25 September 2019

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: insurancecontracts@ifrs.org

Dear Sir/Madam

Tax related to the fulfilment of insurance contract services and IFRS 17 – *Insurance Contracts*

Over the last year the treatment of certain taxes related to the fulfilment of insurance contract services under IFRS 17 has been widely discussed within the insurance industry across the United Kingdom, South Africa, Canada and Australia (amongst others). In these territories, it relates in particular to tax payable by an insurer in respect of the investment return earned on investments held in support of/to back insurance contract liabilities ("I-E Tax"). A similar and related issue regarding the treatment of premium based taxes is being considered in Hong Kong. This letter attempts to summarise the views expressed in these discussions, as well as setting out possible solutions for consideration. This letter serves to provide formal industry endorsement of the views previously expressed, to provide further detail for clarification where deemed needed and to present potential solutions for consideration.

Although not responding to a specific question in the exposure draft for amendments to IFRS issued in May 2019 ("May 2019 ED"), the Board is requested to consider this letter as a formal response to the May 2019 ED, with the view of including an additional amendment in the final IFRS 17 standard to be issued in 2020, or educational guidance or material.

Problem statement

Insurers operating in various jurisdictions incur tax payments as the insurer fulfils insurance contract services, other than in a purely fiduciary capacity. These tax payments relate either to policyholder cash flows (premiums or claims) or taxable investment return earned on investments held in insurance contract portfolios, as opposed to income tax payable on the operating profit of the insurer.

This is most clearly the case for contracts with direct participation features (using the variable fee approach) where the intent is essentially to manage assets on behalf of the policyholders, however it is also true for contracts without direct participation features (using the general model) where assets are held in discreet tax funds, or where there is a similar link between the insurance contracts and the tax paid on the underlying funds. The current definition of fulfilment cashflows (“FCF”) (IFRS 17 par B65) excludes taxes paid other than in a fiduciary capacity and as a consequence leads to:

- An understatement in the measurement of the best estimate fulfilment cash flows related to policyholder liabilities by the exclusion of these policyholder related tax cashflows that do not meet the definition of fiduciary tax payments from fulfilment cash flows;
- An overstatement of the profitability of insurance contracts, which is misleading to users of the financial statements. It results in an overstatement of the contractual services margin (“CSM”) and in some instances can result in onerous contracts being recognised as profitable. This is illustrated in the general model example below (refer to *Illustration of measurement impact* section of this document).
- Artificial volatility in the Statement of Comprehensive Income as the actual tax payments will not be in line with the release pattern of the additional CSM created through the exclusion of the tax expenses from fulfilment cash flows. Depending on the level of investment returns earned, effective tax rates and investment classes (e.g. equities) held in policyholder portfolios, the mismatch in a particular year can be material. Similar mismatches will occur in respect of premium or claims-based taxes where these cash flows are not reflective of the CSM release pattern. This is illustrated in the variable fee approach (VFA) example below (refer to *Illustration of volatility impact* section of this document).
- A potential change to income tax payments to fiscal authorities and possible unintended taxation outcomes, where tax legislation is referenced to IFRS income emergence from specific tax funds.
- In South Africa, the tax legislation requires the formation of five tax funds and the separation of backing assets specifically to each of the five tax funds. This contractually supports the notion that the so called I-E taxes are intended to be passed on, based on the benefit design and premium charged, to the policyholder in all contracts. The tax funds are specific to the policyholder's tax status and not the product (e.g. tax-exempt institutions or tax paying individuals).
- In South Africa, in virtually all or many cases, policyholder documents include a clause to amend policyholder benefits for tax legislation changes, including policies that fall under general measurement model.
- Refer to extract of terms and conditions from an age-rated life cover benefit contract:

11. **Adjustment of benefits and charges**

Liberty reserves the right to appropriately adjust the Sums Assured payable (including any applicable guarantees) and the charges levied under this policy if:

- Any legislation or regulation (including tax legislation or regulation) affecting this policy or Liberty is introduced or changed, or
- If the legal interpretation or understanding of any legislation or regulation (including tax legislation or regulation) affecting this policy or Liberty has changed.

The Policyholder and beneficiaries (as applicable) will be notified in writing when these changes take place.

An expansion of the definition of fulfilment cashflows in IFRS 17 to include such taxes related to the fulfilment of insurance contract services is consequently warranted. Alternatively, a clarification by the IASB in the form of a TRG paper or educational material to aid reporters in the assessment of whether such cashflows should be included in fulfilment cashflows on the basis of an accounting interpretation of the definition of 'fiduciary', as opposed to a strictly legal interpretation.

We also note the sweep issues paper (paragraph 42 in Annexure D) – attached for reference purposes, where the IASB staff say,

"We propose to clarify in paragraph B62(g) that the cash flows excluded from the fulfilment cash flows are income tax payments and receipts that do not arise as the insurer fulfils the contract.", which we acknowledge was established prior to the VFA measurement principles, however we believe the principle itself is still valid.

In our opinion, it appears that the staff inserted the term 'fiduciary capacity' to capture 'as the insurer fulfils the contract'. The term 'fiduciary' is too narrowly interpreted from a legal standpoint and does not resolve the issue that has been identified.

Background and current reporting practice

The analysis below is based on I-E Tax, although the same effect is applicable to tax payable based on premiums or claims.

The rules of how I-E Tax is determined vary between jurisdictions, but the impact is consistent and commensurately the over-arching desire to include future I-E Tax in fulfilment cash flows is common to all.

In order to promote the efficient collection of income taxes payable on the taxable income earned by policyholders, various jurisdictions across the world apply a 'trustee principle' to taxing policyholder investment returns. This represents an efficient mechanism for taxation authorities to collect tax directly from a few insurers, rather than from numerous policyholders. Under this and other similar systems, insurers are required to establish 'tax funds' based largely on product construct (e.g. risk vs. savings) and policyholder tax status (e.g. individual versus institutional). The business written by an insurer along with the relevant matching assets are allocated into the relevant tax fund, and the net income earned in these funds is then subject to taxes. It is important to note that although a 'trustee principle' drives the mechanics of the calculation and collection of taxes, the legal substance is not that of an agent relationship but of a principal, with the insurer bearing the tax liability.

This creates an efficient tax collection mechanism; however, in substance, if not in legal form, the insurer has an obligation to provide a gross-of-tax benefit to the policyholder, and only for reasons of administration is paying a net-of-tax benefit to the policyholders after settling the associated tax obligation (albeit not in a fiduciary capacity). Such tax systems are designed to broadly mirror the income tax which would have been collected had it been levied on the income due to each of the policyholders in their individual capacities.

In countries where this type of system applies, this policyholder fund tax is currently included in the estimated fulfilment cash flows of the insurance contracts and hence the measurement of the policyholder liability. This recognises the substance of these taxes, with the intent to create a cash flow position that is consistent with that which would apply if the policyholder was taxed in a personal capacity. This measurement approach is also consistent with the pricing basis, as well as the measurement approaches prescribed to assess prudential solvency, applied by insurers where these taxes are deemed to be fulfilment costs and prevents an artificial understatement of the insurance contract liabilities as well as artificial earnings volatility.

Illustration of measurement impact (General Measurement Model)

An example has been constructed to best illustrate the impact of not allowing for the expected policyholder fund tax obligation in the measurement of the fulfilment cashflows under IFRS 17. Two scenarios have been analysed as part of the illustrative example. The example is based on a scenario where the contract is onerous if the policyholder tax cash flows are included in the FCF. Stable investment return is assumed in the example for simplicity purposes and it therefore does not illustrate the artificial volatility that will occur in instances of investment return variances.

Scenario 1: Assume the policyholder fund tax cash flows are excluded from the FCF

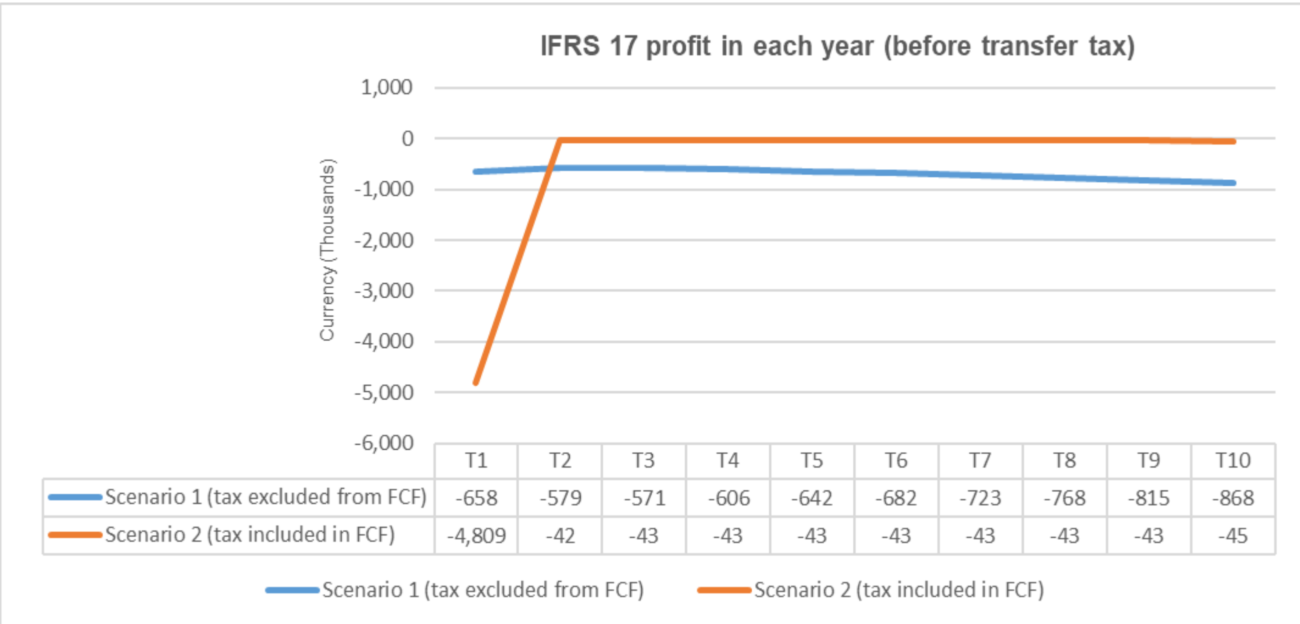
Scenario 2: Assume the policyholder fund tax cash flows are included in the FCF

The detailed assumptions and analysis to the two scenarios can be found in Annexure A and Annexure B respectively, however the following key observations are noted:

- With reference to Illustration A below, under Scenario 1 the best estimate liability ('BEL') is understated at inception, with losses only emerging over the coverage period. Under Scenario 2 the future expected losses on the contracts are recognised up-front at initial recognition, which includes an allowance for future policyholder fund tax expected to be paid from the assets backing policyholder liabilities.

- The example therefore illustrates a scenario where a group of contracts is loss making (onerous) if the best estimate of the associated tax obligation is included, however when excluded it creates the misleading impression that the contracts are profitable, and smoothes the recognition of the loss over time through the CSM allocation.
- One of the principles of IFRS 17 is the recognition of expected losses on onerous contracts at initial recognition date, and not to defer such losses. The outcome as per this illustration when not allowing for the taxes as part of the fulfilment cashflows is inconsistent with this principle and will contribute to misinformed decision making by users of the financial statements.
- It is further noted that such a scenario and outcome is quite likely in markets where profit margins on savings type products are very low. Not allowing for the policyholder fund taxes could realistically result in the recognition of a CSM for contracts which are in fact loss making.
- It is noted that the profit recognised year-on-year in Scenario 1 differs significantly from Scenario 2 (in absolute and relative terms), and is not an inconsequential matter.
- A similar misleading overstatement of the profitability of insurance contracts will apply for profitable contracts (after allowance for the policyholder tax cashflows) through:
    - An overstatement of the recognised CSM; and
    - An overstatement in the disclosures of the CSM to be recognised in future periods. Investors will equate the future CSM releases disclosed to recognised profits without being aware of the tax cashflows that will reduce these future earnings.

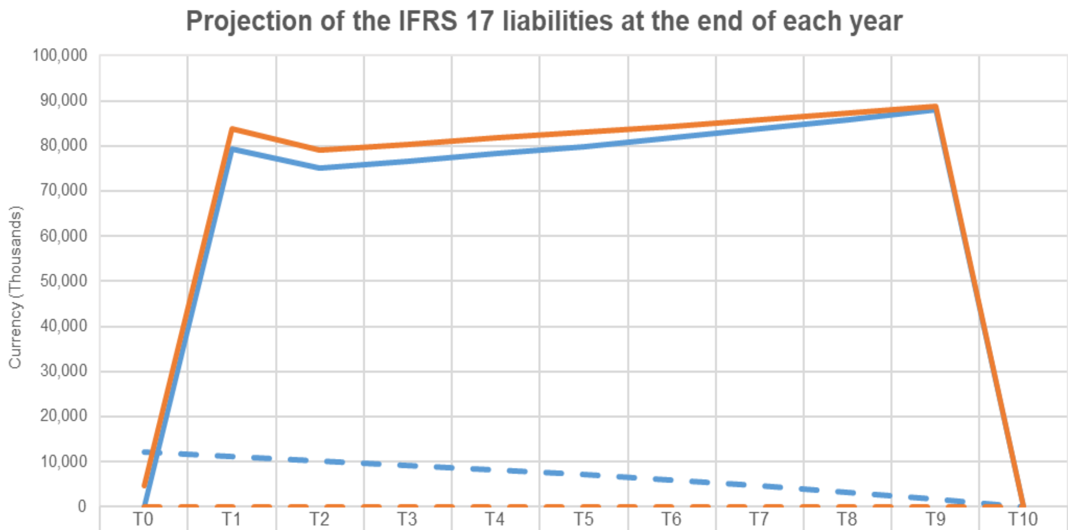
Illustration A



	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Scenario 1 (tax excluded from FCF)	-658	-579	-571	-606	-642	-682	-723	-768	-815	-868
Scenario 2 (tax included in FCF)	-4,809	-42	-43	-43	-43	-43	-43	-43	-43	-45

Illustration B below shows the projection of the IFRS 17 liabilities over the coverage period of the contracts. The CSM is shown separately, and is positive under Scenario 1, but zero under Scenario 2. This again highlights the fundamental problem when not allowing for the policyholder fund tax as part of the fulfilment cashflows.

Illustration B



	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Scenario 1 Total liabilities	-	79,270	75,070	76,597	78,216	79,935	81,763	83,706	85,776	87,981	-
Scenario 1 CSM	12,244	11,149	10,183	9,235	8,208	7,096	5,892	4,589	3,178	1,652	0
Scenario 2 Total liabilities	4,764	83,687	79,199	80,428	81,699	83,014	84,375	85,785	87,245	88,760	0
Scenario 2 CSM	0	0	0	0	0	0	0	0	0	0	0

The example highlights the following key reasons to include policyholder related taxes as part of the IFRS 17 fulfilment cashflows ('FCF'):

- If policyholder fund tax is excluded from FCFs, best estimate liabilities will be too low by the required allowance for tax expected to be paid over the term of the contract, therefore overstating the CSM by the same amount. In higher return markets, this impact will be material. This means that:
    - Recognition of revenue and profit will be distorted – in some cases the contracts could even be loss-making if policyholder fund tax is included in FCFs, but profitable if policyholder fund tax is excluded from FCFs;
    - If the tax basis is based on IFRS measurement (as is the case in some jurisdictions), it will create situations where taxable profits are artificially recognised earlier, with a resulting transfer taxation payable ahead of the relief that is only received later. This is a negative commercial outcome on cash flow availability and a higher resulting cost of capital.
- It is consistent with general pricing methodologies, which considers the policyholder fund tax as a cashflow incurred in fulfilling the policyholder obligation;

- It is consistent with IFRS 17 principles of not recognising undue profits upfront, and therefore revenue recognition is consistent with the provision of services;
- It is consistent with the current measurement practice of including policyholder fund tax where relevant, avoiding further complexity during transition to IFRS 17.

Illustration of volatility impact (under the Variable Fee Approach)

An example has been constructed to best illustrate the impact of the artificial volatility in the Statement of Comprehensive Income as the actual tax payments will not be in line with the release pattern of the additional CSM created through the exclusion of the tax expenses from fulfilment cash flows. Two scenarios have been analysed as part of the illustrative example.

Scenario 1: Assume the policyholder fund tax cash flows are excluded from the FCF

Scenario 2: Assume the policyholder fund tax cash flows are included in the FCF

The following key assumptions were made:

- Single premium pure unit-linked contracts with benefits payable on death during term or on maturity at end of term (term of 3 years);
- Single premium = CUR1,500,000 per contract (1,000 contracts written);
- 10 deaths expected per year (and Actual = Expected) (“A = E”)
- Annual management charge (“AMC”) of 2.5% per year
- Expected returns on underlying item (“UI”):
    - Initial recognition - 11% per year
    - End of year 2 - change expected return and discount rates on cash flows varying (“CV”) for year 3 to 9%;
- Actual returns on UI of 14%, 6% and -5% in years 1-3 respectively;
- Discount rate on cash flows not varying with the underlying item (“CNV”) = 8%;
- Returns on other assets (<> UI) of 6% (Actual=Expected);
- Expenses:
    - Acquisition: CUR15,000 at start of year 1 and CUR5,000 at end of year 1;
    - Maintenance: CUR2,500 at end of each year;
- Ignored investment expenses, risk adjustment (“RA”) and non-attributable expenses (for simplicity);
- Assumed that policyholder tax is only payable on investment returns on the UI (i.e. no tax on variable fee/CSM for simplicity);
- Ignored tax relief on expenses;

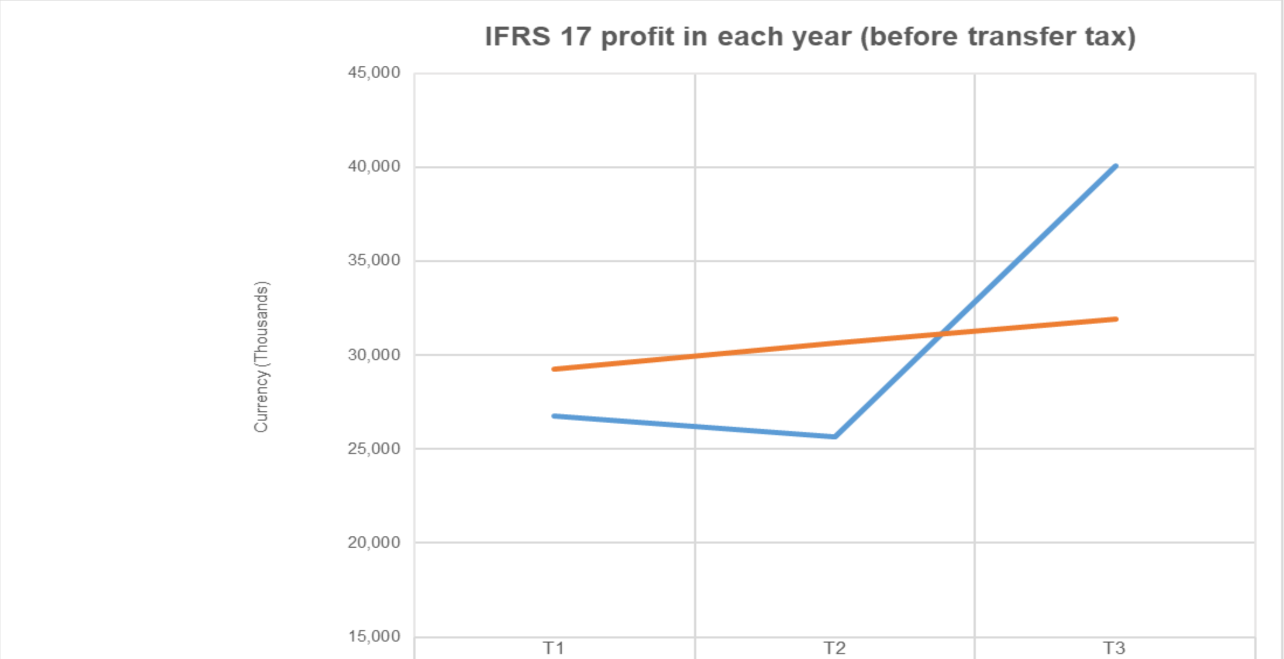
- Tax charges on investment returns on UI is included in the unit fund build-up (consistent with paragraph B65(m)). These tax charges therefore also feed into the variable fee and increase the CSM;
- Tax payments are disclosed in the IAS 12 income tax line in profit and loss ("P&L");
- For Scenario 2:
    - Tax payments are included in the FCF (as an expense payable from the variable fee). Therefore, variable fee (and CSM) in Scenario 2 < Scenario 1; and
    - The expected release in tax payments (from variable fee) included in "admin and other expenses" line in revenue (i.e. paragraph B120 holds).

The detailed results of the two scenarios can be found in Annexure C, however the following key observations are noted and illustrated graphically below (see Illustration C and D below):

- Lower CSM at initial recognition for Scenario 2, because the tax payments are included in the FCF;
- Year 1 profit relatively similar for Scenario 1 vs. Scenario 2, because the lower CSM release for Scenario 2 (in absolute terms due to smaller CSM) has been partially offset by the release in tax payments in Scenario 2 increasing revenue (and profit) relative to scenario 1;
- Scenario 2 illustrates a smoother profit profile (tax included in FCF) vs. Scenario 1 (tax excluded from FCF) if returns are volatile:
    - Scenario 2 allows for actual tax in Insurance Revenue (being the expected release in tax payments + actual vs. expected ("AvE") in the premium experience adjustment line) which offsets the tax payment IAS12 income tax line;
    - Scenario 1 only allows for AvE tax charges in Insurance Revenue and the allocation of the excess CSM at initial recognition in Scenario 1 (vs. Scenario 2) will not necessarily move in line with the expected tax charge over the duration of the contracts; and
    - The CSM in Scenario 1 is also not unlocked consistently for experience variances in the tax charges and tax payments (vs. Scenario 2).

(refer to the next page for an illustration of the results, and further analysis)

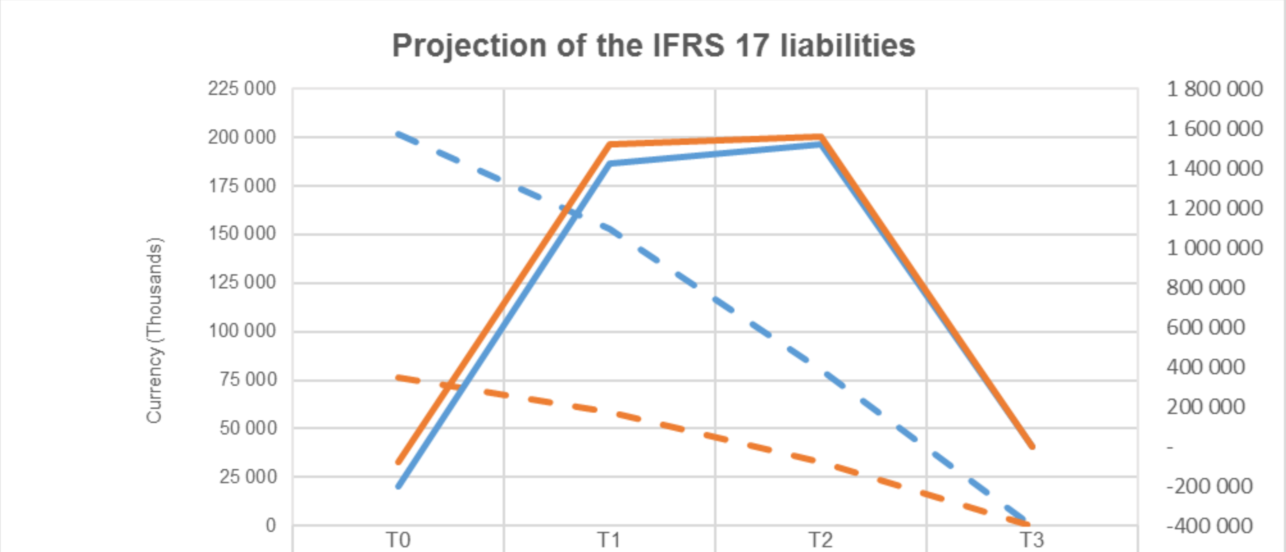
Illustration C



	T1	T2	T3
Scenario 1 (tax excluded from FCF)	26,763	25,631	40,051
Scenario 2 (tax included in FCF)	29,256	30,665	31,915

Illustration D below shows the projection of the IFRS 17 liabilities over the coverage period of the contracts.

Illustration D



	T0	T1	T2	T3
Scenario 1 CSM	201 772	152 752	80 024	-
Scenario 2 CSM	76 301	58 736	32 745	-
Scenario 1 BEL	-201 772	1 428 027	1 522 540	-
Scenario 2 BEL	-76 301	1 519 550	1 562 144	-

Recommendation: measurement and presentation

Measurement

The recommended solution is that IFRS 17 should explicitly state that expected taxes directly related to policyholder cash flows (premiums and claims) and expected taxes based on investment returns earned on assets held in respect of insurance contract portfolios should be specifically included as FCF in IFRS 17.

This could for example be achieved through an amendment to B65 (j) to "applicable taxes including certain income and transaction-based taxes ……." and B66 para (f) to "Income tax payments and receipts that the insurer incurs on its net income from conducting an insurance business that is not specifically attributed to an insurance contract on a reasonable and consistent basis".

An alternative solution, suggested by various industry and professional bodies, is to specifically include in B65 (m) such policyholder tax cashflows.

With respect to the alternative suggestion, it is not clear how such tax cashflows could currently be read to be included in terms of par B65 (m) when read in conjunction with par B66, which states that income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity should be excluded from FCF and measured applying IAS 12 Income Taxes.

A clarification from the IASB, either through a TRG paper, additional guidance or educational material, in order to aid reporters on how to interpret the definition of fiduciary in substance versus a strict legal interpretation), is therefore also a potential solution. In other words, clarifying that fiduciary is in substance to be interpreted such that taxation cash flows excluded from the fulfilment cash flows are only income tax payments and receipts that apply to the profitability of the insurer and (as envisaged in design in the products and prices) do not arise as the insurer fulfils the contractual obligations.

Presentation and disclosure

We acknowledge that it is undesirable to affect a change to IAS 12 Income Taxes, and therefore propose the following two options, understanding that further disclosures may be required.

In order to provide sufficient information of the impact of these policyholder related tax cashflows included in FCF (which we believe would not require a change to IAS 12), the following presentational changes are recommended:

Option 1: Within the statement of comprehensive income, include a 'net tax expense' subtotal being the result of two items separately disclosed:

i) the release from FCF of the expected tax cashflows; and

ii) the actual IAS 12 tax expense incurred for the period. This ensures that no amendment is required to IAS 12 as the gross amount recognised in terms of IAS 12 is presented on the face of the Statement of Comprehensive Income.

Option 2: Within the statement of comprehensive income, include the release from FCF of the expected tax cashflow as part of insurance revenue (with the actual IAS 12 tax expense reported separately).

Conclusion

In conclusion, we hope this provides sufficient clarification of the issue to assist you in your considerations thereof and has also raised awareness that the matter does affect a number of jurisdictions with similar taxation systems in place. We would welcome the opportunity to engage with the IASB staff and the Board to further clarify our concerns if the interpretation is that I-E taxes are not fiduciary.

Any solution should be applicable to both VFA and GMM measurement models.

We would appreciate any feedback on this submission, including guidance regarding how to best proceed with the matter. We would value any input you may have and are open to further discussions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Ahmed Mohammadali-Haji
Chairperson: Accounting Practices Committee

Anna Rosenburg
Senior Policy Advisor

Esther Pieterse
Chairperson: IFRS 17 Working Group

Cc: Milton Segal - Senior Executive: Corporate Reporting

Annexure A: Assumptions

The following general assumptions have been made for the illustrative example:

- The example is based on insurance contracts without direct participation features, i.e. the IFRS 17 liabilities are measured under the General Model.
- Policyholder tax is calculated on the expected interest (representing the expected investment income and gains on assets backing the liabilities) on the FCF and CSM (if >0).
- The following features have been ignored for simplicity:
    - Risk adjustment;
    - Expense relief on attributable expenses;
    - Investment management expenses;
    - And variances between the expected and actual investment return.

Detailed scenario assumptions

- Assume that 1,000 endowment contracts are sold at initial recognition at the start of year 1.
- Product features:
    - Contract term = 10 years
    - There is a savings portion that will be paid on surrender during the term or if the policyholder survives to the end of the contract term. There is a guaranteed benefit (i.e. sum assured) payable on death during the coverage period.
    - Savings premium at initial recognition: CUR100,000 – guaranteed to grow with returns of 6.5% per annum and payable on surrender or maturity (paid at end of year).
    - Sum assured payable on death during the term (paid at end of year): CUR4,300,000
    - Risk premium: CUR24,000 p.a. (received at the start of each year)
    - Initial expenses of CUR12,000 in year 1 and CUR1,200 in year 2 (paid at start of year)
    - Renewal expenses: CUR1,000 p.a. (paid at end of each year)
- Percentage of total expenses that are directly attributable to IFRS 17 insurance contracts:
    - Attributable initial expenses: 100%
    - Attributable renewal expenses: 95%
- Mortality and persistency assumptions:
    - Mortality rates of 0.5% p.a.

- ⊳ Lapse rates: 15% in year 1, 10% in year 2, 5% in years 3-9

- Financial assumptions:
  - ⊳ Inflation rate = 6% p.a., applied to risk premiums, sums assured (payable on death) and renewal expenses.
  - ⊳ Discount rate = expected investment returns on assets (in policyholder and shareholder funds) = 8% p.a.

- Tax rates:
  - ⊳ Policyholder fund tax rate: 30%
  - ⊳ Corporate tax rate: 28%

- Assume that actual experience is in line with the experience expected at initial recognition of the contracts. Outflows are shown as negative and inflows are shown as positive.

Methodology assumptions:

- CSM coverage units have been based on discounted sum assured in-force in each period.
- The loss component ("LC") has been run-off in each period based on the ratio of the LC to PV of claims and expenses at the start of each period.
- The acquisition cash flows have been amortised based on the number of policies in-force in each period.
- The assumption is that the policyholder fund tax paid by the insurer is shown in a separate IAS 12 Income Tax line in the Statement of Comprehensive Income.

Annexure B
Analysis of Scenario 1: policyholder fund tax excluded from FCFs

Key observations of Scenario 1:

Expected cashflow projection and policyholder tax projection:

- The best estimate liabilities ("BEL") is negative at initial recognition, with a CSM therefore being recognised in insurance revenue over the coverage period for the profitable contracts.
- The unwind of interest on the BEL is based on the opening BEL in each period after the release of start of year cash flows.
- Policyholder fund tax projection:
  - The tax on the FCF is based on 30% of the unwind of interest on BEL.
  - The tax on the CSM is based on 30% of the accretion of interest on BEL. There should be an allowance for tax on the CSM as the assets in the policyholder funds will back total insurance liabilities (including the CSM).

Asset projection and amortisation of acquisition cash flows:

- The policyholder fund tax paid from the assets are in line with the tax cash flows included in the FCFs as there is no investment return variances (i.e. discount rates = investment returns on assets). In practice there will be mismatches between the expected tax cash flows reserved for and the actual policyholder fund taxes paid. These mismatches will be more significant and more volatile for insurance contracts with direct participation features (i.e. measured under the Variable Fee Approach) that include equity exposure.

Statement of Comprehensive Income projection and movement in equity:

- The investment service result is zero as it has been assumed that there are no changes in financial risk (i.e. no economic assumption changes).
- Profit in each year (before transfer tax) is equal to:
  - recognition of CSM in revenue;

- *less* non-attributable expenses;
- *less* policyholder fund tax paid.

Annexure B

Analysis of Scenario 1: policyholder fund tax excluded from FCFs

Expected cash flow projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Risk Premium		24,000	21,497	20,394	20,429	20,463	20,498	20,533	20,568	20,603	20,638
Savings premium		100,000	-	-	-	-	-	-	-	-	-
Initial expenses		-12,000	-1,014	-	-	-	-	-	-	-	-
Renewal Expenses		-851	-807	-809	-810	-811	-813	-814	-816	-817	-862
Claim (lapse)		-15,975	-9,584	-4,568	-4,597	-4,627	-4,656	-4,686	-4,716	-4,747	-
Claim (maturity)		-	-	-	-	-	-	-	-	-	-95,065
Claim (death)		-22,790	-20,413	-19,366	-19,399	-19,432	-19,465	-19,498	-19,531	-19,564	-19,597
Total non-attributable renewal expenses		-45	-42	-43	-43	-43	-43	-43	-43	-43	-45

BEL (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening		**-12,244**	**68,121**	**64,887**	**67,362**	**70,008**	**72,839**	**75,871**	**79,118**	**82,598**	**86,329**
Unwind of interest		7,980	7,088	6,823	7,023	7,238	7,467	7,712	7,975	8,256	8,557
Release of cash flows		72,384	-10,322	-4,348	-4,377	-4,406	-4,436	-4,465	-4,495	-4,525	-94,886
Closing	**-12,244**	**68,121**	**64,887**	**67,362**	**70,008**	**72,839**	**75,871**	**79,118**	**82,598**	**86,329**	**-0**

CSM (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
CSM at start		**12,244**	**11,149**	**10,183**	**9,235**	**8,208**	**7,096**	**5,892**	**4,589**	**3,178**	**1,652**
Accretion of interest		980	892	815	739	657	568	471	367	254	132
Allocation to revenue		-2,074	-1,858	-1,763	-1,766	-1,769	-1,772	-1,775	-1,778	-1,781	-1,784
CSM at end	**12,244**	**11,149**	**10,183**	**9,235**	**8,208**	**7,096**	**5,892**	**4,589**	**3,178**	**1,652**	**-**

Policyholder tax projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
I-E tax cash flow on FCF		-2,394	-2,126	-2,047	-2,107	-2,171	-2,240	-2,314	-2,392	-2,477	-2,567
I-E tax reserve											
I-E tax on CSM		-294	-268	-244	-222	-197	-170	-141	-110	-76	-40
Transfer tax		184	162	160	170	180	191	203	215	228	243

Annexure B

Analysis of Scenario 1: policyholder fund tax excluded from FCFs

Asset projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Assets at start	**-**	**-**	**79,270**	**75,070**	**76,597**	**78,216**	**79,935**	**81,763**	**83,706**	**85,776**	**87,981**
Cash flow		69,651	-12,758	-6,682	-6,748	-6,817	-6,889	-6,963	-7,040	-7,121	-97,538
Premium		124,000	21,497	20,394	20,429	20,463	20,498	20,533	20,568	20,603	20,638
Attributable initial expenses		-12,000	-1,014	-	-	-	-	-	-	-	-
Attributable renewal expenses		-851	-807	-809	-810	-811	-813	-814	-816	-817	-862
Claim		-38,765	-29,997	-23,934	-23,996	-24,058	-24,121	-24,184	-24,247	-24,311	-114,663
Non-attributable initial expenses		-	-	-	-	-	-	-	-	-	-
Non-attributable renewal expenses		-45	-42	-43	-43	-43	-43	-43	-43	-43	-45
Investment expense		-	-	-	-	-	-	-	-	-	-
I-E Tax		-2,688	-2,394	-2,291	-2,329	-2,368	-2,410	-2,455	-2,503	-2,553	-2,607
Investment return		8,960	7,980	7,637	7,762	7,894	8,035	8,184	8,342	8,510	8,689
Assets before transfer	-	78,611	74,492	76,026	77,610	79,293	81,081	82,983	85,008	87,165	-868
Transfer net	-	474	417	411	436	462	491	521	553	587	625
Transfer tax	-	184	162	160	170	180	191	203	215	228	243
Assets at end	**-**	**79,270**	**75,070**	**76,597**	**78,216**	**79,935**	**81,763**	**83,706**	**85,776**	**87,981**	**-**

Amortisation of acquisition cash flows (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening		**-**	**10,248**	**9,636**	**8,180**	**6,804**	**5,504**	**4,275**	**3,114**	**2,017**	**980**
Expenses incurred in period		12,000	1,014	-	-	-	-	-	-	-	-
Amortisation		-1,752	-1,627	-1,456	-1,376	-1,300	-1,229	-1,161	-1,097	-1,037	-980
Closing	**-**	**10,248**	**9,636**	**8,180**	**6,804**	**5,504**	**4,275**	**3,114**	**2,017**	**980**	**-**

Annexure B

Analysis of Scenario 1: policyholder fund tax excluded from FCFs

Scenario 1: Income statement projection (Currency (Thousands))

	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10	Total
Results from insurance contracts	**-658**	**-579**	**-571**	**-606**	**-642**	**-682**	**-723**	**-768**	**-815**	**-868**	**-6,912**
Insurance service result	**2,074**	**1,858**	**1,763**	**1,766**	**1,769**	**1,772**	**1,775**	**1,778**	**1,781**	**1,784**	**18,118**
Insurance revenue	**27,467**	**24,705**	**23,393**	**23,350**	**23,312**	**23,278**	**23,248**	**23,221**	**23,199**	**23,223**	**238,395**
Claims incurred (excl. investment components)	22,790	20,413	19,366	19,399	19,432	19,465	19,498	19,531	19,564	19,597	199,054
Administration and other expenses	851	807	809	810	811	813	814	816	817	862	8,209
Recognition of contractual service margin	2,074	1,858	1,763	1,766	1,769	1,772	1,775	1,778	1,781	1,784	18,118
Amortisation of insurance acquisition cash flows	1,752	1,627	1,456	1,376	1,300	1,229	1,161	1,097	1,037	980	13,014
Insurance service expenses	**-25,393**	**-22,847**	**-21,630**	**-21,585**	**-21,543**	**-21,506**	**-21,473**	**-21,444**	**-21,418**	**-21,439**	**-220,278**
Claims incurred (excl. investment components)	-22,790	-20,413	-19,366	-19,399	-19,432	-19,465	-19,498	-19,531	-19,564	-19,597	-199,054
Administration and other expenses	-851	-807	-809	-810	-811	-813	-814	-816	-817	-862	-8,209
Initial loss on onerous contracts recognised	-										-
Increase and reversal of losses on onerous contracts											-
Amortisation of insurance acquisition cash flows	-1,752	-1,627	-1,456	-1,376	-1,300	-1,229	-1,161	-1,097	-1,037	-980	-13,014
Investment service result	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Insurance finance income or expense	**-8,960**	**-7,980**	**-7,637**	**-7,762**	**-7,894**	**-8,035**	**-8,184**	**-8,342**	**-8,510**	**-8,689**	**-81,994**
Investment income on assets held in respect of life insurance contracts	**8,960**	**7,980**	**7,637**	**7,762**	**7,894**	**8,035**	**8,184**	**8,342**	**8,510**	**8,689**	**81,994**
Non-attributable expenses	**-45**	**-42**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-45**	**-432**
IAS 12 Income Tax on policyholders' funds	**-2,688**	**-2,394**	**-2,291**	**-2,329**	**-2,368**	**-2,410**	**-2,455**	**-2,503**	**-2,553**	**-2,607**	**-24,598**
Profit before tax	**-658**	**-579**	**-571**	**-606**	**-642**	**-682**	**-723**	**-768**	**-815**	**-868**	**-6,912**
Taxation on shareholders' funds	184	162	160	170	180	191	203	215	228	243	1,935
Profit for the year	**-474**	**-417**	**-411**	**-436**	**-462**	**-491**	**-521**	**-553**	**-587**	**-625**	**-4,977**

Scenario 1: Movement in Equity (Currency (Thousands))

	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening Equity	**-**	**-474**	**-918**	**-1,382**	**-1,898**	**-2,469**	**-3,102**	**-3,802**	**-4,574**	**-5,424**
Funding of loss-making new business contracts	-									
Investment income on shareholder fund	-	-38	-73	-111	-152	-198	-248	-304	-366	-434
Tax on shareholder fund	-	11	21	31	43	55	69	85	102	121
Transfer from or to policyholder fund	-474	-417	-411	-436	-462	-491	-521	-553	-587	-625
Closing equity	**-474**	**-918**	**-1,382**	**-1,898**	**-2,469**	**-3,102**	**-3,802**	**-4,574**	**-5,424**	**-6,362**
Change in equity	**-474**	**-444**	**-464**	**-516**	**-572**	**-633**	**-699**	**-772**	**-851**	**-938**

Annexure B
Analysis of Scenario 2: policyholder fund tax included in FCFs

Key observations of Scenario 2:

Expected cashflow projection and policyholder tax projection:

- The BEL is positive at initial recognition due to the inclusion of a tax reserve for future expected policyholder fund tax, with a Loss Component ('LC') therefore being recognised in insurance service expenses in Year 1 for the loss-making contracts.
- The unwind of interest on the BEL is based on the opening BEL (which **includes the tax reserve**) in each period after the release of start of year cash flows.
- Policyholder fund tax included in FCF:
    - The tax on the FCF is based on 30% of the unwind of interest on BEL. This is a recursive calculation as the BEL includes an allowance for the tax.
    - The tax on the CSM is not relevant (CSM = 0). There is no tax on the LC as the IFRS 17 liabilities = FCF (and not FCF + LC).
- The allocation of the LC in each year impacts on insurance revenue and insurance service expenses (expected claims incurred and admin expenses are excluding the proportion of BEL allocated to the LC) but has no impact on profit in the year.

Asset projection and amortisation of acquisition cash flows:

- The policyholder fund tax paid from the assets are in line with the policyholder fund tax cash flows included in the FCFs as there is no investment return variances (i.e. discount rates = investment returns on assets).
- There is a transfer from the shareholder fund to the policyholder fund at initial recognition to "fund" the assets needed to back the liabilities on the contracts that are expected to be loss-making over the coverage period.

Income statement projection and movement in equity:

- The investment service result is zero as it has been assumed that there are no changes in financial risk (i.e. no economic assumption changes).

Annexure B
Analysis of Scenario 2: policyholder fund tax included in FCFs

- The release in the policyholder fund tax from the BEL has been included in the “administration and other expenses” line in insurance revenue.

- The loss in year 1 (before transfer tax) is equal to the LC recognised at initial recognition plus the non-attributable expenses. The loss in each subsequent year is equal to the non-attributable expenses only.

Annexure B

Analysis of Scenario 2: policyholder fund tax included in FCFs

Expected cash flow projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Risk Premium		24,000	21,497	20,394	20,429	20,463	20,498	20,533	20,568	20,603	20,638
Savings premium		100,000	-	-	-	-	-	-	-	-	-
Initial expenses		-12,000	-1,014	-	-	-	-	-	-	-	-
Renewal Expenses		-851	-807	-809	-810	-811	-813	-814	-816	-817	-862
Claim (lapse)		-15,975	-9,584	-4,568	-4,597	-4,627	-4,656	-4,686	-4,716	-4,747	-
Claim (maturity)		-	-	-	-	-	-	-	-	-	-95,065
Claim (death)		-22,790	-20,413	-19,366	-19,399	-19,432	-19,465	-19,498	-19,531	-19,564	-19,597
Total non-attributable renewal expenses		-45	-42	-43	-43	-43	-43	-43	-43	-43	-45

BEL (incl tax reserve) (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening		**4,764**	**83,687**	**79,199**	**80,428**	**81,699**	**83,014**	**84,375**	**85,785**	**87,245**	**88,760**
Unwind of interest		9,341	8,334	7,967	8,069	8,173	8,281	8,393	8,508	8,628	8,752
Release of cash flows		69,582	-12,822	-6,738	-6,798	-6,858	-6,920	-6,983	-7,047	-7,113	-97,512
Closing	**4,764**	**83,687**	**79,199**	**80,428**	**81,699**	**83,014**	**84,375**	**85,785**	**87,245**	**88,760**	**-0**
Check	-	-	-	-	-	-	-	-	-	0	0

Loss Component (LC) (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening	**4,764**	**4,764**	**4,320**	**4,017**	**3,811**	**3,586**	**3,341**	**3,075**	**2,785**	**2,471**	**2,129**
Unwind of interest		381	346	321	305	287	267	246	223	198	170
Allocation		-825	-648	-528	-530	-532	-534	-535	-537	-539	-2,299
Closing	**4,764**	**4,320**	**4,017**	**3,811**	**3,586**	**3,341**	**3,075**	**2,785**	**2,471**	**2,129**	**-**

Policyholder tax projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
I-E tax cash flow on FCF		-2,802	-2,500	-2,390	-2,421	-2,452	-2,484	-2,518	-2,552	-2,588	-2,626
I-E tax reserve	17,008	15,566	14,312	13,066	11,691	10,175	8,504	6,667	4,648	2,431	-
I-E tax on CSM		-	-	-	-	-	-	-	-	-	-
Transfer tax		13	12	12	12	12	12	12	12	12	13

Annexure B

Analysis of Scenario 2: policyholder fund tax included in FCFs

Asset projection (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Assets at start	**-**	**4,764**	**83,687**	**79,199**	**80,428**	**81,699**	**83,014**	**84,375**	**85,785**	**87,245**	**88,760**
Cash flow		69,537	-12,864	-6,781	-6,840	-6,901	-6,963	-7,026	-7,090	-7,156	-97,557
Premium		124,000	21,497	20,394	20,429	20,463	20,498	20,533	20,568	20,603	20,638
Attributable initial expenses		-12,000	-1,014	-	-	-	-	-	-	-	-
Attributable renewal expenses		-851	-807	-809	-810	-811	-813	-814	-816	-817	-862
Claim		-38,765	-29,997	-23,934	-23,996	-24,058	-24,121	-24,184	-24,247	-24,311	-114,663
Non-attributable initial expenses		-	-	-	-	-	-	-	-	-	-
Non-attributable renewal expenses		-45	-42	-43	-43	-43	-43	-43	-43	-43	-45
Investment expense		-	-	-	-	-	-	-	-	-	-
I-E Tax		-2,802	-2,500	-2,390	-2,421	-2,452	-2,484	-2,518	-2,552	-2,588	-2,626
Investment return		9,341	8,334	7,967	8,069	8,173	8,281	8,393	8,508	8,628	8,752
Assets before transfer	-	83,642	79,157	80,386	81,656	82,971	84,332	85,742	87,202	88,717	-45
Transfer net	3,430	32	31	31	31	31	31	31	31	31	33
Transfer tax	1,334	13	12	12	12	12	12	12	12	12	13
Assets at end	**4,764**	**83,687**	**79,199**	**80,428**	**81,699**	**83,014**	**84,375**	**85,785**	**87,245**	**88,760**	**-**

Amortisation of acquisition cash flows (Currency (Thousands))

	T0	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening		-	10,248	9,636	8,180	6,804	5,504	4,275	3,114	2,017	980
Expenses incurred in period		12,000	1,014	-	-	-	-	-	-	-	-
Amortisation		-1,752	-1,627	-1,456	-1,376	-1,300	-1,229	-1,161	-1,097	-1,037	-980
Closing	-	10,248	9,636	8,180	6,804	5,504	4,275	3,114	2,017	980	-

Annexure B

Analysis of Scenario 2: policyholder fund tax included in FCFs

Scenario 2: Income statement projection (Currency (Thousands))

	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10	Total
Results from insurance contracts	**-4,809**	**-42**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-45**	**-5,196**
Insurance service result	**-1,962**	**2,500**	**2,390**	**2,421**	**2,452**	**2,484**	**2,518**	**2,552**	**2,588**	**2,626**	**20,569**
Insurance revenue	**27,370**	**24,699**	**23,493**	**23,475**	**23,463**	**23,457**	**23,455**	**23,459**	**23,467**	**21,765**	**238,103**
Claims incurred during the period excluding investment components	22,040	19,825	18,886	18,916	18,945	18,973	19,000	19,027	19,051	17,366	192,030
Administration and other expenses	3,577	3,247	3,150	3,184	3,219	3,255	3,294	3,335	3,379	3,419	33,059
Recognition of contractual service margin	-	-	-	-	-	-	-	-	-	-	-
Amortisation of insurance acquisition cash flows	1,752	1,627	1,456	1,376	1,300	1,229	1,161	1,097	1,037	980	13,014
Insurance service expenses	**-29,332**	**-22,199**	**-21,102**	**-21,055**	**-21,012**	**-20,973**	**-20,938**	**-20,906**	**-20,879**	**-19,140**	**-217,534**
Claims incurred during the period excluding investment components	-22,040	-19,825	-18,886	-18,916	-18,945	-18,973	-19,000	-19,027	-19,051	-17,366	-192,030
Administration and other expenses	-775	-747	-760	-763	-767	-771	-776	-782	-791	-794	-7,726
Initial loss on onerous contracts recognised during the period	-4,764										-4,764
Increase and reversal of losses on onerous contracts											-
Amortisation of insurance acquisition cash flows	-1,752	-1,627	-1,456	-1,376	-1,300	-1,229	-1,161	-1,097	-1,037	-980	-13,014
Investment service result	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Insurance finance income or expense	**-9,341**	**-8,334**	**-7,967**	**-8,069**	**-8,173**	**-8,281**	**-8,393**	**-8,508**	**-8,628**	**-8,752**	**-84,445**
Investment income on assets held in respect of life insurance contracts	**9,341**	**8,334**	**7,967**	**8,069**	**8,173**	**8,281**	**8,393**	**8,508**	**8,628**	**8,752**	**84,445**
Non-attributable expenses	**-45**	**-42**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-45**	**-432**
IAS 12 Income Tax on policyholders' funds	**-2,802**	**-2,500**	**-2,390**	**-2,421**	**-2,452**	**-2,484**	**-2,518**	**-2,552**	**-2,588**	**-2,626**	**-25,334**
Profit before tax	**-4,809**	**-42**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-43**	**-45**	**-5,196**
Taxation on shareholders' funds	1,347	12	12	12	12	12	12	12	12	13	1,455
Profit for the year	**-3,463**	**-31**	**-31**	**-31**	**-31**	**-31**	**-31**	**-31**	**-31**	**-33**	**-3,741**

Scenario 2: Movement in Equity (Currency (Thousands))

	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
Opening Equity	**-**	**-3,660**	**-3,902**	**-4,157**	**-4,427**	**-4,713**	**-5,015**	**-5,335**	**-5,673**	**-6,031**
Funding of loss-making new business contracts	-4,764									
Investment income on shareholder fund	-274	-293	-312	-333	-354	-377	-401	-427	-454	-482
Tax on shareholder fund	1,411	82	87	93	99	106	112	119	127	135
Transfer from or to policyholder fund	-32	-31	-31	-31	-31	-31	-31	-31	-31	-33
Closing equity	**-3,660**	**-3,902**	**-4,157**	**-4,427**	**-4,713**	**-5,015**	**-5,335**	**-5,673**	**-6,031**	**-6,411**
Change in equity	**-3,660**	**-241**	**-255**	**-270**	**-286**	**-302**	**-320**	**-338**	**-358**	**-380**

Currency (Thousands)	YTD	YTD	YTD
Year	**1**	**2**	**3**
Estimated number of policyholders at start of year	1000	990	980
UI	**1**	**2**	**3**
Underlying item (start of year)	**-**	**1,589,767**	**1,598,809**
Premium received	1,500,000		
Investment return	210,000	95,386	-79,940
Tax charges	-63,000	-28,616	23,982
Annual management charges (AMC's)	-41,175	-41,413	-38,571
Death claims	-16,058	-16,314	15,350
Maturity claims	-	-	-1,519,629
Underlying item (end of year)	**1,589,767**	**1,598,809**	**-**
ES	**1**	**2**	**3**
PV of ES (start of year)	227,844	166,198	78,584
Unwind	25,063	18,282	7,073
Release	-89,888	-95,267	-85,656
PV of ES (end of year)	163,020	89,213	-
PV of ES (actual closing)	166,198	78,584	-
CNV	**1**	**2**	**3**
Expense outflows (acquisition) (start of year)	15000	0	0
Expense outflows (acquisition) (end of year)	5000	0	0
Expense outflows (renewal) (end of year)	2500	2500	2500
PV of expenses (start of year)	26,072	4,458	2,315
Unwind	886	357	185
Release	-22,500	-2,500	-2,500
PV of expenses (expected closing)	4,458	2,315	-
PV of expenses (actual closing)	4,458	2,315	-
I-E tax CF	63,000	28,616	-23,982
I-E tax CF (reserving)	-	-	-
PV of i-e tax (start of year)	-	-	-
Unwind	-	-	-
Release	-	-	-
PV of i-e tax (expected closing)	-	-	-
PV of i-e tax (actual closing)	-	-	-
PV of CNV (start of year)	26,072	4,458	2,315
Unwind	886	357	185
Release	-22,500	-2,500	-2,500
PV of CNV (expected closing)	4,458	2,315	-
PV of CNV (actual closing)	4,458	2,315	-
BEL (start of year)	**-201,772**	**1,428,027**	**1,522,540**

Currency (Thousands)	YTD	YTD	YTD
CSM	**1**	**2**	**3**
Opening	201,772	152,752	80,024
Unlocking	27,356	7,296	6,887
Allocation	-76,376	-80,024	-86,911
Closing	152,752	80,024	-
IFRS 17 Liability	**-**	**1,580,778**	**1,602,564**
NDAC	**1**	**2**	**3**
Notional DAC (opening)	-	13,333	6,667
Updates	20,000	-	-
Amortisation	-6,667	-6,667	-6,667
Notional DAC (closing)	13,333	6,667	-
Asset buildup	**1**	**2**	**3**
Assets at start	**-**	**1,580,778**	**1,602,564**
Cash flows	1,398,442	-47,430	-1,482,797
Premiums	1,500,000	-	-
Claims	-16,058	-16,314	-1,504,280
Expenses	-22,500	-2,500	-2,500
I-E tax	-63,000	-28,616	23,982
Investment return on assets	210,000	95,386	-79,940
Investment return on other assets	-900	-539	225
Assets before transfer	1,607,542	1,628,195	40,051
Transfer net	-19,270	-18,454	-28,837
Transfer tax	-7,494	-7,177	-11,214
Assets at end	**1,580,778**	**1,602,564**	**-**

Currency (Thousands)	YTD	YTD	YTD	
Income statement	**1**	**2**	**3**	**Total**
Results from insurance contracts	**26,763**	**25,631**	**16,069**	**68,464**
Insurance revenue	**99,830**	**63,953**	**25,011**	**188,793**
Claims incurred excluding investment components	-	-	-	**-**
Administration and other expenses	2,500	2,500	2,500	**7,500**
Recognition of contractual service margin	76,376	80,024	86,911	**243,310**
Amortisation of acquisition costs	6,667	6,667	6,667	**20,000**
Premium experience adjustments relating to current service	14,288	-25,238	-71,067	**-82,017**
Insurance service expenses	**-9,167**	**-9,167**	**-9,167**	**-27,500**
Claims incurred excluding investment components	-	-	-	**-**
Administration and other expenses	-2,500	-2,500	-2,500	**-7,500**
Amortisation of insurance acquisition cash flows	-6,667	-6,667	-6,667	**-20,000**
Insurance service result	**90,663**	**54,786**	**15,844**	**161,293**
Investment service result	**-900**	**-539**	**225**	**-1,214**
Insurance finance income or expenses	**-210,000**	**-95,386**	**79,940**	**-225,446**
Investment return on assets held in respect of life insurance contracts	**209,100**	**94,847**	**-79,715**	**224,232**
IAS 12 Income Tax on policyholders' funds	**-63,000**	**-28,616**	**-**	**-91,616**
Deferred tax asset	**-**	**-**	**23,982**	**23,982**
Profit before tax	**26,763**	**25,631**	**40,051**	**92,446**
Taxation on shareholders' funds	**-7,494**	**-7,177**	**-11,214**	**-25,885**
Profit for the year	**19,270**	**18,454**	**28,837**	**66,561**

Movement in Equity	**1**	**2**	**3**	**Total**
Opening Equity	**-**	**19,270**	**38,556**	**57,826**
Investment income on shareholder fund	-	1,156	2,313	**3,470**
Tax on shareholder fund	-	-324	-648	**-971**
Transfer from or to policyholder fund	19,270	18,454	28,837	**66,561**
Closing equity	19,270	38,556	69,059	**126,885**
Change in equity	**19,270**	**19,287**	**30,503**	**69,059**

Currency (Thousands)	YTD	YTD	YTD
Year	**1**	**2**	**3**
Estimated number of policyholders at start of year	1000	990	980
UI	**1**	**2**	**3**
Underlying item (start of year)	**-**	**1,589,767**	**1,598,809**
Premium received	1,500,000		
Investment return	210,000	95,386	-79,940
Tax charges	-63,000	-28,616	23,982
Annual management charges (AMC's)	-41,175	-41,413	-38,571
Death claims	-16,058	-16,314	15,350
Maturity claims	-	-	-1,519,629
Underlying item (end of year)	**1,589,767**	**1,598,809**	**-**
ES	**1**	**2**	**3**
PV of ES (start of year)	102,373	74,675	38,980
Unwind	11,261	8,214	3,508
Release	-40,388	-42,804	-42,488
PV of ES (end of year)	73,247	40,085	-
PV of ES (actual closing)	74,675	38,980	-
CNV	**1**	**2**	**3**
Expense outflows (acquisition) (start of year)	15000	0	0
Expense outflows (acquisition) (end of year)	5000	0	0
Expense outflows (renewal) (end of year)	2500	2500	2500
PV of expenses (start of year)	26,072	4,458	2,315
Unwind	886	357	185
Release	-22,500	-2,500	-2,500
PV of expenses (expected closing)	4,458	2,315	-
PV of expenses (actual closing)	4,458	2,315	-
I-E tax CF	63,000	28,616	-23,982
I-E tax CF (reserving)	63,000	28,616	-23,982
PV of i-e tax (start of year)	125,471	91,523	39,604
Unwind	13,802	10,068	3,564
Release	-49,500	-52,462	-43,168
PV of i-e tax (expected closing)	89,773	49,129	-
PV of i-e tax (actual closing)	91,523	39,604	-
Check			
PV of CNV (start of year)	26,072	4,458	2,315
Unwind	886	357	185
Release	-22,500	-2,500	-2,500
PV of CNV (expected closing)	4,458	2,315	-
PV of CNV (actual closing)	4,458	2,315	-
BEL (start of year)	**-76,301**	**1,519,550**	**1,562,144**

Currency (Thousands)	YTD	YTD	YTD
CSM	**1**	**2**	**3**
Opening	76,301	58,736	32,745
Unlocking	11,803	6,753	3,323
Allocation	-29,368	-32,745	-36,068
Closing	58,736	32,745	-
IFRS 17 Liability	**-**	**1,578,286**	**1,594,888**
NDAC	**1**	**2**	**3**
Notional DAC (opening)	-	13,333	6,667
Updates	20,000	-	-
Amortisation	-6,667	-6,667	-6,667
Notional DAC (closing)	13,333	6,667	-
Asset buildup	**1**	**2**	**3**
Assets at start	**-**	**1,578,286**	**1,594,888**
Cash flows	1,398,442	-47,430	-1,482,797
Premiums	1,500,000	-	-
Claims	-16,058	-16,314	-1,504,280
Expenses	-22,500	-2,500	-2,500
I-E tax	-63,000	-28,616	23,982
Investment return on assets	210,000	95,386	-79,940
Investment return on other assets	-900	-689	-235
Assets before transfer	1,607,542	1,625,553	31,915
Transfer net	-21,064	-22,079	-22,979
Transfer tax	-8,192	-8,586	-8,936
Assets at end	**1,578,286**	**1,594,888**	**-**

Currency (Thousands)	YTD	YTD	YTD	
Income statement	**1**	**2**	**3**	**Total**
Results from insurance contracts	**29,256**	**30,665**	**7,933**	**67,853**
Insurance revenue	**102,322**	**69,136**	**17,335**	**188,793**
Claims incurred excluding investment components	-	-	-	**-**
Administration and other expenses	52,000	54,962	45,668	**152,630**
Recognition of contractual service margin	29,368	32,745	36,068	**98,180**
Amortisation of acquisition costs	6,667	6,667	6,667	**20,000**
Premium experience adjustments relating to current service	14,288	-25,238	-71,067	**-82,017**
Insurance service expenses	**-9,167**	**-9,167**	**-9,167**	**-27,500**
Claims incurred excluding investment components	-	-	-	**-**
Administration and other expenses	-2,500	-2,500	-2,500	**-7,500**
Amortisation of insurance acquisition cash flows	-6,667	-6,667	-6,667	**-20,000**
Insurance service result	**93,156**	**59,969**	**8,168**	**161,293**
Investment service result	**-900**	**-689**	**-235**	**-1,824**
Insurance finance income or expenses	**-210,000**	**-95,386**	**79,940**	**-225,446**
Investment return on assets held in respect of life insurance contracts	**209,100**	**94,697**	**-80,176**	**223,621**
IAS 12 Income Tax on policyholders' funds	**-63,000**	**-28,616**	**-**	**-91,616**
Deferred tax asset	**-**	**-**	**23,982**	**23,982**
Profit before tax	**29,256**	**30,665**	**31,915**	**91,836**
Taxation on shareholders' funds	**-8,192**	**-8,586**	**-8,936**	**-25,714**
Profit for the year	**21,064**	**22,079**	**22,979**	**66,122**

Movement in Equity	**1**	**2**	**3**	**Total**
Opening Equity	**-**	**21,064**	**44,053**	**65,117**
Investment income on shareholder fund	-	1,264	2,643	**3,907**
Tax on shareholder fund	-	-354	-740	**-1,094**
Transfer from or to policyholder fund	21,064	22,079	22,979	**66,122**
Closing equity	21,064	44,053	68,935	**134,051**
Change in equity	**21,064**	**22,989**	**24,882**	**68,935**

Annexure D

IASB Staff – Sweep issues 2013

IFRS

IASB Agenda ref 2C

STAFF PAPER

30 January – 31 January 2013

REG IASB Meeting

Project	Insurance Contracts		
Paper topic	Sweep issues		
CONTACT(S)	Giel Pieterse	gpieterse@ifrs.org	+44 (0)20 7246 6543
	Izabela Ruta	iruta@ifrs.org	+44 (0)20 7246 6957
	Andrea Silva	asilva@ifrs.org	+44 (0)20 7246 6961
	Rachel Knubley	rknubley@ifrs.org	+44 (0)20 7246 6904
	Joanna Yeoh	jyeoh@ifrs.org	+44 (0)20 7462 6481

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction

1. This paper considers the sweep issues (ie narrow issues) that were raised by respondents to the Exposure Draft (ED) or are unintended consequences identified as a result of the IASB's tentative decisions. The staff proposes to discuss these issues with the IASB on an exceptions basis, ie the staff will ask only a general question as to whether the IASB agrees with the staff's proposals. We would discuss an issue only if requested to do so by an IASB member. The staff asks for advance notification from IASB members if they intend to discuss any issues to assist in meetings planning.

Question for the IASB
1. Do you agree with all of the staff recommendations (summarised in paragraph 2)?

Summary of staff recommendations

2. The following table summarises the staff recommendations on the issues discussed in this paper:

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