Batliboi & Purohit
CHARTERED ACCOUNTANTS

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**To**
**The Board of Directors**
**Life Insurance Corporation of India**

**Re: Proposed initial public offering of equity shares of Life Insurance Corporation of India**

Dear Sirs,

We have verified the translated version of the audited financial statements of Life Insurance Corporation (International) B.S.C. (c) for the year ended December 31, 2020. These Financials statements have been translated by the Company in Indian Rupees in accordance with Ind AS 21, "The Effect of Changes in Foreign Currency Rates".

The work carried out by us is in accordance with the Standard on Related Services (SRS) 4400, "Engagements to Perform Agreed upon Procedures regarding Financial Information" issued by the Institute of Chartered Accountants of India.

As required under Schedule VI Part A Item No. (11)(I)(A)(ii)(b) of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("SEBI ICDR Regulations"), we have verified the translated financial information contained in the Annexure attached to this Certificate which is proposed to be uploaded on the website of Life Insurance Corporation of India in connection with its proposed initial public offering of equity shares (the "Offer").

We did not audit the financial statements of Life Insurance Corporation (International) B.S.C. (c). These financial statements have been audited by other audit firms, whose reports have been furnished to us by the Company.

These translated financials should not in any way be construed as a reissuance or re-dating of any of the previous audit reports, nor should these be construed as a new opinion on any of the audited consolidated financial statements referred to herein.

These translated financials are intended solely for use of the management for uploading on website of Life Insurance Corporation of India in connection with its proposed initial public offering of equity shares.

Based on our examination, we confirm that the information in this certificate is true, fair, correct, accurate and there is no untrue statement or omission which would render the contents of this certificate misleading in its form or context.

**Restriction on use**

This certificate has been provided by us, at the request of the Life Insurance Corporation of India and solely for the information of Axis Capital Limited, Kotak Mahindra Capital Company Limited, BofA Securities India Limited, Citigroup Global Markets India Private Limited, Goldman Sachs (India) Securities Private Limited, ICICI Securities Limited, JM Financial Limited, J.P. Morgan, Nomura Financial Advisory and Securities (India) Private Limited and SBI Capital Markets Limited, book running lead managers appointed by Life Insurance Corporation of India (Collectively referred to as the "Book Running Lead Managers" or the "BRLMs") to assist them in conducting their due-diligence and documenting their investigations of the affairs of Life Insurance Corporation of India in connection with the proposed offer. This certificate may be relied on by the BRLMs, their affiliates and legal counsel in relation to the Offer.

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**BRANCHES :**
**NAVI MUMBAI :** 302 / 304 Arenja Corner, Sector 17, Vashi, Navi Mumbai - 400 703. • Tel. : +91-22-2766 6478
**DELHI :** 505, Nirmal Tower, 26, Barakhamba Road, New Delhi -110 001. • Tel. : +91-11-4019 0200

This certificate is not intended for general circulation or publication and is not to be reproduced or used for any other purpose without our prior consent in writing, other than the purpose stated above. We, however, hereby give consent for inclusion of our name and this information (in full or in part) in the Draft Red Herring Prospectus, Updated Draft Red Herring Prospectus, Red Herring Prospectus and Prospectus proposed to be filed by Life Insurance Corporation of India with the Securities and Exchange Board of India ("SEBI"), the National Stock Exchange Limited and BSE Limited (the "Stock Exchanges") and the Insurance Development and Regulatory Authority of India ("IRDAI") and any other material used in connection with the Offer and submission of this certificate to SEBI, Stock Exchanges, or IRDAI in connection with the proposed Offer, as the case may be. Additionally, we hereby give our consent for the submission of this certificate to any other regulatory authority as may be required under applicable law in connection with the proposed Offer, as the case may be.

**For Batliboi & Purohit**
**Chartered Accountants**
**FRN: 101048W**

RAMAN DEVRAM HANGEKAR

Digitally signed by RAMAN DEVRAM HANGEKAR
Date: 2022.02.12 19:13:26 +05'30'

**Raman Hangekar**
**Partner**
**Membership No: 030615**

Date: 12-02-2022
Place: Mumbai
UDIN: 22030615ABPRZP9460

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# Statement of financial position

| | Notes | 31-12-2020. | 31-12-2020. |
|---|---|---|---|
| | | BD | INR |
| **Assets:** | | | |
| Furniture and equipment | 5 | 5,647 | 1,095,036 |
| Intangible asset | 6 | 4 | 776 |
| Right-of-use assets | 7.1 | 35,462 | 6,876,600 |
| Statutory deposits | 8 | 699,310 | 135,606,419 |
| Investments | 9 | 614,568,098 | 119,173,726,896 |
| Policy loans | 14 | 5,498,135 | 1,066,168,649 |
| Reinsurance contracts receivable | 23 | 1,856 | 359,905 |
| Premium receivable | 11 | 1,494,605 | 289,825,731 |
| Term deposits with banks | 10 | 83,803,846 | 16,250,789,276 |
| Accrued interest income | 12 | 9,063,432 | 1,757,531,791 |
| Other assets | 13 | 268,700 | 52,104,853 |
| Cash and cash equivalents | 15 | 33,567,418 | 6,509,212,435 |
| **Total Assets** | | **749,006,513** | **145,243,298,367** |
| | | | |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital | 16 | 20,000,000 | 1,163,523,035 |
| Statutory reserve | 17 | 7,768,870 | 1,506,497,319 |
| Contengency fund reserve | 18 | 223,643 | 43,367,643 |
| Investment fair value reserve | | 6,056,075 | 1,174,361,361 |
| Retained earnings | | 25,567,816 | 7,672,741,778 |
| **Total Equity** | | **59,616,404** | **11,560,491,136** |
| | | | |
| **Liabilities** | | | |
| Life Insurance Fund | 20 | 680,587,843 | 131,975,919,340 |
| Employee's end-of-service indemnity | | 31,172 | 6,044,706 |
| Amount due to related parties | 21 | 131,705 | 25,539,522 |
| Zakat and tax provisions | 22 | 219,486 | 42,561,540 |
| Reinsurance Contract liabilities | 23 | 88,284 | 17,119,557 |
| Claims payable | 24 | 5,357,464 | 1,038,890,489 |
| Lease liabilities | 7.2 | 36,734 | 7,123,259 |
| Other liabilities | 25 | 2,937,421 | 569,608,818 |
| **Total liabilities** | | **689,390,109** | **133,682,807,231** |
| **Total equity and liabilities** | | **749,006,513** | **145,243,298,367** |

The accounting policies and the notes from pages 15 to 50 form an integral part of these financial statements.

# Statement of comprehensive income

| | Notes | Year ended 31 December 2020 | Year ended 31 December 2020 |
|---|---|---|---|
| **Revenues** | | **BD** | **INR** |
| Premiums: | | | |
| First year | 26 | 7,342,977 | 1,445,886,509 |
| Renewal | 26 | 32,110,438 | 6,322,782,859 |
| Single premium | 26 | 32,435,324 | 6,386,755,317 |
| Unit link premium | 26 | 1,217 | 239,636 |
| Group insurance premium | | - | - |
| Reinsurance ceded | 23 | (179,001) | (35,246,622) |
| Discount on commutation of premium | 27 | (1,075,329) | (211,740,238) |
| **Net insurance premium** | | **70,635,626** | **13,908,677,461** |
| Claims incurred | 29 | (169,267,739) | (33,330,070,390) |
| Change in life insurance fund | 20 | 75,236,069 | 14,814,538,733 |
| **Net underwriting results** | | **(23,396,044)** | **(4,606,854,196)** |
| Realised income from investments | 28 | 33,870,400 | 6,669,332,401 |
| Unrealised gain/(loss) on investments at FVTPL | 9 | 3,516,650 | 692,454,408 |
| Impairment on investment securities, net | 30 | (1,990,982) | (392,039,089) |
| **Income from investments** | | **35,396,068** | **6,969,747,720** |
| | | **12,000,024** | **2,362,893,524** |
| Depreciation of right-of use assets | 7 | (12,470) | (2,455,435) |
| Interest expense on lease liabilities | 7 | (1,866) | (367,429) |
| General and administrative expenses | 32 | (5,659,740) | (1,114,444,688) |
| Other income | 31 | 789,992 | 155,555,271 |
| **Profit/(loss) before zakat and income tax** | | **7,115,940** | **1,401,181,243** |
| Zakat and income tax (expense)/reversal | | - | - |
| **Profit/(loss) after zakat and income tax** | | **7,115,940** | **1,401,181,243** |
| **Other comprehensive income:** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Net change in fair value of AFS investments during the period | 9 | **5,208,489** | **1,025,590,027** |
| **Other comprehensive income for the year** | | **5,208,489** | **1,025,590,027** |
| Translation Difference | | | (1,365,450,082) |
| **Total comprehensive income for the year** | | **12,324,429** | **1,061,321,188** |

The accounting policies and the notes from pages 15 to 50form an integral part of these financial statements.



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# Statement of changes in equity

| | Share capital | Statutory reserve | Contingency Reserve | Investments fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | BD | BD | BD | BD | BD | BD |
| At 1 January 2020 | 20,000,000 | 7,057,276 | 216,991 | 847,586 | 19,170,122 | 47,291,975 |
| Profit for the year | - | - | - | - | 7,115,940 | 7,115,940 |
| Transfer to statutory reserve | - | 711,594 | - | - | (711,594) | - |
| Transfer to contingency reserve | - | - | 6,652 | - | (6,652) | - |
| **Other comprehensive income for the period:** | | | | | | |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | | | | |
| Unrealized fair value gain on AFS investments | - | - | | 5,208,489 | - | 5,208,489 |
| **Total comprehensive income** | **-** | **711,594** | **6,652** | **5,208,489** | **6,397,694** | **12,324,429** |
| **At 31 December 2020** | **20,000,000** | **7,768,870** | **223,643** | **6,056,075** | **25,567,816** | **59,616,404** |

| | Share capital | Statutory reserve | Contingency reserve | Investments fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| | INR | INR | INR | INR | INR | INR |
| At 1 January 2020 | 1,163,523,035 | 1,416,047,369 | 43,539,396 | 170,068,724 | 6,695,989,363 | 9,489,167,887 |
| Profit for the year | - | - | - | - | 2,426,771,270 | 2,426,771,270 |
| Transfer to statutory reserve | - | 140,118,124 | - | - | (140,118,124) | - |
| Transfer to contingency reserve | - | - | 1,309,828 | - | (1,309,828) | - |
| **Other comprehensive income for the period:** | | | | | | |
| **Items that are or may be reclassified subsequently to profit or loss:** | | | | | | |
| Unrealized fair value gain on AFS investments | - | - | - | 1,010,002,061 | - | 1,010,002,061 |
| Translation Difference | 0 | (49,668,174) | (1,481,581) | (5,709,424) | (1,308,590,903) | (1,365,450,082) |
| **Total comprehensive income** | 0 | 90,449,950 | (171,753) | 1,004,292,637 | 976,752,415 | 2,071,323,249 |
| **At 31 December 2020** | 1,163,523,035 | 1,506,497,319 | 43,367,643 | 1,174,361,361 | 7,672,741,778 | 11,560,491,136 |

The accounting policies and the notes from pages 15 to 50form an integral part of these financial statements



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# Statement of cash flows

| | Year ended 31 December 2020 BD | Year ended 31 December 2019 INR |
|---|---|---|
| **Operating activities** | | |
| Profit (loss) before zakat and income tax | 7,115,940 | 1,401,181,244 |
| Adjustments: | | |
| Depreciation | 4,082 | 803,776 |
| Amortization | - | - |
| Depreciation on right-of-use assets | 12,470 | 2,455,435 |
| Interest expense on lease liabilities | 1,866 | 367,429 |
| Foreign exchange loss/ (gain) | 81,735 | 16,094,226 |
| Gain on sale of furniture and equipment | (49) | (9,648) |
| Unrealised gain on investments at fair value through profit or loss | (3,516,650) | (692,454,408) |
| Gain on disposal of investments | (3,741,721) | (736,772,554) |
| Dividend income | (477,948) | (94,111,498) |
| Interest income | (29,650,731) | (5,838,448,349) |
| Impairment loss recognised on investments, net | 1,497,273 | 294,824,134 |
| Claim incurred | 169,267,739 | 33,330,070,390 |
| Reinsurance ceded | 145,732 | 28,695,709 |
| Change in life insurance fund | (75,236,069) | (14,814,538,733) |
| Zakat and income tax changes | - | - |
| Provision for employees' end-of-service indemnity | 8,642 | 1,701,674 |
| Operating profit before working capital changes | **65,512,311** | **12,899,858,827** |
| Changes in operating assets and liabilities: | | |
| Decrease/ (increase) in premiums receivable | 154,566 | 30,435,189 |
| Decrease in reinsurance contract receivable | 44,164 | 8,696,218 |
| (Increase)/ decrease in other assets | (99,904) | (19,671,837) |
| Decrease/ (increase) in policy loan | 931,768 | 183,472,014 |
| (Decrease)/(increase) in due to Related party | (79,434) | (15,641,142) |
| (Decrease)/(increase) in other liabilities | (1,276,170) | (251,287,317) |
| Reinsurance expense paid | (357,500) | (70,394,396) |
| Claims paid | (167,453,142) | (32,972,762,813) |
| Net cash used in operating activities | **(102,623,341)** | **(20,207,295,256)** |
| **Investing activities** | | |
| Purchase of furniture and equipment | (1,306) | (257,161) |
| Proceeds from disposal of furniture and equipment | 460 | 90,577 |
| Purchase of financial investments | (58,329,287) | (11,485,468,247) |
| Proceeds from disposal of investments | 69,184,978 | 13,623,034,137 |
| Decrease/ (increase) in fixed deposits | 66,931,060 | 13,179,221,004 |
| Transfer of actuarial reserve to LIC India | (366,192) | (72,105,915) |
| Dividends received | 477,948 | 94,111,498 |
| Interest received | 31,491,980 | 6,201,003,903 |
| Net cash from investing activities | **109,389,641** | **21,539,629,796** |
| **Financing activities** | | |
| Repayment of lease liabilities | (14,003) | (2,757,294) |



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| | | |
|---|---|---|
| Net cash used in financing activities | **(14,003)** | **(2,757,294)** |
| **Net increase in cash and cash equivalents** | 6,752,297 | 1,329,577,246 |
| Translation difference | - | (703,376,015) |
| **Net (decrease)/increase in cash and cash equivalents after translation difference** | - | 626,201,231 |
| Cash and cash equivalents at the beginning of year | 101,420,294 | 20,350,052,985 |
| **Cash and cash equivalents at the end of year** | **108,172,640** | **20,976,254,217** |
| Comprises: | | |
| Cash in hand | 101,704 | 19,721,890 |
| Current accounts with conventional banks | 10,219,616 | 1,981,732,749 |
| Current accounts with investments banks | 23,246,098 | 4,507,757,795 |
| Deposits with original maturities less than three months | 74,605,222 | 14,467,041,782 |
| | **108,172,640** | **20,976,254,217** |

Note: Non-cash transactions of additions to right-of-use assets amounting to BD 8,521 (INR 1,677,848) and lease liabilities in the amount of BD8,521 (INR 1,677,848) have been not included in the statement of cash flows.

The accounting policies and the notes from pages 15 to 50form an integral part of these financial statements.

# Notes to the financial statements

**31 December 2020**

## 1. Status and activities

1.1 Life Insurance Corporation (International) B.S.C. (c) (the "Company") was formed by Life Insurance Corporation of India and the International Agencies Company Limited, Bahrain. The Company is registered with the Ministry of Industry, Commerce and Tourism under commercial registration no. 21606 and operates under an insurance license issued by the Central Bank of Bahrain (the "CBB"). The registered address of the Company is 1st floor, Ali Al-Wazzan Building, Al-Khalifa Avenue, P.O. Box 584, Manama, Kingdom of Bahrain.

1.2 The Company operates branch office "Life Insurance Corporation (International) B.S.C.(C) (Dubai & Abu Dhabi Branch)- UAE" in the United Arab Emirates and branch office "Life Insurance Corporation (International) B.S.C. (C)- Muscat Branch" in Sultanate of Oman. The principal activities of these branches are providing life insurance, group life, credit and saving insurance. The operating results of two branches are included as part of these financial statements.

1.3 The Company commenced its operations on July 23, 1989 and is engaged in carrying out life insurance business, mainly with Indian expatriates in the Kingdom of Bahrain and other GCC countries. It is also engaged in conducting similar business with all nationalities resident in Bahrain under special permission granted by the Central Bank of Bahrain, from November 8, 2006.

1.4 The International Agencies Company Limited (the "Agent") is the agent of Life Insurance Corporation (International) B.S.C. (c) in Bahrain. It is responsible for providing:

- Administration and technical services for all policies issued by the Company.
- Marketing services in Bahrain.

In return, the Agent is entitled to compensation at agreed terms.



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1.5 All reinsurance is ceded to Swiss Reinsurance Company, HannoverRe and Munich Reinsurance Company on agreed terms.

1.6 Based on resolution number 125 dated July 14, 2004 (Hijri 14/5/1424) issued by the Council of Ministers in Saudi Arabia, and its subsequent implementation guidelines thereon, insurance companies operating in Saudi Arabia are required to obtain a license to undertake insurance activities in the Kingdom from the Saudi Arabian Monetary Agency ("SAMA"). The requirements for license include operating as a public joint stock company and having a minimum paid up capital of Saudi Riyals 100 Mn.

Under these regulations, on December 29, 2004, the Board of Directors of the Company submitted an application for the license with SAMA under the name of "Saudi Indian Company for Cooperative Insurance" ("SICCI"). The Company acquired 10.2% of the issued share capital of SICCI. Further, the Company ceased its activities in the Kingdom, but later on August 1, 2005 business activities resumed as SAMA permitted existing operations to continue for a three year grace period. On December 28, 2008, SAMA did not further extend Saudi Operations of the Company to market new insurance policies.

During 2011, SAMA approved exit plan via letter dated 15.06.1432 H (corresponding May 20, 2011), of the Saudi Operations of the Company. The Company transferred the Saudi portfolio to Kingdom of Bahrain or LIC India with the consent of the policyholders.



During the year 2018, SICCI obtained approval from Capital Market Authority and SAMA for further capital reduction to 18.03%. Accordingly, the Company's investment in SICCI was proportionately reduced which resulted in recording losses in the income statement for the year 2018.

Investment in SICCI has been fully provided for being identified as impaired on account of the share trading being suspended by The Saudi Stock Exchange (Tadawul) since 12 November 2018.

## 1A. COVID impact during the year

On 21 February 2020, Kingdom of Bahrain confirmed the first case of COVID-19 whilst Health Ministry in Bahrain was on high alert and started implementing pre-emptive measures from January 2020. On 11 March 2020, World Health Organization (WHO) declared COVID-19 outbreak a global pandemic and asserted the threat posed by this virus. COVID-19 pandemic is presenting challenges for many entities throughout the world. The pandemic arrested the growth in business and resulted in pulling down the activities of the Company.

**Government assistance**

The Company received waiver in electricity bills from Electricity and Water Authority (EWA) for 3 months starting April 2020 to June 2020 to the extent of bills in the comparative year in the amount of BD529(INR 104,164). This amount was adjusted against the electricity and water charges).

## 2. Adoption of new and revised international financial reporting standards (IFRS)

**2.1 New or revised Standards or Interpretations**

**New Standards adopted as at 1 January 2020**

Some accounting pronouncement which have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Company's financial results or position.

**Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company**

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments to Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

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2.2 **New and revised IFRSs applied with no material effect on the financial statements**

In the current year the Company has applied the following IFRS Standards and interpretations that are effective for an annual period that begins on or after January 1, 2020.
The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4 notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2023 at the latest. An entity may apply the temporary exemption from IFRS 9 if: (i) it has not previously applied any version of IFRS 9 before and (ii) its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016. The overlay approach allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

An entity can apply the temporary exemption from IFRS 9 for annual periods beginning on or after 1 January 2018. An entity may start applying the overlay approach when it applies IFRS 9 for the first time. The Company intends to apply the temporary exemption in its reporting period starting on 1 January 2018.

- Amendments to IFRS 9 *Prepayment Features with Negative Compensation and Modification of financial liabilities*: The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* to clarify the accounting for defined benefit plan amendments, curtailments and settlements.

- IFRIC 23 *Uncertainty over Income Tax Treatments*

  The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:
  - whether tax treatments should be considered collectively;
  - Assumptions for taxation authorities' examinations;
  - the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - the effect of changes in facts and circumstances.



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- Amendments to IFRS 3 Business Combinations – Definition of a Business (effective from January 1, 2020).
- Amendments to References to the Conceptual Framework in IFRS Standards related IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 (effective from 1January 2020).
- Amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9/ IAS 39 Financial Instruments. Amendments regarding pre-replacement issues in the context of the IBOR reform (effective from 1January2020).
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material (effective from 1 January 2020).

### 2.3 New and revised IFRS in issue but not yet effective

At the date of authorization of these financial statements, the Company has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
  In May 2017, the IASB issued IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure, which replaces IFRS 4 Insurance Contracts.

  In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies for measurement purposes, IFRS 17 provides a comprehensive model (the general model) for insurance contracts, supplemented by the variable fee approach for contracts with direct participation features that are substantially investment-related service contracts, and the premium allocation approach mainly for short-duration which typically applies to certain non-life insurance contracts.

  The main features of the new accounting model for insurance contracts are, as follows:
  - The measurement of the present value of future cash flows, incorporating an explicit risk adjustment, remeasured every reporting period (the fulfilment cash flows);
  - A Contractual Service Margin (CSM) that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts. The CSM represents the unearned profitability of the insurance contracts and is recognised in profit or loss over the service period (i.e., coverage period);
  - Certain changes in the expected present value of future cash flows are adjusted against the CSM and thereby recognised in profit or loss over the remaining contractual service period;
  - The effect of changes in discount rates will be reported in either profit or loss or other comprehensive income, determined by an accounting policy choice;
  - The recognition of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of services provided during the period; Amounts that the policyholder will always receive, regardless of whether an insured event happens (non-distinct investment components) are not presented in the statement of profit or loss and other comprehensive income, but are recognised directly on the statement of financial position;
  - Insurance services results (earned revenue less incurred claims) are presented separately from the insurance finance income or expense; and
  - Extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.



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IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. Retrospective application is required. However, if full retrospective application for a group of insurance contracts is impracticable, then the entity is required to choose either a modified retrospective approach or a fair value approach.

The Company plans to adopt new standards on the required effective date together with IFRS 9 (see above). The Company expects that the new standard will result in an important change to the accounting policies for insurance contracts liabilities of the Company and is likely to have significant impact on profit and total equity together with presentation and disclosure.

The Directors are currently assessing the impact of the above standards.

## 3. Significant Accounting policies

### 3.1 Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") and the applicable requirements of the Bahrain Commercial Law of 2001, and the Central Bank of Bahrain Insurance Regulations (as contained in Volume 3 of the CBB Rulebook).

### 3.2 Basis of preparation

The financial statements are prepared under the historical cost basis, except for certain financial instruments measured at fair value. The financial statements include the net assets and results of operations of the Company in the Kingdom of Bahrain, Kuwait and Qatar and its branches in Oman and the United Arab Emirates. All inter-branch transactions and balances are eliminated.

These financial statements are presented in Bahrain Dinars ("BD") being the functional currency of the Company.

### 3.3 Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Therefore, the financial statements continue to be prepared on the going concern basis.

### 3.4 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of an asset or a liability is measured by taking into account the characteristics of the asset or liability that if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

For financial reporting purposes fair value measurement is categorized into Levels 1, 2 or 3 based on the degree to which the inputs to fair value measurement in its entirety, which are described below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.



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3.5 **Insurance contract**

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 or other beneficiary.

3.6 **Revenue recognition**

**Insurance Contracts**

Life insurance premiums including Unit Link premiums are recognised as revenue when due from policyholders. Premiums receivable relate to the premium due in the month of October, November and December for which the normal grace period of three months have not expired and the previous instalments have been paid. Claim expenses are recorded on basis of notification received. Maturities and annuities payments are recorded when due to policyholders or beneficiaries. Commissions and other costs directly related to the acquisition and renewal of insurance contracts are charged to the profit or loss when incurred.

**Interest income**

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and at the interest rate applicable.

**Dividend income**

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

**Other income**

All other income is recognised on an accrual basis.

3.7 **Reinsurance contracts held**

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on one or more contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirement are classified as financial assets. Insurance contracts entered into by the Company under which the contract holder is another insurer are included with insurance contracts.

The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. The Company assesses its reinsurance assets for impairment on a regular basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance assets to its recoverable amount and recognises that impairment loss in the profit or loss for the year.

3.8 **Insurance contract liabilities**

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Company and still unpaid at the reporting date.

The reinsurers' portion towards the outstanding claims is classified as reinsurance contract assets in the financial statements.

3.9 **Liability adequacy**

At each reporting date the Company reviews the carrying amounts of its insurance liabilities carried out by the appointed actuary to ensure that its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets) is inadequate in the light of the estimated future cash flows, the entire deficiency is recognised in the results for the year.



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3.10 **Life insurance fund**

The life insurance fund is determined on a quarterly basis to provide sufficient funds in order to meet the current obligations of future liabilities. This fund is valued by an appointed actuary registered with the CBB.

3.11 **Claims payable**

Provision for claims payable is made for those policies where intimation of death is received as at the reporting date.

3.12 **Furniture and equipment**

Furniture and equipment are stated at cost less accumulated depreciation and any impairment in value. The costs of Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives, which are as follows:

| | |
|---|---|
| Motor vehicles | 5 years |
| Furniture and fixtures | 1 - 4 years |

The gain or loss arising on the disposal or retirement of an item of Furniture and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss and other comprehensive income.

3.13 **Intangible asset**

Intangible asset comprising computer software is stated at cost less accumulated amortisation and any impairment in value. The amount paid for computer software amortized on straight line basis over their estimated useful life of 3 years.

3.14 **Impairment of tangible and intangible assets**

At the end of each reporting period, the Company reviews the carrying value of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exits, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses based on the net present value of future cash flows are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss previously been recognised. The reversal of the loss is recognised immediately in statement of profit or loss and other comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



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**3.15 Financial instruments**

Financial assets and financial liabilities are recognised when a Company becomes a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**3.16 Financial assets**

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. At present financial assets of the Company consist of financial assets at FVTPL, held-to-maturity' investments, AFS investments and receivables comprising accounts and other receivables, dues from related parties and cash and bank balances.

**3.16.1 Investments**

Investments are recognised and derecognised on trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at the fair value, plus transaction costs, except for those investments classified as at fair value through profit or loss, which are initially measured at fair value. Premiums and discounts on held to maturity investments are aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield of the investment. For investments traded in organised financial markets, fair value is determined by reference to quoted market bid prices on the relevant exchange at the close of the business on the reporting date.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

**Financial assets at FVTPL**

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'income from investments' line item in the statements of comprehensive income.

**AFS investments**

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) HTM investments or (c) financial assets at FVTPL.

Investments held by the Company that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Company also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss.

Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of "investments fair value reserve". When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments fair value reserve is reclassified to profit or loss.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

**HTM investments**

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortised cost using the effective interest method less any impairment.

**3.16.2 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, bank balances and cash are measured at amortised cost, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.



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3.16.3 **Impairment of financial assets**

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

For AFS a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:
- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation;
- The disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

When an AFS financial assets is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity investment, 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 through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognized.

With respect to the AFS equity investments, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments fair value reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.16.4 **Derecognition of financial assets**

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The difference between the carrying amount of the financial asset derecognisd and the sum of the consideration received and receivable is recognised in profit or loss.

3.17 **Financial liabilities**

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost, using the effective interest method, with interest expenses recognised on an effective yield basis.



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3.18 **Provisions**

Provisions are recognised when the Company has a present obligation (legal and constructive) as a result of a past event, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

3.19 **Taxation and VAT**

Income tax expense represents the sum of the tax currently payable on Saudi Arabian income and Zakat tax, Saudi Arabian withholding tax, Kuwait income tax and Oman income tax, calculated using tax rates applicable based on Saudi Arabian, Kuwait and Oman operations.
Value Added Tax (VAT), will be charged at 5% standard rate or 0% (as the case may be) on every taxable supply and deemed supply made by the taxable person within the UAE and Bahrain jurisdictions. The Company is required to file its VAT returns and compute the payable tax and deposit the same within the prescribed due dates of filling VAT return and tax payment.

3.20 **Provision for employees' end-of-service benefits**

Provision is made for amounts payable under the Bahrain Labour Law applicable to employees' accumulated periods of service and latest entitlements to salaries and allowances. In UAE and Oman the end-of-service benefits are provided as per applicability of local laws.

3.21 **Foreign currencies**

Foreign currency transactions are recorded in Bahrain Dinars at the approximate rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currency at the reporting date are retranslated at the year-end rates of exchange. Exchange differences are reported as part of the results for the year.

For the purpose of presenting financial statements, the assets and liabilities of the Company's foreign operations (including comparatives) are presented in Bahraini Dinars using exchange rates prevailing at each reporting date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Company's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

# 4. Critical Accounting judgments and key sources of estimation uncertainty

In the application of the entity's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements in applying the Company's accounting policies**

In the process of applying the Company's accounting policies, management has made judgements, (apart from those involving estimations) which have a significant effect on the amounts recognised in the financial statements. These include the following:



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**Classification of investments**

Management has to decide upon acquisition of an investment whether it should be classified as HTM, investments at FVTPL or AFS.

For those deemed to be HTM, the Company ensures that the requirement of IAS 39 are met and in particular the Company has the positive intention and ability to hold these to maturity.

The Company classifies investments as carried at fair value through profit or loss if they are acquired primarily for the purpose of short term profit making or, upon initial recognition, they are designated as at fair value through profit or loss.

All other investments are classified as AFS.

**Impairment of HTM investments**

HTM investment carried at amortised cost, impairment is measured as the difference between the carrying amount of the investment securities and the present value of estimated cash flows discounted at the investment securities original effective interest rate. Losses are recognised in the statement of profit or loss and reflected in an allowance account. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of profit or loss.

The Company considers evidence of impairment for HTM carried at amortised cost at both a specific asset and collective level. All individually significant HTM investments are assessed for specific impairment. All individually significant HTM investments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. HTM investments that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

**Impairment of AFS equity investments**

The Company treats AFS equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is "significant" or "prolonged" requires significant judgement. In addition, the Company also evaluates among other factors, normal volatility in the price of investments and the future cash flows and the discount factors for unquoted investments.

**Key sources of estimation uncertainties**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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:

**The ultimate liability arising from claims made under insurance contracts**

The estimation of ultimate liability arising from the claims made under insurance contracts is the Company's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Company will eventually pay for such claims.The determination of the liabilities under life insurance contracts is dependent on estimates made by the appointed actuary, which is reviewed by the Company.

Estimates are made as to the expected number of deaths for each of the years in which the Company is exposed to risk. The Company bases these estimates on standard industry and national mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Company's experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements.



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The estimated number of deaths determines the value of the benefit payments and the value of the valuation of premiums. In order to ensure the adequacy of liability the actuary of the Company estimates the current obligation of future liabilities at each reporting date.

Note 20, Life Insurance Fund, presents the basis used for the estimate of life funds in order to meet the current obligations of future liabilities.

**Impairment losses on loans and receivables**

The Company reviews problem receivables on a regular basis to assess whether a provision for impairment should be recorded in profit or loss. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

**Determining the lease term**

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Management did not include the extension options in the lease terms on the basis that lease cannot be renewed without the consent of both parties.

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## 5. Furniture and equipment

| | Motor Vehicles | Furniture, fixtures and others | Total 2,020 | Motor vehicles | Furniture, fixtures and others | Total 2,020 |
|---|---|---|---|---|---|---|
| | BD | BD | BD | INR | INR | INR |
| **Cost/ valuation** | | | | | | |
| At 1 January | 36,500 | 30,696 | 67,196 | 7,323,751 | 6,159,174 | 13,482,925 |
| Additions | - | 1,306 | 1,306 | 0 | 257,161 | 257,161 |
| Disposals | - | (1,936) | (1,936) | 0 | (381,213) | (381,213) |
| Translation Difference | | | | (245,868) | (204,886) | (450,754) |
| At 31 December 2020 | **36,500** | **30,066** | **66,566** | **7,077,883** | **5,830,236** | **12,908,119** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2020 | 36,400 | 21,913 | 58,313 | 7,303,685 | 4,396,859 | 11,700,544 |
| Charge for the year | - | 4,082 | 4,082 | 0 | 803,776 | 803,776 |
| Disposals | - | (1,476) | (1,476) | 0 | (290,635) | (290,635) |
| Translation Difference | | | | (245,194) | (155,408) | (400,602) |
| At 31 December 2020 | **36,400** | **24,519** | **60,919** | **7,058,491** | **4,754,592** | **11,813,083** |
| **Net book value** | | | | | | |
| At 31 December 2020 | **100** | **5,547** | **5,647** | **19,392** | **1,075,644** | **1,095,036** |

## 6. Intangible asset

| | 2,020 Software | 2,020 Software |
|---|---|---|
| | BD | INR |
| **Cost** | | |
| At 1 January 2020 | 548,057 | 109,968,021 |
| Translation Difference | - | (3,691,767) |
| At 31 December 2020 | **548,057** | **106,276,254** |
| **Accumulated amortisation** | | |
| At 1 January 2020 | 548,053 | 109,967,218 |
| Translation Difference | - | (3,691,740) |
| At 31 December 2020 | **548,053** | **106,275,478** |
| **Net book value** | **4** | **776** |



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# 7. Leases

The Company only operates as a lessee.

### 7.1 Right-of-use assets

The recognized right-of-use assets relate to the Company's office premises at Zamil Tower in Kingdom of Bahrain, which are leased by the Company, for an average term of 5 years. There are Car and Flat lease to RM Oman which are recognised as right-of-use assets which relate to the Sultanate of Oman.

| | Right-to-use assets | Right-to-use assets |
|---|---|---|
| | **2,020** | **2,020** |
| | BD | INR |
| **Cost** | | |
| At 1 January 2020 | 46,265 | 9,283,105 |
| Additions | 8,521 | 1,677,848 |
| Translation Difference | - | (337,148) |
| At 31 December 200 | **54,786** | **10,623,805** |
| | | |
| **Accumulated amortization** | | |
| At 1 January 2020 | 6,854 | 1,375,260 |
| Charge for the year | 12,470 | 2,455,435 |
| Translation Difference | - | (83,489) |
| At 31 December 200 | **19,324** | **3,747,206** |
| | | |
| **Net book value** | **35,462** | **6,876,600** |

At the reporting date, none of the property leases in which the Company is the lessee, contain variable lease payment terms.

### 7.2 Lease liabilities

| | **2,020** | **2,020** |
|---|---|---|
| | **BD** | **INR** |
| At 1 January 2020 | 40,350 | 8,096,256 |
| Additions | 8,521 | 1,677,848 |
| Accretion of interest | 1,866 | 367,429 |
| Payments | (14,003) | (2,757,294) |
| Translation Difference | - | (260,980) |
| At 31 December 2020 | **36,734** | **7,123,259** |

The maturity analysis of Lease liabilities as at 31December 2020 is as follows:



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| | 2020 BD | 2,020 INR |
|---|---|---|
| Not later than 1 year | 7,055 | 1,368,068 |
| Later than 1 year and not later than 5 years | 29,679 | 5,755,191 |
| | **36,734** | **7,123,259** |

*Notes to the financial statements for the year ended 31 December 2020*

## 8. Statutory deposits

| | 2020 BD | 2,020 INR |
|---|---|---|
| Central Bank of Bahrain (8.1) | 50,000 | 9,695,730 |
| National Bank of Bahrain (8.2) | 54,628 | 10,593,167 |
| Bank of Baroda, Dubai (8.3) | 510,219 | 98,938,913 |
| National Bank of Dubai (8.4) | 5,177 | 1,003,896 |
| Emirates NBD– Dubai – Abu Dhabi (8.4) | 5,650 | 1,095,617 |
| Oman Housing Bank S.A.O.C. (8.5) | 73,636 | 14,279,096 |
| | **699,310** | **135,606,419** |

8.1 The cash deposit is placed with the Central Bank of Bahrain (the "CBB") as per section GR-7.1.2 of the General Requirement Module of the CBB Insurance Rulebook.

8.2 The cash deposit is placed with the National Bank of Bahrain as per section GR-7.1.2 of the General Requirement Module of the CBB Insurance Rulebook.

8.3 The deposits placed in Dubai, U.A.E. are in accordance with the U.A.E. Federal Law No. 6 of 2007 concerning formation of Branch., and are under lien to Insurance Authority of U.A.E.

8.4 The deposit placed with Emirates NBD is for Abu Dhabi operations.

8.5 The deposit placed in the Sultanate of Oman is in accordance with Royal Decree No. 12/79 promulgating and governing the insurance companies law in Oman and is under lien to Capital Market Authority of the Sultanate of Oman.

Interest rates on above deposits range between 0.7% to 3.25% per annum.

## 9. Investments

| | 2020 BD | 2020 INR |
|---|---|---|
| Held-to-maturity ("HTM") | | |
| Quoted | 435,042,543 | 84,361,1000,709 |
| Unquoted | 10,411,457 | 2,018,933,520 |
| Allowance for impairment | (13,425,146) | (2,603,331,817) |
| **Total HTM investments (A)** | **432,028,854** | **83,776,702,412** |
| | | |
| Available-for sale ("AFS") | | |
| Quoted | 51,340,504 | 9,955,673,297 |
| Unquoted | 2,218,054 | 430,113,054 |
| | 53,558,558 | 10,385,786,351 |
| Allowance for impairment | (6,789,093) | (1,316,504,253) |



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| | | |
|---|---|---|
| **Total AFS investments (B)** | **46,769,465** | **9,069,282,098** |
| Designated at fair value through profit or loss ("FVTPL") | | |
| **Quoted (C)** | **135,769,779** | **26,327,742,387** |
| **Total (A)+(B)+(C)** | **614,568,098** | **119,173,726,896** |

The fair value of HTM investments as at 31December 2020 was BD 500,234,817(INR 97,002,834,445).

*Notes to the financial statements for the year ended 31 December 2020*

## (a) HTM Investments

As at the reporting date, HTM investments comprise of the following:

| | **2020** BD | **2020** INR |
|---|---|---|
| **Debt instruments** | | |
| Zero coupon bonds | 13,006,927 | 2,522,233,046 |
| Other bonds | 432,447,073 | 83,857,801,182 |
| | 445,454,000 | 86,380,034,228 |
| Allowance for impairment | (13,425,146) | (2,603,331,817) |
| At 31 December 2020 | **432,028,854** | **83,776,702,412** |

The movements in HTM investments are as follows:

| | **2020** BD | **2020** INR |
|---|---|---|
| At 1 January 2020 | 445,364,438 | 89,362,686,240 |
| Acquisitions | 34,682,594 | 6,829,259,410 |
| Disposals/redemptions | (33,631,385) | (6,622,268,579) |
| Capitalisation of interest (Note 12) | 399,010 | 77,373,865 |
| Amortisation of discount (Note 12) | (1,360,657) | (263,851,258) |
| Translation difference | | (3,003,165,450) |
| At 31 December 2020 | **445,454,000** | **86,380,034,228** |

The movement in allowance for impairment of HTM is detailed below:

| | **2020** BD | **2020** INR |
|---|---|---|
| At 1 January 2020 | (12,197,479) | (2,447,432,700) |
| Charge for the year (Note 30) | (1,227,667) | (241,736,717) |
| Translation difference | | 85,837,600 |
| At 31 December 2020 | **(13,425,146)** | **(2,603,331,817)** |

Financial assets at HTM include BD9,703,115(INR 1,881,575,664) under lien to Capital Market Authority of Sultanate of Oman.

(b) AFS investments

As at the reporting date, AFS investments comprise of the following:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| **Quoted investments** | | |
| **Debt instruments** | | |
| Government bonds | 400,102 | 77,585,619 |
| Mutual funds | 20,121,895 | 3,901,929,220 |
| Other bonds | 10,691,682 | 2,073,273,238 |
| | 31,213,679 | 6,052,788,077 |
| **Equity investments** | 20,126,825 | 3,902,885,219 |
| | **51,340,504** | **9,955,673,296** |
| **Unquoted investments** | | |
| Equity instruments | 2,218,054 | 430,113,054 |
| **Total AFS investments** | **53,558,558** | **10,385,786,350** |
| Allowance for impairment | (6,789,093) | (1,316,504,253) |
| | **46,769,465** | **9,069,282,097** |

Unquoted equity instruments amounting to BD2,218,054 (INR 430,113,054) are carried at cost as their fair values cannot be reliably measured.

The movement in AFS investments is detailed below:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| At 1 January 2020 | 57,653,276 | 11,568,170,187 |
| Foreign exchange fluctuation | (81,735) | (15,849,610) |
| Acquisitions | 2,199,559 | 433,109,444 |
| Disposals/redemptions | (11,421,031) | (2,248,885,520) |
| Increase in fair value | 5,208,489 | 1,025,590,027 |
| Translation difference | | (376,348,177) |
| At 31 December 2020 | **53,558,558** | 10,385,786,351 |

The movement in allowance for impairment of AFS investments is detailed below:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| At 1 January 2020 | (6,519,487) | (1,308,139,630) |
| Charge for the year (Note 30) | (763,315) | (150,302,372) |
| Reversed due to sale of impaired investment | 493,709 | 95,737,383 |
| Translation difference | | 46,200,366 |
| At 31 December 2020 | **(6,789,093)** | (1,316,504,253) |



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### (c) Investments at FVTPL

As at the reporting date, investments at FVTPL comprise of the following:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| **Quoted** | | |
| Debt instruments | | |
| Government bonds | 70,702,907 | 13,710,325,930 |
| Other bonds | 65,066,872 | 12,617,416,457 |
| | **135,769,779** | 26,327,742,387 |

The movement in financial assets at FVTPL is detailed below:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| At 1 January 2020 | 131,196,836 | 26,324,736,981 |
| Acquisitions | 21,447,134 | 4,223,099,393 |
| Disposals/redemptions | (20,390,841) | (4,015,107,485) |
| Increase in fair value | 3,516,650 | 692,454,408 |
| Translation difference | | (897,440,910) |
| At 31 December 2020 | **135,769,779** | 26,327,742,387 |

## 10. Term deposits with banks

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Deposits with maturities less than three months | 74,605,222 | 14,467,041,782 |
| Deposits with maturities more than three months | 9,198,624 | 1,783,747,494 |
| | **83,803,846** | **16,250,789,276** |

Term deposits with banks carry interest between 0.42% to 4.85% per annum with different contractual maturities.

Term deposits include deposits of BD7.02 Mn (INR 1361 Mn) under lien to Capital Market Authority of the Sultanate of Oman.

## 11. Premiums receivable

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Premiums receivable | **1,494,605** | 289,825,731 |

Premiums receivable are recorded to the extent of the month of October, November and December 2020 and there are no past due receivables. No collateral has been obtained in respect of these receivables.

| | Neither past due nor impaired<br>Less than 90 days | |
|---|---|---|
| | 2020<br>BD | 2020<br>INR |
| **<u>Premium receivable aging analysis</u>** | | |
| Receivables: | | |
| Policyholders | **1,494,605** | 289,825,731 |



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## 12. Accrued interest income

| | 2020 BD | 2020 INR |
|---|---|---|
| Accrued investment income | 7,756,003 | 1,504,002,219 |
| Outstanding policy loan interest income | 1,307,429 | 253,529,572 |
| | **9,063,432** | 1,757,531,791 |

The movement in accrued interest income is as follows:

| | 2020 BD | 2020 INR |
|---|---|---|
| At 1 January 2020 | 9,943,034 | 1,995,076,732 |
| Interest income for the year (note 28) | 29,650,731 | 5,838,448,349 |
| Capitalisation of interest (note 9 (a)) | (399,010) | (78,568,022) |
| Amortisation of discount (note 9 (a)) | 1,360,657 | 267,923,432 |
| Received during the year | (31,491,980) | (6,201,003,903) |
| Translation difference | - | (64,344,797) |
| At 31 December 2020 | **9,063,432** | 1,757,531,791 |

## 13. Other Asset

| | 2020 BD | 2020 INR |
|---|---|---|
| Loan receivable from International Precious Metal Refiners ("IPMR") (note 13.1) | 973,113 | 188,700,818 |
| Allowance for loan receivable | (973,113) | (188,700,818) |
| Other receivables | 79,771 | 15,468,762 |
| Due from investment custodian | 186,804 | 36,224,023 |
| Prepayments | 2,125 | 412,069 |
| | **268,700** | **52,104,853** |

13.1 A loan receivable amounting to BD1.512 Mn (INR 293 Mn) from International Precious Metal Refiners ("IPMR") was to be settled in three installments until September 2013 as per the original agreement. During 2013, the Company rescheduled this loan to be received in six equal installments of BD0.189 Mn (INR 37 Mn) each from 31 December 2013 to 31 December 2018 and the finalinstallment of BD0.378 Mn (INR 73 Mn)on 31 December 2019. As collateral security, IPMR obtained three insurance policies amounting to BD0.161 Mn (INR 31 Mn)on the lives of the promoters & stakeholder partners and absolutely assigned the policies to LIC (International).

IPMR paid two installments each of BD0.189 Mn (INR 37 Mn) (USD0.5 Mn) due in Dec 2013 & Dec 2014; the installment of BD0.189 Mn (INR 37 Mn)due in year 2015 was partially filled from the maturity proceeds of the three assigned policies amounting to BD0.161 Mn (INR 31Mn) (USD0.426 Mn).

The provision held against the loan sanctioned to IPMR amounts to BD0.973 Mn (INR 189Mn) (2018: BD0.973 Mn). The Company has initiated legal action against IPMR, its promoters and shareholders in the court of Abu Dhabi to recover outstanding dues including legal cost and damages.



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IPMR has filed a Grievance case against LIC (International) based on fake & forged documents. The Company has filed a Criminal case against the involved parties in IPMR which was under investigation with the Public Prosecutor, Abu Dhabi, UAE.

During the year, the judgment under the criminal case has been pronounced in favour of the Company. After the judgment, the Company has initiated further legal actions for recovery of outstanding dues.

*Notes to the financial statements for the year ended 31 December 2020*

## 14. Policy loans

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Policy loans | 5,498,135 | 1,066,168,649 |

Policy loans carry interest rate of 8% (2019: 8%) per annum and have varied maturities. There were no past due or impaired balances as at the reporting date.

## 15. Bank balances and cash

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Cash in hand | 101,704 | 19,721,890 |
| Current accounts with conventional banks | 10,219,616 | 1,981,732,749 |
| Current accounts with investment banks | 23,246,098 | 4,507,757,795 |
| | 33,567,418 | 6,509,212,435 |

There are no restrictions on bank balances at the time of approval of the financial statements.

## 16. Share capital

The authorised share capital of the Company consists of 200,000 ordinary shares of BD100 (INR 19,391) each which have been issued and fully paid and contributed as follows:

| | Number of shares | % | Amount BD | Amount INR |
|---|---|---|---|---|
| Life Insurance Corporation of India | 197,800 | 98.9 | 19,780,000 | 1,150,724,282 |
| The International Agencies Company Limited, Bahrain | 2,200 | 1.1 | 220,000 | 12,798,753 |
| | 200,000 | 100 | 20,000,000 | 1,163,523,035 |

## 17. Statutory reserve

As required by the Company's Articles of Association, 10% of the profit for the year should be transferred to a statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve is not available for distribution, except in circumstances stipulated in the Bahrain Commercial Companies Law. During the year, an amount of BD 711,594 (INR 137,988,466) was transferred to this reserve.

## 18. Contingency fund reserve

As per Article 20 of the Oman Insurance Companies Law 1979 and article 10 (bis) (3) (b) to the executive by-law issued by Capital Market Authority (CMA) vide administrative decision no.19/2007 dated 4 June 2007, an amount equal to 1% of the net premiums for the year is to be transferred to a



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contingency reserve. The fund is not available for distribution, without prior approval of the CMA. Accordingly, 1% of the net premium for the year of the Company's branch in Oman was transferred to this reserve. During the year, the Company has transferred BD 6,652 (INR 1,289,920) to the contingency fund reserve.

## 19. Proposed dividend

No dividend is proposed for the year 2020.

## 20. Life insurance fund

The movement in the life insurance fund during the year was as follows:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| At 1 January 2020 | 756,190,104 | 151,730,073,701 |
| (Reversal) Provided during the year | (75,236,069) | (14,814,538,733) |
| Actuarial reserve transferred to Life Insurance Corporation of India | (366,192) | (72,105,915) |
| Translation difference | - | (4,867,509,713) |
| At 31 December 2020 | **680,587,843** | 131,975,919,340 |

The Company's life insurance fund in the amount of BD 680,587,843 (INR 131,975,919,340 as of 31 December 2020 has been calculated based on an actuarial report prepared by a CBB-registered actuary.

## 21. Related parties

Related parties as defined in International Accounting Standard 24 include shareholders and key management personnel of the Company and their close family members and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of the transactions with related parties are approved by the Company's management.

The Company's Shareholders, Life Insurance Corporation of India ("LIC"), and the International Agencies Company Limited ("Intercol") provide administration, technical assistance and other services to the Company for which they are entitled to fees at agreed terms.

The technical assistance fee, a provision has been made amounted to BD 10,585 (INR 2,084,265) (note 32) to LIC of India for the year ended December 31 2020. However, agreement renewal with LIC of India is yet to be finalized.

The administration and technical expenses to Intercol for the year ended 31December 2020 amounted to 438,026 (INR 86,250,561).

The commission on first year and second year premium paid to related parties are as follows:

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| The International Agencies Company Limited | **622,143** | 122,504,561 |

**Due to related parties:**

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| The International Agencies Company Limited | 113,678 | 22,043,824 |
| Provision for technical assistance fees – LIC India (Note 32) | 10,585 | 2,052,586 |
| Annual Maintenance Contract for Elife -LIC Of India* | 7,442 | 1,443,112 |
| | **131,705** | 25,539,522 |



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*A provision has been made considering the increase of 5% in AMC charges. However, Elife agreement is still due for renewal on 31 December 2020.

21.2 **Compensation of key management personnel**

Remuneration to the CEO & Managing Director and other members of key management during the year was as follows:

| | 2020 BD | 2020 INR |
|---|---|---|
| Short term benefits | **193,016** | 38,006,279 |

The above compensation was in the form of salaries, allowances and bonuses.

## 22. Zakat and Tax provision

| | Saudi Tax and Zakat | Kuwait Tax | 2020 Total | Saudi Tax and Zakat | Kuwait Tax | 2020 Total |
|---|---|---|---|---|---|---|
| | BD | BD | BD | INR | INR | INR |
| At 1 January | 134,949 | 84,537 | 219,486 | 27,077,611 | 16,962,408 | 44,040,020 |
| Tax expense | - | - | - | | | |
| Translation difference | | | | (909,030) | (569,449) | (1,478,480) |
| At 31 December | **134,949** | **84,537** | **219,486** | 26,168,581 | 16,392,959 | 42,561,540 |

The Director of Income Tax ("DIT") in the State of Kuwait has finalised the Company's tax declarations in respect of the Company's Kuwait operations up to the year 2012. Provisions have been made in respect of year 2013 and 2014 as per tax demands issued by the Kuwait Taxation Authorities (Note 35).

In respect of earlier operation in Saudi Arabia, the Company did not receive any new tax assessment from year 2009 as of the approval date of this audited financial statement. The provision of BD134,949 (INR 26,168,581) was provided in the year 2010.

The Company's Oman Branch tax assessment has not been completed by the Oman tax authority since 2017. The Company's management is of the opinion that the additional taxes, if any, that may become payable on finalisation of the said would not be significant to the Company. Therefore, no provision for such additional tax liability has been made in the financial statements.

## 23. Reinsurance contracts and receivable liabilities

The Company's panel of reinsurers to whom business is ceded comprises Swiss Re, Hannover Re and Munich Reinsurance Company. Under the reinsurance treaty, the Company is compensated for losses on insurance contracts issued. As per the reinsurance treaty, the retention limit depends on Sum Assured, Age of LA and whether the life is standard or substandard. The maximum Sum Assured retained by the Company is USD100,000. As per reinsurance treaty, the reinsurance is provided for age groups from 7 years to 99 years for death benefit, 18 years to 70 years for accidental benefit and from 18 years to 60 years for Critical Illness Rider. These reinsurance arrangements protect the Company from high risk insurance contracts.

| | 2020 BD | 2020 INR |
|---|---|---|
| ***Reinsurance contracts receivable*** | | |
| Swiss Reinsurance Company | **1,856** | 359,905 |

*Reinsurance contracts liabilities*

Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. Movement in reinsurance liabilities is as follows:

| | Swiss Re, Hannover Re and Munich Re | |
|---|---|---|
| | 2020 | 2020 |
| | BD | INR |
| At 1 January | 300,052 | 60,205,644 |
| Reinsurance ceded | 179,001 | 35,246,622 |
| Paid during the year | (357,500) | (70,394,396) |
| Reversal during the year | (33,269) | (6,550,912) |
| Translation difference | | (1,387,401) |
| At 31 December | **88,284** | 17,119,557 |

## 24. Claims payable

| | Maturity claim | Death Claims | Survival claims | Disability claims | Surrenders | 2020 Total |
|---|---|---|---|---|---|---|
| | BD | BD | BD | BD | BD | BD |
| At 1 January 2020 | 2,926,725 | - | 616,142 | - | - | 3,542,867 |
| Claims provided during the year | 161,937,284 | 367,939 | 4,875,371 | 11,189 | 2,075,956 | 169,267,739 |
| Claims paid | (160,399,959) | (360,955) | (4,605,083) | (11,189) | (2,075,956) | (167,453,142) |
| At 31 December 2020 | **4,464,050** | **6,984** | **886,430** | **-** | **-** | **5,357,464** |

| | Maturity claim | Death Claims | Survival claims | Disability claims | Surrenders | 2020 Total |
|---|---|---|---|---|---|---|
| | INR | INR | INR | INR | INR | INR |
| At 1 January | 587,249,420 | - | 123,629,324 | - | - | 710,878,744 |
| Claims provided during the year | 31,886,649,556 | 72449912 | 959,996,628 | 2,203,197 | 408,771,098 | 33,330,070,391 |
| Claims paid | (31,583,938,887) | (71074711) | (906,774,920) | (2,203,197) | (408,771,098) | (32,972,762,813) |
| Translation difference | (24,315,619) | (20901) | (4,959,313) | | | (29,295,833) |
| At 31 December | 865,644,470 | 1354300 | 171,891,719 | - | - | 1,038,890,489 |

## 25. Other liabilities

| | 2020 | 2020 |
|---|---|---|
| | BD | INR |
| Discounted premium | 1,840,553 | 356,910,099 |
| Proposal deposits | 138,390 | 26,835,841 |
| Accounts payable | 328,674 | 63,734,687 |
| Policy deposits | 318,471 | 61,756,177 |
| Accrued expenses and provisions | 309,040 | 59,927,368 |
| VAT payable | 2,293 | 444,646 |
| | **2,937,421** | 569,608,818 |

## 26. Premiums

**26.1 First year**

First year premium represents, a new business premium pertaining for the first year of life insurance contract under conventional policies and where the premium is not a single premium.



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### 26.2 Renewal

Renewal premium represents, premium pertaining to other than first year of life insurance contract under conventional policies and where the premium is not a single premium.

### 26.3 Single premium

Single premium represents a new business lump sum premium paid at the time of entering into life insurance contract under conventional policies and where the premiums are not payable subsequently.

### 26.4 Unit link premium

ULIP premium represents all types of premiums pertaining to life insurance contracts under Unit Linked Insurance Policies.

## 27. Discount on commutation of premium

This represents discount on commutation of premium to the policyholders who had commutated the premium for the full policy period. The Company provides 3.5% (2019: 3.5%) per annum discount on future cash flows.

## 28. Realised income from investments

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Interest income (note 12) | 29,650,731 | 5,838,448,349 |
| Gain on disposal of investments | 3,741,721 | 736,772,554 |
| Dividends income | 477,948 | 94,111,498 |
| | **33,870,400** | 6,669,332,401 |

## 29. Claims incurred

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Maturities | 161,603,443 | 31,820,913,792 |
| Survival benefits | 4,886,560 | 962,199,825 |
| Surrenders | 1,521,125 | 299,520,769 |
| ULIP claim | 554,831 | 109,250,330 |
| Death Claim | 367,939 | 72,449,912 |
| Annuities paid | 333,841 | 65,735,763 |
| | **169,267,739** | 33,330,070,390 |

## 30. Impairment loss on investments, net

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| HTM investments (note 9 (a)) | 1,227,667 | 241,736,717 |
| AFS investments (note 9 (b)) | 763,315 | 150,302,372 |
| | **1,990,982** | 392,039,089 |



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# 31. Other income

| | 2020 BD | 2020 INR |
|---|---|---|
| Interest on policy loans | 580,507 | 114,306,124 |
| Interest on premiums | 75,060 | 14,779,869 |
| ULIP charges | 24,447 | 4,813,795 |
| Others | 109,978 | 21,655,482 |
| | **789,992** | 155,555,271 |

# 32. General and administrative expenses

| | 2020 BD | 2020 INR |
|---|---|---|
| Commission | 3,712,260 | 730,971,465 |
| Compensation | 1,036,356 | 204,066,165 |
| Staff costs | 454,923 | 89,577,705 |
| Administrative expenses | 366,854 | 72,236,267 |
| Legal and consultancy expenses | 78,762 | 15,508,821 |
| Technical assistance fees – LIC India | 10,585 | 2,084,265 |
| | **5,659,740** | 1,114,444,688 |

# 33. Financial instruments and risk management

Financial instruments consist of financial assets and financial liabilities.

*Financial assets* of the Company consist of bank balances and cash, fixed deposits, premium receivable, due from related parties, accrued income, policy loans and investments.

*Financial liabilities* of the Company consist of payables and accrued liabilities (to policyholders, insurance and reinsurance companies and other parties) and due to related parties.

Accounting policies for financial assets and financial liabilities are set out in note 3.

The risk associated with financial instruments and the Company's approach to managing such risks are described as follows:

## 33.1 Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of net of bank balances and cash (note 15) and equity comprising issued capital, reserves (including investments fair value reserve) and retained earnings.

The issued share capital which is classified as a part of tier 1 capital is above minimum tier 1 capital requirement of BD 5 Mn (INR 970 Mn) as per section CA – 1.2.1 of CBB rulebook volume 3.

The required margin of solvency as calculated by the Actuary as per section CA-2 is BD27.59 Mn (INR 5,350 Mn) whereas the capital available calculated as per section CA-1.2.21 and

CA-1.2.22 is BD44.06 Mn (INR 8,544 Mn) which is 1.597 times (2019: 1.31 times) of required margin of solvency.

33.2 **Categories of financial instruments**

The summary of financial assets and financial liabilities are as follows:

| | 2020 BD | 2020 INR |
|---|---|---|
| ***Financial assets*** | | |
| Receivables at amortised cost (including bank balances and cash) | 134,395,177 | 26,061,186,990 |
| HTM investments (Note 9a) | 432,028,855 | 83,776,702,606 |
| AFS investments (Note 9b) | 46,769,464 | 9,069,281,904 |
| Investments at FVTPL (Note 9c) | 135,769,779 | 26,327,742,387 |
| | **748,963,275** | 145,234,913,886 |
| ***Financial liabilities*** | | |
| Amortised cost | **8,514,874** | 1,651,158,386 |

33.3 **Insurance risk management**

Insurance risk is the risk, other than financial risk, transferred from the holder of a contract to the issuer.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability over the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Company has developed its insurance underwriting strategy to diversify the type of insurance risks accepted within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Company manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and age group. Underwriting limits are in place to enforce appropriate risk selection criteria.

33.4 **Reinsurance risk management**

Reinsurance risk is the risk, other than financial risk, transferred insurance contract issued by one insurer to compensate another insurer for one or more contracts issued by the cedant.
In common with other insurance companies, in order to minimize financial exposure arising from large insurance claims, the Company, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.
Reinsurance contracts ceded do not relieve the Company from its obligations to policyholders. The Company remains liable to its policyholders for the portion reinsured to the extent that



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any reinsurer does not meet the obligations assumed under the reinsurance agreements. To minimize its exposure to significant losses from reinsurer insolvencies the Company obtains reinsurance through financially sound reinsurers, being Swiss Reinsurance Company, Munich Re and Hannover Re as explained in Note 23.

33.5 **Claim development**

| **Claim year** | **2017** | **2018** | **2019** | **2020** | **Total** |
|---|---|---|---|---|---|
| | BD | BD | BD | BD | BD |
| At the end of the accident year | 3,596,694 | 3,352,002 | 3,542,867 | 5,357,464 | 15,849,027 |
| Current estimate of cumulative claims | 3,596,694 | 3,352,002 | 3,542,867 | 5,357,464 | 15,849,027 |
| Cumulative payments to date | (3,596,694) | (3,352,002) | (3,542,867) | - | (10,491,563) |
| Liability recognised in the statement of financial position | - | - | - | **5,357,464** | **5,357,464** |

| **Claim year** | **2017** | **2018** | **2019** | **2020** | **Total** |
|---|---|---|---|---|---|
| | INR | INR | INR | INR | INR |
| At the end of the accident year | 622,182,384 | 615,878,747 | 710,878,744 | 1,038,890,489 | 2,987,830,364 |
| Current estimate of cumulative claims | 622,182,384 | 615,878,747 | 710,878,744 | 1,038,890,489 | 2,987,830,364 |
| Cumulative payments to date | (622,182,384) | (615,878,747) | (710,878,744) | - | (1,948,939,875) |
| Liability recognised in the statement of financial position | - | - | - | 1,038,890,489 | 1,038,890,489 |

33.6 **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. The Company is exposed to market risk with respect to its investments foreign currency denominated financial instruments and interest bearing financial instruments.

33.7 **Fair value risk management**

Fair value risk is the risk that the fair values of investment securities decrease as the result of changes in the levels of individual prices. Price risk arises from the change in fair values of investment securities.
The Company is exposed to fair value risks arising from investment securities. Investment securities are held for strategic rather than trading purposes. The Company does not actively trade in these investment securities.

**Fair value sensitivity analysis**
The sensitivity analyses below have been determined based on the exposure to price risks at the end of the reporting period. If prices had been 5% higher/lower:

- Loss for the year ended 31December 2020 would increase/decrease by BD6.79 Mn (INR 1,337 Mn) (2019: increase/decrease by BD6.56 Mn) as a result of the changes in fair value of investment at FVTPL.

- Other comprehensive income and investments fair value reserve would increase/decrease by BD2.23 Mn (INR 439 Mn) (2019: increase/decrease by BD2.43 Mn) as a result of the changes in fair value of AFS investments.

The Company limits price risk by maintaining a well-diversified portfolio and by continuous monitoring of pertinent developments in international equity and bond markets.



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**33.8 Currency risk management**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company's financial assets and financial liabilities are denominated in Bahraini Dinars, United States Dollars, United Arab Emirates Dirhams, Saudi Arabian Riyals, Omani Riyals, Qatari Riyals, Kuwaiti Dinars and Indian Rupees. As the Bahraini Dinar, United Arab Emirates Dirham, Omani Riyal, Qatari Riyal and Saudi Arabian Riyal are effectively pegged to the United States Dollar, balances in the United States Dollars, United Arab Emirates Dirhams, Oman Riyals, Qatari Riyal and Saudi Arabian Riyals are not considered to represent a significant currency risk. However, balances denominated in Indian Rupees and Kuwaiti Dinars are exposed to movements in exchange rate.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2020<br>BD | 2020<br>INR | 2020<br>BD | 2020<br>INR |
| United States Dollars | 717,605,707 | 139,154,223,631 | 7,963,918 | 1,544,319,973 |
| Indian Rupees | 4,691,658 | 909,780,984 | - | - |
| Saudi Riyals | 88,164 | 17,096,287 | 143,793 | 27,883,562 |
| Oman Riyals | 18,555,977 | 3,598,274,858 | 27,559 | 5,344,092 |
| United Arab Emirates -Dirhams | 2,418,174 | 468,919,244 | 233,685 | 45,314,933 |
| Kuwaiti Dinars | 2,848,222 | 552,311,830 | 34,117 | 6,615,784 |
| Qatari Riyals | 849,175 | 164,667,430 | 680 | 131,862 |
| | **747,057,078** | **144,865,274,458** | **8,403,753** | **1,629,610,401** |

*Foreign currency sensitivity analysis*

The Company is mainly exposed to currency risk with respect to the Indian Rupee and Kuwaiti Dinar.

The following table details the Company's sensitivity to a 10% increase in the Indian Rupee and Kuwaiti Dinar against the Bahraini Dinar considered separately. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. A positive number below indicates an increase in profit (and a negative number indicates a decrease in profit) where the Indian Rupee and Kuwaiti Dinar strengthens 10% against the Bahraini Dinar. For a 10% weakening of the Indian Rupee and Kuwaiti Dinar against the Bahraini Dinar, there would be an equal and opposite impact on the profit.

| | Profit or loss | |
|---|---|---|
| | 2020<br>BD | 2020<br>INR |
| Impact on: | | |
| Indian Rupee (a) | (469,166) | (92,382,257) |
| Kuwaiti Dinar (b) | (281,411) | (55,411,908) |

(a) This is mainly attributable to the exposure outstanding on Indian Rupee receivables at year end in the Company.

(b) This is mainly attributable to the net exposure outstanding on Kuwaiti Dinar at year end in the Company.

33.9 **Interest rate risk management**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company's fixed deposits are at fixed interest rates with variable maturity periods (note 8). Investments in bonds are at fixed and floating interest rates and include both government and other bonds. The Company holds most of these bonds to maturity and the accounting policy for held-to-maturity investments are set out in note 3.16.1. Thus repricing, in respect of fixed rate financial instruments, only occurs when funds are being reinvested on maturity of a deposit or bond.

33.10 **Credit risk management**

Credit risk is 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.

The Company manages credit risk with respect to receivables from policyholders by monitoring in accordance with defined policies and procedures. Credit risk with respect to reinsurance companies is not considered to be significant.

Insurance receivables are recorded to the extent of the month of October, November and December 2020, and there are no past due receivables. No collateral has been obtained in respect of these receivables.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities or customers.

The credit risk on liquid funds is limited because the counterparties are banks with good credit ratings.

The carrying value of financial assets at the reporting date represents the Company's maximum exposure to credit risk on financial assets.

33.11 **Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. Liquidity risk can be caused by market disruptions or credit down grades, which may cause certain sources of funding to dry up immediately.

To mitigate the risk, management ensures it has access to diversified funding sources and assets are managed with liquidity in mind, thereby maintaining a healthy balance of cash and cash equivalents to meet any unexpected liquidity needs. The management of the Company also manages the maturities of the Company's financial assets and financial liabilities in such a way as to be able to maintain an adequate liquidity ratio.

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The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest (where applicable) and principal cash flows.

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total |
|---|---|---|---|---|---|---|
| | % | BD | BD | BD | BD | BD |
| ***2020*** | | | | | | |
| Non-interest bearing | - | 6,261,094 | 454,059 | 1,134,280 | 665,440 | 8,514,874 |

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | Total |
|---|---|---|---|---|---|---|
| | % | INR | INR | INR | INR | INR |
| ***2020*** | | | | | | |
| Non-interest bearing | - | 1,214,117,539 | 88,048,669 | 219,953,452 | 129,038,531 | 1,651,158,191 |

The following tables detail the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the non-derivative financial assets including interest (where applicable) that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | To |
|---|---|---|---|---|---|---|---|
| | % | BD | BD | BD | BD | BD | |
| ***2020*** | | | | | | | |
| Non-interest earning | - | 35,062,023 | 9,330,007 | 1,856 | 36,424,540 | | 80,818,4 |
| Variable interest rate instruments | 1.16% | 51,434,496 | 23,231,514 | 5,208,463 | 5,157,946 | 84,852 | 85,117,2 |
| Fixed interest rate Instruments | 5.06% | 2,372,387 | 4,237,526 | 15,725,903 | 243,347,082 | 605,413,862 | 871,096,7 |
| | | **88,868,906** | **36,799,047** | **20,936,222** | **284,929,568** | **605,498,714** | **1,037,032,** |

| | Weighted average effective interest rate | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | 5+ years | Total |
|---|---|---|---|---|---|---|---|
| | % | INR | INR | INR | INR | INR | INR |
| ***2020*** | | | | | | | |
| Non-interest earning | - | 6,799,038,165 | 1,809,224,575 | 359,905 | 7,063,250,104 | | 15,671,872,557 |
| Variable interest rate instruments | 2.58% | 9,973,899,718 | 4,504,929,745 | 1,009,997,019 | 1,000,201,035 | 16,454,042 | 16,505,481,559 |
| Fixed interest rate Instruments | 5.04% | 460,040,476 | 821,718,159 | 3,049,482,190 | 47,188,552,067 | 117,398,586,884 | 168,918,379,777 |
| | | 17,232,978,359 | 7,135,872,479 | 4,059,839,114 | 55,252,003,206 | 117,415,040,926 | 201,095,733,893 |



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### 33.12 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences may arise between the carrying values and the fair value estimates.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- the fair value of other financial assets and financial liabilities is determined by using prices from observable current market transactions and dealer quotes for similar instruments.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values, except in the case of certain held-to-maturity investments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

| | 2020 | | |
|---|---|---|---|
| | Level 1 BD | Level 2 BD | Total BD |
| Investments designated at FVTPL (Note 9c) | 135,769,779 | - | 135,769,779 |
| AFS financial assets (Note 9b) | 36,037,867 | 8,513,544 | 44,551,411 |
| | **171,807,646** | **8,513,544** | **180,321,190** |

| | 2020 | | |
|---|---|---|---|
| | Level 1 INR | Level 2 INR | Total INR |
| Investments designated at FVTPL (Note 9c) | 26,327,742,387 | - | 26,327,742,387 |
| AFS financial assets (Note 9b) | 6,988,268,564 | 1,650,900,479 | 8,639,169,043 |
| | 33,316,010,951 | 1,650,900,479 | 34,966,911,430 |

There are no financial liabilities at FVTPL at the reporting date.

Some of the Company's financial assets are measured at fair value at the end of each reporting period. The following table gives information or how the fair values of these financial assets are determined.

| Financial assets | Fair value as at | | Fair value hierarchy | Valuation technique and key inputs |
|---|---|---|---|---|
| | 2020 BD | 2020 INR | | |
| **Designated at FVTPL** | | | | Quoted bid prices in an active market |
| Manufacturing industry | 4,175,432 | 809,677,226 | Level 1 | |
| Banking industry | 44,283,756 | 8,587,266,831 | Level 1 | |
| Oil and gas industry | 3,242,044 | 628,679,665 | Level 1 | |
| Government sector | 70,702,908 | 13,710,326,124 | Level 1 | |
| Real estate industry | 2,835,257 | 549,797,727 | Level 1 | |
| Others | 10,530,383 | 2,041,995,007 | Level 1 | |
| | **135,769,779** | 26,327,742,387 | | |



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| Financial assets | Fair value as at 2020 BD | Fair value as at 2020 INR | Fair value hierarchy | Valuation technique and key inputs |
|---|---|---|---|---|
| **AFS investments** | | | | Quoted bid prices in an active market |
| - Manufacturing | 7,644,964 | 1,482,470,136 | Level 1 | |
| - Banking industry | 8,737,579 | 1,694,344,137 | Level 1 | |
| - Oil and gas industry | 450,228 | 87,305,783 | Level 1 | |
| - Government sector | 400,102 | 77,585,619 | Level 1 | |
| - Real estate | 51,770 | 10,038,959 | Level 1 | |
| - Others | 18,753,225 | 3,636,524,125 | Level 1 | |
| AFS Level 1 | **36,037,867** | 6,988,268,564 | | |
| **AFS investments** | | | | Net Asset Value reports as at 31 December |
| - Banking industry | 616,760 | 119,598,769 | Level 2 | |
| - Others | 7,896,784 | 1,531,301,711 | Level 2 | |
| **AFS Level 2** | **8,513,544** | **1,650,900,479** | | |
| | **44,551,411** | **8,639,169,044** | | |
| **HTM instruments measured at amortised cost** | | | | Quoted bid prices in an active market |
| - Manufacturing | 59,746,470 | 11,585,712,831 | Level 1 | |
| - Banking industry | 85,160,663 | 16,513,895,901 | Level 1 | |
| - Real estate industry | 10,197,901 | 1,977,521,893 | Level 1 | |
| - Oil and gas industry | 61,974,830 | 12,017,824,370 | Level 1 | |
| - Government sector | 153,072,283 | 29,682,950,529 | Level 1 | |
| - Others | 130,025,970 | 25,213,933,962 | Level 1 | |
| | **500,178,117** | 96,991,839,487 | | |

Fair value of financial assets that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The fair values of financial assets carried at amortised cost are as follows:

| | Fair value hierarchy | 2020 Carrying value BD | 2020 Fair value BD | 2020 Carrying value INR | 2020 Fair value INR |
|---|---|---|---|---|---|
| HTM investments | Level 1 | 430,480,687 | 500,178,117 | 83,476,490,227 | 96,991,839,487 |
| HTM investments | Level 2 | 1,548,167 | 56,700 | 300,212,185 | 10,994,958 |

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# 34. Geographical concentration of investments

### 34.1 HTM investments

| | 2020 BD | 2020 INR |
|---|---|---|
| BRICS countries | 84,894,711 | 16,462,323,926 |
| Developed countries | 114,270,310 | 22,158,681,456 |
| Other countries | 232,863,833 | 45,155,697,031 |
| | **432,028,854** | 83,776,702,412 |

### 34.2 AFS investments

| | 2020 BD | 2020 INR |
|---|---|---|
| BRICS countries | 5,765,889 | 1,118,090,059 |
| Developed countries | 26,530,265 | 5,144,605,725 |
| Other countries | 14,473,311 | 2,806,586,313 |
| | **46,769,465** | 9,069,282,098 |

### 34.3 Designated at FVTPL

| | 2020 BD | 2020 INR |
|---|---|---|
| BRICS countries | 19,068,427 | 3,697,646,394 |
| Developed countries | 9,422,497 | 1,827,159,737 |
| Other countries | 107,278,855 | 20,802,936,256 |
| | **135,769,779** | 26,327,742,387 |

# 35. Contingencies and commitments

### 35.1 Taxation

The Director of Income Tax ("DIT") in Kuwait had finalised the Company's tax declarations in respect of the Company's Kuwait operations up to the year 2012.

During the year 2019, the tax department under Ministry of Finance, Kuwait completed the assessment of tax for the year 2013, and issued a tax demand of KD 40,241 (USD131,938). The Company filed an objection against the tax assessment in June 2019 which was rejected by the department in August 2019. Further, the Company filed an appeal against the rejection of objection against the tax assessment for the year 2013 before the appeal committee of Ministry of Finance- Kuwait, for which the decision is pending. However, additional tax provision was made during the year 2019 for BD34,873 (INR 6,762,384) (USD92,257) against the tax demand for year 2013 after adjusting the tax provision made in the earlier years.

During the year 2020, the tax department under Ministry of Finance, - Kuwait also completed the tax assessment for the year 2014 and issued a tax demand of KD 27,970 (USD91,705). The Company has filed an objection against the tax assessment of year 2014 with the tax authorities, for which the decision is pending. However, tax provision has been made tax assessment BD34,664 (INR 6,721,856)(USD91,705) in the year 2019 against tax demand for year 2014.

With respect to the earlier operations in Saudi Arabia, the Company did not receive any new tax assessment from the year 2009 as of the approval date of this audited financial statement. The provision of BD134,949 (INR 26,168,581 ) was provided in the year 2010.



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The Company's Oman Branch tax assessment has not been completed by the Oman tax authority since 2017. The Company's management is of the opinion that the additional taxes, if any, that may become payable on finalization would not be significant to the Company. Therefore, no provision for such additional tax liability has been made in the financial statements.

35.2 **Commitments**

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Investment commitments | 197,470 | 38,292,316 |

## 36. Capital management policies and procedures

The Board policy is to maintain an acceptable reserve for the Company so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company uses the available financial surplus by investing in low risk investments whilst achieving acceptable returns for the Company. The CBB regulations require minimum capital of BD5,000,000 (INR 969,573,000)to be maintained at all times. Any shortfall in capital is bridged by additional contribution of capital by the shareholders. As at 31 December 2020, the solvency ratio is well above the minimum regulatory requirement of 100%.

| | 2020<br>BD | 2020<br>INR |
|---|---|---|
| Tier 1 capital | 50,043,679 | 9,704,199,996 |
| Tier 2 capital | 4,307,726 | |
| Deductions from capital | (10,296,285) | 835,330,964 |
| Regulatory capital (A) | 44,055,120 | 1,996,599,987 |
| Solvency Margin requirement (B) | 27,585,889 | 5,349,306,631 |
| Solvency Ratio (A/B) | 159.7% | 159.7% |

## 37. Post- reporting date events

No adjusting or significant non-adjusting events have occurred other than disclosed in note 1A between the reporting date and the date of authorization.

## 38. Life insurance corporation group information

Life Insurance Corporation of India's Group financial information can be accessed at www.licindia.in