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XYZ Private Limited

Actuarial Valuation Report as at 31 March 2014
Defined Benefit - Exempt Provident Fund
Indian Accounting Standard AS 15 (Revised 2005)



Content	Page No.
1 Report Highlights and Certification	3
1.1 Overview	3
1.2 Data and Benefit Plan	3
1.3 Valuation Assumptions	4
1.4 Professional Qualification	4
2 Summary of Results	5
2.1 Assets and Liability (Balance Sheet Position)	5
2.2 Expenses Recognized in the Profit and Loss Account	5
2.3 Experience adjustments on Present Value of Benefit Obligation and Plan Assets	5
2.4 The Company's best estimate of Contribution during the next year	5
3 Benefits and Methodology	6
3.1 The Benefit Valued	6
3.2 Actuarial Valuation Method	6
3.3 Disclosures as per AS 15	7
4 Actuarial Assumptions And Membership Status	8
4.1 Economic and Demographic Assumptions	8
4.2 Summary of Membership Status	8
5 Valuation Results	9
5.1 Changes in the Present Value of Obligation	9
5.2 Bifurcation of Net Liability	9
5.3 Changes in the Fair Value of Plan Assets	10
5.4 Fair Value of Plan Assets	10
5.5 Expenses Recognised in the Profit and Loss account	11
5.6 Amount for the Current Period	11
5.7 Reconciliation of Net Liability / (Assets)	12
5.8 Major categories of Plan Assets	12
6 Glossary	13
6.1 Balance Sheet related terms	13
6.2 Profit and Loss Account related terms	13
6.3 Method and Assumptions related terms	13

1 Report Highlights and Certification

1.1 Overview

I have been requested by XYZ Private Limited (the 'Company') to assist them with the preparation of financial reports in accordance with Indian Accounting Standards AS 15 (Revised 2005) for defined benefit plans relating to the Exempt Provident Fund scheme for the period ending 31-03-2014.

The results set out in the Report are based on requirements of AS 15 (Revised 2005) and its application to the Plan. They have been prepared for specific requirements of AS 15 (Revised 2005) and should not be used for any other purpose. In particular, this report does not constitute a formal funding actuarial valuation of the Plan and does not present any recommendation of the contributions or funding levels. The Report is based on my understanding of the AS 15 (Revised 2005) and its application to the scheme. This Report may not be used or relied upon by any other party or for any other purpose. I am not responsible for the consequences of any unauthorized use.

This report is provided solely for the Company's use and for the specific purposes indicated above. Except where I expressly agree in writing, it should not be disclosed or provided to any third party, other than as provided below. In the absence of any such consent or an express assumption of responsibility, no responsibility whatsoever is accepted by me for any consequences arising from any third party relying on this Report or any advice relating to its content. The Company may make a copy of this report available to its auditors, but I make no representation as to the suitability of this Report for any purpose other than for which it was originally provided and accept no responsibility or liability to the Company's auditors in this regard. The Company should draw the provisions of this paragraph to the attention of its auditors when passing this report to them.

The valuation report is a summary of the Plan's financial position at a particular time; it does not predict the plan's future financial condition or its ability to pay benefits in the future.

The report has been prepared in accordance with applicable provisions, to the extent they are relevant and material, under the relevant Actuarial Practice Standards / Guidance Notes issued by the Institute of Actuaries of India at the current valuation date.

All numbers in this report relating to the valuation dates earlier than the current valuation date have been produced from the previous actuarial reports provided by the Company.

All monetary amounts mentioned in this report are in **Indian Rupees (INR)**, unless mentioned otherwise.

1.2 Data and Benefit Plan

To prepare this report, I have **relied on the completeness and accuracy of the information provided** to me orally and in writing by or on behalf of the Company and its employees. I have reviewed the participant data for internal consistency and general reasonableness but I have not completed any detailed validation checks on the information provided. The Company is solely responsible for the validity, accuracy and comprehensiveness of this information; if the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information.

1.3 Valuation Assumptions

The **assumptions used in this Report are as selected by the company**. Any changes in actuarial assumptions are mentioned in this Report.

Actuarial assumptions, as discussed in the Report, may be changed from one valuation to the next because of changes in mandated requirements, plan's experience, changes in expectations about the future and other factors. To prepare this Report, actuarial assumptions, as described in this Report, are used to select a single scenario from the range of possibilities. The results of that single scenario are included in this Report. However, future is uncertain and the plan's actual experience can differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different.

The decision about benefit changes, investment policy, funding methods should be made only after careful consideration of alternative future financial conditions and scenarios and not solely on the basis of this Report.

The assets details included in this report have been provided by the company.

1.4 Professional Qualification

I am available to answer any questions on the material contained in the Report, or to provide explanations or further details as may be appropriate.

I am not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest that would impair the objectivity of my work.

Khushwant Pahwa (FIAI)
 Membership Number: 04446
 Fellow of Institute of Actuaries of India
 Email_id: k.pahwa@kpac.co.in

Date

2 Summary of Results

The valuation results as at 31-03-2014 are summarised in the tables below:

2.1 Assets and Liability (Balance Sheet Position)

Particulars	As on				
	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Present Value of Obligation	-	-	150,428,312	154,765,151	48,927,497
Fair Value of Plan Assets	-	-	153,073,651	156,343,956	51,364,758
Net Asset / (Liability)	-	-	2,645,339	1,578,805	2,437,261

2.2 Expenses Recognized in the Profit and Loss Account

Particulars	For the period ending				
	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
Expenses Recognised in the Profit and Loss account	-	-	-	9,259,141	2,985,247

2.3 Experience adjustments on Present Value of Benefit Obligation and Plan Assets

Particulars	For the period ending				
	31-Mar-10	31-Mar-11	31-Mar-12	31-Mar-13	31-Mar-14
(Gain) / Loss on Plan Liabilities	-	-	-	(2,322,076)	(4,129,889)
% of Opening Plan Liabilities	-	-	-	-1.54%	-2.67%
Gain / (Loss) on Plan Assets	-	-	-	(2,454,773)	(2,578,865)
% of Opening Plan Assets	-	-	-	-1.60%	-1.65%

2.4 The Company's best estimate of Contribution during the next year

4,243,033

3 Benefits and Methodology

All costs, liabilities and other factors under the Plan were determined in accordance with generally accepted actuarial principles and procedures. The calculations in this report are consistent with my understanding of AS 15 (Revised 2005).

3.1 The Benefit Valued

The benefit valued in this Report are summarised below:

Type of Plan	Defined Benefit
Employer's Contribution	12% of Basic Salary less contribution diverted to EPS + Contribution to make up Deficit, if any
Employee's Contribution	12% of Basic Salary
Normal Retirement Age	60 Years
Benefit on normal retirement	Accrued Account Value
Benefit on early retirement / termination / resignation / withdrawal	Accrued Account Value
Benefit on death in service	Accrued Account Value

For exempt provident funds, the defined benefit obligation **arises from the possibility that during any time period in the future, the scheme may earn insufficient investment income to meet the guaranteed interest rate declared by government / EPFO / relevant authorities.**

The net defined benefit obligation as at the valuation date, thus, represents the excess of accrued account value (as provided by the Company) plus interest rate guaranteed liability (as provided in this report) over the fair value of plan assets (as provided by the Company).

The rate guaranteed by the EPFO is variable and may not be market linked. For the purpose of this valuation, I have assumed the guaranteed interest rate to be **8.75% per annum** at all times in the future.

3.2 Actuarial Valuation Method

I have employed a deterministic approach to estimate the value of Interest Rate Guarantee on the Exempt Provident Fund. The per annum cost of guarantee at which Interest Rate Guarantee Liability has been valued is mentioned under the Section 2 (2.3) of this report.

3.3 Disclosure as per AS 15 (reference to opinion of The Expert Advisory Committee of the Institute of Chartered Accountants of India)

As per para 19 of the recent opinion of The Expert Advisory Committee of the Institute of Chartered Accountants of India:

"an Exempt Provident Fund Scheme is a defined benefit plan in terms of paragraph 7.6 of AS 15, the accounting for which has to be done on an actuarial basis. Since an exempt provident fund is a defined benefit obligation, the Committee is further of the opinion that an enterprise is required to make the disclosures in terms of paragraph 120 of AS 15. The plan assets held by the Trust should be valued at fair value as per the principles of AS 15, as discussed in paragraph 18 above."

Given the above opinion, I have prepared the disclosures in the report for the entire Provident Fund scheme (i.e. both the fund / account value component as well as the interest rate guarantee component).

4 Actuarial Assumptions And Membership Status

The defined benefit obligation as at 31-03-2014 is based on the assumptions selected and the membership data provided by the Company.

4.1 Economic and Demographic Assumptions

The principal economic assumptions used in the valuation are shown in the table below:

Particulars	As on	
	31-Mar-13	31-Mar-14
Discount rate (per annum)	-	8.85%
Interest rate guarantee (per annum)	-	8.75%
Expected rate of return on Plan Assets	-	8.84%
Expected short fall in the interest earnings on the fund (per annum)	-	0.00%
Mortality Rate (% of IALM 2006-08)	-	100.00%
Attrition Rate	-	5.00%

4.2 Summary of Membership Status

The summary statistics for the data is shown in table below:

Particulars	As on	
	31-Mar-13	31-Mar-14
Number of employees	-	95
Average age (years)	-	33.00
Average monthly salary	-	453,897

The summary statistics for members as at 31-03-2014 is show in below table:

Particulars	Number of Employees	Account Balance
Active members	72	43,698,157
Inactives members with less than 3 years of service	8	2,713,223
Inactives members with greater than 3 years of service	15	928,069
Transfers in members	-	-
Unpaid Members	-	-
Total	95	47,339,449

5 Valuation Results

The valuation results for the defined benefit plan as at 31-03-2014 are produced in the tables below:

5.1 Changes in the Present Value of Obligation

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Present Value of Obligation as at the beginning	150,428,312	154,765,151
Interest Cost	13,332,079	11,111,627
Past Service Cost	-	-
Current Service Cost	9,109,892	4,468,706
Employee's Contributions	10,193,262	4,882,089
Transfer In	430,212	15,120
Benefits Paid	(26,406,530)	(122,185,307)
Actuarial (Gain) / Loss on the Obligation	(2,322,076)	(4,129,889)
Present Value of Obligation as at the end	154,765,151	48,927,497

5.2 Bifurcation of Net Liability

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Current Liability	-	-
Non Current Liability	(1,578,805)	(2,437,261)
Net Liability / (Asset)	(1,578,805)	(2,437,261)

5.3 Changes in the Fair Value of Plan Assets

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Fair Value of Plan Assets as at the beginning	153,073,651	156,343,956
Expected Return on Plan Assets	13,315,527	11,044,063
Employer's Contributions	8,192,607	3,857,303
Employee's Contributions	10,193,262	4,882,089
Transfers In	430,212	1,520
Benefits Paid	(26,406,530)	(122,185,307)
Actuarial Gain / (Loss) on the Plan Assets	(2,454,773)	(2,578,865)
Fair Value of Plan Assets as at the end	156,343,956	51,364,758

5.4 Fair Value of Plan Assets

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Fair Value of Plan Assets as at the beginning	153,073,651	156,343,956
Actual Return on Plan Assets	10,860,754	8,465,197
Employer's Contributions	8,192,607	3,857,303
Employee's Contributions	10,193,262	4,882,089
Transfers In	430,212	1,520
Benefits Paid	(26,406,530)	(122,185,307)
Fair Value of Plan Assets as at the end	156,343,956	51,364,758

5.5 Expenses Recognised in the Profit and Loss Account

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Current Service Cost	9,109,892	4,468,706
Interest Cost	13,332,079	11,111,627
Past Service Cost	-	-
Expected Return on Plan Assets	(13,315,527)	(11,044,063)
Net Actuarial (Gain) / Loss	132,697	(1,551,024)
Total Expenses Recognized in the Profit and Loss Account	9,259,141	2,985,247

5.6 Amount for the Current Period

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Actuarial (Gain) / Loss for the period - Present Value of Obligation	(2,322,076)	(4,129,889)
% of Opening Present Value of Obligation	-1.54%	-2.67%
Actuarial Gain / (Loss) for the period - Fair Value of Plan Assets	(2,454,773)	(2,578,865)
% of Opening Fair Value of Plan Assets	-1.60%	-1.65%
Total Actuarial (Gain) / Loss for the period	132,697	(1,551,024)
Actuarial (Gain) / Loss recognised in the period	132,697	(1,551,024)
Unrecognised Actuarial (Gain) / Loss in the period	-	-
Experience Adjustment on Present Value of Obligation - Loss / (Gain)	(2,322,076)	(4,129,889)
Experience Adjustment on Fair Value of Plan Assets - (Loss) / Gain	(2,454,773)	(2,578,865)

5.7 Reconciliation of Net Liability / (Assets)

Particulars	For the period ending	
	31-Mar-13	31-Mar-14
Net Liability / (Assets) as at the beginning	(2,645,339)	(1,578,805)
Expenses Recognized in statement of Profit and Loss	9,259,141	2,985,247
Employer's Contributions	(8,192,607)	(3,857,303)
Net Liability / (Assets) as at the end	(1,578,805)	(2,450,861)

5.8 Major categories of Plan Assets (as percentage of Total Plan Assets)

Particulars	As on	
	31-Mar-13	31-Mar-14
Government of India securities	100%	100%
State Government securities	-	-
High quality corporate bonds	-	-
Equity shares of listed companies	-	-
Property	-	-
Special Deposit Scheme	-	-
Funds managed by Insurer	-	-
Bank balance	-	-
Other Investments	-	-
Total	100%	100%

6 Glossary

6.1 Balance Sheet related terms

Present Value of Obligation: It represents the accrued account value (as provided by the Company) plus interest rate guaranteed liability (as provided in this report)

Fair Value of Plan Assets: The assets out of which the obligations have to be settled, measured at their market value.

Funded Status: This is the excess/(shortfall) of the fair value of plan assets over the Present Value of Obligation.

6.2 Profit and Loss Account related terms

Expenses: It is the amount recognised in profit and loss account, calculated as net total of current service cost, interest cost, expected return of assets, actuarial gains / losses, past service cost (if any) and the effects of curtailment or settlements (if any). It can also be calculated as a change in the Present Value of Obligation during the period plus the benefits paid less actual return on plan assets.

Interest Cost: It is the increase during the period in the present value of the defined benefit obligation which arises because the benefits are one period closer to settlement.

Current Service Cost: It is the increase in the present value of the defined benefit obligation resulting from employer's contribution towards the Provident Funds in the current period.

Past Service Cost: It is the change in the present value of obligation in the prior periods, resulting in the current period from the introduction of, or changes to, benefit scheme.

Expected Rate of Return: The expected return on assets over the accounting period, based on an assumed rate of return. The same is determined by considering the yield earned in past as well as current prevailing yield.

Actual Rate of Return: The return earned by the accumulated fund assets in a year due to interest, dividends, and realized and unrealized changes in fair market value of plan assets.

6.3 Method and Assumptions related terms

Discount Rate: As per para 78 of Accounting Standard 15 (Employee Benefits) requires that "the rate used to discount post-employment benefit obligations (both funded and unfunded) should be determined by reference to market yields at the balance sheet date on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the post-employment and benefit

It can be verified by visiting websites publishing economic data/indicators such as:

<http://www.investing.com/rates-bonds/india-30-year-bond-yield-historical-data>

<http://www.tradingeconomics.com/india/government-bond-yield>

Attrition Rate: The reduction in staff/employees of a company through normal means, such as retirement and resignation. This is natural in any business and industry.

Mortality Rate: Mortality rate is a measure of the number of deaths (in general, or due to a specific cause) in a population, scaled to the size of that population, per unit of time.
