as a deduction in determining the initial carrying amount of a financial liability.

Incremental costs directly attributable to securing an investment management contract should be recognised as an asset if they meet specified criteria, and that incremental costs should be defined in the same way as in IAS 39. IASB has clarified these points by adding guidance to the appendix of IAS 18 *Revenue*.

4.3.6 Acquisition costs that can be deferred

Deferrable acquisition costs comprise direct and indirect variable costs relating to the acquisition of new and renewal insurance contracts. They include especially:

- Acquisition costs and first commissions (excluding recurring commissions other than those related to renewal insurance contracts), incentives and bonuses associated with new business and other remuneration of sales staff in relation to new business,

- administrative costs associated with the issuing of contracts, and costs associated with policy selection and acquisition such as inspection and medical fees.

- Conversely, the following costs are usually not deferred:

- general advertising costs,
- general recruitment of sales staff and agents,
- classroom training and conferences,
- product design costs,
- recurring commissions other than those related to renewal insurance contracts.

In general, the *criteria for deferral is how close the cost is in the process of bringing in new business*

4.3.7 Accounting treatment for deferred acquisition cost

- Acquisition costs may only be capitalized and deferred if they will be offset by future revenues including future investment margins. Certain insurance contracts include front end loads comprised in the premium to cover acquisition costs. They are fixed contractually and are not collected until the policy is subscribed, unlike administration cost loads which are collected annually throughout the duration of the contract.

- Unearned revenue reserves (URR)-also known as Deferred Revenue, are recorded in the income statement and balance sheet over the duration of the contracts using identical rules to those applied to the amortization of deferred acquisition costs.

- For Investment contracts without DPF, IAS 18 permits only the deferral of transaction costs and front-end fees incurred on the acquisition of these contracts.

- A recoverability test should be carried out each year for each insurance contract line, in order to ensure that future profits will be sufficient to cover DACs. If they are not sufficient, the irrecoverable portion of the DACs must be expensed immediately, and the amortization policy amended accordingly. For DACs on new business, a premium sufficiency test must be carried out for each main product line, for all issue years combined.

4.3.8 Basis of Amortisation

Generally, deferred acquisition cost is amortised on the following basis

1. estimated gross profits emerging over the life of the contracts
2. projections of fees collected over the life of the contracts
3. gross premiums
4. expense immediately

4.3.9 Accounting Policies of Insurance Companies

Company A

For Deferred acquisition costs (DAC) relating to insurance contracts and investment contracts with discretionary participating features, the variable costs of writing insurance contracts and investment contracts with discretionary participating features, primarily related to the underwriting of new business, are deferred by recognizing as an asset. This

asset is amortized based on the estimated gross profits emerging over the life of the contracts. In conjunction to the liability adequacy test this asset is tested for recoverability: any amount above future estimated gross profits is not deemed recoverable and expensed.

For investment contracts with no discretionary participating features, a similar asset is recognized (DOC) but limited to costs directly attributable to the provision of investment management services. This asset is amortized by taking into account projections of fees collected over the life of the contracts. The amortization of DOC is reviewed at each closing date to reflect changes in assumptions and experience. This asset is also tested for recoverability.

DAC and DOC are reported gross of unearned revenues and fees reserves.
These unearned revenues and fees reserves are separately recognized as liabilities and are amortized over the contract term using the same amortization approach used for DAC and DOC.

Company B

For traditional participating life insurance, DAC is amortized over the expected life of the contracts (up to 45 years) in proportion to gross margins based on historical and anticipated future experience, which is evaluated regularly.

The effect of changes to estimated gross profits on unamortized deferred acquisition costs is reflected in "General and administrative expenses" in the period such estimated gross profits are revised. DAC related to non-participating traditional individual life insurance is amortized in proportion to gross premiums.

For group annuity defined contribution contracts and group corporate- and trust-owned life insurance contracts, acquisition expenses are deferred and amortized over the expected life of the contracts in proportion to gross profits.

For group and individual long-term care contracts, acquisition expenses are deferred and amortized in proportion to gross premiums.

For single premium, all acquisition costs are charged to expense immediately because generally all premiums are received at the inception of the contract.

4.3.10 Greenfield Operations

Start up cost and pre-production cost cannot be capitalised unless they are necessary to bring the asset to its working conditions. Accordingly cost to bring a processing facility to its normal working state can be capitalised. However operating losses incurred prior to an asset achieving planned performance must be recognised as an expense

As per IAS 39, para 69 (a) expenditure that is recognised as an expense when it is incurred include: -

(a) expenditure on start-up activities (ie start-up costs), unless this expenditure is included in the cost of item of property, plant and equipment in accordance with IAS 16. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (ie pre-opening costs) or expenditures for starting new operations or launching new products or processes (ie pre-operating costs).

4.3.11 Internal Replacements

The Company may offer programs under which policyholders, for a selected product or group of products, can exchange an existing policy or contract issued by the Company for another form of policy or contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense an estimate of the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, the unamortized DAC on the surrendered policies is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new policies have terms that are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the expected life of the new policies.

Surrenders

On surrender of an Insurance Contract, the remaining unamortized DAC is to be immediately charged as an expense for the surrendered policies.
Surrender charges on account of the surrender is to be expensed out on execution of the significant act.

Switch fees

Surrender charges on account of the surrender is to be expensed out on execution of the significant act.

Mortality Charge/ Admin Charge (monthly deduction)

Generally, these charges are deducted on a monthly basis as an adjustment by way of cancellation of unit. This is a servicing cost and the same needs to be expensed out as done currently as per the existing practices.

Example:

Calculation of DACs on contracts

Nature of Cost	Amount/ Percent
Rate of deferrable administration charge/ front end load/ Premium Allocation Charge (rate of 1st instalment)	3.00%
Rate of deferrable commission (rate of 1st instalment)	3.75%
Variable unit cost (administration charges- inspection/ medical fees/ underwriting cost) (V.U.C.)	1, 425
Number of contracts	20
Contribution	1,000,000

DAC initial
= (Contribution x commission rate) + (V.U.C. of admin. expenses x number of contracts)
= (1, 000,000 x 3.75%) + (1425 x 20) = 66 000

Initial Unearned Revenue Reserve (URR)
= (Contribution x rate of administration cost)
= (1,000,000 x 3.00%)
= 30 000

Amount to be amortized on the asset side (DAC gross of URR) = 66 000

Amount to be amortized on the liability side (gross URR) = 30 000

Present value of Estimated Gross Profit (E.G.P.): 43 999

Present value of deferred acquisition costs (net of URR) : 36 000

Amortization rate: 36 000 / 43 999 = 81.82%

In this example, every year and for the entire duration of the contract, the amortization charge for deferred acquisition costs is 81.82% of the annual value of EGP. This will be similar for URR. However, as EGP is reviewed for actual experience and its present value recalculated every year, the amortization rate will be amended accordingly.

Costs net of URR in excess of expected futures revenues may not be deferred.

4.3.12 Cost pertaining to Investment Contracts

4.3.12.1 Transaction cost

Transaction cost, are incremental cost that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

An incremental cost is one that would not have been incurred if the entity has not acquired, issued or disposed of the financial instrument. As per IAS 39 –AG 13 *"transaction cost include fees and commission paid to agents (including employees acting as selling agent), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premiums or discount, financing cost or internal administrative or holding cost."*

Incremental cost will include any cost that may be determined at contract level without requiring an allocation of cost to be made including, for eg commission, medical fees and stamp duty. It may also be possible to include bonuses paid to agents as incremental cost, even though this would require an allocation of cost to be made if cost were to be maintained at a contract level.

Semi variable cost such as new business processing cost, except where these are outsourced and therefore charged on an increment basis, are not considered to meet the IAS 39 definition of transaction cost.

4.3.12.2 Investment management fees/ Fund Management Charges

Fees charged for managing investments are recognised as revenue as the services are provided. Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. As in IAS 39, an incremental cost is one that would not have been incurred if the entity had not secured the investment management contract. The asset represents the entity's contractual right to benefit from providing investment management services, and is amortised as the entity recognises the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis. Some financial services contracts involve both the origination of one or more financial instruments and the provision of investment management services. An example is a long-term monthly saving contract linked to the management of a pool of equity securities. The provider of the contract distinguishes the transaction costs relating to the origination of the financial instrument from the costs of securing the right to provide investment management services.

4.3.12.3 Front End Fees

An Insurer may receive front end fees (Origination fees) on issuing a financial liability that are an integral part of generating an involvement with the financial liability. If the financial liability is carried at amortised cost, the origination fees (front end fees) are included in the initial carrying amount of the financial liability and recognised as an adjustment to the effective yield. Such fees may include compensation for activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction. These fees are an integral part of generating an involvement with the resulting financial instrument and, together with the related direct costs, are deferred and recognised as an adjustment to the effective interest rate.

If the financial liability is measured at fair value, these origination fees (front end fees) will be recognised in profit and loss as they are earned in accordance with the principles of IAS 18 outlined below. These fees are an integral part of generating an involvement with a financial liability. When a financial liability is not classified as 'at fair value through profit or loss', the origination fees received are included, with the related transaction costs incurred, in the initial carrying amount of the financial liability and recognised as an adjustment to the effective interest rate. An entity distinguishes fees and costs that are an integral part of the effective interest rate for the financial liability from origination fees and transaction costs relating to the right to provide services, such as investment management services.

IAS 18 required front end fees received in respect of Investment management service contracts to be deferred and recognised by reference to the stage of completion of the contract. The stage of completion may be determined by a variety of methods and entity should use the method that moves reliably and measures the services performed. An entity would need to be able to justify that part of the investment management service was performed when it set up the contract, to be permitted to recognise part of the front end fees as earned at the inception of the contract. Otherwise, the whole of the front end fee will have to be deferred.

Front end fees and acquisition cost must be calculated and deferred separately. As the deferred acquisition cost asset and deferred income liability cannot be offset in a similar manner, the expenses and fees should be separately discloses in profit or loss.

It is important to note that all fees, not only front end fees must be recognised on a basis that reflects the services provided. This should reflect the level of investment management activity undertaken under the contract over its life on behalf of the policy holder.

4.4 Estimation of Actuarial Liability

Introduction
In this chapter we consider the issues arising in relation to the determination of policy liabilities; Part I considers life insurance and Part II non life insurance. For the avoidance of doubt, Part A includes contracts that may be issued by life insurers but classified as investment contracts under IFRS.

4.4.1 Part – I: Life Insurance Business

4.4.1.1 Current situation
The approach to the determination of life insurance policy liabilities is defined in IRDA Regulations supplemented Guidance Notes issued by the Institute of Actuaries of India. Policy liabilities are incorporated into financial statements which are submitted to the IRDA as well as various reports and forms as part of the prudential supervision of life insurers.

The general expectation in India is that policy liabilities are determined on a prudent basis, ie with an underlying intent of demonstrating a high probability of being able to meet liabilities to policyholders, as opposed to being a realistic or best estimate assessment of amounts needed to meet liabilities to policyholders with a modest bias towards prudence. The latter approach is arguably closer to meeting the intent of general purpose financial statements as opposed to financial statements produced for the purpose of prudential supervision.

The degree of prudence arises out of the Regulatory requirement to incorporate Margins for Adverse Deviations (MADs) when determining the level of each valuation parameter.

Guidance Note 7 issued by the Institute of Actuaries of India with the concurrence of the IRDA provides guidance for Appointed Actuaries on this matter. In addition the Regulatory requirement that no reserves can be less than zero, not less than a policy's surrender value and, in the case of linked contracts, that the separate unit and non unit reserves shall each be not less than zero constitute additional implicit margins. These are referred to below as the current reserve 'Floors'.

This view of the character of reserves also seems to be shared by the IRDA which in recent months has reduced the Required Solvency Margin in a number of areas, presumably in partial recognition of the margins inherent in policy liabilities themselves.

4.4.1.2 IFRS 4 Phase 1

As stated in Chapter 1, the insurance contracts project at the IASB started some 10 years ago and is still not finalized. IFRS 4 Phase 1 has been issued but it is interim in nature. In the key area of liabilities for insurance contracts it allows the way such liabilities were determined under national GAAP at the time IFRS 4 was adopted to be carried forward into the 'local' IFRS. Having done that the resultant accounts can be said to have been prepared in accordance with IFRS.

For a number of countries, the way in which policy liabilities were determined under national GAAP prior to the implementation of IFRS did not include prudential bias and so the characteristics of the IFRS financial statements as general purpose statements was not compromised when existing practices were folded in to IFRS. The Committee has been briefed on the experience in Australia where essentially this was the case. However this would not be so in India.

There are therefore three broad options in respect of actuarial liabilities under insurance contracts.

Option 1 is to carry forward the existing approaches for insurance contracts into an implementation of Indian IFRS and then await the outcome of IFRS Phase 2. This would minimize implementation effort and would also minimize the effort needed to realign the Required Solvency Margin regime which would have to be done were the Options 2 or 3 to be followed – see below. It would, however, mean that financial statements produced to meet the needs of a general purpose financial statement audience would continue to be less than ideal in character given the prudential bias that would still exist in the policy liabilities.

Option 2 is to adjust (ie reduce) the liabilities as currently determined by the amount represented by the MADs within the liabilities together with the adjustments arising out of the Floors. Both these amounts are explicitly determined by Appointed Actuaries and advised to the IRDA. The implementation effort would appear to be relatively modest but two additional points arise.

The first point is that resultant policy liabilities would be pure best estimate liabilities and as such may well be less than the qualitative standard that IFRS and other contemporary accounting models are targeting. Such standards incorporate a modest prudent bias albeit falling short of a classical Regulatory standard. The financial statements might be closer to what is expected from a general purpose financial statement than the current regime but a situation of overstating current financial performance would not be consistent with community expectations and would be difficult for the IRDA to commend having regard to its public interest obligations.

The second point is that the current Required Solvency Margin would need to be increased if the overall level of total assets required (ie policy liabilities plus the RSM) is not to be reduced. In simple terms this might be done by increasing the RSM determined by applying the current factors by the MADs and adjustments arising out of the Floors.

A variation on Option 2 would be to create a regime where two forms of financial statement existed – a general purpose financial statement that utilized the reserves exclusive of MADs and Floors and a prudential financial statement that was identical to the current form. This would minimize disruption to the prudential control environment but for the reasons mentioned above the financial statements would not conform to community expectations.

Option 3 is to amend the existing approaches for insurance contracts to reduce the degree of prudential bias and to have regard to the direction in which IFRS phase 2 appears to be heading. This would require reserving principles to be address and thus correspondingly greater implementation effort. And there would also need to be a consequential revision to the current RSM regime.

Again a variation on Option 3 is where two forms of financial statement existed. In this case the general purpose form would comply with community expectations.

Option 1 is the simplest to implement but does least to improve the quality of general purpose financial statements. Option 2 should be relatively straightforward to implement, it would improve the quality – i.e., nearer to where the results should be - but on the wrong side of prudence. Option 3 is the best in terms of improving quality but implementation effort would be significant. Option 3 also carries high implementation risk as availability of actuarial resources to accomplish this task to the standard expected within the IFRS implementation time frame cannot be presumed to exist. It also has the potential to disrupt companies and engender lack of confidence in life insurer accounting as further changes might be necessary following the implementation of IFRS 4 Phase 2 which in theory could follow close behind.

4.4.1.3 IFRS 4 Phase 2

As mentioned in Chapter 1 the progress of the IASB insurance project has been slow. In May 2007 ie after several years deliberation including input from a wide range of

practitioners, the IASB expressed preliminary views on Phase 2 in a Discussion Paper in relation to which practitioners had significant reservations.

The Committee has been briefed by Ernst and Young on the views of the Consortium - a group of industry associations and trade groups representing a broader group of major insurers. There appear to be a number of contentious issues including:

- Whether accounting for insurance should reflect the economics of the business.
- Whether the underlying approach should be one of market value of liabilities referred to as Current Exit Value as opposed to a more traditional approach of determining the amounts needed to fulfill the insurer's obligations to policyholders.
- Related to this point whether an insurer's own experience was relevant to determining liabilities.
- The nature of constraints on cash flows eg whether liabilities should be constrained by surrender values.
- The calibration of margins to premiums.
- The choice of discount rates.
- The nature of unbundling.
- Whether an entity with a low credit rating is able to determine its liabilities at a lower level than an entity that was highly rated.

Thus many practitioners appear to think it preferable to stay with Phase 1 than move with undue haste to a model that was not sound thus creating a need for Phase 3. Indian actuaries have not considered these matters as a professional group but one should not be surprised if many individual actuaries had reservations similar to those expressed by the Consortium.

Thus there appear to be significant gaps between the various stakeholders and it is not easy to assess which views will prevail. These uncertainties have been heightened by the recent financial turmoil where some commentators have called into question the notion of fair value accounting itself.

Notwithstanding these concerns some countries are committed to following IFRS as a matter of national policy – Australia is one such example – and the importance of doing this is held to transcend the significance of a less than ideal standard relevant to a specialized sector only. Thus Australia is likely to adopt Phase 2 whatever form it takes. But it is not certain that this is the right approach for India which is committed to a national accounting policy of *convergence* with IFRS rather than *implementation.*

4.4.1.4 Implementation of IFRS – general approach

To conclude on these matters, there appears to be little merit in committing to a wholesale review of actuarial liability methodologies given the implementation risk and also that anything implemented may have a limited life if an acceptable IFRS 2 Phase 2 follows shortly afterwards. If an acceptable IFRS Phase 2 does not emerge, or if the

direction in which the IASB is heading appears to be unacceptable in India, then at that time the necessary resources can be committed and a new regime developed. In any event the capital adequacy implications of any change in approach under IFRS need also to be taken into account.

For completeness note that IFRS 4 states that within an initial implementation, an entity may continue to measure insurance liabilities with excessive prudence but must not introduce such a practice at the time of implementation.

It may also be noted that having adopted a prevailing national approach under an initial implementation of IFRS, scope to vary the approach is then limited, but an entity may change its accounting policies for insurance contracts if, as a result, its financial statements are more relevant and no less reliable, or more reliable and no less relevant. This would allow scope to move away from the excessive prudence model if it seemed the right thing to do at some future date before the introduction of IFRS 4 Phase 2.

We therefore conclude that so far as is possible without compromising IFRS principles, and in accordance with any Indian prescribed interpretation of IFRS for Indian reporting entities, that the existing basis for determining actuarial liabilities for life insurance contracts be carried forward into the initial implementation of IFRS in India. An exception, however, needs to be made for contracts classified as investment contracts.

4.4.1.5 Investment Contracts

Where a contract issued by an insurer has been classified as an investment contract, including the deposit component of an unbundled contract where the insurer has decided to unbundle, the liability will need to be determined as at fair value through profit or loss under IAS 39. No alternative treatment is allowed.

The Policy Liability in respect of such contracts would be the sum of the Investment Contract Liability, being the liability arising in respect of the Financial Instrument Element and the net liability (asset) in respect of the Management Services Element.

The Investment Contract Liability would be determined in accordance with the fair value through profit and loss provisions of IAS 39 whether or not the Financial Instrument Element is measured on that basis in the general purpose financial statements.

Essentially the value would be determined as the fair value of underlying assets together with an assessment of the value of guarantees and options.

The Management Services Element includes, but need not be limited to, the value of Deferred Fee Revenue and Deferred Acquisition Costs. The measurement of these liabilities and assets is to be in accordance with IAS 18.

Actuaries should have Professional Guidance on the determination of investment contract liabilities. International Actuarial Standards of Practice (IASPs) have been issued by the International Actuarial Association specifically:

- IASP 4 – Measurement of investment contracts and service contracts.
- IASP 5 - Selection of current estimates for the measurement of investment contracts, service contracts and certain embedded derivatives.
- IASP 10 - Embedded derivatives incorporated within Insurance Contracts, Investment Contracts and Service Contracts and separately issued Derivatives of a Reporting Entity.

Within the International Actuarial Association's standard setting regime these standards are Class 4 – practice guidelines - educational and non-binding in nature. Even so we believe these standards would be regarded as acceptable in India where actuarial input to the determination of investment and service contract liabilities was being provided. It would be open to the Institute of Actuaries of India to review these IASPs, adopt them as they stand or with modifications as Indian Guidance, classified as either Recommended Practice or Practice Standard.

It follows that policy liabilities determined for investment contracts would differ from the liabilities determined for such contracts under the current regime. No doubt the financial statements as prepared would be submitted to the IRDA but the IRDA would need to consider whether its prudential supervision responsibilities were being adequately served. There appear to be two general possibilities:

- Redetermine liabilities for such contracts based on the current Regulations; provide this as supplementary information and use the adjusted policy liabilities in the various forms submitted to the IRDA as they are currently, or
- Accept the liabilities as determined on the new insurance contract basis in conjunction with a revised Solvency Margin regime the objective of which was to ensure the overall assets available to meet liabilities to policyholders (ie policy liabilities and required solvency margin combined) was not diminished simply by the implementation of IFRS.

From an IRDA perspective the first of these two approaches is more straightforward with changes to Required Solvency Margins only being implemented as an outcome of the work currently being undertaken on Economic or Risk Based Capital.

4.4.1.6 Participating Contracts

Participating contracts can be considered as insurance contracts and IFRS 4 (as opposed to IAS 39) applied irrespective of the extent of risk related benefits provided under a particular product form.

IFRS 4 provides for alternative treatments taking into account that such contracts include guaranteed and discretionary elements ie bonuses.

IFRS 4 states that insurers may, but need not, recognizes the guaranteed element separately from the discretionary participation feature. If the issuer does not recognize them separately, the whole contract can be classified as a liability. If the insurer does recognize them separately, the guaranteed element is to be classified as a liability but the discretionary participation can be classified either as a liability or a separate component of equity.

However it also appears that whatever local GAAP prescribed prior to the implementation of IFRS 4 can be carried forward. In India's case both the guaranteed and discretionary participation features are recognized as liabilities. Given the established practice the most straightforward approach would be to continue this practice.

An accounting mismatch arises where participating fund assets are valued at fair value but liabilities determined on a mixed attribute basis. Such an issue would arise where participating policy liabilities were determined on the currently prescribed basis with interest rates determined having regard to the expected return on participating funds and with investments valued at amortized cost. Bonus rates allowed for in the reserving would need to be consistent with this definition.

Some relief may be available by using the held-to-maturity option available under IAS 39 and beyond that the Shadow Accounting Option is available that is to account for both realized and unrealized gains or losses on assets in the same way relative to measurement of insurance liabilities. Current regulations imply this practice. The detailed procedure for taking into credit a portion of the realized gains also envisages a measured movement between amortization and fair value in such a way that bonuses are steered and smoothed in a practical and prudent manner. There would be merit in the IRDA/ IAI bringing greater clarity on this and a working paper on the topic would be a timely value addition.

For completeness, attention is also drawn to IASP 10 which deals with specific classification, recognition, and measurement issues arising for contracts with discretionary participation features.

4.4.1.7 Global Reserves

In addition to reserves related to specific policy liabilities, life insurers may maintain a range of global reserves not related to specific policies but related to generic risks that need to be provided for from a prudential perspective. These include reserves for AIDS, Catastrophes, Resilience, Reinstatement, Closure to New Business and Data Deficiencies.

Under IFRS, recognition as a liability of provisions for possible future claims under insurance contracts that are not in existence at the reporting date are prohibited. This would appear to impact the current treatment of a number of types of global reserve

referred to above unless Appointed Actuaries exercised their discretion to apportion of such global reserves to individual policies.

Given the principle of carrying forward current liabilities into IFRS, the IRDA should clarify that Appointed Actuaries apportion such global reserves to individual policies.

4.4.1.8 Other actuarial issues arising under IFRS

There are other issues arising under IFRS where IASP's have been issued and which are therefore matters of actuarial interest. For completeness they have been included in this Chapter.

There is a requirement to assess the adequacy of recognized insurance liabilities and recognize of any impairment of reinsurance assets although it would be unlikely that policy liabilities for insurance contracts determined in accordance with the current Regulations would fail any IFRS oriented liability adequacy test.

IASP 6 deals with adequacy and more and its scope is:

- IFRS 4, Insurance Contracts, and where applicable, IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as they relate to liability adequacy testing and to the minimum liability for financial instruments that contain a discretionary participation feature; and
- IFRS 18, Revenue, IAS 36, Impairment of Assets, and IAS 37, as they relate to testing for recoverability of deferred transactions costs and testing for onerous service contracts.

IASP 9 deals with specific classification, recognition, and measurement issues arising for reinsurance contracts.

IASP 8 deals with considerations to be made under IFRS in determining whether a change in an accounting policy for a contract within the scope of IFRS 4 is in compliance with the requirements of IFRS 4.21 -30 and 4.45.

There is a requirement to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to present insurance liabilities without offsetting them against related reinsurance assets.

IFRS 4 also specifies disclosures about the amounts in the entity's financial statements that arise from insurance contracts and the amount, timing and uncertainty of future cash flows from insurance contracts.

The implications of these standards have not been considered but again it seems probable that these standards represent a suitable starting point for Guidance for actuaries called upon to act in these areas.

4.4.2 Part – II: General Insurance Business

4.4.2.1 Examples of insurance contracts under IFRS 4 paragraph B 18:

(a) Theft or damage to property
(b) Liability
(e)Disability or medical cover
(f) surety/ fidelity
(g) credit insurance
(h) product warranties
Other than directly by manufacturer (BC 69 to BC 72)
(i) Title insurance
(j) Travel
(k) CAT bonds other than on events such as interest rate changes
(l) Insurance swaps based on physical variables
(m)Reinsurance contracts

BC 55 and BC 60 exclude weather derivates from insurance contracts in cases where there is no adverse effect on contract holder.

BC 74 excludes prepaid service contracts such as repairer's service on malfunction, car breakdown assistance.

4.4.2.2 IRDA classification- Schedule B Part V paragraph 1 (AS 17 segment reporting):

Fire
Marine
Miscellaneous sub divided by

1. Motor
2. Workmens' Compensation /Employers' Liability
3. Public/ Product liability
4. Engineering
5. Aviation
6. Personal Accident
7. Health
8. Others

4.4.2.3 IRDA classification-ASL Regulations: Fire, marine cargo, marine hull, motor, engineering, aviation, liability, rural insurance, others, health.

There is no class which will not be compliant under IFRS classification of products. Insurance risk under all contracts is expected to be significant. In recent times, some motor and extended warranty products seem to offer elements of "pre paid service contracts". But such cover is not on stand alone and is also likely to be a very minor part of the total contract. Hence there should be no problem in accepting all existing contracts

of general insurance as carrying significant insurance risk. However, future product approvals by IRDA may consider this aspect before release of product approval

4.4.2.4 Estimation of liabilities

4.4.2.4.1 Adequacy testing for insurance liabilities:

IRDA Preparation of Financial Statements and Auditor's report of Insurance Companies Regulations (PFSAR) made the following two provisions which may be relevant in the context of 'Adequacy Testing for insurance liabilities':

(i) Paragraph 7 of Part IV, "Contents of Management Report" requires "disclosure with regard to the overall risk exposure and strategy adopted to mitigate the same". However, in the absence of detailed instructions on this aspect, most companies would tend to give a limited amount of information on this and such disclosure might not be serving the objective for which it is intended nor can it be taken as demonstration of liability adequacy testing.

(ii) Paragraph 3 of Part I of Schedule B requires that "Premium deficiency shall be recognized if the sum of expected claim costs, related expenses and maintenance costs exceeds related reserve for unexpired risks". However, this may not be accepted as addressing the core issue of "adequacy" and can at best be seen as describing an event requiring attention. Methods to be followed, the nature of adequacy testing or requirements as to any professional involvement may be considered in the Regulations. Actuarial professional guidance on this uses a different terminology referring to URR but does not indicate any method to be followed.

Reserving:
Outstanding claims reserve: IRDA (Assets, Solvency, etc.) Regulations (ASL) prescribe "case by case" method where outstanding claim amounts are not known and can be reasonably estimated. The regulations also require "explicit allowance for changes in the settlement pattern or average claim amounts, expenses and inflation" to be taken in to account. As is universally known, "case by case" approach is a subjective approach and it is debatable whether under the IFRS's concept of adequacy of liability, the method could prima facie be considered as an acceptable approach. This apart, most or many companies could in practice be using an average claim amount as an initial reserve when a claim is intimated. Such practice may include some degree of an analytical approach for different lines of business and/ or different types of claims. The main problem with this approach is that depending on the attitude and details of the methods followed, a continuously increasing deficient reserve or excess reserve would be built up. Possibly, there is no disclosure of either the approach and method followed or an opinion/ analysis of such possible under or over reserving, which could be taking place. Changes in method also do not get disclosed and could have implications, such as when resorted to during difficult financial conditions of a company or in circumstances prior to ownership changes.

IBNR reserves:

These are required by the (ASL) regulations to be "determined using actuarial principles" and in accordance with Guidance notes issued by the Institute of Actuaries of India. Further, IRDA issued a manual for determination of the IBNR reserves. The manual appears to be placing greater stress on the basic chain ladder method using paid claims data for determining the IBNR reserves. The main issue here is the efficacy of any method used by the actuary and the relevance and usefulness of the data based on which the actuary determined the IBNR reserves. Further considerations on this may be needed to identify and demonstrate adequacy of the reserves considering line of business and sub division by risk groups, nature of risks underwritten, administrative practices of claim settlement and above all the statistical basis and techniques used for addressing fluctuations in claim experience.

In respect of Motor TP pool the setting up of IBNR reserves appears to be based on data up to February of each financial year, leaving a gap of one month development. This needs verification and review. In all arrangements of pooling, care is needed to ensure that liability provisions are created without leaving scope for effect of time lags in gathering information, even if such liability creation is based on approximate data and corrected in the following financial year.

Unexpired risks:

(ASL) Regulations prescribe reserves to be set up at minimum of prescribed percentages or reserves obtained by adopting a 1/365 method of determining the reserves. While such practice seems acceptable, problems arise in respect of risks which do not have a uniform incidence over the policy period. Such risks arise in engineering, travel and other classes and risks on CAR policies could comprise of large premiums, often spread over periods ranging from 2 to 7 years. Actuarial application is not spelt out in the regulations, although the IAI's Guidance Note mentions this in brief. However, since a certificate from the actuary is not an explicit requirement most companies would not be reserving taking into account the aspect of uneven incidence of risk. Another aspect in practice, even assuming an attempt is made in this regard relates to policies issued under "Contractors All Risks" group. Reports of work progress and risk amounts involved at different stages of the project is an essential requirement for proper reserving but most companies do not seem to insist on such reports from the policyholders although policy conditions envisage such procedure. Often large premiums are involved; this state of affairs implies a significant deficiency in the reserving process and is not in line with the IFRS concepts. Issue of appropriate instructions on determination of reserves for such risks is an urgent need.

Coinsurances:

A number of issues may need to be addressed explicitly or implicitly in the regulations on which companies need to pay enough attention on these. Delays occur due to lack of information flow and the quality/ adequacy of information on the risks covered. Such

delays affect premium numbers as well as claim numbers and most often ***accounting of inflows and outflows get delayed by varied lengths of time.*** Companies with a large chunk of reserves written as a "follow" insurer would have significant IBNR reserves; the IRDA's IBNR manual may need to lay stress on this aspect. There is also a need to give detailed instructions on accounting of coinsured contracts with stress on how to demonstrate basic accounting principles of accrual and correspondence between income and outgo are satisfied and any deficiencies in the system of information flow addressed in the financial statements.

Exchange risks:

Most companies issuing travel, health or marine policies where exchange risks are implied could be overlooking the provisions for exchange risk. Accounting could be on an actual/ paid basis rather than on accrued basis. There is a need to prescribe the basis to be followed and also require a demonstration of the adequacy of such reserves.

Level of aggregation:

Another aspect of liability adequacy testing is the level at which aggregation takes place. It is possible that no clear strategy is adopted on this by most companies. One possibility is that since the Insurance Act 1938 defines general insurance business as fire, marine or miscellaneous insurance business aggregation for certain purposes such as "premium deficiency' (as defined in PFSAR) could be taking place at the level of these three classes. Paragraph1 of Part V of Schedule B requires only schedules for segments of business defined therein. This requirement cannot meet the expectations implied in the IFRS approach to level of aggregation by portfolio of broadly similar risks. There is a need to give guidance on this in order that there is explicit demonstration of any cross subsidies existing in the business operations between different lines of business or between different risk groups within a defined line of business.

4.4.2.4.2 Booking and closure of insurance liabilities:

Delays in booking of claim intimations:
These might arise due to-

- Complexity of procedures to claim eligibility
- Inefficiencies of data systems and staff
- Weak and inefficient procedures connected with coinsurances and reinsurances
- Events involving inherent delays such as a catastrophe
- Staff or management interventions arising out of imminent changes in procedure, fears of adverse claim experience or other reasons often not justifiable

Closure of claims:
There is no difficulty on claims paid in full as per policy conditions and where the claimant has no dispute about the settlement. However, there would be some cases, where after submission of discharge and possibly after receipt of payment, the claimant comes

up with a further claim either because of discovery of additional eligible loss at a subsequent stage or where there are second thoughts on the amount to be claimed. Practice of companies varies in handling such situations and could range from very conservative to somewhat adventurous.

Yet another class of claims under this heading would be cases where the claimant does not submit the claim requirement documents for settlement despite reasonable follow up. Here again, practice varies between companies in a similar manner. Some companies also have a practice of retaining liability at a nominal amount if they anticipate a reopening at some stage and in course of time the item could be a not insignificant number.

In both types of situation there is a need for some guidance and observance of verifiable procedures, which could be seen as conforming to IFRS standards.

4.4.2.4.3 Recognition of deficiency and claim costs:

In the context of a liability adequacy test, IFRS paragraph 15 requires use of current estimates of future cash flows less related DAC and intangibles and recognition of entire deficiency in profit and loss. This provision would imply objective and adequately detailed estimates of projections of cash flows. Cash flows in this context would include claims, claims handling expenses, related administrative expenses, legal expenses in cases of disputes and other relevant expenses. Para 5 of Part I of Schedule B of PFSAR refers to claims and future payments. This will need to be broader in scope as required under IFRS.

Paragraph 16 of IFRS requires cash flows to include claim handling costs, embedded options and guarantees. Para 5 of Part I of Schedule B of PFSAR mentions “specific claim settlement costs”. This could be interpreted as relating to costs of legal and surveyor specific to certain claims and will exclude claim function and other support function costs. Most companies could be including even specific claim settlement costs on a subjective basis not verified by continuing investigations into actual costs versus estimated costs and hence subject to a continuing deficiency/ excess. Similarly it is doubtful whether developments in such claim settlement costs are built in to the estimates promptly.

The question of related DAC would not arise under current IRDA regulations, since paragraph 4 of Part I of Schedule B of PFSAR requires acquisition costs to be expensed in the period in which they are incurred. It is expected that no company would be taking credit for DAC in their accounts.

Premium deficiency reserve is a related issue and is discussed already in paragraph 1.1 (ii) above.

The question of valuation of intangibles will need a separate study.

4.4.2.4.4 Reinsurance asset and impairment:

Offsetting for reinsurance:

Under IFRS is not permitted but the various IRDA regulations seem to imply offsetting and presentation of accounts net of reinsurance. Where a treaty of reinsurance envisages periodical settlement on a net of premiums less claims basis, it may be considered for accounting on net basis but not otherwise. This aspect needs a detailed examination and, if necessary, revision in the regulations.

Reinsurance asset for impairment:

IRDA (General Insurance- Reinsurance) regulations may consider impairment testing for reinsurance but require the reinsurance to be placed with a reinsurer enjoying a rating of at least BBB (with Standard & Poor). Although this may be considered as a simple method of testing the strength of the reinsurer, other aspects such as sum insured at risk ceded in relation to reinsurer's free reserves, nature of fluctuations in the reinsurer's free reserves and the individual direct writing company's own free reserves would all require consideration. More detailed guidance on this aspect will be needed. The limits placed on reinsurance ceding for solvency purpose in the (ASL) regulations safe guard to some extent the position on solvency but, since the IFRS main objective is provision of relevant and useful information to users, this aspect will need attention as suggested above.

4.4.2.4.5 Margins in investments and liabilities:

IFRS 4 paragraph 19:

Future investment margins only if liabilities also reflect such margins. Correspondence of approach and consistency of assumptions for assets and liabilities is an important aspect of presentation of any financial statements. This principle needs to be reflected in the IRDA regulations and individual companies may not be either observing this or not carrying out appropriate evaluation with sufficient degree of refinement of the impact of following different approach/ assumptions on investments and liabilities.

Instances where this might happen relate to:

- Allowance for investment income at gilt or other rate but with no or low and constant claim inflation rate across all types of claims instead of basing such rate on claim type, recent and expected claim inflation.
- Not allowing for any mismatch by duration between long tail liabilities and investments backing such liabilities.

4.4.2.4.6 Discounting of reserves:

IFRS expects discounting of reserves but allows continued use of undiscounted reserves. However, introduction of use of undiscounted reserves is prohibited. IRDA (PFSAR) Regulations (paragraph 5 of Part I of Schedule B) prescribe reserves on an actuarial basis only in respect of "contracts where claim payment period exceeds four years". There may be a possibility that many companies could interpret this to imply that none of their contracts fall under this definition and hence not apply any actuarial basis for determination of reserves.

It is desirable to modify the definition in such a way that any line of business or any major risk group where the claim payment development pattern as revealed in the IRDA prescribed forms annexed to IBNR reserve certificate shows the term to be four or more years. Reducing the "qualifying period" from 4 years to 3 years is yet another consideration.
It is also to be appreciated that a switch over to discounted basis can have significant impact on the timing of emergence of profits of individual companies. The broad effect would be to advance the speed of emergence of profits. In the first year on switching over to discounting, impact may be significant for long tail portfolios.

4.4.2.4.7 Prudence:

There is no mention of this aspect in the IRDA regulations. A review of the various paragraphs might indicate that a "best estimate" basis would apply. The IFRS provision IN 7 combined with IN 4(b) could be interpreted as best estimate with some form of MAD. However, additional prudence is not expected to be introduced.

Excessive prudence, while measuring liabilities is not permitted under the IFRS. It would be necessary to lay down how "excessive prudence" is to be defined. It would be natural to expect that any definition we might now bring out would consider aspects of

- Individual company's underwriting efficiency and profile of risks underwritten measured through differences in UW loss ratio of individual company compared to industry as a whole.
- Line of business and degree of variability of claim experience
- Stage of insurance cycle measured to some extent by the level of underwriting loss ratio
- Year to year fluctuations in differences between actual experience and expected experience of the individual company

4.4.2.4.8 Explanation of recognized amounts:

Schedule B of IRDA PFSAR defines the requirements. The following points may be important to consider in this regard:

(a) for a cedant- (i) gains and losses on buying reinsurance (ii) if amortisation is used, amortised amount for the period and unamortised amounts at beginning and end of period.
(b) Process used to determine assumptions and where practicable quantification thereof for recognition of items in (b)
(c) Effect of changes in assumptions and separate numbers for each material change

Reconciliation of changes in insurance liabilities, reinsurance assets and any related DAC.

4.4.2.4.9 Disclosures:

Cash flows

Cash flow statement is required under Part I of Schedule B of IRDA PFSAR. Parts II, III and IV of the same regulations also spell out disclosures, general instructions and contents of management report required. IRDA's circular dated November 22, 2007 requires submission of "un-audited segment wise financial statements on a quarterly basis". However, these are more in the nature of additional information and do not meet the objective of evaluation of nature and extent of risk as spelt out in IFRS 4 paragraphs 38 and 39. Although this may be viewed as some minimum, it is desirable to require further information such as data on policy due dates (and renewals, where applicable) showing actual expected cash flows. Such information may cover the current financial year as well as previous financial year. Another alternative way of obtaining similar information is to seek summaries from company's budget plans and where applicable the next year's plans. Such budget related information may be by each line of business and within a defined line of business for each major risk group.

More important than the information on the timing of the cash flows is the information on the implied uncertainties. Such information may be collected with reference to the past and by involvement of a group of senior personnel of the insurance company and the actuary of the company.

4.4.2.4.10 Risk concentrations

Concentrations of insurance risk:

This is a major aspect for general insurance companies. However, the regulations do not deal with this. Rules relating to maintenance of verifiable data, disclosure of concentrations in a defined manner (such as by geographical area, type of risk or line of business) and where necessary provisions for maintenance of additional solvency to cope up with risks underlying excessive exposures have to be developed.

Item number 7 of Part IV of Schedule B of IRDA PFSAR is a weak attempt to seek information on risk. Replies by most companies would be on a defensive note not providing any useful information to meet the IFRS objective.

Claims development disclosures
The regulations do not require this information. However, the annexures to the IBNR certificate of the Appointed Actuary spelt out in the IRDA's IBNR manual bring out the information. This requirement will need to be strengthened by a further requirement seeking comments on actual development experience compared to expected development and on how the patterns have been taken in to consideration for changes in claim administration arrangements.

Expenses
Analysis of expenses: Detailed examination of the nature of expenses and an analysis thereof is expected. The (PFSAR) regulations deal with this very briefly and note 10 of paragraph A of Part II relating to disclosures states, "Operating expenses: basis of allocation of expenditure to various classes of business". Apart from the requirement of basis, it is desirable to expect disclosure of expense amounts from year to year sub divided by different commonly identified functions so as to make the accounts more meaningful to users, in compliance to the core philosophy of IFRS.

Sensitivity analysis of profit and loss of equity:
There is no information in the statements under current regulations.

4.4.2.4.11 Policy actions required

Equalization, catastrophe and other reserves
IFRS 4 paragraph 14 prohibits setting up of reserves which are in the nature of claims on contracts that are not in existence. These may be equalisation, Catastrophe or other reserves. However, the Preparation of Financial Statements and Auditor's report Regulations of the IRDA requires creation of Catastrophe reserves as prescribed by the IRDA. As on date, IRDA have not prescribed any such reserve.

It is suggested that IRDA may review this aspect and consider notifying that the provision (viz., paragraph 8 of Schedule B Part I) stands repealed.

It is possible that some companies may be making implicit and perhaps not so objective allowance for occurrence of large claims including Catastrophe claims in the reserves for IBNR or otherwise. Where such allowance is small and combines other risk events in a broad way, and qualifies under IFRS 4 paragraph IN 4(c) and paragraph 14, it may not pose a problem.

Adequacy testing for insurance liabilities:

IRDA may examine the issue of clarifying the expectations from general insurance companies on the topic. This may cover inter alia the following:

1. Concept of adequacy testing as acceptable to IRDA
2. Minimum components for testing adequacy and expected degree of detail with a few illustrative situations
3. Role of actuarial profession
4. Role of accountancy profession
5. Role of management of individual companies

Both professional (actuarial and accountancy) bodies may issue detailed guidance to members considering the respective roles expected by IRDA. Besides, each body may also issue additional guidance covering details of situations occurring/ expected to occur in India. Some of the issues which come up for guidance are discussed briefly in Chapter 4 paragraphs 1.1 to 1.2.6. Matters relating to co-ordination between the two bodies may also be jointly issued as guidance.

Booking and closure of insurance liabilities:
The IRDA and/ or the General Insurance Council may make out a comprehensive list of situations that might involve either delays in booking of claims or differences in practice for closure of claims. Such a list with guidance on what actions to be taken while preparing the financial statements for satisfying IFRS concept may be brought out before switching to IFRS based accounts. This will also help uniformity and reflect true picture.

The list mentioned in 3.1 above could be in the form of a matrix specifying for each type of situation the action required and time limit for such action such as maximum number of days.

Recognition of deficiency and claim costs:
IRDA may consider defining components of cash flows connected with the provisions in IFRS paragraph 15 and the manner in which these could be calculated so as to satisfy the IFRS requirement.

Regulations on Premium deficiency may also be suitably altered.

Explicit instructions requiring an objective method of allowing for the costs based on study of past experience and trends with allowance where necessary for future increases in costs may be issued by IRDA.

Reinsurance asset and impairment:
IRDA may consider the issue of preparation of accounts on a gross basis except for transactions relating to treaties where the accounting between direct writer and reinsurer is agreed by treaty to be on premiums net of claims basis. Form B-RA and Schedule I of IRDA PFSAR regulations may suitably be modified. Details relating to treaties with accounting on gross and net basis may be shown separately in both forms.

The provision relating to rating of reinsurer mentioned in Chapter 4, paragraph 4.2 may be made applicable even at the point of date of preparation of accounts and any deficiency arising due to a change in rating of reinsurer between date of treaty and date of accounts shall be reflected in profit and loss statements.

A certificate from reinsurer for any reinsurance asset taken credit along with the auditor's verification shall be part of the financial statements. Paragraph 4 of Schedule C of IRDA PFSAR may provide for this feature as an addition.

Margins in investments and liabilities:
A suitable definition of this principle may be incorporated in Part I Accounting principles for preparation of financial statements of Schedule B of the IRDA PFSAR.
General Insurance council may review current practices and coordinate with IRDA on implementation of the principles laid down by 6.1 above.

Discounting of reserves:
Insurance companies may be encouraged to move to a discounted basis with actuarial involvement on defining the principles for such basis and an overseeing of the implementation of the defined basis.

The General Insurance Council may initiate steps for discussion and finalisation of the principles to be followed for implementation of adopting a discounted basis.
The IAI may discuss and finalize the nature of actuarial involvement and the manner in which it will be carried out.

IRDA may consider monitoring the implementation and nature of controls to be applied on proper observance of principles of setting up discounted reserves.

Prudence:
Remarks similar to those in 7.2.1, 7.2.2 and 7.2.3 apply here also. What constitutes prudence, what linkage needs to be established on prudence with liability adequacy testing and how to avoid excessive prudence are the aspects to be determined.

Explanation of recognized amounts:
Items which are not covered under current regulations will have to be added to the list of statements as part of the statements under Schedule B of IRDA PFSAR.

Disclosures:
Parts II and IV of Schedule B of IRDA PFSAR need restructuring and elaboration to obtain the desirable information.

Sensitivity analysis of profit and loss of equity:
The basis on which sensitivity analysis is to be carried out may be examined and finalised by IRDA in consultation with IAI and ICAI. Thereafter IRDA may consider prescription of additional statements to be furnished.

4.5 Disclosure Requirements

The objective of disclosures is:

- To identify and explain the amounts in an insurer's financial statements, and
- To enable the users of financial statements to evaluate the nature and extent of risks.

4.5.1 Accounting policies

The insurer shall disclose accounting policies for insurance contracts. An insurer might conclude that it needs to disclose treatment of, for example, some or all of the following, if applicable:

(a) premiums (including the treatment of unearned premiums, renewals and lapses, premiums collected by agents and brokers but not yet passed on and premium taxes or other levies on premiums).

(b) fees or other charges made to policyholders.

(c) acquisition costs (including a description of their nature).

(d) claims incurred (both reported and not reported), claims handling costs (including a description of their nature) and liability adequacy tests (including a description of the cash flows included in the test, whether and how the cash flows are discounted and the treatment of embedded options and guarantees in those tests). An insurer might disclose whether insurance liabilities are discounted and, if they are discounted, explain the methodology used.

(e) the objective of methods used to adjust insurance liabilities for risk and uncertainty (for example, in terms of a level of assurance or level of sufficiency), the nature of those models, and the source of information used in the models.

(f) embedded options and guarantees (including a description of whether (i) the measurement of insurance liabilities reflects the intrinsic value and time value of these items and (ii) their measurement is consistent with observed current market prices).

(g) discretionary participation features and other features that permit policyholders to share in investment performance.

(h) salvage, subrogation or other recoveries from third parties.

(i) reinsurance held.

(j) underwriting pools, coinsurance and guarantee fund arrangements

(k) insurance contracts acquired in business combinations and portfolio transfers, and the treatment of related intangible assets

(l) judgements, apart from those involving estimations, management has made in the process of applying the accounting policies that have the most significant effect on the amounts recognised in the financial statements. The classification of discretionary participation features is an example of an accounting policy that might have a significant effect.

4.5.2 Assets, liabilities, income and expense

IFRS requires an insurer to disclose the assets, liabilities, income and expenses that arise from insurance contracts. If an insurer presents its statement of cash flows using the direct method, it also requires it to disclose the cash flows that arise from insurance contracts.

IAS 1 requires minimum disclosures in the statement of financial position. An insurer might conclude that, to satisfy those requirements, it needs to present separately in its statement of financial position the following amounts arising from insurance contracts:

(a) liabilities under insurance contracts and reinsurance contracts issued.

(b) assets under insurance contracts and reinsurance contracts issued.

(c) assets under reinsurance ceded. Under paragraph 14(d)(i) of the IFRS, these assets are not offset against the related insurance liabilities.

The entity shall disclose the carrying amount of financial assets pledged as collateral for liabilities, the carrying amount of financial assets pledged as collateral for contingent liabilities, and any terms and conditions relating to assets pledged as collateral in complying with this requirement.

IAS 1 also requires minimum disclosures that an entity should present in its statement of comprehensive income. It also requires the presentation of additional line items when this is necessary to present fairly the entity's financial performance. An insurer might conclude that, to satisfy these requirements, it needs to disclose the following amounts in its statement of comprehensive income:

(a) revenue from insurance contracts issued (without any reduction for reinsurance held).

(b) income from contracts with reinsurers.

(c) expense for policyholder claims and benefits (without any reduction for reinsurance held).

(d) expenses arising from reinsurance held.

(e) acquisition costs (distinguishing those recognised as an expense immediately from the amortisation of deferred acquisition costs).

(f) the effect of changes in estimates and assumptions.

(g) losses recognised as a result of applying liability adequacy tests.

(h) for insurance liabilities measured on a discounted basis:

(i) accretion of interest to reflect the passage of time; and

(ii) the effect of changes in discount rates.

(i) distributions or allocations to holders of contracts that contain discretionary participation features. The portion of profit or loss that relates to any equity component of those contracts is an allocation of profit or loss, not expense or income (paragraph 34(c) of the IFRS).

4.5.3 Significant assumptions and other sources of estimation uncertainty

An insurer shall describe the process used to determine the assumptions that have the greatest effect on the measurement of assets, liabilities, income and expense arising from insurance contracts and, when practicable, give quantified disclosure of those assumptions.

The description of the process used to determine assumptions might include a summary of the most significant of the following:

(a) the objective of the assumptions. For example, an insurer might disclose whether the assumptions are intended to be neutral estimates of the most likely or expected outcome ('best estimates') or to provide a given level of assurance or level of sufficiency. If they are intended to provide a quantitative or qualitative level of assurance, an insurer might disclose that level.

(b) the source of data used as inputs for the assumptions that have the greatest effect. For example, an insurer might disclose whether the inputs are internal, external or a mixture of the two. For data derived from detailed studies that are not carried out annually, an insurer might disclose the criteria used to determine when the studies are updated and the date of the latest update.

(c) the extent to which the assumptions are consistent with observable market prices or other published information.

(d) a description of how past experience, current conditions and other relevant benchmarks are taken into account in developing estimates and assumptions. If a relationship would normally be expected between experience and future results, an insurer might explain the reasons for using assumptions that differ from past experience and indicate the extent of the difference.

(e) a description of how the insurer developed assumptions about future trends, such as changes in mortality, healthcare costs or litigation awards.

(f) an explanation of how the insurer identifies correlations between different assumptions.

(g) the insurer's policy in making allocations or distributions for contracts with discretionary participation features, the related assumptions that are reflected in the financial statements, the nature and extent of any significant uncertainty about the relative interests of policyholders and shareholders in the unallocated surplus associated with those contracts, and the effect on the financial statements of any changes during the period in that policy or those assumptions.

(h) the nature and extent of uncertainties affecting specific assumptions.

4.5.4 Changes in assumptions

An insurer shall disclose the effect of changes in assumptions used to measure insurance assets and insurance liabilities. The insurer shall analyse the changes in a way that meets the objective of the disclosure and is appropriate for their particular circumstances. If practicable, an insurer might disclose separately the impact of changes in different assumptions, particularly if changes in some assumptions have an adverse effect and others have a beneficial effect. An insurer might also describe the impact of interdependencies between assumptions and the resulting limitations of any analysis of the effect of changes in assumption.

An insurer might disclose the effects of changes in assumptions both before and after reinsurance held, especially if the insurer expects a significant change in the nature or extent of its reinsurance programme or if an analysis before reinsurance is relevant for an analysis of the credit risk arising from reinsurance held.

4.5.5 Changes in insurance liabilities and related items

An insurer shall disclose reconciliations of changes in insurance liabilities. It also shall disclose changes in insurance assets.

An insurer need not disaggregate those changes into broad classes, but might do that if different forms of analysis are more relevant for different types of liability. The changes might include:

(a) the carrying amount at the beginning and end of the period.

(b) additional insurance liabilities arising during the period.

(c) cash paid.

(d) income and expense included in profit or loss.

(e) liabilities acquired from, or transferred to, other insurers.

(f) net exchange differences arising on the translation of the financial statements into a different presentation currency, and on the translation of a foreign operation into the presentation currency of the reporting entity.

An insurer shall disclose changes in deferred acquisition costs, if applicable. The reconciliation might disclose:

(a) the carrying amount at the beginning and end of the period.

(b) the amounts incurred during the period.

(c) the amortisation for the period.

(d) impairment losses recognised during the period.

(e) other changes categorised by cause and type.

4.5.6 Nature and extent of risks arising from insurance contracts

The disclosures about the nature and extent of risks arising from insurance contracts are based on two foundations:

(a) There should be a balance between quantitative and qualitative disclosures, enabling users to understand the nature of risk exposures and their potential impact.

(b) Disclosures should be consistent with how management perceives its activities and risks, and the objectives, policies and processes that management uses to manage those risks. This approach is likely:

  (i) to generate information that has more predictive value than information based on assumptions and methods that management does not use, for instance, in considering the insurer's ability to react to adverse situations.

  (ii) to be more effective in adapting to the continuing change in risk measurement and management techniques and developments in the external environment over time.

4.5.7 Operating Segments

An insurer shall identify reportable segments reflecting the way in which management allocates resources and assesses performance. An insurer might adopt a similar approach to identify broad classes of insurance contracts for disclosure purposes

In identifying broad classes for separate disclosure, an insurer might consider how best to indicate the level of uncertainty associated with the risks underwritten, to inform users whether outcomes are likely to be within a wider or a narrower range.

4.5.8 Risk management objectives and policies for mitigating risks arising from insurance contracts

An insurer shall disclose its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks. Such discussion provides an additional perspective that complements information about contracts outstanding at a particular time. Such disclosure might include information about:

(a) the structure and organisation of the insurer's risk management function(s), including a discussion of independence and accountability.

(b) the scope and nature of the insurer's risk reporting or measurement systems, such as internal risk measurement models, sensitivity analyses, scenario analysis, and stress testing, and how the insurer integrates them into its operating activities. Useful disclosure might include a summary description of the approach used, associated assumptions and parameters (including confidence intervals, computation

frequencies and historical observation periods) and strengths and limitations of the approach.

(c) the insurer's processes for accepting, measuring, monitoring and controlling insurance risks and the underwriting strategy to ensure that there are appropriate risk classification and premium levels.

(d) the extent to which insurance risks are assessed and managed on an entity-wide basis.

(e) the methods the insurer employs to limit or transfer insurance risk exposures and avoid undue concentrations of risk, such as retention limits, inclusion of options in contracts, and reinsurance.

(f) asset and liability management (ALM) techniques.

(g) the insurer's processes for managing, monitoring and controlling commitments received (or given) to accept (or contribute) additional debt or equity capital when specified events occur.

These disclosures might be provided both for individual types of risks insured and overall, and might include a combination of narrative descriptions and specific quantified data, as appropriate to the nature of the insurance contracts and their relative significance to the insurer.

4.5.9 Insurance risk

An insurer might consider the following foundations for disclosures regarding insurance risk.

(a) Information about risk exposures might report exposures both gross and net of reinsurance (or other risk mitigating elements, such as catastrophe bonds issued or policyholder participation features), especially if the insurer expects a significant change in the nature or extent of its reinsurance programme or if an analysis before reinsurance is relevant for an analysis of the credit risk arising from reinsurance held.

(c) In reporting quantitative information about insurance risk, an insurer might disclose the methods used the strengths and limitations of those methods, the assumptions made, and the effect of reinsurance, policyholder participation and other mitigating elements.

(d) Insurers might classify risk along more than one dimension. For example, life insurers might classify contracts by both the level of mortality risk and the level of investment risk. It may sometimes be convenient to display this information in a matrix format.

(e) If an insurer's risk exposures at the end of the reporting period are unrepresentative of its exposures during the period, it might be useful to disclose that fact.

(f) The following disclosures required by paragraph 39 of the IFRS might also be relevant:

(i) the sensitivity of profit or loss and equity to changes in variables that have a material effect on them.

(ii) concentrations of insurance risk.

(iii) the development of prior year insurance liabilities.

Disclosures about insurance risk might include:

(a) information about the nature of the risk covered, with a brief summary description of the class (such as annuities, pensions, other life insurance, motor, property and liability).

(b) information about the general nature of participation features whereby policyholders share in the performance (and related risks) of individual contracts or pools of contracts or entities, including the general nature of any formula for the participation and the extent of any discretion held by the insurer.

4.5.10 Sensitivity to insurance risk

An insurer shall disclose sensitivity to insurance risk. To permit meaningful aggregation, the sensitivity disclosures focus on summary indicators, namely profit or loss and equity. Although sensitivity tests can provide useful information, such tests have limitations. An insurer might disclose the strengths and limitations of sensitivity analyses performed.

An insurer could choose to disclose: quantitative disclosure of effects on profit or loss and equity or qualitative disclosure and disclosure about terms and conditions .

4.5.11 Concentration of insurance risk

An insurer shall disclose information relating to concentration of insurance risk. Such concentration could arise from, for example:

(a) a single insurance contract, or a small number of related contracts, for instance, when an insurance contract covers low-frequency, high-severity risks such as earthquakes.

(b) single incidents that expose an insurer to risk under several different types of insurance contract. For example, a major terrorist incident could create exposure under life insurance contracts, property insurance contracts, business interruption and civil liability.

(c) exposure to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour.

(d) exposure to possible major changes in financial market conditions that could cause options held by policyholders to come into the money. For example, when interest rates decline significantly, interest rate and annuity guarantees may result in significant losses.

(e) significant litigation or legislative risks that could cause a large single loss, or have a pervasive effect on many contracts.

(f) correlations and interdependencies between different risks.

(g) significant non-linearities, such as stop-loss or excess of loss features, especially if a key variable is close to a level that triggers a material change in future cash flows.

(h) geographical and sectoral concentrations.

Disclosure of concentrations of insurance risk might include a description of the shared characteristic that identifies each concentration and an indication of the possible exposure, both before and after reinsurance held, associated with all insurance liabilities sharing that characteristic.

4.5.12 Claims development

An insurer shall disclose claims development information. Informative disclosure shall reconcile this information to amounts reported in the statement of financial position. An insurer might disclose unusual claims expenses or developments separately, allowing users to identify the underlying trends in performance.

4.5.13 Credit risk, liquidity risk and market risk

An insurer shall disclose information about credit risk, liquidity risk and market risk.

The disclosures about credit risk, liquidity risk and market risk may be either provided in the financial statements or incorporated by cross-reference to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

Informative disclosure about credit risk, liquidity risk and market risk might include:

(a) information about the extent to which features such as policyholder participation features mitigate or compound those risks.

(b) a summary of significant guarantees, and of the levels at which guarantees of market prices or interest rates are likely to alter the insurer's cash flows.

(c) the basis for determining investment returns credited to policyholders, such as whether the returns are fixed, based contractually on the return of specified assets or partly or wholly subject to the insurer's discretion.

Credit risk

Credit risk is defined as 'the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss'. Thus, for an insurance contract, credit risk includes the risk that an insurer incurs a financial loss because a reinsurer defaults on its obligations under the reinsurance contract.

Furthermore, disputes with the reinsurer could lead to an impairment of the cedant's reinsurance asset. The risk of such disputes may have an effect similar to credit risk. Thus, similar disclosure might be relevant. Balances due from agents or brokers may also be subject to credit risk.

Liquidity risk

An insurer shall disclose a maturity analysis for financial liabilities that shows the remaining contractual maturities. For insurance contracts, the contractual maturity refers to the estimated date when contractually required cash flows will occur. This depends on factors such as when the insured event occurs and the possibility of lapse.

An insurer might also disclose a summary narrative description of how the maturity analysis (or analysis by estimated timing) flows could change if policyholders exercised lapse or surrender options in different ways. If an insurer considers that lapse behaviour is likely to be sensitive to interest rates, the insurer might disclose that fact and state whether the disclosures about market risk reflect that interdependence.

Market risk

An insurer shall disclose a sensitivity analysis for each type of market risk at the end of the reporting period, showing the effect of reasonably possible changes in the relevant risk variable on profit or loss or equity. If no reasonably possible change in the relevant risk variable would affect profit or loss or equity, an entity discloses that fact. A reasonably possible change in the relevant risk variable might not affect profit or loss in the following examples:

(a) if a non-life insurance liability is not discounted, changes in market interest rates would not affect profit or loss.

(b) some insurers may use valuation factors that blend together the effect of various market and non-market assumptions that do not change unless the insurer assesses that its recognised insurance liability is not adequate. In some cases a reasonably possible change in the relevant risk variable would not affect the adequacy of the recognised insurance liability.

To comply with this requirement, an insurer might conclude that it needs to disclose the extent of available management actions and their effect on the sensitivity analysis.

4.5.14 Exposures to market risk under embedded derivatives

An insurer shall disclose information about exposures to market risk under embedded derivatives contained in a host insurance contract if the insurer measures the embedded derivative at fair value.

Appendix -3 & 4 provides an illustration of financial statements under IFRS for a model life insurance company and a write up on 'Disclosures and International Actuarial Standards of Practice' respectively.

Chapter – 5

Recommendations

In view of the various constraints involved in the implementation programme, it is recommended that the desired road map should be drawn in phased manner instead of a sudden transfer to the new accounting regime. The IFRS 1 provides guidance on the transition from the local GAAP to the IFRSs. It requires disclosures that explain how transition from previous GAAP to IFRS affected reported financial position, financial performance and cash flows. It requires retrospective application in most areas.

While complying with the IFRS requirements, the following points are to be kept in mind:

1. Entities must ensure that information that is reasonably expected to have been obtained and taken into account in the preparation and presentation of those financial statements is obtained. That information obtained in a subsequent period will not be considered as new information. Consequently, financial statements will have to be restated in a future period.

2. Entity should decide the presentation very carefully while preparing the first financial statements under IFRS. Voluntary change in presentation and classification in a subsequent period will not be allowed unless the operation of the entity changes significantly.

3. With regard to 'Measurement after Initial Recognition', frequent revaluation will not be permitted. Choice has to be made at the time of accounting policy formulation whether to apply the cost model or the revaluation model for subsequent measurement of a particular class of asset.

4. An entity has to establish the discounting rate for each long term obligation, with reference to the measurement of time value of money.

5. Regulator may have to decide change in classification of financial assets, if any, and may consider introduction of the tainting provision.

6. With regard to 'Reclassification' of financial instruments, the Regulator may have to decide whether such a provision is required.

7. Under the Indian context, considering the definition of significant insurance risk as discussed above, most of the products shall be classified as Insurance contracts, whereas, for pension products which do not provide for additional death benefits as per 4.1.2 above will be classified as investment contracts.

8. IFRS 4 does not provide any quantitative guidance on identification of significant insurance risk and hence is open to individual judgment in identifying significance insurance risk.

   In order to ensure consistency across insurance companies in assessing significance of `Insurance risk' for classification of products as Insurance products, it is proposed that a contract would be an insurance contract if the benefit payable on death is higher by
   - at least 5% of the fund value at any time during the life of the contract for unit linked products, or
   - at least 5% of the premium at any time during the life of the contract for other than unit linked products

9. All insurance companies would accordingly have to document the extent of insurance risk identified as per the rules given above and also document the measures used in quantification.

10. Presently investment valuation is prescribed by the IRDA regulations which will now have to be aligned with IAS 39 or its Indian counterpart i.e. Accounting Standard 30 and 31 issued by the Institute of Chartered Accountants of India, causing the following issues of concern:

    a) Classification of investments under the categories provided under IFRS would become paramount as it would determine the accounting treatment in respect of initial (at the time of purchase) and subsequent measurement, gains / losses in fair value recognition, etc.

    b) Insurers will have to determine whether to classify investments into the three categories (for measurement) at fund / segment level or at each security level. This requirement of classification of Investments could also impact allocation of a single security across various funds having different classification category.

    c) Classification of securities under HTM category could be an issue if sold off before maturity – even in preceding two years owing to tainting provisions as defined in the standard. Insurance being a long term contract; most of the investments should be categorized as HTM by the Insurance companies. However, due to the tainting provision, the insurer has to rethink on its strategy of classifying all long term investments under HTM and thus would have to classify them under either fair value through profit and loss or AFS.

    d) Presently HTM securities mainly debt securities are valued at amortized cost which is determined using the simple interest method (undiscounted) however under IFRS the same would have to be computed using the effective interest method which would warrant necessary system enhancement for revised valuation and accounting of securities as per effective interest method.

    e) Embedded derivative being new concept introduced by IAS 39 would impose necessary challenges in identifying derivatives embedded in insurance contracts.

f) System readiness in respect of accounting, valuation and providing host of information for disclosure purposes.

- An investment system should be able to classify and tag each security as per the classification mandated by IAS 39.
- IT should be capable enough to measure investments based on classification
- IT enhancement required for calculating effective interest rate for amortization of HTM securities from the current logic of simple interest rate
- IFRS 7 & IAS 32 which deal with investment disclosures & presentation; mandate host of disclosure requirement for the investments held by any entity. Unless this requirement is automated, an entity has to put in massive efforts in collating data required for disclosure as mandated by IFRS 7.

11. With regard to 'Deferred Acquisition Cost', acquisition costs may be expensed out upfront during the first phase of implementation for insurance contracts. The actuarial liabilities are computed on the basis of projected future cash flows on the assumption that 100% acquisition cost have been absorbed upfront. It may be binding on the group to have uniform accounting policy on deferment of acquisition cost and thus would pose consolidation issued at group level.

12. The existing methods bases for determining actuarial liabilities for life insurance contracts are carried forward into the initial implementation of IFRS in India.

13. If an acceptable IFRS Phase 2 does not emerge, or if the direction in which the IASB appears to be heading is unacceptable to India, then at that time the treatment of life insurance contracts should be revisited in conjunction with the Required Solvency Margin regime.

14. The liabilities for contracts classified as investment contracts cannot be determined using the existing approach; Guidance to Actuaries is required and IASPs 4, 5, and 10 would appear to be a suitable starting point for standards to be issued by the Institute of Actuaries of India.

15. In respect of investment contracts, consequential changes to current IRDA reporting arrangements would be required. For participating business current Indian practice is to recognize both the guaranteed and discretionary participation features as liabilities. This approach should be formally mandated to apply under IFRS in India.

16. Accounting mismatches may arise with participating business, Some relief may be available by using the held-to-maturity option available under IAS 39 and beyond that the Shadow Accounting Option is available that is to account for both realized and unrealized gains or losses on assets in the same way relative to measurement of insurance liabilities. There would be merit in the IRDA / IAI bringing greater clarity on this and a working paper on the topic would be a timely value addition.

17. Given the principle of carrying forward current liabilities into IFRS, the IRDA should clarify that Appointed Actuaries apportion global reserves to individual policies.

18. A range of other actuarial issues arise under IFRS where the International Actuarial Association has issued standards. These standards should be reviewed for applicability in India and reissued by the Institute of Actuaries of India with such modifications as are necessary.

19. IFRS does not provided detailed guidance on Disclosures but it does establish principles. If one accepts that the Guidance provided by the International Actuarial Association is an effective adjunct to IFRS, the extent of disclosures on insurance contract related matters is expected to be significantly greater than that which currently prevails in financial statements as they are currently prepared in India. This conclusion is supported by review of actual financial statements prepared by major insurers that comply with IFRS.

This is not to say that this information is not compiled in India and in the case of life insurers in particular, and, by way of example, detailed information on methods used to determine liabilities, assumptions and how they are derived, impact of changes in assumptions, risk management procedures are all provided to the IRDA by Appointed Actuaries within the various prudential statements and reports.

That said the IFRS implied disclosure requirements in relation to risk in particular arguably exceed the disclosures required to be made to the IRDA via prudential statements suggesting that this general area is in need of attention from both financial reporting and prudential supervision perspectives.

In the area of aggregation and segmentation, IFRS diverges from current financial statement practices in India. The latter have a product / class of business focus intended to support prudential supervision and this is rational. But IFRS has an orientation towards the way business is managed in practice which could be a channel focus, for example. Thus in such matters IFRS cannot be unduly prescriptive and so the IFRS / IRDA orientations need to be reconciled.

Other areas warranting particular attention include:

- The extent of disclosures relating to participating policyholders as a form of related party,
- The extent to which supplementary information such as source of earnings / analysis or surplus or embedded value should be included or if to be included voluntarily the extent of the disclosures that should accompany such information,
- The suggestion that future impact of assumption changes should be discussed or disclosed in addition to the current impact.

The need for wider and more extensive discloser, together with audit requirements, is likely to enhance the quality and depth of external review and is consistent with IAIS Core Principles. However there would therefore be a significant implementation effort depending upon the extent to which IASP 12 as it currently stands, becomes the effective standard for India.

Such matters would need careful consideration by both the IRDA and the Institute of Actuaries of India as part of the next phase of IFRS implementation.

END

Appendix - 1

Composition of the Committee on IFRS compliance in Insurance Sector

Dr. R. Kannan, Member (Actuary), IRDA - Chairman

Shri K. S. Gopalakrishnan, Appointed Actuary, Aegon Religare Life Insurance Co. Ltd. - Member.

Mr. John Poole Appointed Actuary, Max New York Life Insurance Co. Ltd. - Member.

Shri N. S. Kannan, Executive Director, ICICI Pru Life Insurance Co. Ltd. - Member.

Shri D. Varadrajan, Consultant, Supreme Court Lawyer on Company Law matters. - Member.

Shri K.P. Sarma, Appointed Actuary, Cholamandalam MS General Insurance Co. Ltd.- Member.

Shri Mayank Bathwal, Chief Financial Officer, Birla Sun Life Insurance Co. Ltd. - Member.

Shri V. Srinivasan, Chief Financial Officer, Bharti Axa Life Insurance Co. Ltd.- Member.

Prof. A. K. Bhattacharya, Professor IIM (Kolkata) .- Member.

Prof. R. Vaidyanathan, Professor IIM (Bangalore) .- Member.

Shri T. S. Viswanathan, Chartered Accountant.- Member.

Shri V. Manickham, Executive Director, LIC of India. .- Member.

Shri S. P. Chakraborty, Deputy Director (Actuarial), IRDA.- Member Secretary

Shri S. N. Jayasimhan, Deputy Director (Investment), IRDA.- Member Secretary

Appendix - 2

Definition of an Insurance Contract

1) This Appendix gives guidance on the definition of an insurance contract. It addresses the following issues:
   a) the term 'uncertain future event' (paragraphs 2-4);
   b) insurance risk and other risks (paragraphs 5-14);
   c) examples of life insurance contracts (paragraphs 15-18);
   d) significant insurance risk (paragraphs 19-25); and
   e) changes in the level of insurance risk (paragraphs 26 and 27).

Uncertain Future Event

2) Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:
   a) whether an insured event will occur;
   b) when it will occur; or
   c) how much the insurer will need to pay if it occurs.

3) In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if the loss arises from a event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.

4) Some insurance contracts cover events that have already occurred, but whose financial effect is still uncertain. An example is a reinsurance contract that covers the direct insurer against adverse development of claims already reported by policyholders. In such contracts, the insured event is the discovery of the ultimate cost of those claims.

Distinction between Insurance Risk and Other Risks

5) The definition of an insurance contract refers to insurance risk, which is defined as risk, other than financial risk, transferred from the holder of a contract to the issuer. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

6) The definition of financial risk includes a list of financial and non-financial variables. That list includes non-financial variables that are not specific to a party to the contract, such as an index of earthquake losses in a particular region or an index of temperatures in a particular city. It excludes non-financial variables that are specific to a party to the contract.

7) Some contracts expose the issuer to financial risk, in addition to significant insurance risk. For example, many life insurance contracts both guarantee a minimum rate of return to policyholders (creating financial risk) and promise death benefits that at

some times significantly exceed the policyholder's account balance (creating insurance risk in the form of mortality risk). Such contracts are insurance contracts.

8) An insured event could trigger the payment of an amount linked to a price index. Such contracts are insurance contracts, provided the payment that is contingent on the insured event can be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because payment is triggered by an uncertain event – the survival of the annuitant. The link to the price index is an embedded derivative, but it also transfers insurance risk. If the resulting transfer of insurance risk is significant, the embedded derivative meets the definition of an insurance contract, in which case it need not be separated and measured at fair value.

9) The definition of insurance risk refers to risk that the insurer accepts from the policyholder. In other words, insurance risk is a pre-existing risk transferred from the policyholder to the insurer. Thus, a new risk created by the contract is not insurance risk.

10) The definition of an insurance contract refers to an adverse effect on the policyholder. The definition does not limit the payment by the insurer to an amount equal to the financial impact of the adverse event. For example, the definition does not limit payment under a term life insurance contract to the financial loss suffered by the deceased's dependants, nor does it preclude the payment of predetermined amounts to quantify the loss caused by death or an accident.

11) Some contracts require a payment if a specified uncertain event occurs, but do not require an adverse effect on the policyholder as a precondition for payment. Such a contract is not an insurance contract even if the holder uses the contract to mitigate an underlying risk exposure. For example, if the holder uses a derivative to hedge an underlying non-financial variable that is correlated with cash flows from an asset of the entity, the derivative is not an insurance contract because payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. Conversely, the definition of an insurance contract refers to an uncertain event for which an adverse effect on the policyholder is a contractual precondition for payment. This contractual precondition does not require the insurer to investigate whether the event actually caused an adverse effect, but permits the insurer to deny payment if it is not satisfied that the event caused an adverse effect.

12) Lapse or persistency risk (i.e. the risk that the counterparty will cancel the contract earlier or later than the issuer had expected pricing the contract) is not insurance risk because the payment to the counterparty is not contingent on an uncertain future event that adversely affects the counterparty. Similarly, expense risk (i.e. the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in costs associated with insured events) is not insurance risk because an unexpected increase in expenses does not adversely affect the counterparty.

13) Therefore, a contract that exposes the issuer to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the issuer to insurance risk. However, if the issuer of that contract mitigates that risk by using a second contract to transfer part of that risk to another party, the second contract exposes that other party to insurance risk.

14) An insurer can accept significant insurance risk from the policyholder only if the insurer is an entity separate from the policyholder.

Examples of Life Insurance Contracts

15) The following are examples of contracts that are life insurance contracts, if the transfer of insurance risk is significant:
   a) life insurance contracts (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance);
   b) life-contingent annuities and pensions (i.e. contracts that provide compensation for the uncertain future event – the survival of the annuitant or pensioner – to assist the annuitant or pensioner in maintaining a given standard of living, which would otherwise be adversely affected by his or her survival); and
   c) life reinsurance contracts.

16) The following are examples of items that are not life insurance contracts:
   a) investment contracts that are issued by a life insurer but do not expose the insurer to significant insurance risk, for example life insurance contracts in which the insurer bears no significant mortality risk (such contracts are non-insurance financial instruments or service contracts: see paragraphs 17 and 18 of this Appendix);
   b) contracts that have the legal form of insurance, but pass significant insurance risk back to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder as a direct result of insured losses, for example some financial reinsurance contracts or some group contracts (such contracts are normally non-insurance financial instruments or service contracts: see paragraphs 17 and 18 of this Appendix);
   c) self-insurance, in other words retaining a risk that could have been covered by insurance (there is no insurance contract because there is no agreement with another party);
   d) contracts that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, that the event adversely affects the policyholder. However, this does not preclude the specification of a predetermined payout to quantify the loss caused by a specified event such as death or an accident;
   e) derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other

variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract; and

f) general insurance contracts.

17) If the contracts described in paragraph 16 of this Appendix create financial assets or financial liabilities, they are within the scope of IAS 39. Among other things, this means that the parties to the contract use what is sometimes called deposit accounting, which involves the following:

a) one party recognizes the consideration received as a financial liability, rather than as revenue; and

b) the other party recognizes the consideration paid as a financial asset, rather than as an expense.

18) If the contracts described in paragraph 16 of this Appendix do not create financial assets or financial liabilities, IAS 18 applies. Under IAS 18, revenue associated with a transaction involving the rendering of services is recognized by reference to the stage of completion of the transaction if the outcome of the transaction can be estimated reliably.

Significant Insurance Risk

19) A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs 5 to 14 of this Appendix discuss insurance risk. The following paragraphs discuss the assessment of whether insurance risk is significant.

20) Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (i.e. have no discernible effect on the economics of the transaction). If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is extremely unlikely or even if the expected (i.e. probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

21) The additional benefits described in paragraph 20 of this Appendix refer to amounts that exceed those that would be payable if no insured event occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and claims assessment costs, but exclude:

a. the loss of the ability to charge the policyholder for future services. For example, in an investment-linked life insurance contract, the death of the policyholder means that the insurer can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the insurer does not reflect insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of the client. Therefore, the potential loss of future investment management fees is not relevant in assessing how much insurance risk is transferred by a contract;

b. waiver on death of charges that would be made on cancellation or surrender. Because the contract brought those charges into existence, the waiver of these charges does not compensate the policyholder for a pre-existing risk. Hence, they are not relevant in assessing how much insurance risk is transferred by a contract;
c. a payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay one million currency units if an asset suffers physical damage causing an insignificant economic loss of one currency unit to the holder. In this contract, the holder transfers to the insurer the insignificant risk of losing one currency unit. At the same time, the contract creates non-insurance risk that the issuer will need to pay 999,999 currency units if the specified event occurs. Because the issuer does not accept significant insurance risk from the holder, this contract is not an insurance contract; and
d. possible reinsurance recoveries. The insurer accounts for these separately.

22) An insurer shall assess the significance of insurance risk contract by contract, rather than by reference to materiality to the financial report. Thus, insurance risk may be significant even if there is a minimal probability of material losses for a whole book of contracts. This contract-by-contract assessment makes it easier to classify a contract as an insurance contract. However, if a relatively homogeneous book of contracts is known to consist of contracts that all transfer insurance risk, an insurer need not examine each contract within that book to identify a few non-derivative contracts that transfer insignificant insurance risk.

23) It follows from paragraphs 20 to 22 of this Appendix that if a contract pays a death benefit exceeding the amount payable on survival, the contract is an insurance contract unless the additional death benefit is insignificant (judged by reference to the contract rather than to an entire book of contracts). As noted in paragraph 21(b) of this Appendix, the waiver on death of cancellation or surrender charges is not included in this assessment if this waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life contingent payments are insignificant.

24) Paragraph 20 of this Appendix refers to additional benefits. These additional benefits could include a requirement to pay benefits earlier if the insured event occurs earlier and the payment is not adjusted for the time value of money. An example is whole life insurance for a fixed amount (in other words, insurance that provides a fixed death benefit whenever the policyholder dies, with no expiry date for the cover). It is certain that the policyholder will die, but the date of death is uncertain. The insurer will suffer a loss on those individual contracts for which policyholders die early, even if there is no overall loss on the whole book of contracts.

25) If an insurance contract is unbundled into a deposit component and an insurance component, the significance of insurance risk transfer is assessed by reference to the insurance component. The significance of insurance risk transferred by an embedded derivative is assessed by reference to the embedded derivative.

Changes in the Level of Insurance Risk

26) Some contracts do not transfer any insurance risk to the issuer at inception, although they do transfer insurance risk at a later time. For example, consider a contract that provides a specified investment return and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the current annuity rates charged by the insurer to other new annuitants when the policyholder exercises the option. The contract transfers no insurance risk to the issuer until the option is exercised, because the insurer remains free to price the annuity on a basis that reflects the insurance risk transferred to the insurer at that time. However, if the contract specifies the annuity rates (or a basis for setting the annuity rates), the contract transfers insurance risk to the issuer at inception.

27) A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Appendix – 3

Illustrative financial statements under IFRS for a model Insurance Company.

Sr No	Index
1	Income Statement
2	Balance Sheet
3	Statement of Changes in Equity
4	Cashflow Statement
5	Corporate Information
6	Accounting Policy
7	Segment Reporting
8	Goodwill and intangible assets including intangible insurance assets
9	Investment in Associate
10	Property and Equipment
11	Investment Properties
12	Derivative financial instruments
13	Financial assets other than derivative financial instruments
14	Reinsurance assets
15	Taxation
16	Insurance receivable
17	Deferred Expenses
18	Prepayments and accrued Income
19	Cash and cash equivalents
20	Insurance Contract liabilities
21	Investment contract liabilities
22	Unallocated Divisible Surplus
23	Net asset value attributable to unit holders
24	Pension benefit obligation
25	Borrowings
26	Other financial liabilities
27	Insurance payables
28	Deferred revenue
29	Trade and Other payables
30	Issued Share Capital
31	Other equity instruments
32	Net premiums
33	Fees and commission income
34	Investment Income
35	Realised Gains
36	Fair value gains and losses
37	Net benefits and claims
38	Finance costs
39	Other Operating and Administrative expenses
40	Employee benefit expense
41	Income tax expense
42	Earnings per share
43	Dividends
44	Risk Management
45	Corporate Governance
46	First time adoption of IFRS
47	Disclosure on Key Management Personnel

Income statement
for the year ended 31 March 2012

Particulars	Schedule No.	Current Year	Previous Year	Reference
				IAS 1.10(b)
				1.51(c)
		(Rs. Lacs)		
				IAS 1.38
				IAS 1.51 (d) & (e)
Gross Premium	28(a)	XX	XX	IFRS 4.IG24
Reinsurer's' share of gross premium	28(b)	XX	XX	IFRS 4.IG24
Net premium revenue		XX	XX	
Fee income	29	XX	XX	IFRS 7.20c(i)
Investment income	30	XX	XX	
Net realized gains on financial assets	31	XX	XX	
Net fair value gains on financial assets at fair value through income	32	XX	XX	
Other operating income		XX	XX	
Other Revenue		XX	XX	
Total income		XX	XX	
Gross benefits and claims paid	33a	XX	XX	IFRS 4.IG24
Reinsurer's' share of gross benefits and claims paid	33b	XX	XX	IFRS 4.IG24
Gross change in contract liabilities	33c	XX	XX	IFRS 4.IG24
Reinsurer's' share of gross change in contract liabilities	33d	XX	XX	IFRS 4.IG24
Net benefits and claims		XX	XX	
Finance costs	34	XX	XX	IAS 1.82(b)
Profit attributable to unit holders	19	XX	XX	
Other operating and administrative costs	35	XX	XX	IAS 1.99
Other expenses		XX	XX	IAS 1.85
Total benefits, claims and expenses		XX	XX	IAS 1.85
Profit before share of associates' profit		XX	XX	IAS 1.85
Share of associate's profit	5	XX	XX	IAS 1.82(c)
Profit before tax		XX	XX	IAS 1.85
Income tax expense	37	XX	XX	IAS 1.82(d)
Profit for the year				IAS 1.82(f)
Earnings and dividend per share				
Basic and diluted earnings per ordinary share	38			
Dividend per ordinary share	39			

Balance sheet
as at 31 March 2012

Particulars	Schedule No.	Current Year	Previous Year	IFRS Reference
		(Rs. Lacs)		
ASSETS				IAS 1.10(a)
Goodwill and intangible assets including intangible insurance	4	XX	XX	IAS 1.54(c)
Investments in associates	5	XX	XX	IAS 1.54(e),IAS 28.38
Property, plant and equipment	6	XX	XX	IAS 1.54(c)
Investment properties	7	XX	XX	IAS 1.54(b)
Investments in subsidiaries		XX	XX	
Financial assets				IAS 1.54(d)
Derivative financial instruments	8	XX	XX	
Financial assets at fair value through profit or loss	9(a)	XX	XX	
Held to maturity financial assets	9(b)	XX	XX	
Loans and other receivables	9(c)	XX	XX	
Available for sale financial assets	9(d)	XX	XX	
Reinsurance assets	10	XX	XX	IFRS 4.37(b)
Tax Receivable	11(a)	XX	XX	IAS 1.54(n)
Insurance Receivables	12	XX	XX	IFRS 4.37(b)
Deferred income tax	13	XX	XX	IFRS 4.37(b)
Prepayment and Accrued Income	14	XX	XX	IAS 1.55
Cash and cash equivalents	15	XX	XX	IAS 1.54(i)
Total assets		**XX**	**XX**	

Particulars	Schedule No.	Current Year	Previous Year	IFRS Reference
		(Rs. Lacs)		
EQUITY				
Issued share capital	**26**	XX	XX	IAS 1.78 (e)
Share premium		XX	XX	IAS 1.78 (e)
Revaluation reserves		XX	XX	IAS 1.78 (e)
Other reserves		XX	XX	IAS 1.78 (e)
Retained earnings		XX	XX	IAS 1.78 (e)
Total Ordinary shareholders' equity		XX	XX	
Other equity instruments	**27**	XX	XX	
Total equity		XX	XX	
LIABILITIES				
Insurance Contract liabilities	**16**	XX	XX	IFRS 4.37(b)
Investment contract liabilities	**17**	XX	XX	IFRS 4.37(b), IAS 1.54(l)
Unallocated divisible surplus	**18**	XX	XX	IFRS 4.37(b)
Net asset value attributable to unit holders	**19**	XX	XX	
Pension benefit obligations	**20**	XX	XX	IAS 1.54(l)
Financial liabilities				IAS 1.54(m), IFRS 7.8
- derivative financial instruments	**8**	XX	XX	
- borrowings	**21**	XX	XX	
- Other financials liabilities	**22**	XX	XX	
Deferred income tax	**11b**	XX	XX	IAS 1.54(o)
Insurance payables	**23**	XX	XX	IFRS 4.37(b)
Deferred Revenue	**24**	XX	XX	IAS 18 App 14(b)(iii)
Trade and other payables	**25**	XX	XX	IAS 1.54(k)
Total liabilities		**XX**	**XX**	
Total equity and liabilities		**XX**	**XX**	

The notes to accounts form an integral part of these financial statements.

Statement of Changes in Equity
for the year ended 31 March 2012

IFRS Reference

IAS 1.10(c)
IAS 1.51(c)

(Rs. Lacs)

Particulars	*Schedule No.*	Issued share capital	Available-forsale financial assets	Cash flow hedging	Retained Earnings	Total ordinary shareholders' equity	Other equity instruments	Total equity	*IFRS Reference*
At 1 April 2010		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	*IAS 1.106(d)*
Fair value gains/(losses)									
Available-for-sale financial assets	*9(e)*	XX	XX	XX	XX	XX	XX	XX	*IFRS 7.20(a)(ii)*
Cash flow hedging		XX	XX	XX	XX	XX	XX	XX	*IFRS 7.23(c)*
Realised gain transfer to the income statement on sale of available-for-sale financial assets	*31*	XX	XX	XX	XX	XX	XX	XX	*IFRS 7.20(a)(ii)*
Aggregate tax effect of items recognised directly in equity	*37(b)*	XX	XX	XX	XX	XX	XX	XX	*IAS 12.81(a)*
Total income and expense for the year recognised directly in equity		XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(b)*
Profit for the year		XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(a)*
Total recognised income and expense for the year		XX	XX	XX	XX	XX	XX	XX	
Dividends paid during the year	*39*	XX	XX	XX	XX	XX	XX	XX	*IAS 1.107*
At 31 March 2011		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	*IAS 1.106(d)*
Fair value gains/(losses)									
Available-for-sale financial assets	*9(e)*	XX	XX	XX	XX	XX	XX	XX	*IFRS 7.20(a)(ii)*
Cash flow hedging		XX	XX	XX	XX	XX	XX	XX	*IFRS 7.23(c)*
Realised gain transfer to the income statement on sale of available-for-sale financial assets	*31*	XX	XX	XX	XX	XX	XX	XX	*IFRS 7.20(a)(ii)*
Aggregate tax effect of items recognised directly in equity	*37(b*	XX	XX	XX	XX	XX	XX	XX	*IAS 12.81(a)*
Total income and expense for the year recognised directly in equity		XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(b)*
Profit for the year		XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(a)*
Total recognised income and expense for the year		XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(b)*
Issue of other equity instruments	*27*	XX	XX	XX	XX	XX	XX	XX	*IAS 1.106(d)(iii)*
Coupon interest on other equity instruments accrued during the year		XX	XX	XX	XX	XX	XX	XX	*IAS 1.107*
Dividends paid during the year	*39*	XX	XX	XX	XX	XX	XX	XX	*IAS 1.107*
At 31 March 2012		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	*IAS 1.106(d)*

Cash flow statement
for the year ended 31 March 2012

Particulars	Schedule No.	Rs. lacs Current Year	Previous Year	IFRS Reference
				IAS 1.10(d)
				IAS 1.51(c)
				IAS 1.51 (d) & (e)
				IAS 1.38
Operating activities				
Cash generated from operations	*41*	XX	XX	*IAS 7.18(b)*
Dividend Income received		XX	XX	*IAS 7.31*
Interest income received		XX	XX	*IAS 7.31*
Finance cost paid	*34*	XX	XX	
Income tax paid	*11a*	XX	XX	*IAS 7.35*
Net cashflow from operating activities		XX	XX	*IAS 7.10*
Investing activities				*IAS 7.21*
Interest Income received on loans to related parties	*30*	XX	XX	*IAS 7.31*
Rental income on investment properties		XX	XX	
Proceeds from sale of property, plant and equipment		XX	XX	*IAS 7.16(b)*
Intangibles asset cost capitalised	*4*	XX	XX	*IAS 7.16(a)*
Purchase of investment properties	*7*	XX	XX	*IAS 7.16(a)*
Increase in loans to related parties		XX	XX	
Purchase of property and equipment	*6*	XX	XX	*IAS 7.16(a)*
Net cash used in investing activities		XX	XX	*IAS 7.10*
Financing activities				*IAS 7.21*
Issues of equity instruments	*26*	XX	XX	*IAS 7.17(a)*
Issues of other equity instruments	*27*	XX	XX	*IAS 7.17(a)*
Finance cost paid on bank loan and bond borrowings		XX	XX	*IAS 7.31*
Dividend paid during the year	*39*	XX	XX	*IAS 7.31*
Net cash used in financing activities		XX	XX	*IAS 7.10*
Net (decrease)/increase in cash and bank equivalents		XX	XX	
Cash and bank equivalents at beginning of year	*15*	XX	XX	
Effects of exchange rate changes on cash and cash equivalents		XX	XX	*IAS 7.28*
Cash and bank equivalents at end of year	*15*	XX	XX	*IAS 7.45*

Notes to the financial statements - IAS 1.18(e)

1 Corporate Information

The Model Insurance Co., is a Company incorporated in India. The pricipal activities of the Company are described in Schedule 3.

The Company has further interest __% interest in ____ Company Lts, which is involved in the business of _____ India. The Company has no joint venture agreements with any other external parties.

The registered office of the Company is at _____. The consolidated financials statements of the model insurance co., for the year ended 31 March 2012 were authorised for issue in accordance with a resolution of the directors on ___ (date) ___(month) 2011

Notes to the financial statements

1 Basis of preperation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and IFRIC interpretations and with those parts of the Companies Act, 1956, Insurance Act, 1938 as applicable to insurance companies. The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings, available for-sale investments, financial assets and liabilities (including derivatives) at fair value through income.

The preparation of financial statements in conformity with IFRS requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

All amounts in the notes are shown in Rs. Lacs, unless otherwise stated.

(a) Standards, amendments and interpretations to existing standards effective in current year
(b) Standards early adopted by the Company
(c) Interpretations effective in Current Year but not relevant

1.1 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Company changes its accounting policies only if:
changes make financial statements more relevant to economic decision-making needs of users and more reliable and no less relevant to those needs

To justify changes in its accounting policies , the company discloses that changes made, bring financial statements closer in meeting the criteria as stated in IAS 8, but the change need not achieve full compliance

2A Summary of significant accounting policies

(a) Basis of consolidation

Subsidiaries

The consolidated financial statements comprise the financial statements of Mumbai Life Insurance Company Limited and its subsidiaries as at 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. *IAS 27.22* *IAS 27.24*

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full. *IAS 27.20* *IAS 27.21*

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. *IAS 27.26*

IAS 27.27

Minority interests represent the portion of profit or loss and net assets not held by the Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. *IAS 27.28*

(b) Foreign currency translation

IAS 21.53

The Company presents its financial statements in Indian rupees (INR). This is also the functional currency of all of its subsidiaries and of its associates. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. All foreign exchange differences are taken to the income statement, except when it relates to items when gains or losses are recognised directly in equity, the gain or loss is then recognised net of the exchange component in equity. *IAS 21.21* *IAS 21.23(a)* *IAS 21.23(b)* *IAS 21.23(c)* *IAS 21.2*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments. *IAS 14.9*

(d) Insurance and investment contracts - classification

The Company issues contracts that transfer insurance risk or financial risk or both. The company's products are classified at inception, for acconting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all associated rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. *IFRS4p37(a), IRDA-IFRS*

As a general guideline, a contract would be an insurance contract if the benefit payable on death is at least 5% of the fund value at any time during the life of the contract for unit linked products, or at least 5% of the premium at any time during the life on the contract for traditional products *Committee recommendation*

Insurance and Investment Contracts are further classified as being either with or without discretionary participation features (DPF). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are: *IFRS4 Appendix A*

With-profits contracts which transfer significant insurance risk are classified as "insurance contracts with DPF" (being those insurance contracts containing a discretionary participating feature ("DPF") as defined within IFRS 4). With-profits contracts which do not transfer significant insurance risk are classified as "investment contracts with DPF". A discretionary participating feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- are likely to be a significant portion of the total contractual benefits;
- that whose amount or timing is contractually at the discretion of the Company; and
- that are contractually based on:

(i) the performance of a specified pool of contracts or a specified type of contract;
(ii) realized and/or unrealized investment returns on a specified pool of assets held by the Company; or
(iii) the profit or loss of the Company, fund or other entity that issues the contract

IRDA Regulations and the terms and conditions of these contracts set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Company may exercise its discretion as to the quantum and timing of their payment to contract holders.

(e) Goodwill and intangible assets including intangible insurance assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. *IAS1.p32-36, IAS1.App A, IAS1.B63(a)*

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash generating units expected to benefit from the synergies of the combination. Cash generating unit to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce hte carrying amount of any goodwill allocated to the unit and then to other asset of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in subsequent period. *IAS36.p104, IAS36.p124*

(ii) Customer relationships

The cost of securing rights to customer lists is measured initially at purchase cost *IAS38.p118*

(iii) Future servicing rights

When a portfolio of investment contracts without DPF under which the Company will render investment management whether directly from another insurance company or as part of a business combination, the present value of future servicing rights isservices is acquired, recognised as an intangible asset. *IAS18.app 14(b)(iii)*

Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. The intangible asset is amortised on a straight line basis over the useful servicing period of the acquired in-force policy during which fees from services will emerge, which typically varies between ___ and ___ years. Amortisation is recorded in the income statement.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Future servicing rights are derecognised when the related contracts are settled or disposed of.

(iv) Acquired claims provision

IFRS4.p37(a), IFRS4.p15

On acquisition of a portfolio of non life insurance contracts the difference between the fair value of the claims provisions acquired and the value of the claims provisions measured under the Company's policies is recognised as an intangible asset. This is amortised on a systematic basis over the estimated life of the acquired contract which typically varies between 1 and 10 years. The carrying value is assessed at each reporting date and any reductions are recognised in profit or loss for the period in which they arise.

(v) Software expenditure

An internally generated intangible asset arising form the Company's software development is recognised only of all of the following condition are met:

- It is technically feasible to complete the software product so that it will be available for use; *IAS38.p57(a)*
- Management intends to complete the software product and use or sell it; *IAS38.p57(b)*
- There is an ability to use or sell the software product; *IAS38.p57(c)*
- It can be demonstrated how the software product will generate probable future economic benefits; *IAS38.p57(d)*
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and *IAS38.p57(e)*
- The expenditure attributable to the software product during its development can be reliably measured. *IAS38.p57(f)*

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of directly attributable overheads. *IAS38.p66*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period *IAS38.p68, IAS 38.p71*

Computer software development costs recognised as assets are amortised over their useful lives, which does not exceed _____ years. *IAS38.p97, IAS 38.p118(a) & (b)*

(vi) Trademarks and licenses

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. They have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (_____ years). *IAS38.p74, IAS 38.p9, IAS38.p118 (a) & (b)*

2.1 *Present Value of acquired in-force business*

When a portfolio of Insurance Contracts and / or investment contracts with DPF are acquired, whether directly from another insurance company or as a part of a business combination, the difference between the fair value and the carrying amount of the insurance liabilities is recognised as the value of the acquired inforce business. *IFRS4.p37(a), IFRS4.p31(b), IFRS4.p15*

Subsequent to initial recognisiton, the intangible asset is carried at cost less accumalated amortisation and accumalated impairment losses. The intangible asset is amortised on a striaghtline basis over the useful life of the acquired inforce policy during which future premiums are expected which typically varies between 5 and 50 years. Amortisation is recognised in the Income statement as an expense.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits empdied in the asset is accounted for by changing the amortisation period and is treated as a change in an accounting estimate.

An impairment review is performed at each reporting date or more frequently when an indiation of impairment arises during the reporting year. When the recoverable amount is less than the carrying value and impairment loss is recognised in the income statement. PVIF is also considered in the liability adequacy test for each reporting period.

PVIF is derognised when the related contract is settled or disposed of.

The present value of future profits on a portfolio on investment contracts without discretionary participation features and life insurance contracts and investment contracts with discretionary partcipation features acquired directly or through a subsidiary is recognised as a tangible asset. AVIF is amortised on a systematic basis over the estimated life of the acquired contracts, which typically varies between 5 and 50 years. The carrying value is assessed at each reporting date and any reductions are recognised in profit or loss for the period in which they arise.

2.2 *Property and Equipment*

Revalued

Land and buildings comprise mainly outlets and offices occupied by the companies. Land and buildings are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. *1p110, 16p73(a), 16P15, 16P17, 16P35(b)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the gorup and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. *16p12, 39p98(b)*

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation surplus in shareholders's equity. Decreases that offset previous increases of the asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the assets's original cost, net of any related deferred income tax, is transferred from the revaluation surplus to reatined earnings. *16p39, 1p76(b), 16p40, 16p41*

Land is not depreciated. Depreciation on other assets is calculated using the staright-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows: *16p73(b), 50, 16p73(c)*

- Buildings XX years
- Vehicles XX years
- Furniture, fittings and equipment XX years

The asset's residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. *16p51, 36p59*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount. These are included in the income statement in the other operating income. When revalued assets are sold, the amounts included in the revaluation surplus are transferred to retained earnings. *IAS 16.68, IAS 16. 71, IAS 16.41*

Not revalued

Property and equipment, including owner-occupied properties, is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Replacement or major inspection costs are capitalised when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. *IAS 16.12.73(a), IAS 16.1.30, IAS 16.14*

Depreciation is provided on a straight line basis over the useful lives of the assets. *IAS 16.73(b), (c)*

- Property: over XX years
- Equipment: XX years

The assets' residual values, useful lives and method of depreciation are reviewed and adjusted if appropriate at each financial year end. Impairment reviews take place when events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment losses are recognised in the income statement as an expense. *IAS 16.51, IAS 36.9, IAS 36.60*

An item of property and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised. *IAS 16.67, IAS 16.71, IAS 16.6*

2.3 *Investment Properties*

Property held for long term rental yields that is not occupied by the Companies in the group is classified as Investment Property. *IAS 1.54(b)*

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date. Fair Value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses laternative valuation methods such as discounted cash flow projections or recent prices in less active markets. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. *IAS 40.20, IAS 40.18, IAS 40.75 (a), IAS 40.38*

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal. *IAS 40.66, IAS 40.69*

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner-occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. *IAS 40.57*

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes *IAS 40.60*

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement. *IAS 40.61, IAS 40.62(b)*

When the Company completes the construction or development of a self constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. *IAS 40.65*

2.4 *Investment in an associate*

The Company's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture. *IAS 28.13, IAS 28.2*

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. *IAS 28.23(a), IAS 28.11*

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss of the Company's investment in its associate. The Company determines at each balance sheet date whether there is any objective evidence that the investment in associate is impaired, If this is the case, the Company calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognised the amount in the income statement. *IAS 28.31*

The investment is derecognised on disposal, with the difference between the net proceeds and the carrying amount being recognised in the income statement. Gains or losses previously recorded in equity are reversed and recorded in the income statement. *IAS 28.11, IAS 28.19A*

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances. *IAS 28.26*

2.5 *Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the balance sheet date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations. *IFRS 7.27(b)*

For units in unit-trusts and shares in open ended investment companies, fair value is determined by reference to published bid-values. *IFRS 7.27(a)*

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing models. For discounted cash flow techniques, estimated future cash flows are based on management's best estimates and the discount rate used is a market related rate for a similar instrument. Certain financial instruments, including derivative financial instruments, are valued using pricing models that consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions. The use of different pricing models and assumptions could produce materially different estimates of fair values. *IFRS 7.27(a)*

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the balance sheet date. *IFRS 7.27(a)*

If the fair value can not be measured reliably, these financial instruments are measured at cost, being the fair value of the consideration paid for the acquisition of the investment or the amount received on issuing the financial liability. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. *IAS 39.46(c)*

2.6 *Derivative financial instruments*

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Embedded derivatives are treated as separate derivatives and are recorded at fair value if their economic characteristics and risks are not closely related to those of the related host contract and the host contract is not itself recorded at fair value through the income statement. Embedded derivatives that meet the definition of insurance contracts are treated and measured as insurance contracts.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value. Fair value adjustments and realised gains and losses are recognised in the income statement. *IAS 39.43, IAS 39.55(a)*

Derivative financial instruments designated as hedging instruments, for example, forward currency contracts and interest rate swaps, are entered into by the Company to hedge its risks associated with interest rate and foreign currency fluctuations. *IFRS 7.22(b)*

For the purpose of hedge accounting, hedges are classified as: *IAS 39.86*

- cash flow hedges, when they hedge exposure to variability in cash flows of a recognised asset or liability or a highly probable forecasted transaction. *IFRS 7.22(a)*

- fair value hedges, when they hedge exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such asset, liability or firm commitment, that is attributable to a particular risk. *IFRS 7.22(a)*

The following are the criteria for applying hedge accounting: *IAS 39.88*

- formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared before hedge accounting is applied.
- the hedge is documented at inception showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period and the hedge is effective on an ongoing basis.
- for a cash flow hedge, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect the income statement.

Cash flow hedges *IFRS 7.22(a)*

Such derivative financial instruments are initially recognised at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the income statement. Amounts taken to equity are transferred to the income statement when the hedged transaction effects the income statement, such as when hedged financial income or financial expense is recognised or when the forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. *IAS 39.95, IAS 39.97-100*

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs.

Fair value hedges *IFRS 7.22(a)*

Such derivative financial instruments are also initially recognised at fair value on the date on which the derivative contract is entered into. The carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged. The derivative is remeasured at fair value and gains and losses are recognised in the income statement. *IAS 39.89*

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term of maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. *IAS 39.92*

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The change in the fair value of the hedging instrument is also recognised in the income statement. *IAS 39.93*

The Company discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. *IAS 39.91*

2.7 *Financial assets*

The Company classifies its investments into financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and other receivables and available-for-sale financial assets. *IAS 39.45*

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as at fair value through profit or loss, as the company's strategy is to manage financial investments acquired to cover its insurance and investments contract liabilities (including shareholders' funds), on the same bases, being fair value. The available-for-sale and held-tomaturity categories are used when the relevant liability (including shareholders' funds) are passively managed and/or carried at amortised cost. *IAS 39.45*

All regular way purchases and sales of financial assets are recognised on the trade date ie the date the Company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place. *IAS 39.38*

Financial assets at fair value through profit or loss, has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading. For investments designated as at fair value through profit or loss, the following criteria must be met: *IAS 39.9(a), (b)*

• the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis, or

• the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and loss are recognised in the income statement. *IAS 39.43, IAS 39.55(a)*

Financial assets at fair value through profit or loss include derivative financial instruments. *IAS 39.9(a)iii*

Held-to-maturity financial assets are non-derivative financial assets that comprise fixed or determinable payments and maturities of which the Company has the positive intention and ability to hold until maturity. Investments intended to be held for an undefined period are not included in this classification. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. The cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. *IAS 39.9, IAS 39.43, IAS 39.46(b), IAS 39.56*

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process. *IAS 39.9, IAS 39.43, IAS 39.46(a), IAS 39.56*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value gains and losses are reported as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported in equity is transferred to the income statement. *IAS 39.9 IAS 39.43 IAS 39.55(b)*

2.8 *Impairment of financial assets*

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. *IAS 39.58*

For held-to-maturity financial assets and loans and other receivables carried at amortised cost, the amount of the impairment loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the impairment loss and the loss is recorded in the income statement. *IAS 39.63*

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The impairment assessment is performed at each balance sheet date. *IAS 39.64*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. *IAS 39.65*

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified at available-for-sale are reversed through the income statement if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement. *IAS 39.67* *IAS 39.68, 69* *IAS 39.70*

For assets carried at cost, if there is objective evidence that an impairment loss on an unquoted equity investment that is not carried at fair value, because its fair value can not be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. *IAS 39.66*

2.9 *Derecognition of financial assets*

A financial asset (or, when applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when: *IAS 39.17, 18*

- the rights to receive cash flows from the asset have expired,
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement, or

- the Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. *IAS 39.20(c)*

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price. *IAS 39.30(b)*

2.10 *Reinsurance*

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. *IFRS 4.37(a)*

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Company may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Company will receive from the reinsurer can be measured reliably. The impairment loss is recorded in the income statement. *IFRS 4.20*

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

The Company also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts when applicable. Premiums and claims on assumed reinsurance are recognised as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

2.11 *Taxes*

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. *IAS 12.46* *IAS 12.47*

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. The income tax charge is analysed as a charge on the insurance business.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2.12 Deferred expenses

***a)* Deferred acquisition costs (DAC)**
Local GAAP to be folllowed in phase 1 for insurance contracts (ie expensed out)

For investment contracts DAC is required to be calculated. In general, the criteria for deferral is how close the cost is in the process of bringing in new business

Deferrable acquisition costs comprise direct and indirect variable costs relating to the acquisition of new and renewal insurance contracts. They include especially:
(1) Acquisition costs and first commissions (excluding recurring commissions other than those related to renewal insurance contracts), incentives and bonuses associated with new business and other remuneration of sales staff in relation to new business,
(2) administrative costs associated with the issuing of contracts, and costs associated with policy selection and acquisition such as inspection and medical fees.
Conversely, the following costs are usually not deferred:
(a) general advertising costs,
(b) general recruitment of sales staff and agents,
(c) classroom training and conferences,
(d) product design costs,
(e) recurring commissions other than those related to renewal insurance contracts.

***b)* Investment management services** *IAS18 App 14(b)iii*

Those incremental costs incurred during the financial period directly attributable to securing investment contracts without DPF, under which the Company will render investment management services, are deferred and recognised as an asset, to the extent that these costs can be identified separately, measured reliably and it is probable that these costs will be recovered out of future revenue margins. Incremental cost is the cost that would not have been incurred if the Company had not secured the investment contract without DPF. All other origination costs are recognised as an expense when incurred

For contracts involving both the origination of a financial liability and the provision of investment management services, only the transaction costs allocated to the servicing component are deferred. The other transaction costs are included in the financial liability.

Subsequent to initial recognition, these costs are amortised on a straight line basis in line with fee income, which typically varies between 10 and 20 years. Amortisation is recorded in the income statement.

An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying value an impairment loss is recognised in the income statement. Future servicing rights are also considered in establishing an onerous contract provision for each reporting period.

Investment management services are derecognised when the related contracts are settled or disposed of.

2.13 Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less in the balance sheet. *IAS 7.6*
For the purpose of the consolidated cash flow, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. *IAS 7.8*

2.14 Insurance Contract liabilities
Life insurance contract liabilities *IFRS 4.37(a)*

Life insurance liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance comprises provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Group. Adjustments to th

At each reporting date, a liability adequacy test is performed, net of related PVIF and DAC, by using an existing liability adequacy test . The liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows, option pricing models and stochastic modelling. Aggregation levels and the level of prudence applied in the test are consistent with Indian GAAP and IRDA rules and regulations. To the extent that the test involves discounting of cash flows, the interest rate applied may be prescribed by Indian GAAP and IRDA regulations or may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the income statement, initially by impairing PVIF and DAC and subsequently by establishing a technical reserve for the remaining loss

In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation, unless required under Indian GAAP and IRDA rules and regulation. Impairment losses resulting from liability adequacy testing can only be reversed if allowed under Indian GAAP and IRDA rules and regulation

Non-life insurance (which comprises general insurance and healthcare) contract liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the balance sheet date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money and includes provision of unearned premiums, unexpired risk and inadequate premium levels. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when the contract expires, is discharged or is cancelled.

The reserve for unearned premiums includes premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income.

At each reporting date, a liability adequacy test is performed as laid out under Indian GAAP. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the provision for outstanding claims. The provision for unexpired risk is increased to the extent that future claims in respect of current insurance contracts exceed future premiums plus the current unearned premium provision. *IFRS 4.15- 19*

2.15 Investment contract liabilities *IFRS 4.37(a)*

Investment contracts are classified between contracts with and without DPF. The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognised when contracts are entered into and premiums are charged. These liabilities are initially recognised at transaction price excluding any transaction costs directly attributable to the issue of the contract. *IAS 39.43*

Deposits and withdrawals are recorded directly as an adjustment to the liability in the balance sheet, known as deposit accounting.

Fees charged and investment income received are recognised in the income statement when earned.

Fair value adjustments are performed at each reporting date and are recognised in the income statement. Fair value is determined through the use of prospective discounted cash flow techniques. For unitised contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the balance sheet date. The fund assets and liabilities used to determine the unit-prices at the balance sheet date are valued on a basis consistent with their measurement basis in the consolidated balance sheet, adjusted to take account of the effect on the liabilities discounted for the time value of future tax on unrealised gains on assets in the fund.

Non-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modelling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value. *IAS 39.43*

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance contracts and the remaining element is accounted for as a deposit through the balance sheet as described above.

2.16 Unallocated divisible surplus

DPF is a contractual right that gives investors in these contracts the right to receive supplementary benefits which are based on the performance of the assets held within the DPF portfolio. The Company has the discretion over the amount and timing of the distribution of theses returns to policyholders. Unallocated returns by the end of the reporting period are held within liabilities as an unallocated divisible surplus.

2.17 Employee benefit obligations

The Company operates a defined contribution plan, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined contribution plan is determined separately using the projected unit credit valuation method. Actuarial gains and losses are recognised as income or expense in the reporting period *IAS 19.120A(b)* *IAS 19.64* *IAS 12.120A(a)* *IAS 19.92* *IAS 19.93*

Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognised immediately *IAS 19.96*

The defined contribution asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. *IAS 19.54* *IAS 19.58*

2.18 Classification of financial instruments between debt and equity *IAS 32.16*

A financial instrument is classified as debt if it has a contractual obligation to:
- deliver cash or another financial asset to another entity, or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

2.19 Borrowings

Borrowings and loans are initially recognised at fair value, net of issue costs and any discount or premium on settlement. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. *IAS 39.43* *IAS 39.47*

Borrowing costs are recognised as an expense when incurred. *IAS 23.9*

2.20 Other financial liabilities and insurance, trade and other payables *IAS 39.43, 47*

These items are recognised when due and measured on initial recognition at the fair value of the consideration received less transaction cost. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

2.21 Derecognition of financial liabilities and of insurance, trade and other payables

Financial liabilities and insurance, trade and other payables are derecognised when the obligation under the liability is discharged, cancelled or expired. *IAS 39.39*

When the existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement. *IAS 39.40*

2.22 Deferred revenue

Initial and other front-end fees received for rendering future investment management services relating to investment contracts without DPF, are deferred and recognised as revenue when the related services are rendered. *IAS 18 App 14(b)iii*

2.23 *Provisions*

General *IAS 37.14*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any associated amount recievable. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost. *IAS 37.14* *IAS 37.53* *IAS 37.54* *IAS 37. 45* *IAS 37. 47* *IAS 37.60*

Onerous contracts

With the exception of insurance contracts and investment contracts with DPF, for which potential future losses are already considered in establishing the liability, a provision is recognised for onerous contracts in which the unavoidable costs of meeting the resulting obligation exceed the expected future economic benefits. *IAS 37.68*

2.24 *Equity movements*

Ordinary share capital *IAS 32.35*

Ordinary shares issued by the Company are classified as equity.

Dividends on ordinary share capital

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. *IAS 10.12*

Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the balance sheet date are dealt with as an event after the balance sheet date. *IAS 10.13*

2.25 *Income Recognition*

(a) Premiums *IFRS 4.37(a)*

Written premiums for non life(general) insurance business comprise the premiums on contracts incepting in the financial year. Estimates are included for premiums not yet notified by the year end. Written premiums are stated gross of commissions payable to intermediaries and exclusive of taxes and duties levied on premiums.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on the basis of the estimated risk profile of the business written. *IRDA 21(2) (a) & (b)*

Premium (net of service tax) is recognised as income when due from policyholders. Premium on lapsed contracts are recognised on receipt basis. In respect of linked business, premium income is recognised when the associated units are allotted.

Amounts collected as premiums from investment contracts with no discretionary participating features are reported as deposites in the balance sheet as an investment contract liability. *IAS 39 43, BC 42(d)*

Ceded reinsurance recoveries are accounted for in the same period as the underlying claim.

(b) Fees and commission income *IFRS 4.37(a)*

Fee and Commission income consist primarily of investment contract fee income, reinsurance commission, asset management fees, poliyholder adminsitration fees and other contract fees. Front end fees on investment contract with no discretionary participating feature are recognised as income when investment management services are rendered over the estimated life of the contract. *IAS 18 App 14(b)iii*

Reinsurance commission receivable are recognised in the year in which they are due.

All other fees and commission income is recognised as the services are provided. *IAS 18.20*

(c) Investment income

Interest income is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Fees and commissions that are an integral part of the effective yield of the financial asset or liability are recognised as an adjustment to the effective interest rate of the instrument. *IAS 18.30(a)*

Investment income also includes dividends when the right to receive payment is established. For listed securities, this is the date the security is listed as ex dividend. *IAS 18.30(c)*

(d) Realised gains and losses

Realised gains and losses recorded in the income statement on investments include gains and losses on financial assets, other than those classified as at fair value through profit or loss and on investment properties. Gains and losses also include the ineffective portion of hedge transactions. Gains and losses on the sale of investments are calculated as the difference between net sales proceeds and the original or amortised cost and are recorded on occurrence of the sale transaction. *IAS 39.56 IAS 40.69 IAS 39.95(b)*

2.26 *Benefits, claims and expenses recognition*

Benefits and claims *IFRS 4.37(a)*

Gross benefits and claims consists of benefits and claims paid to policyholders, which includes excess payment for products for which deposit accounting is applied, as well as changes in the gross valuation of insurance and investment contract liabilities, except for gross changes in the unearned premium provision which are recorded in premium income. It further includes internal and external claims handling cost that are directly related to the processing and settlement of claims. Amounts receivable in respect of salvage and subrogation are also considered.

Death claims, surrenders and non-life insurance claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. In case of unit linked contracts surrender is recognised when associated units are cancelled.

2.27 Finance cost *IAS 23.9*

Interest paid is recognised in the income statement as it accrues and is calculated by using the effective interest rate method. Accrued interest is included within the carrying value of the interest bearing financial liability.

2.28 Commission

Acquisition cost, representing costs incurred for acquisition are expensed in the period in which they are incurred for insurance contracts.

2.29 Events after the balance sheet date *IAS 10.3*

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the balance sheet date. Events that are indicative of conditions that arose after the balance sheet date are disclosed, but do not result in an adjustment of the financial statements themselves.

2B Significant accounting judgments, estimates and assumptions

Judgments

In the process of applying Company's accounting policies, management has made the following judgments, apart from those involving estimations and assumptions, which has the most significant effect on the amounts recognised in the financial statements.

Operating Lease Commitments– Company as Lessor

The Company has entered into commercial property leases on its investment property portfolio. The Company has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases.

Operating Lease Commitments– Company as Lessee

The Company has entered into commercial property leases. The Company has determined that all the significant risks and rewards of ownership of these properties is with the lessor and so accounts for them as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Valuation of insurance contract liabilities and investment contract with DPF liabilities

Life insurance contract liabilities (including investment contract with DPF liabilities)

The liability for life insurance contracts is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect managements best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment returns, expenses, lapse and surrender rates and discount rates. The base mortality and morbidity tables on standard industry and national tables which reflect historical experiences, adjusted when appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experiences. For those contracts that insure risk to longevity, prudent allowance is made for expected future mortality improvements, but epidemics, as well as wide ranging changes to life style, could result in significant changes to the expected future mortality exposure.

Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expense are based on current expense levels, adjusted for expected expense inflation adjustments if appropriate.

Lapse and surrender rates depend on product features, policy duration and external circumstance, such as sale trends. Credible own experience is used in establishing these assumptions.

Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

The carrying value at the balance sheet date of life insurance contract liabilities is Rs XXXX (2011 Rs XXX) and of investment contracts with DPF liabilities is Rs XXXX (2011 Rs XXX).

Non-life insurance (which comprises general insurance and healthcare) contract liabilities

For non-life insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the balance sheet date and for the expected ultimate cost of claims incurred but not yet reported at the balance sheet date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the balance sheet liability. The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types.

Large claims are usually separately addressed, either by being reserved at the face value of loss adjustor estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss rations. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based. Additional qualitative judgment is used to assess the extent to which past trends may not apply in future, (for example to reflect one-off occurrences, changes in external or maker factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. A margin for adverse deviation may also be included in the liability valuation.

(b) Valuation of investment contract without DPF liabilities

Unitised investment contract fair values are determined by reference to the values of the assets backing the liabilities, which are based on the value of the unit-linked funds.

Non-unitised investment contract fair values are determined by using valuation techniques, such as discounted cash flow methods and stochastic modelling. A variety of factors are considered in these valuation techniques, including time value of money, volatility, policyholder behaviour, servicing cost and fair values of similar instruments.

(c) Fair value of financial assets and derivative financial instruments determining using valuation techniques

Fair value, in the absence of an active market, is estimated by using valuation techniques, such as recent arm's length transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flow analysis and/or option pricing model. For reference to similar instruments, instruments must have similar credit ratings.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk.

Option pricing models incorporate all factors that market participants would consider and are based on observable market data when available. These models consider, among other factors, contractual and market prices, correlation, time value of money, credit risk, yield curve volatility factors and/or prepayment rates of the underlying positions.

The valuation techniques described above are calibrated annually.

(d) Goodwill impairment testing

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which goodwill is allocated.

The recoverable amount for the life insurance business has been determined based on a fair value calculation. The calculation requires the Company to make an estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business. This is calculated in accordance with the embedded value principles. New business contribution represents the present value of projected future distributable profits generated from business written in a period. Growth and discount rates used are suitable rates which reflect the risks of the underlying cash flows. The recoverable amount for the life insurance business has been determined based on a fair value calculation. The calculation requires the Company to make an estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business. This is calculated in accordance with the embedded value principles. New business contribution represents the present value of projected future distributable profits generated from business written in a period. Growth and discount rates used are suitable rates which reflect the risks of the underlyin

2C Future changes in accounting policies

IFRIC interpretations not yet effective

IFRIC XXX issued in XXX, and becomes effective for financial years beginning on or after XXX. This interpretation establishes that -- ---------- The Company is still evaluating the effect of this interpretation and expect that adoption of this interpretation will have no / -- -------- impact on the Company's financial statements when implemented in XXXX.

IFRS standards not yet effective

IFRS XXX issued in XXX, and becomes effective for financial years beginning on or after XXX. This interpretation establishes that --- ---------- The Company is still evaluating the effect of this interpretation and expect that adoption of this interpretation will have no / -- ------- impact on the Company's financial statements when implemented in XXXX.

3 Segment information

(a) Basis of segmentation

The Company operates in three principal areas of business providing life Insurance, non-life insurance (which comprises general insurance and healthcare), and investment management services to its customers through its three subsidiaries, Good Life Insurance Limited, Good Non-Life Insurance Limited and Good Investment Management Services Limited, collectively called "the Group", which are also incorporated in Euroland. Through its life insurance business, the Group offers a wide range of whole life, term assurance, unitised pensions, guaranteed pensions, pure endowment pensions and mortgage endowments. Non-life general insurance products offered include motor, household, commercial and business interruption insurance. Non-life healthcare contracts provide medical cover to policyholders. Investment management services are provided to policyholders through the investment management services business.

Segment results, assets and liabilities include items directly attributable to a segment as well as those items that can be allocated on a reasonable basis.
Capital expenditure includes cash incurred on property and equipment, investment properties and intangible assets.

No inter-segment transaction occurred during 2010 and 2011. If any transaction were to occur, transfer prices between business segments are set on an arm's length basis in a manner similar to transaction with third parties. Segment income, expense and results will then include those transfers between business segments, which will then be eliminated on consolidation.

Primary segment – Business segments

At 31 March 2012, the Company's operating businesses are managed and reported separately according to the nature of products and services offered, with each segment representing a strategic business unit that offers varying products and serves different markets. This is the basis on which the Company reports its primary segment information. Based on the integrated business model, the Group is organised into three principal areas of business: life insurance, non-life insurance (which comprises general insurance and healthcare) and investment management services (which do sell investment contracts with DPF).

Secondary segment – Geographical segments

For management purposes, the Company is organised on a geographical basis of regions. This is the basis on which the Company reports its secondary segment information.
It is the Company's policy that business will be conducted by the relevant business unit situated in the same geographical area as the policyholder. Segment income is based on the geographical location of the policyholder. Segment assets and capital expenditure are based on the geographical location of the assets. There are however no significant differences between the geographical locations of the insurance operations with the related policyholder and the geographical location of the assets backing such insurance operations.
The Company has not made any changes to either its primary or secondary segments from the prior year.

Commentary

Mumbai Insurance Limited regards its business segments as its primary reporting segments and its geographical segments as its secondary reporting segments. If an entity uses geographical segments as its primary reporting segments and the business segments as its secondary reporting segments, additional information is required to be disclosed for its business segments.

(b) **Business segment information**

Segment balance sheet at 31 December 2012 (Rs Lacs)

Particulars	Participating Life						Non-Participating Life								Investment services		Non Life		Grand Total
	Linked		Non Linked		Pensions		Linked		Non Linked		Health		Pensions				Individual	Group	
	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group			
Investment in an associate	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Financial assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Segment assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated assets																			XX
Total Assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Insurance contract liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Investment contract liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated divisible surplus	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net asset value attributable to unit-holders	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Segment liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated liabilities																			XX
Total liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other segment information																			
Non-cash income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Capital expenditure	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Depreciation	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Amortisation	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Impairment charges	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Commentary																			
Non-life insurance business includes healthcare products which provide medical cover to policyholders.																			

Segment balance sheet at 31 December 2011

(Rs Lacs)

Particulars	Participating Life						Non-Participating Life								Investment services		Non Life		Grand Total
	Linked		Non Linked		Pensions		Linked		Non Linked		Health		Pensions						
	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individua	Group	
Investment in an associate	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Financial assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Segment assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated assets				XX															
Total Assets	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Insurance contract liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Investment contract liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated divisible surplus	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net asset value attributable to unit-hold	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Segment liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Unallocated liabilities				XX															
Total liabilities	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other segment information																			
Non-cash income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Capital expenditure	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Depreciation	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Amortisation	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Impairment charges	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX

Segment income statement for the year end 31 March 2012

(Rs Lacs)

	Participating Life						Non-Participating Life								Investment services		Non Life		Grand Total
	Linked		Non Linked		Pensions		Linked		Non Linked		Health		Pensions						
	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individua	Group	
Gross premiums	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Reinsurers' share of gross premiums	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net premiums	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Fees and commission income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Investment income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other revenue	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment income	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Gross benefits and claims paid	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Reinsurers' share of gross benefits and	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Gross change in contract liabilities	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Reinsurers' share of gross change in c	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net benefits and claims	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Finance costs	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Profit attributable to unit-holders	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Other operating and administrative exp	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Other expenses	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment benefits, claims and expenses	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment results	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Unallocated operating and administrative expenses																			(XX)
Share of associate's profit	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Profit before tax																			XX
Income tax expense																			(XX)
Profit for the year																			**XX**

Segment income statement for the year end 31 December 2008

(Rs Lacs)

	Participating Life						Non-Participating Life								Investment services		Non Life		Grand Total
	Linked		Non Linked		Pensions		Linked		Non Linked		Health		Pensions						
	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	Individual	Group	
Gross premiums	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Reinsurers' share of gross premiums	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net premiums	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Fees and commission income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Investment income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other income	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Other revenue	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment income	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Gross benefits and claims paid	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Reinsurers' share of gross benefits and	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Gross change in contract liabilities	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Reinsurers' share of gross change in c	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Net benefits and claims	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Finance costs	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Profit attributable to unit-holders	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Other operating and administrative exp	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Other expenses	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment benefits, claims and expenses	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Segment results	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**	**XX**
Unallocated operating and administrative expenses																			(XX)
Share of associate's profit	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX	XX
Profit before tax																			XX
Income tax expense																			(XX)
Profit for the year																			XX

(c) Geographical segment information

Year ended 31 December 2012

	East Zone	West Zone	South Zone	North Zone	Total	
Total assets	XX	XX	XX	XX	**XX**	\S 14.69(b)
Total income	XX	XX	XX	XX	**XX**	\S 14.69(a)
Capital expenditure	XX	XX	XX	XX	**XX**	\S 14.69(c)
Cash flows – Operating activities	XX	XX	XX	XX	**XX**	AS 7.50(d)
Cash flows – Investing activities	(XX)	(XX)	(XX)	(XX)	**(XX)**	AS 7.50(d)
Cash flows – Financing activities	(XX)	(XX)	(XX)	(XX)	**(XX)**	AS 7.50(d)

Year ended 31 December 2011

	East Zone	West Zone	South Zone	North Zone	Total	
Total assets	XX	XX	XX	XX	**XX**	\S 14.69(b)
Total income	XX	XX	XX	XX	**XX**	\S 14.69(a)
Capital expenditure	XX	XX	XX	XX	**XX**	\S 14.69(c)
Cash flows – Operating activities	XX	XX	XX	XX	**XX**	AS 7.50(d)
Cash flows – Investing activities	(XX)	(XX)	(XX)	(XX)	**(XX)**	AS 7.50(d)
Cash flows – Financing activities	(XX)	(XX)	(XX)	(XX)	**(XX)**	AS 7.50(d)

Commentary
Non-life insurance business includes healthcare products which provide medical cover to policyholders.

Notes to the financial statements

4 Goodwill and intangible assets including intangible insurance assets

(Rs. Lacs)

Particulars	Notes	Goodwill	PVIF	Future Servicing	Computer Software	Others	Total	IFRS Reference
Cost								
At 1 April 2010		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
		XX	XX	XX	XX	XX	XX	
Cost capitalised								IAS38.p118(e)i, IFRS4.p37(e)
At 31 March 2011		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
		XX	XX	XX	XX	XX	XX	
Cost capitalised								IAS38.p118(e)i, IFRS4.p37(e)
At 31 March 2012		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
Accumulated amortisation and Impairment								
At 1 April 2010		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
Amortisation	35	XX	XX	XX	XX	XX	XX	IAS38.p118(e)vi
Impairment loss	35	XX	XX	XX	XX	XX	XX	IAS38.p118(e)iv
Foreign Exchange adjustment		XX	XX	XX	XX	XX	XX	IAS38.p118(e)vii
At 31 March 2011		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
Amortisation	35	XX	XX	XX	XX	XX	XX	IAS38.p118(e)vi
Impairment loss	35	XX	XX	XX	XX	XX	XX	IAS38.p118(e)iv
Foreign Exchange adjustment		XX	XX	XX	XX	XX	XX	IAS38.p118(e)vii
At 31 March 2012		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
Carrying Amount								
At 31 March 2011		XX	XX	XX	XX	XX	XX	IAS38.p118(c)
At 31 March 2012		XX	XX	XX	XX	XX	XX	IAS38.p118(c)

Goodwill has been allocated to the individual cash-generating units which are based on the three primary segments of the Company; life insurance, non-life insurance (which comprises general insurance and healthcare) and investment management services. The carrying amount of goodwill allocated to each of the cash-generating

IAS36.p134

(Rs. Lacs)

Particulars	Life Insurance	Non-Life Insurance	Investment Management Services	Total
Current Year				
Previous Year				

IAS36.p134(a)

The recoverable amount for the life Insurance business has been determined based on ***value in use/ fair value less cost to sale*** . An estimate of the total of the adjusted net worth of the life insurance business plus the value of in-force covered business is calculated in accordance with the embedded value principles.

IAS36.p134(c)

The recoverable amount of the non-life and investment management services businesses have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a 5 year period. A pre-tax, Company specific risk adjusted discount rate of __% (PY: ___%) is used. The projected cash flows beyond the five years have been extrapolated using a steady average growth rate of ___% (PY: ___%) not exceeding the long-term average growth rate for the market in which the units operate. The projected cash flows are determined by budgeted margins based on past performances and management expectations for market developments.

IAS36.p134(d)

5 *Investment in an associate*

IFRS Reference

The Company has a XX% interest in --------, which is involved in the insurance of ------. The entity is a private / public entity that is listed / not listed on any public exchange. As a result there is no published / published quotation price for the fair value of this investment. The reporting date and reporting year of ------ Limited coincides with the Company and both use consistent accounting policies. *IAS 28.26*

The investment in ------ Limited is as follows *IAS 28.37(b)*

(Rs Lacs)

Particulars	Current Year	Previous Year
Share of associate's balance sheet		
Current assets	XX	XX
Non-current assets	XX	XX
Current liabilities	XX	XX
Non-current liabilities	XX	XX
Net assets	XX	XX
Share of associate's revenue and profit		
Revenue	XX	XX
Profit	XX	XX
Carrying amount of investment in an associate		

Management do not have any intention to dispose of the investment within the near future. *IAS 1.52*

IFRS 7.25, .29

The directors' valuation at balance sheet date for the investment in an associate is Rs. _____ (PY: Rs._____).

6 Property and Equipment

Particulars	Notes	Land	Buildings	Vehicles	Furniture and Fitting	Office Equipment	Others	Capital Work in progress	Total	IFRS Reference
Cost										*IAS 16.73(d)*
At 1 April 2010		XX	XX	XX	XX	XX	XX	XX	XX	
Additions		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)i*
Disposals		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)ii*
At 31 March 2011		XX	XX	XX	XX	XX	XX	XX	XX	
Additions		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)i*
Disposals		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)ii*
At 31 March 2012		XX	XX	XX	XX	XX	XX	XX	XX	
Accumulated amortisation and Impairment										*IAS 16.73(d)*
At 1 April 2010		XX	XX	XX	XX	XX	XX	XX	XX	
Amortisation	*35*	XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)vii*
Impairment loss	*35*	XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)v*
Disposal		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)ii*
Foreign Exchange adjustment		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)viii*
At 31 March 2011		XX	XX	XX	XX	XX	XX	XX	XX	
Amortisation	*35*	XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)vii*
Impairment loss	*35*	XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)v*
Disposal		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)ii*
Foreign Exchange adjustment		XX	XX	XX	XX	XX	XX	XX	XX	*IAS 16.73(e)viii*
At 31 March 2012		XX	XX	XX	XX	XX	XX	XX	XX	
Carrying Amount										*IAS 16.73(d)*
At 31 March 2011		XX	XX	XX	XX	XX	XX	XX	XX	
At 31 March 2012		XX	XX	XX	XX	XX	XX	XX	XX	

7 Investment Properties

	Schedule No.	(Rs. Lacs) Current Year	Previous Year	IFRS Reference
Opening net book amount		XX	XX	*IAS 40.76*
Additions and capital improvements		XX	XX	*IAS 40.76(a)*
Disposal		XX	XX	*IAS 40.76(c)*
Impairment loss*		XX	XX	*IAS 40.79(c)*
Fair Value Gain	32	XX	XX	*IAS 40.76(d)*
Foreign Currency translation effects		XX	XX	*IAS 40.76(e)*
Closing net book amount		XX	XX	*IAS 40.76*

Investment properties are stated at fair value, which has been determined based on valuations performed by experts as at XXX. Experts (Company name) is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with standards issued by the International Valuation Standards Committee. Valuations are performed on an annual basis and the fair value gains and losses are recorded within the income statement. *IAS 40.75(d) & (e)*

The Company enters into operating leases for all of its investment properties. The rental income arising during the year amounted to ***Rs.*** _____ ***(PY: Rs.*** _____***),*** which is included in investment income, refer to ***Schedule 30*** . Direct operating expenses (included within operating and administrative expenses) arising in respect of such properties during the year amounted to ***Rs.***_____ ***(PY: Rs.***_____***)*** , refer to ***Schedule 35*** . Future lease receivables are disclosed in Note *IAS 40.75(f)*

Note
The company can follow the cost model or the fair value model
**** Impairment loss will be applicable in the cost model***

8 Derivative financial instruments

The Company purchases derivative financial instruments to match the liabilities arising on insurance contracts and unit-linked investment products that it sells and to enter into cash flow and fair value hedges.

The fair value of derivative financial instruments at balance sheet date is as follows. *IFRS 7.25,*

Rs. lacs

Particulars	*Schedule No.*	Current Year		Previous Year	
		Financial assets fair value	Financial liabilities fair value	Financial assets fair value	Financial liabilities fair value
Derivative financial instruments held for trading		XX	XX	XX	XX
Designated as hedges		XX	XX	XX	XX
Cash flow hedges		XX	XX	XX	XX
Fair value hedges		XX	XX	XX	XX
Total designated as hedges		XX	XX	XX	XX
Total derivative financial instruments		XX	XX	XX	XX

(a) **Derivative financial instruments held for trading**

A variety of equity futures are part of the portfolio matching insurance liabilities and unit-linked investment liabilities

The Group has also purchased interest rate swap contracts to match the expected liability duration of fixed and guaranteed insurance and investment contracts, to swap floating rates of the backing assets to the fixed rates required to match the interest cash flows over the mean duration of the related insurance and investment contracts.

The fair value of derivative financial instruments held for trading at balance sheet date is as follows. *IFRS 7.25, IFRS 7.29*

Current Year

Rs. lacs

	Notional amount	**Financial assets fair value**	**Financial liabilities fair value**
Equity / index contracts			
Exchange traded options	XX	XX	XX
Interest rate contracts			
OTC swaps	XX	XX	XX
Total derivative financial instruments held for trading	XX	XX	XX

Previous Year

	Notional amount	**Financial assets fair value**	**Financial liabilities fair value**
Equity / index contracts			
Exchange traded options	XX	XX	XX
Interest rate contracts			
OTC swaps	XX	XX	XX
Total derivative financial instruments held for trading	**XX**	**XX**	**XX**

(b) Cash flow hedges *IFRS 7.22(a)*

The Group hedges interest rate risk and exchange risk on certain variable interest rate investments using forward exchange contracts *IFRS 7.22 (b), (c)*

The fair value of cash flow hedges at balance sheet date is as follows. *IFRS 7.22(b)*

Current Year Rs. lacs

	Notional amount	Financial assets fair value	Financial liabilities fair value
Foreign Exchange Contract			
OTC Forward	XX	XX	XX
Total cash flow hedge	XX	XX	XX

Previous Year Rs. lacs

	Notional amount	Financial assets fair value	Financial liabilities fair value
Foreign Exchange Contract			
OTC Forward	XX	XX	XX
Total cash flow hedge	XX	XX	XX

The gain or loss on the realisation of the foreign exchange contract at 31 March 2012 will be released to the income statement at 31 August 2012 when the underlying hedge transaction will be completed. *IFRS 7.23(a)*

The term of the cash flow hedge exactly matches the term of the underlying hedged item. *IFRS 7.22(b)*

(c) Fair value hedges

The Group hedges interest rate risk and exchange rate risk on certain fixed interest rate investments using swaps, exchange traded futures and other forward exchange contracts. *IFRS 7.22(b), IFRS 7.22(c)*

The fair value of fair value hedges at balance sheet date is as follows. *IFRS 7.22(b)*

Current Year Rs. lacs

	Notional amount	Financial assets fair value	Financial liabilities fair value
Interest rate contracts			
OTC swaps	XX	XX	XX
Total Interest rate contracts	**XX**	**XX**	**XX**
Foreign Exchange Contract			
Exchange traded futures	XX	XX	XX
OTC Forward	XX	XX	XX
Total Foreign Exchange Contract	**XX**	**XX**	**XX**
Total fair value hedges	XX	XX	XX

Previous Year Rs. lacs

	Notional amount	Financial assets fair value	Financial liabilities fair value
Interest rate contracts			
OTC swaps	XX	XX	XX
Total Interest rate contracts	**XX**	**XX**	**XX**
Foreign Exchange Contract			
Exchange traded futures	XX	XX	XX
OTC Forward	XX	XX	XX
Total Foreign Exchange Contract	**XX**	**XX**	**XX**
Total fair value hedges	**XX**	**XX**	**XX**

The terms of the fair value hedges exactly match the terms of the underlying hedged items. *IFRS 7.22(b)*

Notes to the financial statements *Reference*

9 Financial assets other than derivative financial instrument

The groups financial assets other than derivative financial instruments are summarised by measurement categories as follows

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year
Financial assets at fair value through profit or los		XX	XX
Held to maturity financial asset		XX	XX
Loans and other receivables		XX	XX
Available for sale financial asse		XX	XX
Total financial assets other than derivative financial instrument		XX	XX

Commentary

IFRS 7 requires disclosure of certain information per class of financial instruments and certain information per the IAS 3 categories for financial assets. Category disclosures are made for main asset lines on the face of the balance sheet and class disclosures have been based on the characteristics of the financial assets.

(a) Financial assets at fair value thorugh profit and los

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year	
Fair value				
Equity securities				
Listed		XX	XX	*IFRS 7.27(a)*
Unlisted		XX	XX	*IFRS 7.27(b)*
Total equity securities at fair value		**XX**	**XX**	
Debt securites				
Listed		XX	XX	*IFRS 7.27(a)*
Unlisted		XX	XX	*IFRS 7.27(b)*
Total debt securities at fair valu		**XX**	**XX**	
Unlisted mutual funds		XX	XX	*IFRS 7.27(b)*
Unlisted deposits with credit institution		XX	XX	*IFRS 7.27(b)*
Total financial assets at fair value through profit or loss		XX	XX	*IFRS 7.25*

The fair value adjustment recognised in the income statement during the year for the unlisted financial assets at fair value through profit or loss estimated using a valuation technique is Rs._____ (PY: RS._____). *IFRS 7.27(d)*

The table below indicates the fair value of financial assets at fair value through profit or loss, split between those classified as held for trading and those designated as such upon initial recognition.

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year	
Held for trading purposes		XX	XX	*IFRS 7.8(a)(ii)*
Designated upon initial recognition		XX	XX	*IFRS 7.8(a)(i)*
Total financial assets at fair value through profit or loss		**XX**	**XX**	

(b) Held to maturity financial asset

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year	
Amortised cost				
Debt securites				
Listed		XX	XX	*IFRS 7.27(a)*
Unlisted		XX	XX	*IFRS 7.27(b)*
Total held to maturity financial assets at amortised cost		**XX**	**XX**	

Fair value			
Debt securites			
Listed	XX	XX	*IFRS 7.27(a)*
Unlisted	XX	XX	*IFRS 7.27(b)*
Total held to maturity financial assets at fair value	**XX**	**XX**	

(c) Loan and other receivables

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year	
Loans to related parties	***44(b)***	XX	XX	
Receivables from related parties	***44(b)***	XX	XX	
Other receivables		XX	XX	
Total loans and other receivables		XX	XX	*IFRS 7.25*

The carrying amount disclosed above reasonably approximate fair value at each balance sheet da *IFRS 7.29*

(d) Available for sale financial asset

Rs. lacs

Particulars	Schedule No.	Current Year	Previous Year	
Fair value				
Equity securities				
Listed		XX	XX	*IFRS 7.27(a)*
Unlisted		XX	XX	*IFRS 7.27(b)*
Total equity securites at fair value		**XX**	**XX**	
Debt securites				
Listed		XX	XX	*IFRS 7.27(a)*
Unlisted		XX	XX	*IFRS 7.27(b)*
Total debt securites at fair value		**XX**	**XX**	
Total available for sale financial assets		**XX**	**XX**	*IFRS 7.25*

(e) Carrying value of financial assets other than derivative financial instrumen

Rs. lacs

Particulars	Fair value through profit or loss	Held to maturity	Loans and receivables	Available for sale	Total	
At 1 April 2010	XX	XX	XX	XX	XX	
Additions/ Issuing	XX	XX	XX	XX	XX	
Maturities/ Redemptions	XX	XX	XX	XX	XX	
Disposals	XX	XX	XX	XX	XX	
Fair value gains recorded in the Income statemen	XX	XX	XX	XX	XX	*IFRS 7.20(a)*
Fair value gains recorded in statement of changes in equit	XX	XX	XX	XX	XX	*IFRS 7.20(a)*
Amortisation adjustment	XX	XX	XX	XX	XX	*IFRS 7.20(b)*
Foreign exchange adjustments	XX	XX	XX	XX	XX	*IAS 21.28*
At 31 March 2011	XX	XX	XX	XX	XX	
Additions/ Issuing	XX	XX	XX	XX	XX	
Maturities/ Redemptions	XX	XX	XX	XX	XX	
Disposals	XX	XX	XX	XX	XX	
Fair value gains recorded in the Income statemen	XX	XX	XX	XX	XX	*IFRS 7.20(a)*
Fair value gains recorded in statement of changes in equit	XX	XX	XX	XX	XX	*IFRS 7.20(a)*
Amortisation adjustment	XX	XX	XX	XX	XX	*IFRS 7.20(b)*
Foreign exchange adjustments	XX	XX	XX	XX	XX	*IAS 21.28*
At 31 March 2012	**XX**	**XX**	**XX**	**XX**	**XX**	

The carrying amount of financial assets pledged as collateral for liabilities or contingent liabilities is Rs…….. Lacs

10 *Reinsurance assets* **(Rs lacs)**

Particulars	*Schedule No.*	Current Year	Previous Year	IFRS Reference
Reinsurers share of insurance contracts	*16*	XX	XX	
Reinsurers share of investment contracts	*17*	XX	XX	
Total reinsurance assets		XX	XX	

The carrying amount disclosed above reasonably approximate fair value at each balance sheet date *IFRS 7.25, IFRS 7.29*

During the year, the Company has entered into reinsurance arrangements which resulted in profits of ***Rs_____ , (PY: Rs_____)*** . This profit has been reflected in the income statement for the year. *IFRS 4.37 (b)(i)*

Notes to the financial statements

IFRS Reference

11 Taxation

(a) Tax receivable* *IAS 12.81(g)(i)*

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	
At 1 April		XX	XX	
Amounts recorded in the Income statement	*37(c)*	XX	XX	
Movements in the deferred tax liability		XX	XX	
Payments made during the year		XX	XX	*IAS 7.35*
At 31 March		XX	XX	
The carrying amount disclosed above reasonably approximate fair value at each balance sheet date		XX	XX	*IFRS 7.25, IFRS 7.29*

(b) Deferred tax liability *IAS 12.81(g)(i)*

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year
Losses carried forward		XX	XX
Provisions and other timing difference		XX	XX
Impairment of Assets		XX	XX
Other		XX	XX
Insurance related items		XX	XX
Net unrealised gains on investment securities		XX	XX
Deferred expenses		XX	XX
Accelerated capital allowances		XX	XX
Total deferred tax liability		XX	XX
At 1 April 2010		XX	XX
Amounts recorded in the Income statement		XX	XX
Amounts recorded in equity		XX	XX
Foreign exchange adjustments		XX	XX
At 31 March 2011		XX	XX

Expected recovery or settlement of the deferred tax liability as follows *IAS 1.61*

Current*		XX	XX
Non Current		XX	XX
Total deferred tax liability		XX	XX

* Expected recovery or settlement within 12 months from the balance sheet date.

A deferred tax asset is recognised for a tax loss carry forward only to the extent that realisation of the related tax *IAS 12.81(e)*

A deferred tax asset has not been recognised in respect of a tax loss carry forward of Rs. ____ (PY: Rs. ____) and accelerated capital allowances of Rs. ____ (PY: Rs. ____) , as there is insufficient certainty as to the availability of future profits. These amounts include tax losses of Rs. ____ (PY: Rs. ____) due to expire in 2013 (2011: 2012). *IAS 12.81(e)*

In addition, the Company has an unrecognised deferred tax asset in respect of a capital loss of Rs.____ (PY: Rs._____) which can only be offset against future capital gains and has not been recognised in these financial statements. This tax loss has no expiry date. *IAS 12.81(e)*

A deferred tax liability has not been recognised in respect of the investment in subsidiaries and the associate. *IAS 12.81(e)*

Note

****If tax payable the same will be classified on the liabilities side***

12 Insurance receivable *IFRS 4.37(b)*

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
Due from policyholders		XX	XX
Due from reinusrers'		XX	XX
Due from agents, brokers and intermediaries		XX	XX
Total Insurance receivables		XX	XX

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

13 Deferred Expenses *IFRS 4.37(b) & (e), IAS 18App14(b)(iii)*

(Rs. Lacs)

Particulars	*Schedule No.*	Investment Management Services Investment Contracts without DPF
At 1 April 2010		XX
Expenses deferred		XX
Amortisation		XX
Foreign Exchange Adjustment		XX
At 31 March 2011		XX
Expenses deferred		XX
Amortisation		XX
Foreign Exchange Adjustment		XX
At 31 March 2012		XX

Reference

Notes to the financial statements

14 Prepayments and accrued Income

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
Prepayments			
Other prepayments		XX	XX
Total prepayments		XX	XX
Accrued Income			
Dividends		XX	XX
Interest		XX	XX
Rent		XX	XX
Total Accrued Income		XX	XX
Total Prepayments and accrued income		XX	XX

Reference

Notes to the financial statements

15 Cash and cash equivalents

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
Cash at bank		XX	XX
Short term deposits (including demand and time deposits)		XX	XX
Total cash and cash equivalents		XX	XX

Short-term deposits are made for varying periods of between one day and three months depending in the immediate cash requirements of the Group. All deposits are subject to an average variable interest rate of ___% (PY: __%). *IAS 1.66*

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25,*

The cash and cash equivalents position for cash flow purposes, net of the bank overdraft, refer to Schedule No 21, is (Rs _____) at balance sheet date (PY: Rs ____). *IAS 7.8*

16 Insurance Contract liabilities **Rs. lacs** *IFRS 4.37(b)*

Particulars	*Schedule No.*	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
Life Insurance Contracts	*16(a)*	XX	XX	XX	XX	XX	XX
Non Life Insurance Contracts	*16(b)*	XX	XX	XX	XX	XX	XX
Total Insurance Contract liabilities		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**

Commentary
There is a Company policy to enter into reinsurance agreements in order to mitigate insurance risk. Although positions are managed on a net basis by management, insurance disclosures have been made on both a gross and net basis in order to provide a comprehensive set of disclosures. In some instances, recognised realised and/or unrealised gains or losses on investments have a direct effect on the measurement of the related insurance assets and liabilities. For example; recognised realised and/or unrealised gains or losses on available-for-sale investments can lead to the release of PVIF or DAC and can also affect the outcome of the liability adequacy test to the extent that it considers actual future investment returns. IFRS 4.30 permits 'shadow accounting' to be applied in such instances, to permit the impact of realising such unrealised gains or losses on the related insurance assets and liabilities to be recognised in a consistent manner with the recognition of the unrealised gains or losses on the financial assets, (ie in the income statement or in the statement of changes in equity).

(a) Life Insurance Contract liabilities *IFRS 4.37(e)*

Rs. lacs

Particulars	*Schedule No.*	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 April 2010		XX	XX	XX	XX	XX	XX
Premiums received	*28*	XX	XX	XX	XX	XX	XX
Liabilities paid for death maturities, surrenders, benefits and cla	*33*	XX	XX	XX	XX	XX	XX
Benefits and claims experience variation		XX	XX	XX	XX	XX	XX
Fees deducted		XX	XX	XX	XX	XX	XX
Accretion of investment income or change in unit prices		XX	XX	XX	XX	XX	XX
Adjustment due to changes in assumptions							*IFRS 4.37(d)*
Mortality/ morbidity		XX	XX	XX	XX	XX	XX
longevity		XX	XX	XX	XX	XX	XX
Investment return		XX	XX	XX	XX	XX	XX
Expense		XX	XX	XX	XX	XX	XX
Lapse and surrender rates		XX	XX	XX	XX	XX	XX
Discount rate		XX	XX	XX	XX	XX	XX
Unallocated divisible surplus adjustment	*18*	XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 March 2011		XX	XX	XX	XX	XX	XX

It should be noted, that changes in some of the above mentioned assumptions will largely be offset by corresponding changes in the assets backing the liabilities.

For reinsurance assets, refer to Schedule 10.

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

(b) Non-life insurance (which comprises general insurance and healthcare) contract liabilities

(Rs. Lacs)

Particulars	Schedule No.	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
Provision for claims reported by policyholders		XX	XX	XX	XX	XX	XX
Provision for claims IBNR by policyholders		XX	XX	XX	XX	XX	XX
Outstanding claim provision	*40*						
Provision for unearned premiums		XX	XX	XX	XX	XX	XX
Provision for unexpired risk		XX	XX	XX	XX	XX	XX
Total non life insurance contract liabilities							

For reinsurance assets, refer to Schedule 10.

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

(1) Outstanding claims provision *IFRS 4.37(e)*

(Rs. Lacs)

Particulars	Schedule No.	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		XX	XX	XX	XX	XX	XX
Claims incurred in the current accident year		XX	XX	XX	XX	XX	XX
Movement in claims incurred in prior accident years		XX	XX	XX	XX	XX	XX
Adjustment to claims incurred in prior accident years due to changes in assumptions							*IFRS 4.37(d)*
Average claim cost		XX	XX	XX	XX	XX	XX
Average number of claims		XX	XX	XX	XX	XX	XX
Average claim settlement period		XX	XX	XX	XX	XX	XX
Claims paid during the year		XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 December		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**

Commentary
The Group's non-life insurance outstanding claims provision includes claims incurred but not reported (IBNR). An alternative disclosure option would be to show the IBNR provision separately.

(2) Provision for unearned premiums *IFRS 4.37(e)*

(Rs. Lacs)

Particulars	Schedule No.	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		XX	XX	XX	XX	XX	XX
Premiums written in the year	*28*	XX	XX	XX	XX	XX	XX
Premiums earned during the year		XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 December		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**

(3) Provision for unexpired risk *IFRS 4.37(e)*

(Rs. Lacs)

Particulars	*Schedule No.*	Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		XX	XX	XX	XX	XX	XX
Incurred during the year		XX	XX	XX	XX	XX	XX
Utilised during the year		XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 December		**XX**	**XX**	**XX**	**XX**	**XX**	**XX**

17 Investment contract liabilities

Rs. lacs

Particulars	Schedule No.	Current Year			Previous Year		
		Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
Investment contract liabilities with DPF	*16(a)*	XX	XX	XX	XX	XX	XX
Investment contract liabilities without DPF	*16(b)*	XX	XX	XX	XX	XX	XX
Total investment contract liabilities		XX	XX	XX	XX	XX	XX

For reinsurance assets, refer to Schedule No 10.

(a) Investment contract liabilities with DPF *IFRS 4.37(e)*

Rs. lacs

Particulars	Schedule No.	Current Year			Previous Year		
		Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		XX	XX	XX	XX	XX	XX
Premiums received	*28*	XX	XX	XX	XX	XX	XX
Liability assumed for benefits	*33*	XX	XX	XX	XX	XX	XX
Fees deducted		XX	XX	XX	XX	XX	XX
Accretion of investment income		XX	XX	XX	XX	XX	XX
Adjustment due to changes in assumptions							*IFRS 4.37(d)*
Mortality/morbidity		XX	XX	XX	XX	XX	XX
Longevity		XX	XX	XX	XX	XX	XX
Investment return		XX	XX	XX	XX	XX	XX
Expense		XX	XX	XX	XX	XX	XX
Lapse and surrender rates		XX	XX	XX	XX	XX	XX
Discount rate		XX	XX	XX	XX	XX	XX
Unallocated divisible surplus adjustment	*18*	XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 December		XX	XX	XX	XX	XX	XX

Investment contracts with DPF liabilities above represent the guaranteed benefits attributable to these policyholders. In addition, these contracts have a contractual right to share in the unallocated divisional surplus as disclosed in Schedule No 18.

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25,*

(b) Investment contract liabilities without DPF liabilities *IFRS 4.37(e)*

Rs. lacs

Particulars	Schedule No.	Current Year			Previous Year		
		Insurance Contract liabilities	Reinsurers' share of liabilities	Net	Insurance Contract liabilities	Reinsurers' share of liabilities	Net
At 1 January		XX	XX	XX	XX	XX	XX
Deposits		XX	XX	XX	XX	XX	XX
Withdrawals		XX	XX	XX	XX	XX	XX
Fees deducted		XX	XX	XX	XX	XX	XX
Accretion of investment income		XX	XX	XX	XX	XX	XX
Investments fair value adjustment		XX	XX	XX	XX	XX	XX
Foreign exchange adjustment		XX	XX	XX	XX	XX	XX
At 31 December		XX	XX	XX	XX	XX	XX

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

18 Unallocated Divisible Surplus *IFRS 4.35, IFRS 4.37(b)*

The movement during the year in the unallocated divisible surplus is as follows

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
At 1 April 2010		XX	XX
Increase in insurance contract liabilities with DPF	*16(a)*	XX	XX
Increase in reinsurers' share of insurance contract liabilities with DPF	*16(a)*	XX	XX
Increase in investment contract liabilities with DPF	*17(a)*	XX	XX
Increase in reinsurers' share of investment contracts liabilities with DPF	*17(a)*	XX	XX
Unallocated investment returns		XX	XX
Bonuses attributable to shareholders		XX	XX
At 31 March 2011		XX	XX

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

19 Net asset value attributable to unit holders

Reference

Unit-trusts in which the Company has a percentage holding of 50% have been consolidated. The units not owned by the Company are treated as a liability and amount to Rs_____ lacs (2011: Rs._____ lacs). Profit attributable to unit-holders amounts to Rs_____ lacs (2011:Rs_____ lacs).

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. ***IFRS 7.25, 29***

Notes to the financial statements *Reference*

20 Employee benefit

a Defined contribution plan

Provident Fund
During the year, the Company has recognised the following amount in the Revenue Account. Employer's Contribution to Provident Fund and Employees' Pension Scheme, 1995 Rs. ____) [Previous Year Rs. ____]

b Defined benefit plan

The Company has an average salary defined benefit Contribution scheme covering all of its employees in the . Contributions are made to a separately administered fund / government administered provident fund . *IAS 19.120A(b)*

The amounts recognised in the income statement are as follows. *IAS 19.120A(g)*

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
Current Service cost		XX	XX
Past service cost		XX	XX
Interest cost on benefit obligation		XX	XX
Expected return on plan assets		XX	XX
Total net defined benefit pension costs		XX	XX
The actual return on plan assets amounted to Rs._____ (PY: Rs._____).		XX	XX

IAS 19.120A(m)

The amounts recognised in the balance sheet at balance sheet date are as follows. *IAS 19.120A(f)*

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
Present value of the defined benefit obligation		XX	XX
Fair value of plan assets		XX	XX
Net defined benefit obligation		**XX**	**XX**
Unrecognised net actuarial losses		XX	XX
Unrecognised past service cost		XX	XX
Total net defined benefit obligation		**XX**	**XX**

Expected recovery or settlement of the defined benefit obligation is as follows. *IAS 1.61*
Current*
Non-current
Net defined benefit obligation
* Expected recovery or settlement within 12 months from the balance sheet date.

The movement in the defined benefit obligation is as follows. *IAS 19.120A(e)*

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year
At 1 April		XX	XX
Current service cost		XX	XX
Past service cost		XX	XX
Interest cost		XX	XX
Contributions by plan participants		XX	XX
Benefits paid		XX	XX
Actuarial losses		XX	XX
At 31 March		**XX**	**XX**

The movement in the plan assets is as follows.

IAS

(Rs. Lacs)

Particulars	Schedule No.	Current Year	Previous Year
At 1 April		XX	XX
Expected return on plan assets		XX	XX
Contributions by employer		XX	XX
Contributions by plan participants		XX	XX
Benefits paid		XX	XX
Actuarial gains		XX	XX
At 31 March		**XX**	**XX**

The Group expects to contribute Rs.____ to the defined benefit plan in the current year.

The distribution of the plan assets at balance sheet date is as follows.

IAS

(Rs. Lacs)

Particulars	Schedule No.	Current Year	Previous Year
Treasury bills		XX	XX
Equities		XX	XX
Corporate bonds		XX	XX
Properties		XX	XX
Total plan assets		**XX**	**XX**

The expected rates of return on plan assets are as follows.

IAS 19.120A(l)

Particulars	Schedule No.	Current Year	Previous Year
		%	%
Treasury bills		XX	XX
Equities		XX	XX
Corporate bonds		XX	XX
Properties		XX	XX

The overall rates of return are based on the expected return within each asset category and on current asset allocations. The expected returns are developed in conjunction with external advisers and take into account both current market expectations of future returns, when available, and historical returns.

The principal actuarial assumptions used in determining the pension benefit obligation for the Group's plan are as follows.

IAS 19.120A(n)

Particulars	Schedule No.	Current Year	Previous Year
		%	%
Rate of increase in salaries		XX	XX
Rate of increase in pensions		XX	XX
Inflation assumption		XX	XX
Discount rate		XX	XX
Expected return on plan assets		XX	XX

The discount rate is the assumption that has the largest impact on the value of the liability. A 1% increase in this rate would reduce the liability by Rs.____.

The post-retirement mortality base table used for these schemes is_____. Post-retirement mortality improvements are allowed for through a reduction in the discount rate of ____ basis points which is considered a best estimate. However, the extent of future improvement in longevity is subject to considerable uncertainty and judgment is required in setting this assumption. Increasing the allowance by __ basis points to a ___ basis point reduction in the discount rate would increase the liability by Rs.

Amounts for the current and previous four periods are as follows

IAS 19.120A(p)

Particulars	Schedule No.	Current Year	Previous Year 1	Previous Year 2	Previous Year 3	Previous Year 4
Defined benefit obligation		XX	XX	XX	XX	XX
Plan assets		XX	XX	XX	XX	XX
Deficit		XX	XX	XX	XX	XX
Experience adjustments on plan liabilities		XX	XX	XX	XX	XX
Experience adjustments on plan assets		XX	XX	XX	XX	XX

21 Borrowings *Reference*

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year	
Bank overdraft				
Rs._____ Bank loan		XX	XX	
Rs._____ Bank loan		XX	XX	
Total borrowings		XX	XX	*IFRS 7.8(f)*

(a) **Current borrowings**

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year	
Bank overdraft				
Rs._____ Bank loan		XX	XX	
Rs._____ Bank loan		XX	XX	
Total current borrowings		XX	XX	*IAS 1.61*

* Expected recovery or settlement within 12 months from the balance sheet date

The bank overdraft is subject to an average variable interest rate of ___% (PY: ____%). The bank overdraft has an average current maturity of __ days (PY: __ days). The bank overdraft is secured by a charge over certain of the Company's assets. As at the balance sheet date, the aggregate unused bank overdraft facility amounted to Rs._____ (PY:

The Rs._____ bank loan is referenced to PLR plus 2%, which resulted in an average interest rate of ____% for the year (PY: ___%). The loan is unsecured and is repayable in fixed annual instalments of Rs._____ until 31 XXXX.

The Rs._____ fixed interest bank loan is unsecured and is repayable in fixed annual instalments of Rs._____ through 31 December 2010 at an interest rate of ___%.

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, 29*

(b) Non-current borrowings

(Rs. Lacs)

Particulars	*Schedule No.*	Current Year	Previous Year	
Rs._____ Bank loan		XX	XX	
Rs._____ Bank loan		XX	XX	
Total current borrowings		XX	XX	*IAS 1.61*

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, 29*

Reference

Notes to the financial statements

22 Other financial liabilities

Rs. lacs

Particulars	Deposits received from reinsurers	Outstanding purchase of investment securities	Total
At 1 April 2010	XX	XX	XX
Arising during the year	XX	XX	XX
Utilised	XX	XX	XX
Foreign exchange adjustment	XX	XX	XX
At 31 March 2011	XX	XX	XX
Arising during the year	XX	XX	XX
Utilised	XX	XX	XX
Foreign exchange adjustment	XX	XX	XX
At 31 March 2012	**XX**	**XX**	**XX**

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date.

IFRS 7.25, 29

23 Insurance payables

Rs. lacs

Particulars	*Schedule No.*	Amounts payable on direct insurance business	Amounts payable on assumed reinsurance business	Total
At 1 April 2010		XX	XX	XX
Arising during the year		XX	XX	XX
Utilised		XX	XX	XX
Foreign exchange adjustment		XX	XX	XX
At 31 March 2011		XX	XX	XX
Arising during the year		XX	XX	XX
Utilised		XX	XX	XX
Foreign exchange adjustment		XX	XX	XX
At 31 March 2012		**XX**	**XX**	**XX**

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date. *IFRS 7.25, IFRS 7.29*

Current	XX	XX	XX	*IAS 1.61*
Non Current	XX	XX	XX	*IAS 1.61*

Reference

Notes to the financial statements

24 Deferred revenue *IAS 18 App 14(b)(iii)*

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year
At 1 January			
Fees deferred		XX	XX
Fees released to the income statement		XX	XX
Foreign exchange adjustment		XX	XX
Total deferred revenue		XX	XX
The expected recovery or settlement of deferred revenue is as follows			
Current*		XX	XX
Non-current		XX	XX
Total deferred revenue		XX	XX

* Expected recovery or settlement within 12 months from the balance sheet date.

Reference

Notes to the financial statements

25 Trade and Other payables

Rs. lacs

Particulars	Schedule No.	Current Year	Previous Year
Payables to related parties		XX	XX
Trade payables		XX	XX
Accrued expenses		XX	XX
Other taxes		XX	XX
Other		XX	XX
Total trade and other payables		XX	XX

The carrying amounts disclosed above reasonably approximate fair value at balance sheet date.

IFRS 7.25, IFRS 7.29

Reference

Notes to the financial statements

26 Issued Share Capital

Authorised and Issued share capital

Rs. lacs

Particulars	Schedule No.	Current Year	Previous Year	
Authorised share capital				*IAS 1.79(a)(i)*
____ordinary shares of 1 each		XX	XX	*IAS 1.79(a)(iii)*
Issued share capital				*IAS 1.79(a)(ii)*
____ordinary shares of 1 each		XX	XX	*IAS 1.79(a)(iii)*

All ordinary shares issued are fully paid. All ordinary shares are held by external, non related parties and companies to the group

Changes to share capital during the year *IAS 1.79(a)*

Particulars	Treasury shares	Ordinary shares	Total shares
At 1 March 2010	XX	XX	XX
Transfer in respect of demutualisation*	XX	XX	XX
At 31 March 2011	XX	XX	XX
At 31 March 2012	XX	XX	XX

* Following demutualisation in 2000, share entitlements that were not claimed were placed into trust. During April 2010 the trust was wound up after the 3 year notice period subsequent to demutualisation and the shares were designated as treasury shares. These shares do not carry any voting rights or entitlements to dividends and are available for future issues when they will be redesignated as ordinary shares.

27 Other equity instruments

On 3 January 2006, the Group issued Rs._____ perpetual securities, which bear discretionary interest. The perpetual securities have no maturity date but can be redeemed at the option of the Group on 1 July 2014.

The perpetual securities are classified as equity as there is no requirement to settle the obligation in cash or another financial asset. Interest payments are adjusted against retained earnings upon payment. *IAS 32.16, IAS 32.35*

Notes to the financial statements

28 Net premiums

(a) Gross premiums on insurance contracts and investment contracts with DPF

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	*Reference*
Life insurance premiums	*16(a)*	XX	XX	
Non-life insurance premiums	*16(b)2*	XX	XX	
Investment contracts with DPF premiums	*17(a)*	XX	XX	
Change in unearned premiums provision		XX	XX	
Total gross premiums		XX	XX	

(b) Reinsurer's' share of gross premiums on insurance contracts and investment contracts with DPF

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year
Reinsurer's' share of life insurance contract premiums	*16(a)*	XX	XX
Reinsurer's' share of non-life insurance contract premiums	*16(b)2*	XX	XX
Reinsurer's' share of investment contracts with DPF premiums	*17(a)*	XX	XX
Reinsurer's' share of change in unearned premiums provision		XX	XX
Total reinsures' share of gross premiums		XX	XX
Total net premiums		XX	XX

Commentary
Non-life insurance business includes healthcare products which provide medical cover to policyholders.

29 Fees and commission income

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	*Reference*
Policyholder administration and investment management services		XX	XX	*IAS 18 App 14(b)iii*
Surrender charges and other contract fees		XX	XX	*IAS 18 App 14(b)iii*
Reinsurance commission income		XX	XX	
Total fees and commission income		XX	XX	*IFRS 4.37(b)*

Reference

Notes to the financial statements

30 Investment Income

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	Reference
Rental Income from Investment properties	*7*	XX	XX	*IAS 40.75(f)(i)*
Financial assets at fair value through profit or loss (held for trading purposes)				*IFRS 7.20(a)(i)*
Interest Income		XX	XX	
Dividend Income		XX	XX	
Financial assets at fair value through profit or loss (designated upon initial recognition)				*IFRS 7.20(a)(i)*
Interest Income		XX	XX	
Dividend Income		XX	XX	
Held to maturity financial assets interest income		XX	XX	*IFRS 7.20(a)(iii)*
Loans to related parties interest income		XX	XX	*IFRS 7.20(a)(iv)*
Available for sale financial assets				*IFRS 7.20(a)(ii)*
Interest Income		XX	XX	
Dividend Income		XX	XX	
Insurance receivables interest income		XX	XX	*IFRS 7.20(b)*
Cash and cash equivalents interest income		XX	XX	*IFRS 7.20(b)*
Total Investment Income		XX	XX	

Reference

31 Realised Gains

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	
Property Equipment				
Realised Gains		XX	XX	*IAS 16.68, IAS 16. 71, IAS 16.41*
Available for sale financial asset				*IFRS 7.20(a)(ii)*
Realised gains				*IAS 39.55(b)*
Equity securities		XX	XX	
Debt Securities		XX	XX	
Realised losses				*IAS 39.55(b)*
Equity securities		XX	XX	
Debt Securities		XX	XX	
Total realised gains for available for sale financial assets		XX	XX	
Total Realied gains		**XX**	**XX**	

Notes to the financial statements *Reference*

32 Fair value gains and losses

Rs. lacs

Particulars	***Schedule No.***	Current Year	Previous Year	
Fair value gains on investment properties	***7***	XX	XX	*IAS 40.76(d)*
Fair value gain or losses on derivative financial instruments held for trading		XX	XX	*IFRS 7.20(a)(i)* *IAS 39.55*
Fair value gains on hedged items attributable to the hedged risk in fair value hedges		XX	XX	*IAS 39.89*
Fair value losses on hedging instrument in fair value hedges		XX	XX	*IAS 39.89*
Total fair value on fair value hedges		XX	XX	
Fair value gains on financial assets at fair value thorugh profit or loss (held for trading purposes)		XX	XX	*IFRS 7.20(a)(i)* *IAS 39.55*
Fair value gains on financial assets at fair value thorugh profit or loss (designated upoin initial recognition)		XX	XX	*IFRS 7.20(a)(i)* *IAS 39.55*
Total Fair value gains on financial assets at fair value through profit or loss other than derivatives	***9(e)***	XX	XX	
Total fair value gains and losses		XX	XX	

Notes to the financial statements *Reference*

33 Net benefits and claims

Rs. lacs

	Particulars	*Schedule No.*	Current Year	Previous Year
(a)	***Gross benefits and claims paid***			
	Life insurance contracts benefits and claims paid	***16(a)***	XX	XX
	Non life insurance contracts benefits and claims paid	***16(b)1***	XX	XX
	Investment contracts with DPF benefits and claims paid	***17(a)***	XX	XX
	Total gross benefits and claims paid		**XX**	**XX**
(b)	***Reinsurers' share of gross benefits and claims paid***			
	Reinsurer's share of Life insurance contracts benefits and claims paid	***16(a)***	XX	XX
	Reinsurer's share of non life insurance contracts benefits and claims paid	***16(b)1***	XX	XX
	Reinsurer's share of investment contracts with DPF benefits and claims paid	***17(a)***	XX	XX
	Total reinsurer's share of gross benefits and claims paid		**XX**	**XX**
(c)	***Gross change in contract liabilities***			
	Change in life insurance contract liabilities	***16***	XX	XX
	Change in non-life insurance contract liabilities	***16***	XX	XX
	Change in investment contracts with DPF liabilities	***17***	XX	XX
	Change in investment contracts without DPF liabilities	***17***	XX	XX
	Change in unexpired risk provision	***16***	XX	XX
	Change in unallocated divisible surplus	***18***	XX	XX
	Total gross change in contract liabilities		**XX**	**XX**
(d)	***Reinsurers' share of gross change in contract liabilities***			
	Reinsurers' share of change in life insurance contract liabilities	***16***	XX	XX
	Reinsurers' share of change in non-life insurance contract liabilities	***16***	XX	XX
	Reinsurers' share of change in investment contracts with DPF liabilities	***17***	XX	XX
	Reinsurers' share of change in investment contracts without DPF liabilities	***17***	XX	XX
	Reinsurers' share of change in unexpired risk provision	***16***	XX	XX
	Total reinsurers' share of gross change in contract liabilities		**XX**	**XX**
	Net benefits and claims		**XX**	**XX**

34 Finance costs

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	
Current borrowings				*IAS 1.61*
Interest expense on bank overdraft		XX	XX	*IFRS 7.20(b)*
Interest expense on € 8,000,000 bank loan		XX	XX	*IFRS 7.20(b)*
Interest expense on € 7,500,000 bank loan		XX	XX	*IFRS 7.20(b)*
Interest expense on € 7,500,000 bank loan				
Non-current borrowings				*IAS 1.61*
Interest expense on € 8,000,000 bank loan		XX	XX	*IFRS 7.20(b)*
Interest expense on € 7,500,000 bank loan		XX	XX	*IFRS 7.20(b)*
Total finance cost		XX	XX	

35 Other Operating and Administrative expenses

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	
Amortisation of intangible assets	***4***	XX	XX	*IAS38.p118(e)vi*
Impairment loss on intangible assets	***4***	XX	XX	*IAS 38.p118(e)iv*
Depreciation on property and equipment	***6***	XX	XX	*IAS 16.73(b), (c)*
Investment property related expenses	***7***	XX	XX	
Fees (investment contract fee income, reinsurance commission, asset management fees, poliyholder adminsitration fees and other contract fees.)		XX	XX	
Commission expense		XX	XX	
Deferred expenses	***13***	XX	XX	
Amortisation of deferred expenses	***13***	XX	XX	
Auditors' remuneration		XX	XX	
Employee benefits expense	***36***	XX	XX	
Net foreign exchange adjustments		XX	XX	
Other expenses		XX	XX	
Total other operating and administrative expenses		**XX**	**XX**	

The amounts disclosed above for auditors' remuneration were only for statutory and regulatory audit purposes and were paid to the company auditors Chartered Accountants & Co

36 Employee benefit expense

Rs. lacs

Particulars	*Schedule No.*	Current Year	Previous Year	
Wages and salaries		XX	XX	
Defined contribution pension costs	*20*	XX	XX	*IAS 19.46*
Total employee benefit expenses	*35*	**XX**	**XX**	

Total employee benefits expense as per business segment is as follows

Life Insurance		XX	XX
Non life insurance		XX	XX
Investment Management Services		XX	XX
Total employee benefit expenses		**XX**	**XX**

Notes to the financial statements *Reference*

37 Income tax expense

Rs. lacs

	Particulars	Schedule No.	Current Year	Previous Year	
(a)	**Current year tax charge**				
	Current tax				*IAS 12.79*
	Income tax		XX	XX	
	Prior year adjustment		XX	XX	*IAS 12.80(b)*
	Total current tax		XX	XX	*IAS 12.80(a)*
	Deferred tax				*IAS 12.79*
	Origination of temporary difference		XX	XX	*IAS 12.80(c)*
	Changes in tax rates/ base		XX	XX	*IAS 12.80(d)*
	Write down of deferred tax assets		XX	XX	*IAS 12.80(g)*
	Total deferred tax		XX	XX	
	Total income tax expense	*11*	XX	XX	
(b)	**Tax recorded in equity**				*IAS 12.81(a)*
	Current tax		XX	XX	
	Deferred tax		XX	XX	
	Total tax charge to equity		XX	XX	
(c)	**Reconciliation of tax charge**		XX	XX	*IAS 12.81(c)(i)*
	Profit before tax		XX	XX	
	Tax at 30%		XX	XX	
	Permanent differences arising from overseas operations		XX	XX	
	Other untaxed income		XX	XX	
	Disallowable expenses		XX	XX	
	Differences arising from movement in unrealised gains and losses		XX	XX	
	Policyholder tax (i)		XX	XX	
	Relief for policyholder tax		XX	XX	
	Adjustment to tax charge in respect of prior years		XX	XX	
	Different tax rate on overseas operations		XX	XX	
	Write down of deferred tax assets		XX	XX	
	Recognition of previously unrecognised tax loss / tax credit		XX	XX	
	Total tax charge for the year	*11*	XX	XX	

There are no income tax consequences attaching to the payment of dividends by the company to its shareholders

Reference

38 Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding at the balance sheet date.

The basic and diluted earnings per share are the same as there are no dilutive effects on earnings *IAS 33.70(c)*

Rs. lacs

Particluars	***Schedule No.***	**Current Year**	**Previous Year**	
Net profit attributable to ordinary shareholders (Rs.)		XX	XX	*IAS 33.70(a)*
Weighted average number of ordinary shares*	***26***	XX	XX	*IAS 33.70(b)*
Basic and diluted earnings per ordinary share (Rs.)		XX	XX	*IAS 33.66*

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements. *IAS 33.70(d)*

* Ordinary shares exclude treasury shares.

39 Dividends

Rs. lacs

Particulars	Schedule No.	Current Year	Previous Year	
Interim dividend current period		XX	XX	
Final dividend prior period		XX	XX	
Total dividends paid in the year		**XX**	**XX**	
Total dividends paid in the year (Rs.)		XX	XX	*IAS 1.107*
Weighted average number of ordinary shares*	*26*	XX	XX	
Dividend per ordinary share (Rs.)		XX	XX	*IAS 1.107*
* Ordinary shares exclude treasury shares.				

(a) Governance framework

The primary objective of the Company's risk and financial management framework is to protect the Company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place. *IFRS 7.33 (b)*

The Company has established a risk management function with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Company policy framework which sets out the risk profiles for the Company, risk management, control and business conduct standards for the Company's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Company. *IFRS 7.33 (b)*

The board of directors approves the Company risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the Company's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals and specify reporting requirements. For example, following the regulatory changes brought about by IRDA, which came into effect on ——, the Company has placed a greater emphasis on assessment and documentation of risks and controls, including the development of an articulation of 'risk appetite' *IFRS 7.33 (b)*

(b) Capital management framework

The Company has an internal risk management framework for identifying risks to which each of its business units and the Company as a whole are exposed, quantifying their impact on economic capital. The internal framework estimates indicate how much capital is needed to mitigate the risk of insolvency to a selected remote level of risk applied to a number of tests (both financial and non-financial) on the capital position of the business. The confidence level is set to 99.5% over one year, in line with CRISIL' AA rating requirements. The internal framework has been applied to all material parts of the Company combining the results of financial and operating experience tests with the Company's risk reporting model. *IFRS 7.33 (b)*

The Company uses Financial Condition Reports (FCR) to inform the about decisions on capital management issues. The FCR is a medium term projection of the overall financial position of the business under a variety of economic and operating scenarios, allowing for new business. The FCR considers a number of our key performance indicators in addition to solvency and capital requirements. FCRs produced by our business units, enable the Company to assess the range of risks to which the business is exposed, their evolution over time, and the impact of the mitigating actions which might be taken. *IFRS 7.33 (b)*

(c) Regulatory framework

Regulators are primarily interested in protecting the rights of the policyholders and monitor them closely to ensure that the Company is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Company maintains an appropriate solvency position to meet unforeseen liabilities arising from economic shocks or natural disasters. *IFRS 7.33(a) (b)*

The operations of the Company are also subject to regulatory requirements within the jurisdictions when it operates. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (eg capital adequacy) to minimise the risk of default and insolvency on the part of the insurance companies to meet unforeseen liabilities as these arise. *IFRS 7.33(b)*

(d) Asset liability management (ALM) framework

Financial risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The main risk that the Company faces due to the nature of its investments and liabilities is interest rate risk. The Company manages these positions within an ALM framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Company's ALM is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each distinct category of liabilities, a separate portfolio of assets is maintained *IFRS 7.33(a) (b)*

The Company's ALM is also integrated with the management of the financial risks associated with the Company's other financial assets and liabilities not directly associated with insurance and investment liabilities *IFRS 7.33(b)*

The Company's ALM also forms an integral part of the insurance risk management policy, to ensure in each period sufficient cash flow is available to meet liabilities arising from insurance and investment contracts.

Insurance risk *IFRS 4.38*

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities. *IFRS 4.39(a)*

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of *IFRS 4.39(a)*

The majority of insurance business ceded is placed on a quota share basis with retention limits varying by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations of the Company substantially dependent upon any single reinsurance contract. *IFRS 4.39(a)*

(1) Life insurance contracts (including investment contracts with DPF)

Life insurance contracts offered by the Company include whole life, term assurance, unitised pensions, guaranteed annuity pensions, pure endowment pensions and mortgage endowments. *IFRS 4.38*

Whole life and term assurance are conventional regular premium products when lump sum benefits are payable on death or permanent disability. Few contracts have a surrender value. *IFRS 4.38*

Pensions are contracts when retirement benefits are expressed in the form of an annuity payable at retirement age. If death occurs before retirement, contracts generally return the value of the fund accumulated or premiums. Most contracts give the policyholder the option at retirement to take a cash sum at guaranteed conversion rates allowing the policyholders the option of taking the more valuable of the two. Under unitised pensions, a percentage of the premium is applied towards the purchase of accumulation units in one or more of the internal linked funds. Provision of additional death benefits may be provided by cancellation of units or through supplementary term assurance contracts. Certain personal pension plans also include contribution protection benefits that provide for payment of *IFRS 4.38*

Guaranteed annuities are single premium products which pay a specified payment to the policyholder whilst they and/or their spouse are still alive. Payments are generally either fixed or increased each year at a specified rate or in line with the rate of inflation. Most contracts guarantee an income for a minimum period usually of five years, irrespective of death. *IFRS 4.38*

Death benefits of endowment products are subject to a guaranteed minimum amount. The maturity value usually depends on the investment performance of the underlying assets. For contracts with DPF the guaranteed minimum may be increased by the addition of bonuses. These are set at a level that takes account of expected market fluctuations, such that the cost of the guarantee is generally met by the investment performance of the assets backing the liability. However in circumstances when there has been a significant fall in investment markets, the guaranteed maturity benefits may exceed investment performance and these guarantees become valuable to the policyholder. Certain pure endowment pensions contain the option to apply the proceeds towards the purchase of an annuity earlier than the date shown on the contract or to convert the contract to 'paid up' on guaranteed terms. The majority of the mortgage endowment contracts offered by the Company have minimum maturity values subject to certain conditions being satisfied. *IFRS 4.38*

The main risks that the Company is exposed to are as follows. *IFRS 4.39(a)*

- Mortality risk – risk of loss arising due to policyholder death experience being different than expected.
- Morbidity risk – risk of loss arising due to policyholder health experience being different than expected.
- Longevity risk – risk of loss arising due to the annuitant living longer than expected.
- Investment return risk – risk of loss arising from actual returns being different than expected.
- Expense risk – risk of loss arising from expense experience being different than expected.
- Policyholder decision risk – risk of loss arising due to policyholder experiences (lapses and surrenders) being different than expected

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured or by industry. *IFRS 4.39(c)ii*

IFRS 4.39(e)

The Company's underwriting strategy is designed to ensure that risks are well diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, regular review of actual claims experience and product pricing, as well as detailed claims handling procedures. Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Company has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of fraudulent claims. Insurance contracts also entitle the Company to pursue third parties for payment of some or all costs. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Group.

For contracts when death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected. Group wide reinsurance limits of Rs.—— on any single life insured and Rs. —— on all high risk individuals insured are in place. *IFRS 4.39(a)*

For annuity contracts, the most significant factor is continued improvement in medical science and social conditions that would increase longevity. The Company reinsures its annuity contracts on a quota share basis to mitigate its risk. *IFRS 4.39(a)*

For contracts with DPF, the participating nature of these contracts results in a significant portion of the insurance risk being shared with the insured party. For contracts without DPF the Company charges for death and disability risks on a quarterly basis. Under these contracts the Company has the right to alter these charges to take account of death and disability experience thereby mitigating the *IFRS 4.39(a)*

The insurance risk described above is also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely or to exercise guaranteed annuity options. As a result, the amount of insurance risk is also subject to contract holder behaviour *IFRS 4.39(a)*

The table below sets out the concentration of life insurance and investment contracts with DPF liabilities by type of contract. *IFRS 4.39(c)ii*

(Rs. Lacs)

Particulars	Current Year			Previous Year		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Whole life	XX	XX	XX	XX	XX	XX
Term assurance	XX	XX	XX	XX	XX	XX
Guaranteed annuity pension	XX	XX	XX	XX	XX	XX
Pure endowment pensions	XX	XX	XX	XX	XX	XX
Mortgage endowment	XX	XX	XX	XX	XX	XX
Total life insurance	XX	XX	XX	XX	XX	XX
Unitised pensions	XX	XX	XX	XX	XX	XX
Total investment contracts with DPF	XX	XX	XX	XX	XX	XX
Total life insurance and investment contracts with DPF	XX	XX	XX	XX	XX	XX

The geographical concentration of the Company's life insurance and investment contracts with DPF liabilities is noted below. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated. *IFRS 4.39(c)ii*

Life insurance contracts

(Rs. Lacs)

	Current Year			Previous Year		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Region 1	XX	XX	XX	XX	XX	XX
Region 2	XX	XX	XX	XX	XX	XX
Region 3	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

Investment contracts with DPF

(Rs. Lacs)

	Current Year			Previous Year		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Region 1	XX	XX	XX	XX	XX	XX
Region 2	XX	XX	XX	XX	XX	XX
Region 3	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

Key assumptions *IFRS 4.37 (c)*

Material judgment is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

Life insurance contract estimates are either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. Assumptions are made in relation to future deaths, voluntary terminations, investment returns and administration expenses. If the liabilities are not adequate, the assumptions are altered to reflect the current estimates.

- Mortality and morbidity rates *IFRS 4.37 (c)*

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides, reflecting recent historical experience and are adjusted when appropriate to reflect the Company's own experiences. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims and claims could occur sooner than anticipated, which will increase the expenditure and reduce profits for the shareholders.

- Longevity

Assumptions are based on standard industry and national tables, adjusted when appropriate to reflect the Company's own risk experience. An appropriate but not excessive prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in longevity rates will lead to an increase in the number of annuity payments made, which will increase the expenditure and reduce profits for the shareholders.

- Investment return

The weighted average rate of return is derived based on a model portfolio that is assumed to back liabilities, consistent with the longterm asset allocation strategy. These estimates are based on current market returns as well as expectations about future economic and financial developments.
An increase in investment return would lead to a reduction in expenditure and an increase in profits for the shareholders.

- Expenses

Operating expenses assumptions reflect the projected costs of maintaining and servicing in-force policies and associated overhead expenses. The current level of expenses is taken as an appropriate expense base, adjusted for expected expense inflation if appropriate.
An increase in the level of expenses would result in an increase in expenditure thereby reducing profits for the shareholders.

- Lapse and surrender rates

Lapses relate to the termination of policies due to non-payment of premiums. Surrenders relate to the voluntary termination of policies by policyholders. Policy termination assumptions are determined using statistical measures based on the Company's experience and vary by product type, policy duration and sales trends.
An increase in lapse rates early in the life of the policy would tend to reduce profits for shareholders, but later increases are broadly neutral in effect.

- Discount rate

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Company's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

The assumptions that have the greatest effect on the balance sheet and income statement of the Company are listed below. *IFRS 4.37 (c)*

Portfolio assumptions by type of business impacting net liabilities	Mortality and morbidity rates		Investment return		Lapse and surrender rates		Discount rates	
	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year	Current Year	Previous Year
With fixed and guaranteed terms and with DPF contracts	X%	X%	X%	X%	X%	X%	X%	X%
Life insurance	X%	X%	X%	X%	X%	X%	X%	X%
Pensions	X%	X%	X%	X%	X%	X%	X%	X%
Without DPF contracts								
Term assurances								
Males	X%	X%	X%	X%	X%	X%	X%	X%
Females	X%	X%	X%	X%	X%	X%	X%	X%
Pension Annuities								
Males	X%	X%	X%	X%	X%	X%	X%	X%
Females	X%	X%	X%	X%	X%	X%	X%	X%

1 Industry mortality and morbidity experience tables for endowment assurance polices that were observed in India between 1990 and 1994.

2 Industry mortality and morbidity experience tables for term assurance polices that were observed in India between 1990 and 1994.

3 Industry mortality and morbidity experience tables for annuity polices that were observed in India between 1990 and 1994.

Sensitivities *IFRS 4.39(c ii, 39A(a)*

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear. Sensitivity information will also vary according to the current economic assumptions, mainly due to the impact of changes to both the intrinsic cost and time value of options and guarantees. When options and guarantees exist they are the main reason for the asymmetry of sensitivities.

Life insurance contracts

31st March 2012

(Rs. in lacs)

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Mortality/morbidity	X%	XX	XX	XX	XX
Longevity	X%	XX	XX	XX	XX
Investment return	X%	XX	XX	XX	XX
Expenses	X%	XX	XX	XX	XX
Lapse and surrenders rate	X%	XX	XX	XX	XX
Discount rate	X%	XX	XX	XX	XX

* Impact on equity reflects adjustments for tax, when applicable.

IFRS 4.39(c)(i), 39A(a)

31st March 2011

(Rs. in lacs)

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Mortality/morbidity	X%	XX	XX	XX	XX
Longevity	X%	XX	XX	XX	XX
Investment return	X%	XX	XX	XX	XX
Expenses	X%	XX	XX	XX	XX
Lapse and surrenders rate	X%	XX	XX	XX	XX
Discount rate	X%	XX	XX	XX	XX

Investment contracts with DPF

31st March 2012

(Rs. in lacs)

	Change in assumptions	Increase/ (decrease) on gross liabilities	Increase/ (decrease) on net liabilities	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity*
Mortality/morbidity	X%	XX	XX	XX	XX
Longevity	X%	XX	XX	XX	XX
Investment return	X%	XX	XX	XX	XX
Expenses	X%	XX	XX	XX	XX
Lapse and surrenders rate	X%	XX	XX	XX	XX
Discount rate	X%	XX	XX	XX	XX

31st March 2011

(Rs. in lacs)

	Change in assumptions	Increase/ (decrease) on gross liabilities	Increase/ (decrease) on net liabilities	Increase/ (decrease) on profit before tax	Increase/ (decrease) on equity*
Mortality/morbidity	X%	XX	XX	XX	XX
Longevity	X%	XX	XX	XX	XX
Investment return	X%	XX	XX	XX	XX
Expenses	X%	XX	XX	XX	XX
Lapse and surrenders rate	X%	XX	XX	XX	XX
Discount rate	X%	XX	XX	XX	XX

* Impact on equity reflects adjustments for tax, when applicable.

The method used and significant assumptions made for deriving sensitivity information did not change from the previous period.

Commentary

IFRS 4.39(d)(i) and IFRS 4.39A(a) permit the use of Embedded Value (EV) sensitivity disclosures instead of IFRS 7 sensitivity disclosures for insurance and market risk sensitivities. This disclosure option is only allowed if insurance and market risk sensitivities are managed on an EV basis. Another allowed alternative is to base sensitivity disclosures on Economic Capital measures. This is also only allowed if insurance and market risk sensitivities are actually managed on that basis. For illustrative purposes, EV sensitivity disclosures, based on observed best practice disclosures in the insurance industry

2 **Non-life insurance contracts (which comprise general insurance and healthcare)**

IFRS 4.38

The Company principally issue the following types of general insurance contracts: motor, household, commercial and business interruption.
Healthcare contracts provide medical expense cover to policyholders. Risks under non-life insurance policies usually cover twelve month duration.

IFRS 4.39(a)

For general insurance contracts the most significant risks arise from climate changes, natural disasters and terrorist activities. For healthcare contracts the most significant risks arise from lifestyle changes, epidemics and medical science and technology improvements.

IFRS 4.39(c)ii

These risks do not vary significantly in relation to the location of the risk insured by the Company, type of risk insured and by industry.

IFRS 4.39(a)

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Further, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Company. The Company further enforces a policy of actively managing and prompt pursuing of claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the Company.

IFRS 4.39(a)

The Company has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (eg hurricanes, earthquakes and flood damages).

IFRS 4.39(a)

The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes to a pre-determined maximum amount based on the Company's risk appetite as decided by management. For a single realistic catastrophic event this maximum amount is approximately 10% of shareholders' equity on a gross basis and 5% on a net basis. In the event of such a catastrophe counterparty exposure to a single reinsurer is estimated not to exceed 0.75% of shareholders' equity.

IFRS 4.39(c)ii

The table below sets out the concentration of non-life insurance contract liabilities by type of contract. (Rs lacs)

	Current Year			Previous Year		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Motor	XX	XX	XX	XX	XX	XX
Household	XX	XX	XX	XX	XX	XX
Commercial	XX	XX	XX	XX	XX	XX
Business interruption	XX	XX	XX	XX	XX	XX
Healthcare	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

IFRS 4.39(c)ii

The geographical concentration of the Group's non-life insurance contract liabilities is noted below. The disclosure is based on the countries where the business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

Non-life insurance contracts (Rs lacs)

	Current Year			Previous Year		
	Gross liabilities	Reinsurers' share of liabilities	Net liabilities	Gross liabilities	Reinsurers' share of liabilities	Net liabilities
Region 1	XX	XX	XX	XX	XX	XX
Region 2	XX	XX	XX	XX	XX	XX
Region 3	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

Key assumptions

IFRS 4.37(c)

The principal assumption underlying the estimates is the Company's past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example once-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

IFRS 4.39(c)ii, 39A(a)

The non-life insurance claims provision is sensitive to the above key assumptions. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

IFRS 4.39(c)ii, 39A(a)

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

31st March 2012 (Rs lacs)

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Average claim cost	%X	XX	XX	XX	XX
Average number of claims	%X	XX	XX	XX	XX
Average claim settlement period	%X	XX	XX	XX	XX

31st March 2011

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity*
Average claim cost	%X	XX	XX	XX	XX
Average number of claims	%X	XX	XX	XX	XX
Average claim settlement period	%X	XX	XX	XX	XX

* Impact on equity reflects adjustments for tax, when applicable.

The method use for deriving sensitivity information and significant assumptions did not change from the previous period.

IFRS 4.39(c)iii

Claims development table

The following tables reflect the cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each balance sheet date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to euros at the rate of exchange that applied at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

In the claims development tables below, the cumulative claims estimates and cumulative payments are translated in Euros at the rate of exchange that applied at the end of the accident year. The impact of exchange differences is shown at the bottom of the table.

The Company aims to maintain strong reserves in respect of its non-life insurance business in order to protect against adverse future claims experience and developments. As claims develop and the ultimate cost of claims becomes more certain, adverse claims experiences are eliminated which results in the release of reserves from earlier accident years. In order to maintain strong reserves, the Company transfers much of this release to current accident year reserves when the development of claims is less mature and there is much greater uncertainty attaching to the ultimate cost of claims.

IFRS 4.39 (c) iii

Gross non-life insurance contract liabilities for 2006

(Rs lacs)

Accident year at the end of		Before 2004	2004	2005	2006	2007	2011	2012	Total
Accident year			XX	XX	XX	XX	XX	XX	XX
One year later			XX	XX	XX	XX	XX	XX	XX
Two years later			XX	XX	XX	XX	XX	XX	XX
Three years later			XX	XX	XX	XX	XX	XX	XX
Four years later			XX	XX	XX	XX	XX	XX	XX
Five years later			XX	XX	XX	XX	XX	XX	XX
Current estimate of cumulative claims			XX	XX	XX	XX	XX	XX	XX
Accident year			XX	XX	XX	XX	XX	XX	XX
One year later			XX	XX	XX	XX	XX	XX	XX
Two years later			XX	XX	XX	XX	XX	XX	XX
Three years later			XX	XX	XX	XX	XX	XX	XX
Four years later			XX	XX	XX	XX	XX	XX	XX
Five years later			XX	XX	XX	XX	XX	XX	XX
Cumulative payments to date			XX	XX	XX	XX	XX	XX	XX
Non-life insurance contract liabilities recognised in the balance sheet			XX	XX	XX	XX	XX	XX	XX
Foreign exchange adjustment			X	X	X	X	X	X	X
Total gross nonlife insurance contract liabilities as per the balance sheet	*16(b)*		XX	XX	XX	XX	XX	XX	XX
Current estimate of deficiency			XX	XX	XX	XX	XX	XX	XX
% Deficiency of initial gross reserve			X%	X%	X%	X%	X%	X%	

IFRS 4.39 (c) iii

Net non-life insurance contract liabilities for 2012

Accident year at the end of		Before 2004	2004	2005	2006	2007	2011	2012	Total
Accident year			XX	XX	XX	XX	XX	XX	XX
One year later			XX	XX	XX	XX	XX	XX	XX
Two years later			XX	XX	XX	XX	XX	XX	XX
Three years later			XX	XX	XX	XX	XX	XX	XX
Four years later			XX	XX	XX	XX	XX	XX	XX
Five years later			XX	XX	XX	XX	XX	XX	XX
Current estimate of cumulative claims			XX	XX	XX	XX	XX	XX	XX
Accident year			XX	XX	XX	XX	XX	XX	XX
One year later			XX	XX	XX	XX	XX	XX	XX
Two years later			XX	XX	XX	XX	XX	XX	XX
Three years later			XX	XX	XX	XX	XX	XX	XX
Four years later			XX	XX	XX	XX	XX	XX	XX
Five years later			XX	XX	XX	XX	XX	XX	XX
Cumulative payments to date			XX	XX	XX	XX	XX	XX	XX
Non-life insurance contract liabilities recognised in the balance sheet			XX	XX	XX	XX	XX	XX	XX
Foreign exchange adjustment			X	X	X	X	X	X	X
Total net nonlife insurance contract liabilities as per the balance sheet			XX	XX	XX	XX	XX	XX	XX
Current estimate of deficiency			XX	XX	XX	XX	XX	XX	XX
% Deficiency of initial net reserve			X%	X%	X%	X%	X%	X%	

a **Financial risks**

1 **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
The following policies and procedures are in place to mitigate the Company's exposure to credit risk:

IFRS 7.33(a)
IFRS 7.33(b)

A Company credit risk policy setting out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or Company of counterparties, geographical and industry segment (ie limits are set for investments and cash deposits, foreign exchange trade exposures and minimum credit ratings for investments that may be held).

- The Company further restricts its credit risk exposure by entering into master netting arrangements with counterparties with which it enters into significant volumes of transactions. However such arrangements do not generally result in offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with such balances is reduced in the event of a default, when such balances are settled on a net basis. At 31 December 2006, the Company had the right to set off financial liabilities amounting to Rs---- (PY Rs----) against financial assets with a fair value of Rs---- (PY Rs ----) under such arrangements.

- Guidelines determine when to obtain collateral and guarantees (ie certain derivative transactions are covered by collateral and derivatives are only taken out with counterparties with a suitable credit rating). The Company maintains strict control limits by amount and terms on net open derivative positions. The amounts subject to credit risk are limited to the fair value of 'in the money financial assets against which the Company either obtains collateral from counterparties or requires margin deposits. Collateral may be sold or repledged by the Company and is repayable if the contract terminates or the contract's fair value falls.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews.

At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.
- The Company sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their longterm credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated.

Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

Commentary

A detailed explanation of the credit methodology, or the process applied by the entity, is required.

Credit exposure

IFRS 7.36(a)

The table below shows the maximum exposure to credit risk for the components of the balance sheet and items such as future commitments. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting or collateral agreements and the use of credit derivatives.

31st March 2012

Particulars	Schedule No	Other	Unit-linked	Total
Financial assets				
Derivative financial assets	8			
Derivative financial instruments held for trading		XX	XX	XX
Cash flow hedges		XX	XX	XX
Fair value hedges		XX	XX	XX
Financial assets at fair value through profit or loss	9(a)			
Equity securities		XX	XX	XX
Debt securities		XX	XX	XX
Mutual funds		XX	XX	XX
Credit institutions		XX	XX	XX
Held-to-maturity financial assets	9(b)			
Debt securities		XX	XX	XX
Loans and other receivables	9(c)	XX	XX	XX
Available-for-sale financial assets	9(d)			
Equity securities		XX	XX	XX
Debt securities		XX	XX	XX
Reinsurance assets	10	XX	XX	XX
Tax receivable	11	XX	XX	XX
Insurance receivables	12	XX	XX	XX
Cash and cash equivalents	15	XX	XX	XX
Total		XX	XX	XX
Future lease rental receivables	43(b)	XX	XX	XX
Total credit risk exposure		XX	XX	XX

31st March 2011

IFRS 7.36(a)

Particulars	Schedule No	Other	Unit-linked	Total
Financial assets				
Derivative financial assets	8			
Derivative financial instruments held for trading		XX	XX	XX
Cash flow hedges		XX	XX	XX
Fair value hedges		XX	XX	XX
Financial assets at fair value through profit or loss	9(a)			
Equity securities		XX	XX	XX
Debt securities		XX	XX	XX
Mutual funds		XX	XX	XX
Credit institutions		XX	XX	XX
Held-to-maturity financial assets	9(b)			
Debt securities		XX	XX	XX
Loans and other receivables	9(c)	XX	XX	XX
Available-for-sale financial assets	9(d)			
Equity securities		XX	XX	XX
Debt securities		XX	XX	XX
Reinsurance assets	10	XX	XX	XX
Tax receivable	11	XX	XX	XX
Insurance receivables	12	XX	XX	XX
Cash and cash equivalents	15	XX	XX	XX
Total		XX	XX	XX
Future lease rental receivables	43(b)	XX	XX	XX
Total credit risk exposure		XX	XX	XX

IFRS 7.34(a)

Commentary

The general requirement in IFRS 7.34(a) is that the quantitative data on risk exposures should be based on information provided internally to key management personnel.

The quantitative data in the risk management disclosure as at the reporting date is assumed to be representative of the Company's exposure to risk during the period. Therefore, the disclosures on unrepresentative exposure to risk during the period required by IFRS 7.35 are not applicable for these illustrative financial statements.

The fair value of derivatives shown on the balance sheet represents the current risk exposure but not the maximum risk exposure that could arise in the future as a result of the change in values.

Credit exposure by credit rating

IFRS 7.36(a)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

IFRS 7.36(c), (d)

Rs. lacs

31st March 2012

	Investment grade	Non investment grade satisfactory	Noninvestment grade unsatisfactory	Unit-linked	Past-due or impaired	Total
Financial assets						
Derivative assets						
Derivative financial instruments held for trading	XX	XX	XX	XX	XX	XX
Cash flow hedges	XX	XX	XX	XX	XX	XX
Fair value hedges	XX	XX	XX	XX	XX	XX
Financial assets at fair value through profit or loss						
Equity securities	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX
Credit institutions	XX	XX	XX	XX	XX	XX
Held-to-maturity financial assets						
Debt securities	XX	XX	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX	XX	XX
Available-for-sale financial assets						
Equity securities	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

IFRS 7.34(a)

Rs. lacs

IFRS 7.36(c), (d)

31st March 2011

	Investment grade	Non investment grade satisfactory	Noninvestment grade: unsatisfactory	Unit-linked	Past-due or impaired	Total
Financial assets						
Derivative assets						
Derivative financial instruments held for trading	XX	XX	XX	XX	XX	XX
Cash flow hedges	XX	XX	XX	XX	XX	XX
Fair value hedges	XX	XX	XX	XX	XX	XX
Financial assets at fair value through profit or loss						
Equity securities	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX
Credit institutions	XX	XX	XX	XX	XX	XX
Held-to-maturity financial assets						
Debt securities	XX	XX	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX	XX	XX
Available-for-sale financial assets						
Equity securities	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX

IFRS 7.34(a)

Commentary

IFRS 7 BC54 states: 'The board of directors noted that information about credit quality gives a greater insight into the credit risk of assets and helps users to assess whether such assets are more or less likely to become impaired in the future. Because this information will vary between companies, the board of directors decided not to specify a particular method for giving this information, but rather to allow each entity to devise a method that is appropriate to its circumstances.'

IFRS 7.36(c) and IFRS 7.37(a) specifically require the disclosure of the quality of financial assets that are neither impaired nor past due and an analysis of the age of financial assets that are past due as at the reporting date but not yet impaired. This is required by the standard, although disclosure of the fact that many financial assets could be past due by only a few days is arguably of limited value and potentially misleading.

The table below provides information regarding the credit risk exposure of the Company at 31 December 2006 by classifying assets according to Standard and Poors credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

IFRS 7.36(c)

Rs. lacs

31st March 2012

	AAA	AA	BB	BBB	Not rated	Unit linked	Total
Financial assets							
Derivative assets							
Derivative financial instruments held for trading	XX	XX	XX	XX	XX	XX	XX
Cash flow hedges	XX	XX	XX	XX	XX	XX	XX
Fair value hedges	XX	XX	XX	XX	XX	XX	XX
Financial assets at fair value through profit or loss							
Equity securities	XX	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX	XX
Mutual funds	XX	XX	XX	XX	XX	XX	XX
Credit institutions	XX	XX	XX	XX	XX	XX	XX
Held-to-maturity financial assets							
Debt securities	XX	XX	XX	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX	XX	XX	XX
Available-for-sale financial assets							
Equity securities	XX	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

IFRS 7.36(c) *IFRS 7.34(a)*

Rs. lacs

31st March 2011	AAA	AA	BB	BBB	Not rated	Unit linked	Total
Financial assets							
Derivative assets							
Derivative financial instruments held for trading	XX	XX	XX	XX	XX	XX	XX
Cash flow hedges	XX	XX	XX	XX	XX	XX	XX
Fair value hedges	XX	XX	XX	XX	XX	XX	XX
Financial assets at fair value through profit or loss							
Equity securities	XX	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX	XX
Mutual funds	XX	XX	XX	XX	XX	XX	XX
Credit institutions	XX	XX	XX	XX	XX	XX	XX
Held-to-maturity financial assets							
Debt securities	XX	XX	XX	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX	XX	XX	XX
Available-for-sale financial assets							
Equity securities	XX	XX	XX	XX	XX	XX	XX
Debt securities	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

IFRS 7.36(c) *IFRS 7.34(a)*

Commentary

If the credit quality analysis is based on external credit grading systems the entity might disclose the credit exposure for each external credit grade, the rating agencies used, the value of the entity's rated and unrated credit exposures and the relationship between internal and external ratings (IFRS 7.IG24).

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counterparties by CRISIL credit rating.

Rs. lacs

31st March 2012

	AAA	AA	BB	BBB	Not rated	Unit linked	Total
Investment grade	XX	XX	XX	XX	XX	XX	XX
Non-investment grade: Satisfactory	XX	XX	XX	XX	XX	XX	XX
Non-investment grade: Unsatisfactory	XX	XX	XX	XX	XX	XX	XX
Past-due or impaired	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

IFRS 7.36(c) *IFRS 7.34(a)*

Rs. lacs

31st March 2011

	AAA	AA	BB	BBB	Not rated	Unit linked	Total
Investment grade	XX	XX	XX	XX	XX	XX	XX
Non-investment grade: Satisfactory	XX	XX	XX	XX	XX	XX	XX
Non-investment grade: Unsatisfactory	XX	XX	XX	XX	XX	XX	XX
Past-due or impaired	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

IFRS 7.36(c)

IFRS 7.34(a)

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.
During the year, no credit exposure limits were exceeded.

IFRS 7.34(c)

The Company actively manage its product mix to ensure that there is no significant concentration of credit risk.
Age analysis of financial assets past-due but not impaired

Rs. lacs

IFRS 7.37(a)

31st March 2012	< 30 days	31 to 60 days	61 to 90 days	Unit linked	Total past-due but not impaired	Past-due and impaired	Total
Financial assets							
Loans and receivables	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

Rs. lacs

IFRS 7.37(a)

31st March 2011	< 30 days	31 to 60 days	61 to 90 days	Unit linked	Total past-due but not impaired	Past-due and impaired	Total
Financial assets							
Loans and receivables	XX	XX	XX	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX

For assets to be classified as 'past-due and impaired', contractual payments in arrears are more than 90 days. An impairment adjustment is recorded in the income statement for these asset write-offs. When credit exposure is adequately secured, arrears more than 90 days might still be classified as 'past-due but not impaired', with no impairment adjustment recorded. The Company operates mainly on a 'neither past-due nor impaired basis' and when evidence is available, sufficient collateral will be obtained for 'past-due and impaired' assets, an impairment assessment will also be performed if applicable.

Commentary
IFRS 7 BC54 states: 'The board of directors noted that information about credit quality gives a greater insight into the credit risk of assets and helps users to assess whether such assets are more or less likely to become impaired in the future. Because this information will vary between companies, the board of directors decided not to specify a particular method for giving this information, but rather to allow each entity to devise a method that is appropriate to its circumstances.'
IFRS 7.36(c) and IFRS 7.37(a) specifically require the disclosure of the quality of financial assets that are neither impaired nor past due and an analysis of the age of financial assets that are past due as at the reporting date but not yet impaired. This is required by the standard, although disclosure of the fact that many financial assets could be past due by only a few days is arguably of limited value and potentially misleading.

IFRS 7.36(b), 37(c)

Collateral

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Collateral is mainly obtained for securities lending and for cash purposes. Credit risk is also mitigated by entering into collateral agreements. Management monitors the market value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.
For over-the-counter derivative transactions undertaken by the Company, collateral is received from the counterparty. The collateral can be sold or repledged by the Company and is repayable if the contract terminates or the contract's fair value decreases. At 31 December 2006, the fair value of such collateral held was Rs— (PY: Rs—). No collateral received from the counterparty has been sold or repledged (PY: Rs—).

IFRS 7.33(a)

Liquidity risk
Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial instruments.
The following policies and procedures are in place to mitigate the Company's exposure to liquidity risk:

IFRS 7.33(b)

- A Company liquidity risk policy setting out the assessment and determination of what constitutes liquidity risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Set guidelines on asset allocations, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding available to meet insurance and investment contracts obligations.
- Setting up contingency funding plans which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

Maturity profiles
The table below summarises the maturity profile of the financial liabilities of the Company based on remaining undiscounted contractual obligations, except for insurance and investment contracts with DPF liabilities, when maturity profiles are determined on the discounted estimated timing of net cash outflows. Repayments which are subject to notice are treated as if notice were to be given immediately.

IFRS 7.39(a), (d)(i), IAS 1.52

Rs. lacs

31st March 2012	Upto a year *	1-3 yrs	3-5 yrs	over 5 yrs	No term	Unit linked	Total
Insurance contract liabilities	XX	XX	XX	XX	XX	XX	XX
Investment contract liabilities							
With DPF contracts	XX	XX	XX	XX	XX	XX	XX
Without DPF contracts	XX	XX	XX	XX	XX	XX	XX
Unallocated divisible surplus	XX	XX	XX	XX	XX	XX	XX
Net asset value attributable to unit-holders							
Derivative financial liabilities**	XX	XX	XX	XX	XX	XX	XX
Borrowings							
Other financial liabilities	XX	XX	XX	XX	XX	XX	XX
Insurance payables	XX	XX	XX	XX	XX	XX	XX
Trade and other payables	XX	XX	XX	XX	XX	XX	XX
Total	XX	XX	XX	XX	XX	XX	XX
Future lease rental receivables	XX	XX	XX	XX	XX	XX	XX
Net principal liabilities	XX	XX	XX	XX	XX	XX	XX

IFRS 7.34(a)

IFRS 4.39(d)(i)

IFRS 4.39(d)(i)

IFRS 7.34(a)

31st March 2011	Upto a year *	1-3 yrs	3-5 yrs	over 5 yrs	No term	Unit linked	Total	
Insurance contract liabilities	XX	XX	XX	XX	XX	XX	XX	IFRS 4.39(d)(i)
Investment contract liabilities								IFRS 4.39(d)(ii)
With DPF contracts	XX	XX	XX	XX	XX	XX	XX	
Without DPF contracts	XX	XX	XX	XX	XX	XX	XX	
Unallocated divisible surplus	XX	XX	XX	XX	XX	XX	XX	
Net asset value attributable to unit-holders								
Derivative financial liabilities**	XX	XX	XX	XX	XX	XX	XX	
Borrowings								
Other financial liabilities	XX	XX	XX	XX	XX	XX	XX	
Insurance payables	XX	XX	XX	XX	XX	XX	XX	
Trade and other payables	XX	XX	XX	XX	XX	XX	XX	
Total	XX	XX	XX	XX	XX	XX	XX	
Future lease rental receivables	XX	XX	XX	XX	XX	XX	XX	
Net principal liabilities	XX	XX	XX	XX	XX	XX	XX	IFRS 7.34(a)

* Up to a year are all commitments which are either due within the time frame or are payable on demand.
** Derivative financial instruments are classified according to investment strategy for stand alone investments or according to the maturity characteristic of the hedgest item for

The table below summarises the maturity profile of the notional amount of derivative financial liabilities of the Company based on remaining contractual obligations. Repayments

Rs. lacs

Particulars	Upto a year *	1-3 yrs	3-5 yrs	over 5 yrs	No term	Unit linked	Total
31st March 2012	XX	XX	XX	XX	XX	XX	XX
31st March 2011	XX	XX	XX	XX	XX	XX	XX

The Company has not recognised any contingent assets on its balance sheet due to the uncertainty of the assets' recoverability.

The Company has no significant concentration of liquidity risk. IFRS 7.34(c)

Commentary
The maturity analysis for financial assets is based on remaining contractual obligations, but for recognised insurance liabilities, IFRS 4.39(d)) permits the maturity analysis of IFRS 7.B14 requires the maturity analysis for financial liabilities to be based on undiscounted contractual cash flows and appears to require that interest payments be included in the

The table below summarises the expected recovery or settlement of assets.

Rs. lacs

31st March 2012	Current*	Non current	Unit linked	Total	IAS 1.52
Intangible assets	XX	XX	XX	XX	
Investment in an associate	XX	XX	XX	XX	
Property and equipment	XX	XX	XX	XX	
Investment properties	XX	XX	XX	XX	
Financial assets					
Derivative financial assets	XX	XX	XX	XX	
Financial assets at fair value through profit or loss	XX	XX	XX	XX	
Held-to-maturity financial assets	XX	XX	XX	XX	
Loans and other receivables	XX	XX	XX	XX	
Available-for sale-financial assets	XX	XX	XX	XX	
Reinsurance assets	XX	XX	XX	XX	
Tax receivable	XX	XX	XX	XX	
Deferred expenses	XX	XX	XX	XX	
Prepayments and accrued income	XX	XX	XX	XX	
Cash and cash equivalents	XX	XX	XX	XX	
Total Assets	XX	XX	XX	XX	

* Expected recovery or settlement within 12 months from the balance sheet date.

Rs. lacs

31st March 2011	Current*	Non current	Unit linked	Total	IAS 1.52
Intangible assets	XX	XX	XX	XX	
Investment in an associate	XX	XX	XX	XX	
Property and equipment	XX	XX	XX	XX	
Investment properties	XX	XX	XX	XX	
Financial assets					
Derivative financial assets	XX	XX	XX	XX	
Financial assets at fair value through profit or loss	XX	XX	XX	XX	
Held-to-maturity financial assets	XX	XX	XX	XX	
Loans and other receivables	XX	XX	XX	XX	
Available-for sale-financial assets	XX	XX	XX	XX	
Reinsurance assets	XX	XX	XX	XX	
Tax receivable	XX	XX	XX	XX	
Deferred expenses	XX	XX	XX	XX	
Prepayments and accrued income	XX	XX	XX	XX	
Cash and cash equivalents	XX	XX	XX	XX	
Total Assets	XX	XX	XX	XX	

* Expected recovery or settlement within 12 months from the balance sheet date

Commentary
IFRS 7.IG30 permits companies to disclose a further maturity analysis based on expected maturity by management if assets are managed accordingly.

3 Market risk

IFRS 7.33(a)

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). IFRS 7.33(b)

The following policies and procedures are in place to mitigate the Company's exposure to market risk:

- A Company market risk policy setting out the assessment and determination of what constitutes market risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported to the Company risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- Set asset allocation and portfolio limit structure, to ensure that assets back specific policyholders liabilities and that assets are held to deliver income and gains for policyholders which are in line with expectations of the policyholders.
- Stipulated diversification benchmarks by type of instrument and geographical area, as the Company are exposed to guaranteed bonuses, cash and annuity options when interest rates falls.
- Strict control over hedging activities (eg equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

3a Currency risk

IFRS 7.33(a)

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
The Company's principal transactions are carried out in euros and its exposure to foreign exchange risk arise primarily with respect to UK sterling and US dollar.

IFRS 7.33(b)

The Company's financial assets are primarily denominated in the same currencies as its insurance and investment contract liabilities, which mitigates the foreign currency exchange rate risk for the overseas operations. Thus the main foreign exchange risk arises from recognised assets and liabilities denominated in currencies other than those in which insurance and investment contract liabilities are expected to be settled. The currency risk is effectively managed by the Company through derivative financial instruments. Forward currency contracts are in place to eliminate the currency exposure on individual foreign transactions. Forward currency contracts must be in the same currency and under the same terms as the hedged item to maximise effective hedging. The Company will not enter into these forward contracts until a firm commitment is in place.

IFRS 7.34(a)

The table below summarises the Company's exposure to foreign currency exchange rate risk at balance sheet date by categorising assets and liabilities by major currencies. These are stated after taking account of the effect of accounting hedging relationships.

Rs. lacs

31st March 2012	Currency 1	Currency 2	Currency 3	Total
Intangible assets	XX	XX	XX	XX
Investment in an associate	XX	XX	XX	XX
Property and equipment	XX	XX	XX	XX
Investment properties	XX	XX	XX	XX
Financial assets	XX	XX	XX	XX
Derivative assets	XX	XX	XX	XX
Financial assets at fair value through profit or loss	XX	XX	XX	XX
Held-to-maturity financial assets	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX
Available-for-sale financial assets	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX
Deferred expenses	XX	XX	XX	XX
Prepayments and accrued income	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX
Total Assets	XX	XX	XX	XX
Insurance contract liabilities	XX	XX	XX	XX
Investment contract liabilities				
With DPF contracts	XX	XX	XX	XX
Without DPF contracts	XX	XX	XX	XX
Unallocated divisible surplus	XX	XX	XX	XX
Net asset value attributable to unit-holders	XX	XX	XX	XX
Pension benefit obligation	XX	XX	XX	XX
Financial liabilities				
Derivative financial liabilities	XX	XX	XX	XX
Borrowings	XX	XX	XX	XX
Other financial liabilities	XX	XX	XX	XX
Deferred tax liability	XX	XX	XX	XX
Insurance payables	XX	XX	XX	XX
Deferred income	XX	XX	XX	XX
Trade and other payables	XX	XX	XX	XX
Total liabilities	XX	XX	XX	XX

IFRS 7.34(a)

IFRS 7.34(a)

Rs. lacs

31st March 2011	Currency 1	Currency 2	Currency 3	Total
Intangible assets	XX	XX	XX	XX
Investment in an associate	XX	XX	XX	XX
Property and equipment	XX	XX	XX	XX
Investment properties	XX	XX	XX	XX
Financial assets	XX	XX	XX	XX
Derivative assets	XX	XX	XX	XX
Financial assets at fair value through profit or loss	XX	XX	XX	XX
Held-to-maturity financial assets	XX	XX	XX	XX
Loans and other receivables	XX	XX	XX	XX
Available-for-sale financial assets	XX	XX	XX	XX
Reinsurance assets	XX	XX	XX	XX
Tax receivable	XX	XX	XX	XX
Insurance receivables	XX	XX	XX	XX
Deferred expenses	XX	XX	XX	XX
Prepayments and accrued income	XX	XX	XX	XX
Cash and cash equivalents	XX	XX	XX	XX
Total Assets	XX	XX	XX	XX
Insurance contract liabilities	XX	XX	XX	XX
Investment contract liabilities				
With DPF contracts	XX	XX	XX	XX
Without DPF contracts	XX	XX	XX	XX
Unallocated divisible surplus	XX	XX	XX	XX
Net asset value attributable to unit-holders	XX	XX	XX	XX
Pension benefit obligation	XX	XX	XX	XX
Financial liabilities				
Derivative financial liabilities	XX	XX	XX	XX
Borrowings	XX	XX	XX	XX
Other financial liabilities	XX	XX	XX	XX
Deferred tax liability	XX	XX	XX	XX
Insurance payables	XX	XX	XX	XX
Deferred income	XX	XX	XX	XX
Trade and other payables	XX	XX	XX	XX
Total liabilities	XX	XX	XX	XX

IFRS 7.34(a)

IFRS 7.34(a)

The Group has no significant concentration of currency risk.

IFRS 7.34(c)

IFRS 7.40(a), (b)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of currency sensitive monetary assets and liabilities) and equity (that reflects adjustments to profit before tax and changes in fair value of currency forward foreign exchange contracts used as cash flow hedges). The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are nonlinear.

Particulars	Change in variables	Current Year		Previous Year	
		Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Currency 1	X%	XX	XX	XX	XX
Currency 2	X%	XX	XX	XX	XX
Currency 1	X%	(XX)	(XX)	(XX)	(XX)
Currency 2	X%	(XX)	(XX)	(XX)	(XX)

* Impact on equity reflects adjustments for tax, when applicable.

IFRS 7.40(c)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

Commentary

In disclosing currency risk sensitivities, companies will need to aggregate information to display the overall picture. However aggregation should not result in disclosures which combine information from significantly different economic environments with different risk characteristics.

For each relevant risk variable, the entity should determine the reasonably possible changes based on the economic environment in which the entity operates over the period to the next reporting date. The reasonably possible changes should not include remote scenarios (IFRS 7.B19).

IFRS 4.39(d)ii and IFRS 4.39A(a) permit the use of Embedded Value (EV) sensitivity disclosures instead of IFRS 7 sensitivity disclosures for insurance and market risk sensitivities. This disclosure option is only allowed if insurance and market risk sensitivities are managed on an EV basis. Another allowed alternative is to base sensitivity disclosures on Economic Capital measures. This is also only allowed if insurance and market risk sensitivities are actually managed on that basis. For illustrative purposes, EV sensitivity disclosures, based on observed best practice in the insurance industry, have been provided in Appendix 3.

b **Interest rate risk**

IFRS 7.33(a)

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
Floating rate instruments expose the Company to cash flow interest risk, whereas fixed interest rate instruments expose the Company to fair value interest risk.

IFRS 7.33(b)

The Company's interest risk policy requires it to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The policy also requires it to manage the maturities of interest bearing financial assets and interest bearing financial liabilities. Any gap between fixed and variable rate instruments and their maturities are effectively managed by the Company through derivative financial instruments. Interest on floating rate instruments is re-priced at intervals of less than one year. Interest on fixed interest rate instruments is priced at inception of the financial instrument and is fixed until maturity.

IFRS 7.34(c)

The Company has no significant concentration of interest rate risk.

IFRS 7.40(a), (b)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of floating rate financial assets and liabilities, including the effect of fair value hedges) and equity (that reflects adjustments to profit before tax and revaluing fixed rate available-for-sale financial assets, including the effect of cash flow hedges). The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non linear.

Rs. lacs

31st March 2012			Impact on equity*				
Currency	Change in Variables	Impact on profit before tax	Upto a year	1-3 yrs	3-5 yrs	over 5 yrs	Total
Currency 1	+ 25 basis points	XX	XX	XX	XX	XX	XX
Currency 2	+ 25 basis points	XX	XX	XX	XX	XX	XX
Currency 3	+ 25 basis points	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Currency 4	+ 25 basis points	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)

31st March 2011			Impact on equity*				
Currency	Change in Variables	Impact on profit before tax	Upto a year	1-3 yrs	3-5 yrs	over 5 yrs	Total
Currency 1	+ 25 basis points	XX	XX	XX	XX	XX	XX
Currency 2	+ 25 basis points	XX	XX	XX	XX	XX	XX
Currency 3	+ 25 basis points	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)
Currency 4	+ 25 basis points	(XX)	(XX)	(XX)	(XX)	(XX)	(XX)

* Impact on equity reflects adjustments for tax, when applicable.
The method used for deriving sensitivity information and significant variables did not change from the previous period.

IFRS 7.40(c)

Commentary

In disclosing interest rate risk sensitivities, companies will need to aggregate information to display the overall picture. However aggregation should not result in disclosures which combine information from significantly different economic environments with different risk characteristics.

For each relevant risk variable, the entity should determine the reasonably possible changes based on the economic environment in which the entity operates over the period to the next reporting date. The reasonably possible changes should not include remote scenarios (IFRS 7.B19).

IFRS 4.39(d)ii and IFRS 4.39A(a) permit the use of Embedded Value (EV) sensitivity disclosures instead of IFRS 7 sensitivity disclosures for insurance and market risk sensitivities. This disclosure option is only allowed, if insurance and market risk sensitivities are managed on an EV basis. Another allowed alternative disclosure is to base sensitivity disclosures on Economic Capital measures. This is also only allowed if insurance and market risk sensitivities are actually managed on that basis. For illustrative purposes, EV sensitivity disclosures, based on observed best practice in the insurance industry, have been provided in Appendix 3.

c **Price risk**

IFRS 7.33(a)

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

IFRS 7.33(b)

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities not held for the account of unit-linked business.

IFRS 7.33(b)

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector and market and careful and planned use of derivative financial instruments.

IFRS 7.34(c)

The Company has no significant concentration of price risk.

IFRS 7.40(a), (b)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets and liabilities whose fair values are recorded in the income statement and equity (that reflects adjustments to profit before tax and changes in fair value of available-for-sale financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Rs. lacs

		Current year		Previous Year	
Market Indices	Change in variables	Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Stock Exchange 1	+ X%	XX	XX	XX	XX
Stock Exchange 2	+ X%	XX	XX	XX	XX
Stock Exchange 3	+ X%	XX	XX	XX	XX
Stock Exchange 1	- X%	(XX)	(XX)	(XX)	(XX)
Stock Exchange 2	- X%	(XX)	(XX)	(XX)	(XX)
Stock Exchange 3	- X%	(XX)	(XX)	(XX)	(XX)

* Impact on equity reflects adjustments for tax, when applicable

The method used for deriving sensitivity information and significant variables did not change from the previous period.

IFRS 7.40(c)

Commentary

In disclosing price risk sensitivities, companies will need to aggregate information to display the overall picture. However aggregation should not result in disclosures which combine information from significantly different economic environments with different risk characteristics.

For each relevant risk variable, the entity should determine the reasonably possible changes based on the economic environment in which the entity operates over the period to the next reporting date. The reasonably possible changes should not include remote scenarios (IFRS 7.B19).

IFRS 4.39(d)ii and IFRS 4.39A(a) permit the use of Embedded Value (EV) sensitivity disclosures instead of IFRS 7 sensitivity disclosures for insurance and market risk sensitivities. This disclosure option is only allowed, if insurance and market risk sensitivities are managed on an EV basis. Another allowed alternative disclosure is to base sensitivity disclosures on Economic Capital measures. This is also only allowed if insurance and market risk sensitivities are actually managed on that basis. For illustrative purposes, EV sensitivity disclosures, based on observed best practice in the insurance industry, have been provided in Appendix 3.

Sensitivity analysis on financial assets

As part of the Company's investment strategy, in order to reduce both insurance and financial risk, the Company matches its investments to the liabilities arising from insurance and investment contracts, by reference to the type of benefits payable to contract holders.

IFRS 7.40(a), (b)

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax (due to changes in fair value of financial assets whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of financial assets whose fair values are recorded in the statement of changes in equity). The correlation of variables will have a significant effect in determining the ultimate fair value and/or amortised cost of financial assets other than derivative financial instruments, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

Rs. lacs

Particulars	Change in variables	Current year		Previous Year	
		Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Exchange rate	+X%	XX	XX	XX	XX
Interest yield curve	+ 25 basis points	XX	XX	XX	XX
Stock market	+X%	XX	XX	XX	XX
Discount rate	+X%	(XX)	(XX)	(XX)	(XX)
Exchange rate	+X%	(XX)	(XX)	(XX)	(XX)
Interest yield curve	+ 25 basis points	(XX)	(XX)	(XX)	(XX)
Stock market	+X%	(XX)	(XX)	(XX)	(XX)
Discount rate	+X%	XX	XX	XX	XX

* Impact on equity reflects adjustments for tax, when applicable.

IFRS 7.40(c)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

Operational risks

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit. Business risks such as changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

Commentary

IFRS 7 does not require any disclosures on operational risk because it is not necessarily related to financial instruments. The above narrative on operational risk is included for illustrative purpose only and does not cover all the possible operational risks for an insurer.

Capital management

IAS 1.124A

Externally imposed capital requirements are set and regulated by the Euroland Financial Services Commission. These requirements are put in place to ensure sufficient solvency margins. Further objectives are set by the Company to maintain a strong credit rating and healthy capital ratios in order to support its business objectives and maximise shareholders value.

The Company manage its capital requirements by assessing shortfalls between reported and required capital levels on a regular basis. Adjustments to current capital levels are made in light of changes in economic conditions and risk characteristics of the Company's activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid or return capital to ordinary shareholders.

The Company fully complied with the externally imposed capital requirements during the reported financial periods and no changes were made to its capital base, objectives, policies and processes from the previous year.

The table below summarises the required capital across the Company.

Rs. lacs

Particulars	Life insurance	Non life insurance	Investment Management services
2012 Required Capital	XXXX	XXXX	XXXX
2011 Required Capital	XXXX	XXXX	XXXX

The required capital is determined by the application of a formula that contains variables for premiums and claims, expenses and reserve items. It also takes into account distribution of assets and investment returns.

Commentary

Non-life insurance business includes healthcare products which provide medical cover to policyholders. IAS 1.124B(e) requires that if the entity has not complied with its externally imposed capital requirements, the consequence of such non-compliance needs to be disclosed.

41 **Corporate Governance: -** Company should include the following in its disclosure

1 **Approach to corporate governance: -** Disclose set of values that recognizes company's responsibilities to all of its stakeholders, including shareholders, customers, employees, planners, the community and the environment.

2 **Role of the board of directors: -** disclosure to include:
2.1 Functions of board and management
2.2 Rights of Board
2.3 Responsibilities of board and management

Example of roles of responsibilities that might be disclosed:-
1 Providing strategic direction to company through constructive engagement with senior management in the development, execution and modification of company's strategy
2 appointing the Managing Director and Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Company Secretary and approving succession plans
3 monitoring the performance of the CEO
4 approving remuneration policies and practices
5 reporting to shareholders and ensuring that all regulatory requirements are met
6 providing advice and counsel to senior management
7 ensuring appropriate group wide compliance and risk frameworks and controls are in place
8 approving policies governing the operations of the company
9 approving decisions concerning the capital of the company, including capital restructures and significant changes to major financing arrangements
10 making decisions in relation to initiatives or matters otherwise not dealt with as part of the strategy process (e.g. major acquisitions and withdrawal from existing major lines of business)
11 monitoring financial results on an ongoing basis
12 determining dividends and financing of dividend payments
13 ensuring the board's effectiveness in delivering best practice corporate governance ensuring company's business is conducted ethically and transparently
14 reviewing strategic risk management including processes for identifying areas of significant business risk, monitoring risk management policies and procedures, overseeing internal controls and reviewing major assumptions used in the calculation of significant risk exposures
15 ensuring clear and transparent communication to the market, shareholders and other stakeholders as appropriate
16 listening and responding to shareholders' views on the management and direction of the company, and considering the interests of all stakeholders.

3 **Role of management:-**
3.1 Roles and responsibilities of CEO's
3.2 Roles and responsibilities of CFO's

4 **Board composition and size:-**
4.1 No of Independent directors
4.2 No of executive directors
4.3 No of rotational directors
4.4 No of non rotational directors

5 **Appointment of directors**: - Procedure for appointment of directors (rotational and non rotational)

6 **Independent Director: -** Powers, roles and responsibility of independent director

7 **Chairman's appointment and responsibilities: -** Disclosure to include
7.1 Procedure of Chairman's appointment
7.2 Powers and rights of Chairman's
7.3 Responsibilities of chairman

8 **Conduct of board business: -** Frequencies of board meeting and way of passing resolutions.

9 **CEO and CFO assurance: -** Assurance from CEO and CFO including :

9.1 the company's financial statements present a true and fair view of our financial position and performance and are in accordance with Accounting Standards, and

9.2 the risk management and internal compliance and control systems are sound, appropriate and operating effectively in all material respects.

10 **Committees: -** Company disclosurr to include the following:

10.1 Information about committees established to consider certain issues and functions in further detail.

10.1.1 Audit Committee (if any)

10.1.2 Nomination Committee (if any)

10.1.3 Remuneration Committee (if any)

10.2 Procedure of formation of committee time to time, as required.

10.3 Procedure to conduct their businesses.

10.4 Rights and powers of the committees.

11 **Retirement of directors**

Company's policy regarding retirement of directors.

Exceptions to retirement policy (if any)

12 **Directors' and executives' remuneration: -** company should disclose the comprehensive information on company's remuneration policies and practices.

13 **Compliance:**

Compliance philosophy

Declaration to the effect that relevant rules and regulations have been complied with

14 **Trading policy: -** Company should disclose its Trading Policy regarding the trading in company's securities by directors and employees and insider trading. Trading Policy aims to:

14.1 protect stakeholders' interests at all times

14.2 ensure that directors and employees do not use any information they possess for their personal advantage, or to the detrimental interest of the Company, and

14.3 ensure that directors and employees comply with insider trading provisions.

42 First time adoption of IFRS

1 **Accounting Policies – Basis of Preparation**
Disclosure to the effect that
The financial statements are the Company's first financial statements prepared in accordance with IFRS, with previous year statements reinstated for comparatives accordingly.
The fact that previous financial statements were prepared based on local GAAP
The effects of transition on the financial position, financial performance and cash flows as at the beginning of previous year have been disclosed

2 **Notes to financial statements – First time adoption of IFRS**
Disclosure of the fact that IFRS transactions have been applied retrospectively, except for certain optional and mandatory exemptions from full retrospective application, as provided by IFRS1, as detailed below

3 **Business Combinations**
Disclosure as regards whether the Company has elected to apply IFRS retrospectively on business combinations.

4 **Fair value or retirement value at deemed cost**
Disclosure of implementation of IFRS on transition date for value of owner occupied property

5 **Post retirement benefits (Defined Contribution Plan)**
Disclosure of implementation of IFRS on defined contribution plan

6 **Designation of financial assets and financial liabilities**
Disclosure that at the date of transition, the Company chose to designate according to IFRS designation criterion, certain of its existing financial assets at fair value through profit and loss

7 **Derecognition of financial assets and financial liabilities**
Disclosure that at the Company has applied the derecognition requirements under IFRS for transactions occurring on or after transition when applicable.

8 **Estimates**
Disclosure as regards whether estimates at transition date under IFRS are consistent with estimates previously made under local GAAP.

9 **Insurance Contracts**
Disclosure of claims experience data.

a **Statement showing reconciliation of equity reported under local GAAP to reported under I**

As at opening of Previous Year

	Notes	Previous GAAP	Adjustments	IFRS
Fixed Assets		xx	(x)	xxx
Financial Assets		xx	(x)	xxx
Total Assets		**xxx**	**xxx**	**xxxx**

As at end of Previous Year

	Notes	Previous GAAP	Adjustments	IFRS
Share capital		xx	(x)	xxx
Revaluation reserves		xx	(x)	xxx
Total Equity		**xxx**	**xxx**	**xxxx**

At the beginning of the previous year

	Notes	Previous GAAP	Adjustments	IFRS
Insurance Contract liabilities		xx	(x)	xxx
Investment Contract liabilities		xx	(x)	xxx
Total Liability		**xxx**	**xxx**	**xxxx**

b **Statement showing reconciliation of equity reported under local GAAP to reported under IFRS**

As at end of Previous Year

	Notes	Previous GAAP	Adjustments	IFRS
Fixed Assets		xx	(x)	xxx
Financial Assets		xx	(x)	xxx
Total Assets		**xxx**	**xxx**	**xxxx**

As at end of Previous Year

	Notes	Previous GAAP	Adjustments	IFRS
Share capital		xx	(x)	xxx
Revaluation reserves		xx	(x)	xxx
Total Equity		**xxx**	**xxx**	**xxxx**

At the end of the previous year

	Notes	Previous GAAP	Adjustments	IFRS
Insurance Contract liabilities		xx	(x)	xxx
Investment Contract liabilities		xx	(x)	xxx
Total Liability		**xxx**	**xxx**	**xxxx**

c **Statement showing reconciliation of income statement reported under local GAAP to income statement reported under IFRS**

for the year ended 31st March 2012

	Notes	Previous GAAP	Adjustments	IFRS
Gross Premiums		xx	(x)	xxx
Less : Reinsurance ceded		xx	(x)	xxx
Net premium		xx	(x)	xxx
Total Income		xx	(x)	xxx
Commission		xx	(x)	xxx
Operating expenses		xx	(x)	xxx
Benefits		xx	(x)	xxx
Total benefits, claims and expenses		xx	(x)	xxx
Profit before tax		xx	(x)	xxx
Income tax expense		xx	(x)	xxx
Dividends paid		xx	(x)	xxx
Profit for the year		xx	(x)	xxx

10 **Adjustments between local GAAP and IFRS**

The basis of material adjustments between local GAAP and IFRS are required to be disclosed. Some of the areas where adjustments might be material are enumerated below:

Dividends
Goodwill
Recognition of cumulative unrecognized actuarial losses on post retirement benefits
Available for sale financial assets - fair value adjustment
Insurance and investment contract classification
Deferred expenses

Deferred revenue
Deferred tax

Note: In instances where shadow accounting is applicable, the same is also required to be disclosed

11 Embedded Value disclosure

Statement showing reconciliation between IFRS and EV reported equity

As at..

	Segment 1	Segment 2	Segment3	Total
Assets included in IFRS Balance Sheet	xx	xx	xx	xx
Liabilities as per IFRS Balance Sheet	xx	xx	xx	xx
Net Assets included in IFRS balance sheet	xx	xx	xx	xx
Add: Value of Inforce life insurance business	xx	xx	xx	xx
Net Assets included in EV balance sheet date	xx	xx	xx	xx

Issued Share Capital, revaluation reserves and other equity instruments	xx
IFRS basis retained earnings	xx
IFRS basis total equity	xx
Additional EV basis retained earnings	xx
EV basis total equity	xx

Statement showing EV sensitivity analysis

	Sensitivity factors	Increase / decrease in EV
Interest Rate	+25 basis points	
Risk Discount rate	1%	
Lapse Rate	10%	
Mortality rate	10%	
Morbidity rate	10%	
Expenses	10%	
Equity	2%	

Additional disclosures on sensitivity analyses on EV
Brief disclosures as regards the reasons for impact on account of change in assumptions

43 Full disclosure on Key Management personnel

Existing disclosure: The current disclosure norms entail description of names of key current management personnel and consolidated figures are reported as amounts paid to them.

NEW disclosure: A detailed note as regards the philosophy involved in determining compensation must be disclosed. Example is entailed below:
Managerial remuneration is determined by the executive compensation policy. The executive compensation policy is regularly presented to the Remuneration Committee / Board of Directors (where remuneration committee does not exist).

Constitution of the Remuneration Committee (if it exists) is required to be disclosed. Independent directors on the Board should be a part of the committee.

Key responsibilities include:
Reviewing and approving salary of key management personnel
Determining terms and conditions of long term incentives
Reviewing and approving performance measures for short term incentives

Philosophy
The Board's approach to executive remuneration is to align remuneration with creation of value for the

Remuneration Structure
Executive remuneration comprises of the following key componenets
Fixed
Base Salary
Perquisites
Provident Fund payments
Contribution to Superannuation Fund

Variable
Short Term incentives – (Performance Bonus)
Long Term incentives - Stock Options

Fixed Remuneration
An executive's fixed salary is determined according to the level of the responsibility, importance to the business and market competitiveness. Fixed remuneration is reviewed (but not necessarily) increased every year taking into account the appropriate market-based salary.

Short Term Incentives
Short term incentives are annual risk component of remuneration which are paid in cash. Individuals earn short term incentives based on defined company performance parameters and personal objectives.
Measures used in determining short term incentives

Type of Measure	Weight age	Performance Measure	How it is measured	Link to Strategy
Financial Measure	xx%	- Return on Equity	Underlying profits of the Company / shareholders equity	To Achieve a return on equity in top 10% of its peer group
	xx%	- Total operating earnings	Profits earned by the Company	To achieve operating earnings amongst the top 10% of the peer group in the industry
Qualitative Measures	xx%	Market and Competitive positioning	Ranking in the industry and rankings in designated industry surveys	To achieve ranking in the industry.

Individual short term objectives both financial and qualitative measures are set at the start of the year. These measures are chosen as they align with the objectives of the group.

Certain Financial and Qualitative measures may be common across some roles. In addition executives will have measures that are specific to their business units / function

Range: The short term incentives range from 50% of fixed salary to a maximum of 200% of fixed salary depending on the scope of individuals role.

Long Term Incentives

Long Term Incentives (LTI) is the second risk component of remuneration. LTI are primarily delivered in terms of stock options.

Employees become eligible for long term incentives based on designation, number of years of service and their individual performance ratings.

Determining of Stock Options

The following is used for determining quantity of stock options

No. of Years of Service x Rating x Achieved Company Performance Measure
Target Company Performance Measure

The stock options are to be issued at a discount of 40% of the fair value of shares. Of the stock options available 30% can be exercised immediately and the balance can be exercised after expiry of atleast one year from the vesting date or on retirement whichever is earlier.

Effect of stock options on ceasing employment: Once an executive resigns the unexercised stock options vest with the Company.

Remuneration table for key managerial personnel

Executive Name	Cash salary	Perquisites	Post employment benefit	Short term incentives	Long term incentives	Total

Changes in Key Management Personnel

A brief note outlining any changes in management personnel (additions / deletions) along with a brief profile of the person is also required to be disclosed.

Directors Disclosure

A brief description of director's qualification, experience is required to be entailed. The list of companies (if any) on which the person is also a director is required to be disclosed.

Director Name	Status in reporting company	Brief expertise	Other Companies in which directorship is held	Status in other Company
	Independent			

Remuneration paid to Directors

Director Name	Status	Sitting Fees Paid
	Independent	

Appendix - 4

Section – 1

1.1 Disclosures and International Actuarial Standards of Practice

Disclosure requirements or principles in IFRSs cannot cover every possible disclosure issue and tends to be principle based and focused on describing the information needs of the user of the financial statements. These principles have a bearing on insurance contracts and financial statements and actuaries may be called upon to assist in their preparation. Appendix A consists of a checklist of such areas. The International Actuarial Association has issued guidance related to disclosure as well as other IFRS matters where members of the actuarial professional may be called upon to advise. Within the IAA's framework, IASP 12 (Disclosure of Information about Insurance Contracts under IFRS) is advisory and non-binding although its status in India may be elevated should:

- IASP 12 be endorsed by the Institute of Actuaries of India for use in connection with relevant IFRSs, or

- The IRDA were to require IASP 12 to be used in connection with IFRS or other relevant financial reporting requirements.

In addition IASP would be binding where:

- An actuary represented to a principal or other interested party that the actuary will consider the Practice Guideline for use in connection with IFRS or other relevant financial reporting requirements; or

- An actuary's principal or other relevant party required the actuary to consider IASP 12 for use in connection with IFRS or other relevant financial reporting requirements.

It would be open to the IRDA and / of the Institute of Actuaries of India with the concurrence of the IRDA to adopt IASP 12 as it stands or used the IASP as a starting point for Indian specific guidance.

It seems likely that given the lack of specific guidance in IFRSs themselves that IASP 12 has influenced the nature of insurance contract disclosures in those jurisdictions where IFRS has been implemented. Because of this and because a situation where Indian practice departed from the principles implied by IASP 12 might be perceived as a weak convergence towards IFRS IASP 12 has been considered by the Committee as a guide to the way forward in India. Thus the comments that follow draw heavily on this IASP.

An early point made in IASP 12 is that disclosure may describe technical details of methodology or assumptions used that are too complicated for the user not familiar with insurance. Nevertheless, it is held that complexity by itself is not a sufficient reason to omit information and if necessary, users are expected to make use of external expertise to enable them to understand the information. In India the IRDA is self evidently a principal user of the financial statements and is not in need of external expertise.

The Committee therefore believes that levels of disclosure in financial statements should converge towards IFRS practices implying that current disclosure be enhanced notwithstanding the complexities introduced. This does not imply that the IRDA does not consider information of a type that is not currently disclosed as much of this information is included in prudential statements. However the financial statements target a wider audience and the Committee believes the enhanced level of disclosure implied by IFRS is in the public interest.

The following paragraphs consider a range of specific issues arising under an IFRS disclosure regime that relate to contracts and matters that might be considered to be in the actuarial domain.

1.2 Aggregation and materiality

Considering the wide range of contracts and contract features offered by insurers together with distribution channels and target markets, relevant contract-related information would usually exceed the volume of information that can reasonably be presented to users of financial statements excluding the IRDA itself. It is therefore necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. A balance between quantitative and qualitative information is also required.

For a large diversified insurer there could be advantages in focusing on qualitative risk-related information, addressing risk management practices, the assessment of macro-level risks related to its significant products, insurance liabilities and assumptions, and identification of extraordinary or material risks. Risks associated with significant uncertainty as to future cash flows on the other hand can be described in detail and provided in quantitative terms.

As a consequence, setting specific set of rules regarding the proper level of aggregation is difficult. Judgment is required regarding what level of information best serves the information needs of the intended users. An insurer might group insurance contracts into broad classes appropriate for the nature of the information to be disclosed, taking into account matters such as the risks covered, the characteristics of the contracts and the measurement basis applied.

'International Financial Reporting' concepts also attach weight to the way entities are managed in practice – that is the disclosure approach should be consistent with the management approach of the entity. For a large diversified insurer management might not direct and control the business on the basis of detailed product data but rather might apply general risk management tools that are used in conjunction with key metrics Therefore, analyzing the disclosures "through the eyes of management" and reflecting this approach is consistent with IFRS concepts.

However this immediately triggers a conflict with the product / class of business orientation of prudential reporting. It seems unlikely that the IRDA will move away from such requirements and nor should the Authority do so. But it does appear that the issue of non product oriented aggregation or segmentation within financial statements will need to be considered by the Authority sympathetically if the management orientation envisaged under IFRS is to be respected.

1.3 Accounting policies

It is self evident that accounting policy is a key disclosure item. However in relation to contracts, the level of disclosure is likely to be more than 'in accordance with IFRS 4', for example. This would be because a variety of approaches are permitted under IFRS 4 such as the treatment of contracts with discretionary participation features. As a result, adequate disclosure regarding the approach used is essential even though via the specific Indian implementation of IFRS, a number of the alternative approaches under IFRS might have been disallowed. Moreover users of the financial statements in India and overseas include those who cannot be expected to be familiar with specific Indian implementation determinations even though they might be familiar with IFRS for insurance contracts generally.

More broadly, specific areas where accounting policies for insurance contracts can be constrained by limitations in IFRS 4 include contract classification issues, recognition, measurement, presentation, consolidation of subsidiaries, changes of accounting policies and accounting estimates. Disclosures in these areas need to be considered.

1.3.1 Contract classification

The general approach to classification would need to be disclosed together with specific issues – for example in the event that unbundling was adopted, the criteria applied, the approach used to split the contract elements, the principles governing their recognition and measurement and the presentation of the components.

1.3.2 Discretionary participation features

As mentioned, IFRS 4 provides for a number of approaches in accounting for contracts with discretionary participation features and the approach taken would need to be disclosed event if there was limited discretion in terms of Indian Guidance.

1.3.3 Recognition

Disclosures include information about the recognition of insurance contracts, for example when the obligations are recognized in the technical cycle of the underwriting process. Innovative distribution arrangements such as 'on the spot' issue of policies and data transmission delays generally for business sourced from rural areas are relevant factors.

1.3.4 Measurement and presentation

A key measurement item is the approach taken to determine policy liabilities. It cannot be assumed that users of financial statements will be able to assess the information if the disclosures simply refer to the Regulations from which the approaches originally were derived and more generally a more comprehensive disclosure would be warranted than is generally encountered in current financial statements.

For general insurance claim liabilities, disclosure as to whether these liabilities are discounted for the time value of money, and if so, the approach and interest rate(s) used, may be particularly relevant. In some cases, claims liabilities are determined on the basis of an actuarial estimate of the aggregate ultimate cost. In some other cases, claims liabilities are determined on the basis of using a claim-by-claim investigation of most likely claims payment. Further, the approach to measuring unearned premium liabilities might be described, particularly if a prospective approach is applied.

Supplementary information, such as embedded values or sensitivity analyses, that reflect measurement approaches not used to measure related balance sheet items, may also be provided. Indeed a case can be made that should the extent of external disclosures of embedded values increase, that an entity choosing to make such disclosures should do so within a more formal reporting regime than applies currently. Although not part of the financial statements as such, practice in Europe especially is to determine such results within a known set of principles that include a prescribed degree of disclosure, and which have been subject to some form of independent review.

Where such supplementary information was provided, it should be accompanied by an explanation of the alternative method and its objectives and limitations. It might also be accompanied by commentary on the relevance and reliability of such figures and a description / reconciliation of the significant differences between the measurement approach used in the balance sheet and that of the supplementary information.

1.3.5 Consolidation

Transactions between related parties that affects obligations to third parties are subject to adequate disclosure and the Committee notes that this principle needs to consider participating business. More generally the current 'consolidation' principles regarding policyholders and shareholders interests need to be considered and potentially give rise to a need for prudential statements that include data currently incorporated into financial statements that is not necessarily disclosed under an IFRS financial statement regime.

1.3.6 Changes in assumptions

Disclosure is required of any changes relative to prior periods in measurement approaches and/or assumptions, if such changes result in an accounting estimate change. This includes the impact of changes in the assumptions used to determine policy liabilities. Current practice is to disclose such impacts to the IRDA via prudential statement but not in financial statements.

1.4 Disclosure of amounts reported

It is possible that certain contracts issued by life insurance companies will not be classified as insurance contracts. An insurer needs to disclose all items resulting from insurance contracts separately from other business and so aggregations do not combine insurance contracts and contracts classified as non-insurance contracts, regardless of whether they are investment contracts with or without discretionary participation features or service contracts.
Separate disclosure is required for insurance contracts and related ceded reinsurance, ie, amounts are not presented net of reinsurance. Gains and losses from the purchase of reinsurance are need to be separately disclosed.

Some insurers may have developed processes related to sources of earnings or embedded value analysis of variance. The IRDA requires an analysis of surplus to be undertaken and reported via the Appointed Actuary's Report. Such information might contribute to the understandability of the financial condition or effectiveness of the entity's operations and so is a candidate for disclosure but if presented it should be made clear that the information is not specifically required by IFRS.

1.5 Process used to determine assumptions

Disclosures should be provided about the significant assumptions such as those used in measuring the insurance liabilities. Given that the ability to provide meaningful information to intended users may be limited by the fact that assumptions are chosen based on a complicated set of characteristics of a wide variety of contracts, the presentation of relevant and useful multidimensional tables of assumptions might be difficult to convey in printed financial statements. An alternative to providing a rigorous set of detailed and quantified assumptions is to provide carefully prepared information regarding the process used to develop the assumptions.

1.6 Changes in assumptions

The effect of changes in assumptions needs to be disclosed if the changes are material to the financial statements. It may be helpful if an analysis of the effect of the individual changes is made as well as the overall effect of changing assumptions. Changes in processes used to develop significant assumptions would also be disclosed.
The Committee notes that IASP 12 implies that materiality is assessed not only with respect to the current balance sheet (where there might well not be a material impact) but

can also extend to the expected effect of the change on future financial statements. If implemented, this requirement is significant given the additonal layer of complexity.

1.7 Reconciliation of changes in items

1.7.1 New Business

The movement of different insurance liabilities, insurance assets and related intangible assets often reflects the effect of different events in an aggregated manner, including the effect of new business of the reporting period. In practice the Committee notes a high level of interest amongst potential users regarding the amount of new insurance written during a reporting period and the associated assets or liabilities.
The Committee believes changes in the liability for prior existing business may constitute additional useful information together with the effect of new business on the balance sheet and income statement may be so as to isolate the effect of current management or current sales efforts.

1.7.2 New claims

For general insurance claim liabilities, it may be desirable to disclose separately the incurred amounts arising from newly incurred claims, and incurred amounts arising from changes in the estimates for previously incurred claims.

1.7.3 Acquisition of further rights or obligations under an existing contract

This category of disclosure is relevant for contracts with savings components, including the receipt of renewal premiums in the case of unit linked and universal life insurance. Two types of additional premiums can be distinguished - those previously considered in the measurement of the insurance liability or insurance asset and those not so considered. The amount of additional premiums of the second type could be aggregated into the amount reported for new contracts. In this case, all other amounts would be disclosed as renewal premiums under existing contracts. In India such premiums are frequently referred to as top-ups and this is an area of known interest to users. Accordingly the Committee feels that specific guidance in this area should be provided.

1.7.4 Deferred acquisition costs (DAC)

A reconciliation of the movement of any outstanding DAC balance is usually required although this would not be a relevant item should the deferment of acquisition costs not be allowed on the grounds that an equivalent financial impact is captured in the determination of policy liabilities.

1.8 Nature and extent of risks arising from insurance contracts

The disclosure with respect to the nature and extent of risks arising from insurance contracts can be broadly distinguished by information concerning the following:

- Explanation of objectives, policies, processes for managing risks and methods used for risk management,
- Drivers of risks from insurance contracts,

- Specific information about insurance risk regarding sensitivity, risk concentrations, and claims development,
- Credit risk, liquidity risk and market risk inherent in insurance contracts, and
- Market risk inherent in embedded derivatives not reported at fair value through profit or loss.

Again the current disclosures in financial statements typically fall short of IFRS standards and additional information is provided to the IRDA via prudential statements may also fall short. The Committee sees this as a major disclosure area going forward and the comments below are an indication of the potential extent of additional disclosures.

1.9 Policies, processes and methods for managing risks

Risk management techniques used by insurers include:

- Spreading risk over time and over a portfolio,
- Risk selection,
- Contract wording and features including definition and limitations of coverage,
- Reinsuarance, deductibles and co-pays (perhaps more widely used in non life than life),
- Retransfer of risk to policyholders such as through participating contract provisions and premium rate adjustment clauses.

Risk selection strategy or approaches used might be disclosed, particularly those used to manage concentration risks, cumulative risks, and customer basis selection. In less diversified entities, information about specific coverages provided might be appropriate. In the case of large diversified entities, the approaches used to monitor and organise risk management and measure performance might be disclosed.

The overall reinsurance strategy might be described if material and this is more likely to be the case for non life insurers. This may include disclosure of retention limits, and any material individual reinsurance treaty, including inherent potential ceded reinsurance counterparty risks and the approach used to monitor these risks. In the case of extreme cumulative risks, especially risks of changes in risk exposure under contracts with significant long-term guarantees, approaches to cope with those risks by retransfer features like premium adjustment or participation clauses may be described if material.

If market risks are hedged, the approach, affected amounts and hedge effectiveness might be disclosed.

In some cases, the potential effect of policyholders' options is limited by contract features that allow the insurer to protect itself against adverse selection. These can include adjustment clauses for surrender values or rights to adjust participating bonuses. Such measures are explained if they can have a material effect upon the risks borne.

In any case, disclosures can provide information relating to how the insurer monitors the retained risk after all mitigating effects, such as product design, and underwriting. For example, the insurer could disclose information about the models, valuation techniques and metrics used for risk monitoring and reporting, the sensitivity analyses that are monitored, and/or any use of stress testing or scenario testing. Limitations as to

effectiveness can include the lack of independence of risks, the size of the risk pools involved or the amounts of risk retained, and the level of guarantees.
If the insurer does not have in place any risk management techniques to manage a specific risk that has been identified, IASP 12 suggests it would be useful to disclose this fact.

1.10 Insurance risk regarding sensitivity, risk concentrations, and claims development

Information disclosures are required to be made both before and after risk mitigation by reinsurance.
For insurance contracts, IFRS 4 requires disclosure of either the sensitivity of profit or loss and equity to insurance risk variables that have a material effect on them, or qualitative information about sensitivity including the timing and uncertainty of the insurer's future cash flows.
IFRS 4 also requires disclosures about insurance risk concentration and claims development.

IFRS 439(d) requires disclosure of credit risk, liquidity risk and market risk based on the guidance in IFRS 731-42. While these risks are not considered part of insurance risk, it may be desirable to incorporate these risks into the insurance risk disclosures where significant overlap in the disclosures might otherwise exist. However, care would be applied to ensure that the insurance risk is adequately disclosed, rather than only the financial risks. Attention may be given to the effect of rapidly growing entities.
The remaining risk after all mitigation approaches are used may be described. To the extent that quantitative information is provided, similar information regarding the effect of risk mitigation techniques may be provided.
This insurance risk description is categorised according to the major forms of insurance risk. Any expected significant changes in the amount, type, or extent of these risks would normally be disclosed.

1.10.1 Sensitivity analysis

IFRS 4 requires disclosure of either the sensitivity of profit or loss and equity to insurance risk variables that have a material effect on them, or qualitative information about sensitivity including the timing and uncertainty of the insurer's future cash flows.
Considerations in the decision of whether to use a quantitative or qualitative sensitivity disclosure include:

- The number of assumptions or key drivers affecting the insurance risk,
- The reliability and quantifiability of the relationships between these key drivers and earnings/equity, and
- The extent to which these key drivers may be observable by those outside the reporting entity.

1.10.2 Types of quantitative sensitivity analysis

The quantitative sensitivity analysis would show how profit or loss and equity would have been affected had reasonably possible changes in relevant risk variables occurred at

the balance sheet date. This also requires disclosure of the methods and assumptions used in preparing the sensitivity analysis.
Disclosure of correlations between the risk variables should be disclosed, even if these were not relevant to the sensitivity analysis methods used, because they may be relevant to understanding the results.
Any changes in the methods and assumptions used from the previous period might be suitable to be disclosed.
There is an option of an alternative sensitivity analysis such as embedded value analysis or economic capital models if this method is used to manage sensitivity to market conditions. Additional disclosures regarding methods and assumptions would be required.

1.10.3 Sensitivity to assumptions for insurance risk

Possible aspects of disclosure of exposure to risk via quantitative sensitivity analysis include sensitivity to:

- Risk of random deviation,
- Extreme events,
- Cyclical external environment risks,
- Inappropriate models and/or improper parameters have been used, and
- Volatility resulting from changes in circumstances

1.10.4 Qualitative information about sensitivity

As an alternative to the quantitative sensitivity disclosure discussed above, IFRS 439A allows the insurer to disclose "qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows"
A primary objective of this disclosure is to explain the types of material insurance risks that are inherent in the entity's portfolios. These may include, but are not restricted to, underwriting risks (mortality, morbidity, longevity, persistency), catastrophe risks, risk of a significant change in risk exposure as a result of judicial interpretations or societal changes that may affect items such as claim liabilities for non-life liability coverages.
A brief summary description of the major characteristics of the insurance liabilities and insurance risk in the portfolio may also be helpful.
If the entity's ceded reinsurance contracts are also affected by the same risk variables, it would be useful to disclose their effect on the insurer's cash flows in conjunction with the effect of the direct or assumed insurance contracts.
Information about the nature of participation features, premium adjustment clauses, experience refunds, any non-guaranteed features or any discretion on the part of the insurer may be disclosed.
The effect of regulatory constraints or likely actions affecting the risk position of an insurer's equity can be described such as restricted access to investments covering insurance contracts.

1.11 Concentration of insurance risk

1.11.1 Historical results of extreme events

One approach for disclosing the risk due to concentration of insurance risk is to disclose historical experience arising from such concentrations. An example might be the disclosure of historic losses due to large catastrophes.

1.11.2 Distribution of income statement or balance sheet accounts

A simple breakdown of the distribution of relevant balance sheet or income statement items by coverage, market, or similar measure may suffice.

1.11.3 Scenario analysis — deterministic and stochastic approaches

The two major approaches to derive the maximum exposure under the scenario analysis method are deterministic and stochastic.

The deterministic approach estimates the amount of aggregated losses under one or more alternative event scenarios, sometimes representing extreme events to permit stress-testing of the liabilities. The focus of the resulting sensitivity disclosure is the ability to withstand the given scenario or scenarios, and not necessarily the probability of the occurrence of the given scenario(s).

The stochastic approach uses a probability distribution, or a set of multiple scenarios with probabilities assigned to each scenario by risk category (eg, earthquake, hurricane, terrorism, or market crash) to simulate the range of losses from such events.

1.12 Claims development

Claims development for non-life insurance, or other contracts with usual settlement durations longer than a year, is typically shown in the form of a “claims development triangle” for users of financial statements.

1.13 Credit risk, liquidity risk and market risk inherent in insurance contracts

IFRS 439(d) requires disclosure of information about credit risk, liquidity risk and market risk of insurance contracts in line with the requirements of IFRS 731-42 for financial instruments. Some disclosure would be required for all insurance contracts even if the only disclosure is a statement that such risks are non-existent for the contracts being discussed.

1.14 Qualitative disclosures

For credit risk, liquidity risk and market risk, IFRS 7 requires qualitative disclosure of the exposures to risk and how they arise, objectives, policies and processes for managing the risk and the methods used to measure the risk, and any changes in the risk exposures and risk management from the previous period. This disclosure could be integrated with the disclosure on insurance risk for insurance contract portfolios where both risk categories are material.

Liquidity risk may arise from policyholder put and surrender options within insurance contracts and these may be mitigated by non-guaranteed surrender values, surrender penalties or surrender-free periods. Liquidity risk may also arise in situations where an insurance contract could result in an asset or a negative liability although this risk is limited by current policy liability principles and would continue to be limited were the current principles carried forward into an initial implementation of IFRS. These options could lead to disintermediation.

Liquidity risk may arise from policyholder put and surrender options within insurance contracts and these may be mitigated by non-guaranteed surrender values, surrender penalties or surrender-free periods. Liquidity risk may also arise in situations where an insurance contract could result in an asset or a negative liability although this risk is limited by current policy liability principles and would continue to be limited were the current principles carried forward into an initial implementation of IFRS. These options could lead to disintermediation if lapses increase when interest rates increase, while the value of the assets backing the insurance liabilities decreases, and such matters may merit discussion as well.

Market risk may arise from crediting rates or benefit amounts that are linked to market variables like interest rates and equity indices or linked to the performance of a pool of assets.

1.15 Uantitative disclosures

For credit, liquidity and market risks, IFRS 7 requires disclosure of summary quantitative data about risk exposures at the reporting date. Unless the risk is not material, IFRS 736-42 also requires certain quantitative disclosures.

1.15.1 Credit risk

For insurance and reinsurance contracts, the insurer should disclose:

- The maximum exposure to credit risk of the entity's counter-party at the reporting date without taking account any collateral held or other credit enhancements,
- A description of any collateral held and other credit enhancements,
- Information about the credit quality of insurance and reinsurance assets that are neither past due nor impaired, and
- The carrying amount of insurance and reinsurance assets that would otherwise be past due or impaired whose terms have been renegotiated.

Unless impracticable, for impaired insurance or reinsurance assets, the insurer might disclose:

- An analysis of assets determined to be impaired,
- The factors considered in determining impairment,
- A description of collateral held where material and other credit enhancements, and
- An estimate of their fair value.

Credit risk could also be relevant, for instance where premiums are overdue or policy loans are granted in excess of funds available under the contract.

1.15.2 Liquidity risk

For liquidity risk, an insurer may provide a maturity analysis for insurance liabilities that shows the remaining contractual maturities, and a description of how the insurer's liquidity risk is managed.

Alternatively the insurer may disclose information about the estimated timing of the expected net cash outflows resulting from recognised insurance liabilities. The cash flows in this disclosure might show undiscounted expected benefit and expense cash flows, with an offset from expected premium inflows, based on current estimates. It would be useful to disclose the basis for these cash flow projections for example whether It would be useful to disclose the basis for these cash flow projections for example whether

- Cash flows are based on current estimates as of the balance sheet date,
- The same assumptions underlie the liability valuation,
- Any policyholder options have been allowed in the analysis, and
- Any prudential margins have been included.

The cash flows in either analysis could be split into reasonable time buckets, for example "<1 year", "1 to 5 years", "5 to 10 years" and ">10 years" for long-term business.

1.15.3 Market risk

IFRS 740 requires disclosure of a sensitivity analysis for each type of market risk, showing how profit or loss and equity would have been affected by reasonably possible changes in the relevant risk variable at that time. It also requires disclosure of the methods and assumptions used in preparing the sensitivity analysis, any changes in these from those used in previous periods, and reasons for such changes. Relevant market risk variables could include (but are not limited to) interest rates, currency exchange rates, and equity returns.

IFRS 7 also allows disclosure of an alternative sensitivity analysis (such as value-at-risk, embedded values or economic capital models) that reflects interdependencies between risk variables if the insurer prepares and uses that sensitivity to manage its financial risks. An explanation of the method and assumptions used as well as the objective and limitations of the method is required.

When the disclosed sensitivity analysis is unrepresentative of a financial risk inherent in an insurance contract, this fact should be identified.

It might also be useful to disclose the approach used by the insurer to mitigate asset liability mismatch and the effect of this mitigation in the sensitivity analysis results and also the sensitivity results in terms of the impacts from policyholder behaviour, investment results, asset liability management results, valuation methodology impacts and any risk mitigation techniques.

1.15.4 Other market related risks

The market interest sensitivity of lapse risk might be considered when the correlation is based on historical experience or soundly based judgment and when it would have a significant effect on future net cash flows.
Other interest rate risks might be viewed in the overall context of risks undertaken.
Participation features, especially limitations of participation rules such as minimum premium refunds independent of earnings or other forms of minimum guarantees, can increase the uncertainty in some cases. In other cases, participation features, especially performance-linkage features, or linkage to a specified pool of investment held by the insurer, can significantly reduce the market risk of such contracts to the insurer.

1.16 Contractual and/or constructive links between assets and liabilities

The extent of any contractual or constructive links between an insurer's assets and liabilities may be discussed as part of the disclosures. This does not include correlations that are not due to contractual or constructive links.

1.17 Performance linkage

If the effects of any linkage between assets and liabilities in performance-linked contracts or other types of participation features are disclosed, such disclosure would usually include the expected ultimate policyholders share of all assets, liabilities, income, and expenses reported in the financial statements.
In cases where obligations are completely linked, any inconsistent measurement of items and related linked items in the financial statements can be misleading; adequate disclosure of such inconsistent measurement would be considered to the extent appropriate. If the linkage is incomplete, for example because the insurer has some discretion regarding the amounts credited to policyholders or because there are floors or caps, disclosure of the effect of such features could be appropriate.

1.18 Exposures to market risk inherent in embedded derivatives not reported at fair value through profit or loss

Similar to the need for disclosure of relevant credit risk, liquidity risk and market risk in insurance contracts, IFRS 439(e) requires disclosure of information about market risk associated with embedded derivatives not reported at fair value through profit or loss.

Section - 2

Financial statement elements of an insurer whose amounts and methods may be disclosed

2.1 Elements that might be important:

- Unearned premiums or deferred premiums,
- Policy benefit liabilities on both a direct and ceded reinsurance basis;
- Claims liabilities on both a gross and ceded reinsurance basis, including provisions for known incurred claims, incurred but not reported claims, and the costs of servicing and adjusting those claims,

- Insurance assets, for example if a prospective approach that reflects an excess of the present value of future premiums over the present value of future benefits is reported as an asset,
- Deferred acquisition costs or a deferred revenue asset, deferred transaction costs, future servicing rights and a value of business acquired asset,
- Inherent guarantees,
- Policyholders' options, and
- Contractual features directly relating to obligations with net earnings or experience of the specific case (eg, a large group life insurance).

2.2 Further disclosure can be provided regarding:

- The required assessment of liability adequacy and how the minimum requirement of IFRS 4 with respect to liability adequacy testing is satisfied,
- A description of the impairment test applied to insurance and reinsurance assets,
- The objective and measurement approaches used to determine intangible assets,
- The approaches used if net liabilities proved to be inadequate, ie, how balance sheet items are modified if such a case arises,
- Fees and charges,
- Discounting approaches used in the reporting entity's accounting policies, including the choice of discount rates, and the basis for establishment of margins for risk and uncertainty,
- Use of shadow accounting;
- Accounting policy with respect to hedging practices especially for unit-linked business;
- Accounting policy for recoveries from third parties, including rights to recover commissions paid in case of surrenders,
- The approach taken regarding recognition of profits from ceded reinsurance and their amortisation, if any, and
- The basis for determining any reduction in credit for ceded reinsurance due to credit risk of a reinsurer.

2.3 A description of the measurement approaches including:

- Any limitations of initial values to zero profit at outset,
- Consideration of past experience of policyholders' behaviour or whether worst-case scenarios are used,
- Explicit or implicit consideration of future investment earnings or whether they were not considered;
- Explicit or implicit consideration of future administration cost; and
- Approaches taken to match and manage the entity's assets and liabilities to match reported income and expenses from insurance and investment contracts

2.4 The following items might be considered for separate reporting. Examples include:

- Intangible assets, such as deferred acquisition costs, including its roll-forward or sources of change during the period that reflect new amounts deferred, amounts amortised, any interested credited, and any retrospective adjustments,
- In the case of business combinations and portfolio transfers, the outstanding amount of intangible assets representing the value of the business purchased or transferred, usually on a fair value basis that reflect roll-forward items,
- Other intangible assets or liabilities resulting from deferral of earnings under insurance contracts,
- Amounts reported as equity that do not qualify as liabilities under IFRSs eg, statutory catastrophe and equalisation reserves,
- Provisions arising from an inadequacy of liabilities or impairment of assets resulting from or related to insurance contracts,
- Receivables and payables due from or to policyholders under insurance contracts;
- Non-insurance assets or liabilities due from, or to, other parties such as agents, brokers, prior owners of business, or third parties for recoveries if related to insurance contracts and considered in the measurement of insurance assets or insurance liabilities or related intangible assets on a direct and reinsurance ceded basis;
- Recognised revenue from policyholders under insurance contracts,
- Amounts received from policyholders under insurance contracts, but reported as increases in liabilities rather than revenue, and recognised revenues resulting from charges to such liabilities,
- Changes in unearned or deferred premiums,
- Changes in policy benefit liabilities, net of changes in insurance assets,
- Recognised expenses for claim payments,
- Changes in claims and IBNR liabilities on a direct and reinsurance ceded basis,
- Acquisition costs incurred, as defined by the entity's accounting policies to be deferrable, as well as those actually deferred and those immediately expensed,
- The income effect of changes in estimates and assumptions by applying the new and old estimates and assumptions to the balance sheet items at the reporting date,
- Expenses caused by assessing an inadequacy of liabilities as a result of liability adequacy testing or an impairment of assets resulting from or related to insurance contracts as a result of impairment testing,
- Accretion of interest to reflect the passage of time in the case of discounted insurance assets, insurance liabilities, and related intangible assets,
- The income effect of any changes in discount rates applied; and
- Amounts distributed to participating policyholders.

Product features	Product description	IFRS Classification	Product class	Participating	US GAAP classification	Comments	Insurance risk	Comments on the significance of the insurance risk
Participating - non linked products - Life endowment products & anticipated endowment products	- Death/Maturity benefit is sum assured plus guaranteed additions plus vested bonuses - There could be feature of extended life cover after maturity - Surrender value also includes guranteed addittions - There could also be a feature where various payouts may happen at various stages of the contract period	Significant insurance risk	Insurance	Participating Discretionary	FAS 60 - Long duration	Material death insurance risk	Yes	FAS 60 product contains enough insurance risk under IFRS.
Participating - endowment pension products	- Death benefit is the sum assured plus guaranteed additions plus vested bonus. - On vesting,the sum assured together with guaranteed additions and vested bonuses will be applied to provide a life annuity to the life assured. - On lapsation after three years, reduced benefits apply as per non-forfeiture provisions. - There could be a product with zero death benefit	Insurance or Investment risk depending on the SA opted	Insurance or Investment contract depending on the SA opted	Participating Discretionary	FAS 60 - Long duration	Risk depends on extent of sum assured.		FAS 60 product contains enough insurance risk under IFRS. However in case of Zero death benefit products as there is no risk it must be classified as investment under IAS 39.
Non participating - Mortgage / Credit Term Assurance	A term Life Insurance Plan that offers protection against the outstanding home loan/other retail loans amount and in case of an unfortunate event of death, the financial security is not affected. The Company will pay the outstanding amount to the bank directly. Death benefit = outstanding loan amount. It could have surrender amount and will be applicable only if customer pays the loan back before the tenure	Significant insurance risk	Insurance	Non-Participating	FAS 97 - Limited pay	Death Insurance risk	Yes	It is generally a single premium product. Insurance risk is present since it is uncertain when the insured person will die during the term of the contract or whether death will occur at all. Death risk existed prior to inception. Death adverselys affects the policyholder (on which event the policyholder is compensated by payment of the sum assured), it is a likely event and therefore contains commercial substance. Insurance risk is equal to the sum assured - insurance risk is high in the initial years of the term of the contract.
Non participating - Term Insurance Plan	- 'Death benefit is the sum assured (no surrender values) - 'In some products there could be an addittional feature like on survival at the end of the term, all premiums paid will be returned	Significant insurance risk	Insurance	Non-Participating	FAS 60 - Long duration	Material death insurance risk	Yes	FAS 60 product contains enough insurance risk under IFRS.
Non participating - Health product	- 'It could be reimbursement based medical insurance plan for the life assured & / or his family which covers medical expenses for in-patient hospitalisation, pre & post hospitalisation - It could be a comprehensive critical illness insurance - 'Pre-existing illnesses could be covered - 'It might have death benefit attached to it	Significant insurance risk	Insurance	Non-Participating	FAS 60 - Long duration	Material morbidity insurance risk	Yes	Insurance risk is present since it is uncertain when the insured person will be diagnosed with a illness or is hospitalised. The illness risk existed before inception of the contract. Illness adversely affects the policyholder (on which event the policyholder is compensated by payment of the sum assured), it is a likely event and therefore it contains commercial substance. Insurance risk is equal to the sum assured and will be significant throughout the term of the contract
Non participating - single premium investment products	Death benefit is a percentage of sum assured. Maturity benefit, paid irrespective of survival, is sum assured plus the guaranteed additions. Surrender benefits paid.	Insurance / Investment product	Insurance / or investment product depending on extent of Sum assured opted	Non-Participating	FAS 97 - limited Pay	Death risk - depends on extent of Sum assured	Yes	Insurance risk is present since it is uncertain when the insured person will die during the term of the contract or whether death will occur at all. Death risk existed prior to inception. Death adverselys affects the policyholder (on which event the policyholder is compensated by payment of a percentage of the sum assured the sum assured), it is a likely event and therefore contains commercial substance.At inception, and during the early years, the amount at risk is significant. Product is classified as FAS 97 LP under US GAAP, sum at risk was previously assessed as significant.However since standard does not give quantitative guidance on significant insurance risk.And depending upon product features, extent of death risk may vary and accordingly classification of product may change to investment product.
Linked products	- 'Death benefit is greater of sum assured and value of units. - Option of increasing/decreasing death benefit is available. - Option of adding single premium top-ups could be available. - On withdrawal/surrender after completion of three years, a proportionate payment is made, reflecting the value of units. - Mortality charge is deducted by the cancellation of units. - Maturity value = Fund value (SA is 5 times)	Significant insurance risk	Insurance	Non-Participating	FAS 97 - Universal life	Material death insurance risk	Yes	Insurance risk is present since it is uncertain when the insured person will die during the term of the contract or whether death will occur at all. Death risk existed prior to inception. Death adversely affects the policyholder (on which event the policyholder is compensated by payment of the sum assured or the value of units, whichever is higher), it is a likely event and therefore contains commercial substance. Insurance risk is equal to the sum assured less value of units, if positive. This is expected to be high - the policyholder also has the option to increase or decrease the sum assured - this option exposes the insurer to further additional insurance risk. The sum assured at risk during the early years of the contract is expected to be high.