Strictly Confidential

Draft Report

As per IAS 19 (R) IFRS

End of Service Benefit Scheme

Client Name

Actuarial Valuation for the year ended 31 December 2021

Sapna Malhotra

Fellow Member, Institute of Actuaries of India

Membership No. IAI- 3766

Email id: - sapna.malhotra@mithrasconsultants.com

Contact No.:- 09212375418

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INDEX

Section 1: Purpose and Scope of the work assigned

The primary objective of this valuation exercise is to provide Client Name (Hereinafter referred as “The Company”) with an actuarial valuation of the End of Service benefit that is currently being provided for its employees in Kingdom of Saudi Arabia (KSA) as at 31-Dec-2021.

I have been requested by the Company to calculate the accounting expenses associated with the End of Service Plan for the year ended December 31, 2021 in terms of Accounting Standard IAS 19 (R) issued by the International Accounting Standard Board.

The results set out in this Report and its annexure are based on requirements of IAS 19 (R) and its application to the Plan. They have been prepared for the specific requirements of IAS 19 (R) 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 contributions or funding levels.

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 such consent and 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 contents. 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 that 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.

Actuarial techniques have been adopted; taking into consideration the requirements under Accounting Standard IAS 19 (R) issued by the International Accounting Standard Board and generally accepted actuarial principles.

All monetary amounts mentioned in this report are in Saudi Arabian Riyal (SAR), unless mentioned otherwise.

Section 2: Summary of Results

2.1 The below table shows the summary of key results for the year ended 31-12-2021.

All Figures in SAR	December 31, 2020	December 31, 2021
Fair Value of Plan Assets		
Present value of obligation		

2.2 Balance Sheet Position as on valuation date

All Figures in SAR	December 31, 2020	December 31, 2021
Net asset/(liability) recognised in balance sheet		

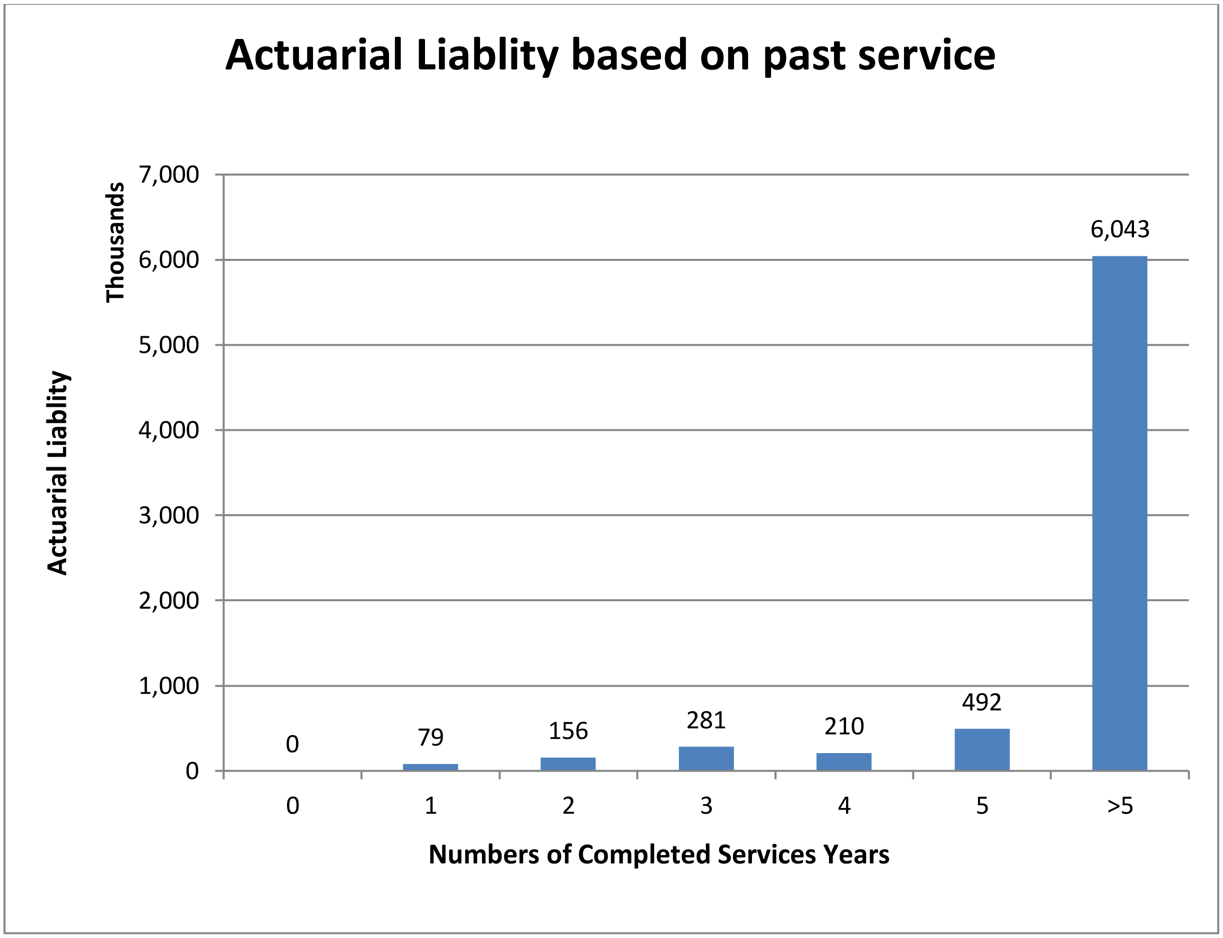
2.3 Expense Recognised in Profit and Loss Account

All Figures in SAR	December 31, 2020	December 31, 2021
Total Employer Expense		

2.4 Bifurcation of Present Value of Obligation at the end of the year

All Figures in SAR	December 31, 2020	December 31, 2021
Current Liability Non-Current Liability Total Liability		

2.5 Actuarial Liability based on past service



Section 3: Data

In preparing this report we have relied on the completeness and accuracy of the information provided to us orally and in writing by or on behalf of the Company and its advisers. We have not completed any detailed validation checks on the information provided. We have, however, carried out broad consistency and validation checks. The Company is solely responsible for validity, accuracy and completeness of the data and information provided. The valuation results may differ significantly from the results that would have been obtained with accurate and complete information.

Membership Data

The calculations have been based on the membership information for the Plan as at December 31, 2021 as supplied by the Company.

Following is the summary of employee's profile data as on valuation date:

Item	As on December 31, 2020	As on December 31, 2021
Total Number of Employees		
Total Monthly Salary in (in 000's)		
Average Monthly Salary (absolute)		
Average Age (Age last Birthday) (in Years)		
Average past service (in Years)		
Average future service (in Years)		

Asset Data

The information related to plan assets has not been provided by the Company. Hence, we have taken zero value in this report.

All Figures in SAR	December 31, 2020	December 31, 2021
Opening fair value of Plan Assets		
Actual Return on plan assets		
Employer Contributions		
Benefit Paid		
Closing fair value of Plan Assets		

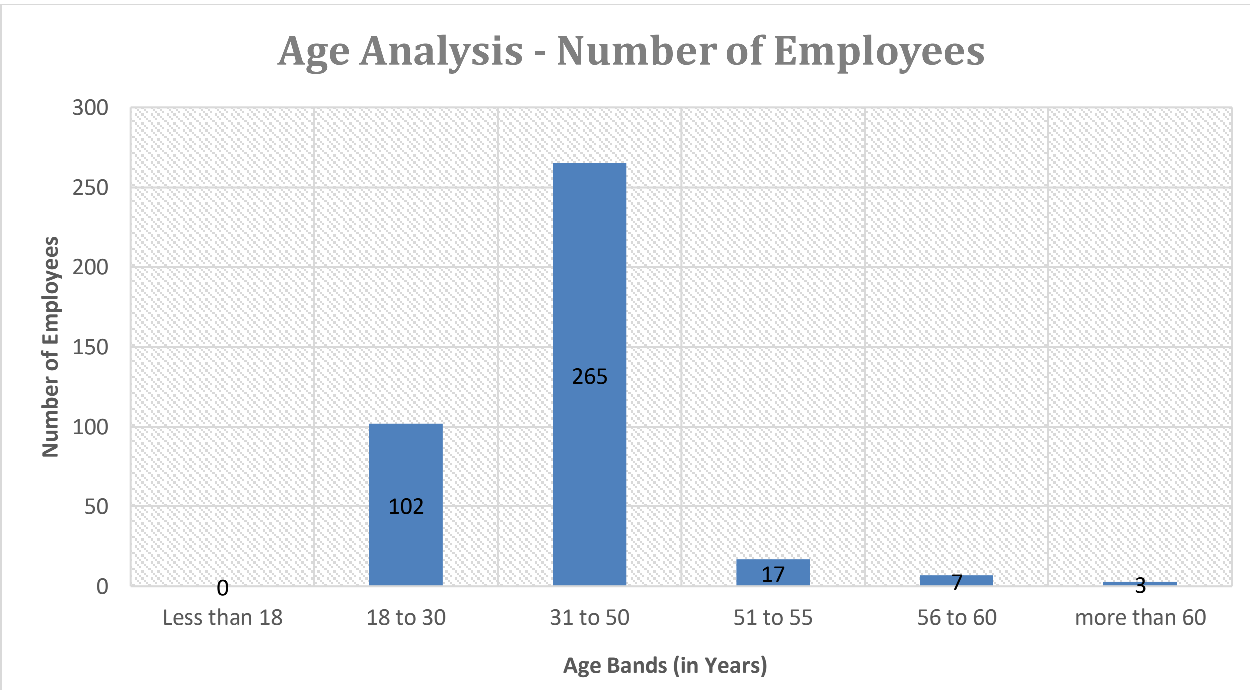
We have broadly performed the following consistency and validation checks**:**

- Data missing that is any blank field in the data
- The age last birthday is not less than 18 years at the valuation date
- Date of joining is less than valuation date
- Salaries are not negative or zero
- Age as at valuation date should not be more than the retirement age

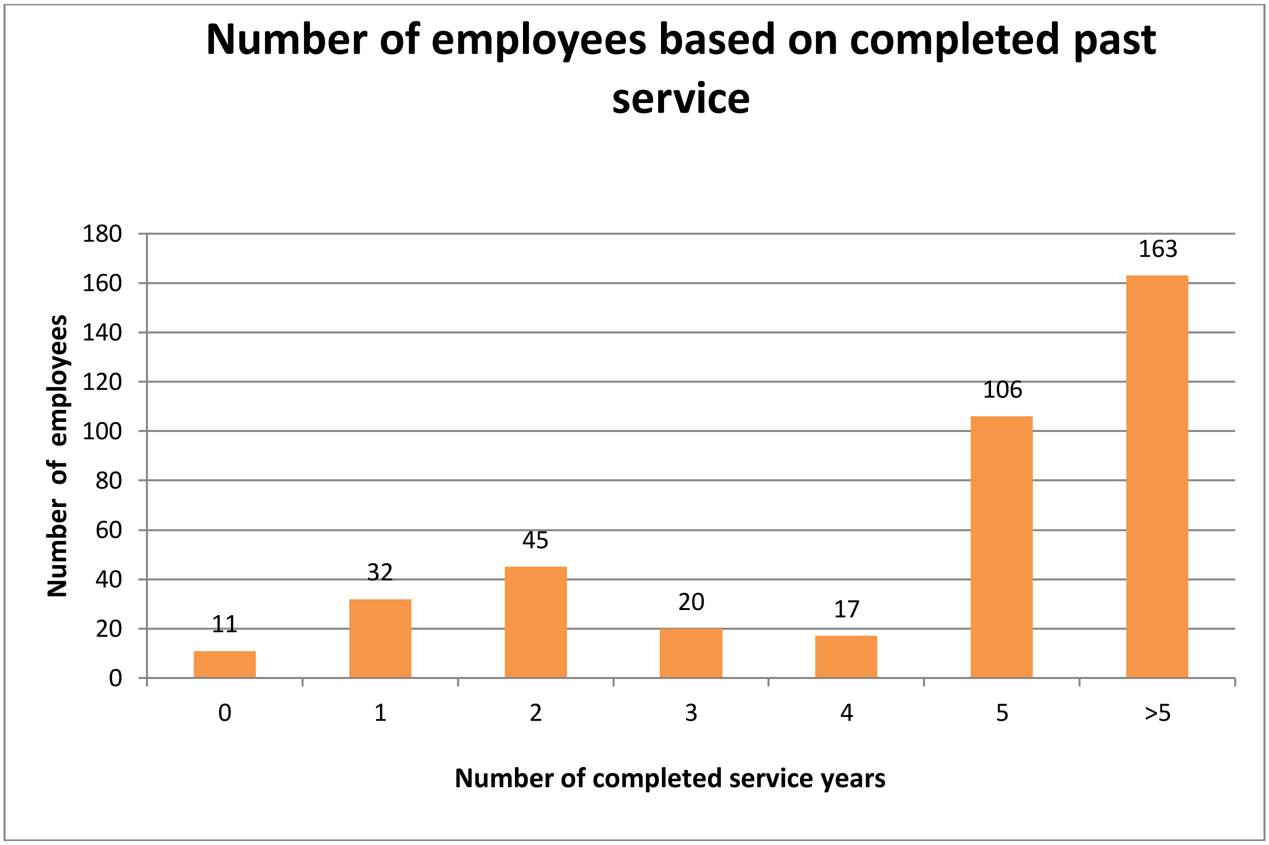
We have also conducted the following analysis on the data:

Analysis 1: Number of Employees in various age bands

The following chart represents employee's age profile of the Company:



Analysis 2: Number of Employees based on completed past service



Section 4: Assumptions

4.1 The assumptions and methodology used in compiling this Report are consistent with the requirements of IAS 19 (R).

4.2 **Economic assumptions include:**

- Discount Rate
- Salary Inflation rate
- Expected return on plan assets

4.3 **Demographic assumptions include:**

- Retirement Age
- Mortality
- Withdrawal Rates
- There is no medical cost involved

Following are the major assumptions that have been used in carrying out the valuation:

Per Annum	Year 1	Year 2	Year 3	Year 4	Year 5	Year 5+
Discount Rate						
Salary Inflation Rate						
Withdrawal Rate						
Mortality Rate	100% of IALM 2006-08					

There are no explicit assumptions for disability and no assumption for medical costs and its trends.

Table of Sample mortality rates from IALM 2006-2008:

Mortality Rates	
Age	Male
25 Years	.000984
30 Years	.001056
35 Years	.001282
40 Years	.001803
45 Years	.002874
50 Years	.004946

Major assumption that had been used in last valuation ending at 31-Dec-2020:

Discount Rate	
Salary Inflation Rate	
Withdrawal Rate	
Mortality Rate	

4.4 The requirements relating to the major valuation assumptions were made clear as per IAS 19 (R) and same have been used and relied upon as provided by the employer. It should be noted that I have not performed any validation checks for the appropriateness and adequacy of the assumptions. The broader professional and accounting standard guidance are that Discount Rate should be based upon the market yields at the accounting date with a term that matches that of the liabilities and the salary increase should take account inflation, seniority, promotion and other relevant factors.

4.5 The Duration of liability is calculated by scientific method called Macaulay duration. The Macaulay duration is the weighted average term to maturity of the cash flows from a bond. The weight of each cash flow is determined by dividing the present value of the cash flow by the price.

4.6 The discount rate as at 31 December 2021 has been provided by the company.

4.7 The results are particularly sensitive to some assumptions, such as the Discount Rate, inflation e.g. level of salary increases and mortality. A decrease in the Discount Rate assumed or an increase in salary inflation will lead to an increase in reported cost.

Section 5: Methodology

An actuarial estimation is only a snapshot of a plan's estimated financial condition at a particular point in time; it does not provide the plan's future financial condition or its ability to pay benefit in the future and does not provide any guarantee of future financial soundness of the plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefit plan pays, the number of people paid benefits, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of estimates to facilitate the modeling future events in an efficient and cost-effective manner. We may also include factor or data that, if used, in our judgment, would not have significantly affected our results. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

Valuations do not affect the ultimate cost of the plan, only the timing when benefits costs are recognized. Cost recognitions occur over time. If the costs recognized over the period of years are lower or higher than necessary, for whatever reason, normal and expected practice is to adjust future levels to recognize the entire cost of the plan over time.

5.1 The valuation has been carried out using the Projected Unit Credit (PUC) actuarial method to assess the Plan's liabilities, including those related to death-in-service and incapacity benefits.

Under the PUC method a "projected accrued benefit" is calculated at the beginning of the year and again at the end of the year for each benefit that will accrue for all active members of the Plan. The "projected accrued benefit" is based on the Plan's accrual formula and upon service as of the beginning or end of the year, but using a member's final compensation, projected to the age at which the employee is assumed to leave active service. The Plan Liability is the actuarial present value of the "projected accrued benefits" as of the beginning of the year for active members.

Recognition of re-measurement items

The disclosures in this report have been prepared using the immediate recognition approach of recognising all re-measurement items occurring during the year in the other comprehensive income (OCI).

Re-measurements arising from defined benefit plans comprise actuarial gains and losses on benefit obligations, the return on plan assets in excess of what has been estimated and the effect of asset ceiling, if any, in case of over funded plans. The company recognises these items of re-measurements immediately in other comprehensive income and all the other expenses related to defined benefit plans in employee benefit expenses in profit and loss account.

Section 6: Provisions

6.1 The benefits valued in this Report are summarized below.

We give below a summary of the principal rules of the Plan;

Type of Plan	Defined Benefit	
Employer's Contribution	100%	
Employee's Contribution	0%	
Salary for calculation of End of Service (GS)	Salary for End of Service Valuation (as provided by the company)	
End of Service – (SER)	Complete years of Continuous Service with part thereof to the nearest day	
Benefits on Normal Retirement	***<u>Service</u>***	***<u>Benefits</u>***
	Up to 5 years	15/30 * SER * GS
	Above 5 years	(15/30 * 5 + 30/30 * (SER – 5)) * GS
Benefit on early exit due to early retirement/withdrawal/resignation	***<u>Service</u>***	***<u>Benefits</u>***
	Between 2 – 5 years	(1/3) * (15/30 * SER * GS)
	Between 5 – 10 years	(2/3) * (15/30 * 5 + 30/30 * (SER-5)) * GS
	Above 10 years	(3/3) * (15/30 * 5 + 30/30 * (SER-5)) * GS
Benefit on death in service	***<u>Service</u>***	***<u>Benefits</u>***
	Up to 5 years	15/30 * SER * GS
	Above 5 years	(15/30 * 5 + 30/30 * (SER – 5)) * GS
Normal Retirement Age (in Years)	60 Years (One Year is added to the Current Age and considered as Retirement Age where the Current Age is greater than or equal to the Normal Retirement Age)	
Vesting Period	2 Years in case of Resignation	
Prescribed Ceiling on End of Service	No Limit	

Note: The principal rules of the plan regarding the payment of End of Service benefits to the employees have not changed over the previous valuation period.

6.2 We have made full actuarial valuations based on member data and plan information provided by the Company as at Valuation date.

6.3 The definitions of various terms used in the Report are given in the last section.

6.4 The full results of our calculations are set out in Disclosure Tables in Section 8.

Section 7: Risks associated with Defined Benefit Plan

Where there is a delay in benefit being promised and benefit being provided, there will always be some uncertainty for the benefit provider and the benefit recipient.

Benefit Risks in Defined Benefit Schemes

1. Risk to the beneficiary

   The greatest risk to the beneficiary is that there are insufficient funds available to provide the promised benefits. This may be due to:

- The insufficient funds set aside, i.e. underfunding
- The insolvency of the Employer
- The holding of investments which are not matched to the liabilities
- Or a combination of these events

2. Parameter risk

   Actuarial valuation is done basis some assumptions like salary inflation, discount rate and withdrawal assumptions. In case the actual experience varies from the assumptions, fund may be insufficient to pay off the liabilities.

   For example: the plan's liability is calculated with salary inflation assumption of 5% per annum. However, Company's' actual practice is to provide increment of 10% per annum. This will result into underfunding.

   Similarly, reduction in discount rate in subsequent future years can increase the plan's liability.

   Further, actual withdrawals may be lower or higher than what was assumed in the valuation, may also impact the plan's liability.

3. Risk of illiquid assets

   Another risk is that the funds, although sufficient, are not available when they are required to finance the benefits. This may be due to assets being locked for longer period or in illiquid assets.

4. Risk of benefit change

   There may be a risk that a benefit promised is changed or is changeable within the terms of the contract. For e.g. regulator may increase the benefits payable under defined benefit plans.

5. Asset liability mismatching risk

   ALM risk arises due to a mismatch between assets and liabilities either due to liquidity or changes in interest rates or due to different duration.
   For example: The liability duration is 10 years. While assets are locked in 5-year g-sec securities. After 5 years, there is huge reinvestment risk to invest maturity proceeds of assets due to uncertainty about the market prevailing yields at that time.

Section 8: Disclosure Format

This section provides the Report under IAS 19(R) in respect of End of Service Plan.

Table I: Assumptions

Assumptions	December 31, 2020	December 31, 2021
Discount Rate		
Rate of increase in Compensation levels		
Rate of Return on Plan Assets		
Expected Future Service		

Table II: Change in Present Value of Obligations

All Figures in SAR	December 31, 2020	December 31, 2021
Opening of defined benefit obligations		
Current service cost		
Past service cost		
Interest on benefit obligations		
Re-measurement due to:		
• *Actuarial (gain) / loss due to change in financial assumptions*		
• *Actuarial (gain) / loss due to demographic assumptions*		
• *Actuarial (gain) / loss due to experience changes*		
Benefits paid		
Liabilities assumed / (settled)		
Liabilities extinguished on settlements		
Closing of defined benefit obligation		

Table III: Change in Fair Value of Plan Assets

All Figures in SAR	December 31, 2020	December 31, 2021
Opening fair value of plan assets		
Employer contributions		
Interest on plan assets		
Re-measurements due to:		
Actual return on plan assets less interest on plan assets		
Benefits paid		
Assets acquired / (settled)		
Assets distribution on settlements		
Closing fair value of plan assets		

Table IV: Movement in assets ceiling

All Figures in SAR	December 31, 2020	December 31, 2021
Opening value of assets ceiling	Not Applicable	Not Applicable
Interest on opening value of assets ceiling	Not Applicable	Not Applicable
Re-measurement due to:	Not Applicable	Not Applicable
Change in surplus / deficit	Not Applicable	Not Applicable
Closing value of assets ceiling	Not Applicable	Not Applicable

Table V: Disaggregation of plan assets

All Figures in SAR	December 31, 2021	December 31, 2021	December 31, 2021
	Quoted Value	Non-quoted value	Total value
Property	Not Applicable	Not Applicable	Not Applicable
Government debt instruments	Not Applicable	Not Applicable	Not Applicable
Other debt instruments	Not Applicable	Not Applicable	Not Applicable
Entity's own equity instruments	Not Applicable	Not Applicable	Not Applicable
Insurer managed funds	Not Applicable	Not Applicable	Not Applicable
Others	Not Applicable	Not Applicable	Not Applicable
Grand Total	Not Applicable	Not Applicable	Not Applicable

Table VI: Other Comprehensive Income

All Figures in SAR	December 31, 2020	December 31, 2021
Re-measurements during the period:		
• *Changes in financial assumptions*		
• *changes in demographic assumption*		
• *Experience adjustment*		
Actual return on plan assets less interest on plan assets		
Adjustment to recognize the effect of assets ceiling		
Impact of liability assumed or settled		
Closing of amount recognized in OCI outside (profit) and loss account		

Table VII: The amount to be recognized in Balance Sheet Statement

All Figures in SAR	December 31, 2020	December 31, 2021
Present value of obligations		
Fair value of plan assets		
Net obligations		
Amount not recognized due to asset limit		
Net defined benefit liability / (assets) recognized in balance sheet		
Present Benefit Obligation is bifurcated as follows:		
Current		
Non-current		

Table VIII: Expense Recognized in Statement of Profit and Loss

All Figures in SAR	December 31, 2020	December 31, 2021
Current service cost		
Past service cost		
Net Interest Cost		
Net actuarial gain/loss recognized in a year		
(Gains) / loses on settlements		
Expenses Recognized in the statement of Profit & Loss		

Section 9: Reconciliation of Expense in Profit and Loss Statement

All Figures in SAR	December 31, 2020	December 31, 2021
Present Value of Obligation as at the end of the year		
Present Value of Obligation as at the beginning of the year		
Benefit Paid		
Actual Return on Assets		
OCI		
Expenses Recognized in the Statement of Profit and Loss		

Note: The expense amount mentioned in Table VIII of Section 8 reconciled with Zero difference.

Section 10: Reconciliation of Liability in Balance Sheet

All Figures in SAR	December 31, 2020	December 31, 2021
Opening net defined benefit liability / (asset)		
Expense charged to profit and loss account		
Amount recognized outside profit & loss account		
Employer's Contribution		
Closing net defined benefit liability / (asset)		

Note: The closing net liability amount mentioned in Table VII of Section 8 reconciled with Zero difference.

The following are the material developments in the inter-investigation period which led to a significant variation in the liability.

- The number of employees has been decreased.
- The average monthly salary has been decreased.

Section 11: Amount,Timing and Uncertainity of Future Cash Flows

(I) Sensitivity Analysis:

11.1 Following table shows the sensitivity results on liability due to change in the assumptions:

All Figures in SAR	December 31, 2021	Impact (Absolute)	Impact (%)
Base Liability			
Increase Discount Rate by 0.50%			
Decrease Discount Rate by 0.50%			
Increase Salary Inflation by 1%			
Decrease Salary Inflation by 1%			

Note:

- ✓ We have observed that the liability is very sensitive to all the chosen assumptions.
- ✓ The liability is highly sensitive to discount rate and salary growth rate assumptions.

(II) Asset liability Matching Strategies:

The company has not maintained any asset with respect to End of Service liability. If any claim arises against End of Service liability, the company will pay the claim amount itself.

(III) Effect of Plan on Entity's Future Cash Flow:

1. Expected Contribution during the next annual reporting period

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

2. Maturity Profile of Defined Benefit Obligation

All Figures in SAR	December 31, 2020	December 31, 2021
Year 1		
Year 2		
Year 3		
Year 4		
Year 5		
After 5th Year		
Total		

Certificate

I have prepared an actuarial valuation on the Group End of Service benefits in accordance with the International Accounting Standard IAS 19 (R) issued by the International Accounting Standard Board.

I have adhered to Guidance Notes issued by the Institute of Actuaries of India from time to time.

The valuation has been based on membership data provided by the Company which are summarized in Section 3 above.

Generally accepted actuarial principles and procedures have been applied in determining the liabilities under the scheme. The calculations are also consistent with my understanding of the requirements of IAS19(R).

The requirements relating to the major valuation assumptions were made clear to the Company as per IAS19 (R) guidelines and same have been used accordingly. I consider that the assumptions used are appropriate for the purpose of this report.

The valuation may not, however, be appropriate for any purpose such as determining a suitable funding rate, should the Company wish to pre-fund the liabilities.

Sapna Malhotra
Fellow Member, Institute of Actuaries of India
Membership No. IAI- 3766

Glossary

The following terms are used with explanations given below:

- **Actuarial Gain or Loss:** From one plan year to the next, if the experience of the plan differs from that anticipated using the actuarial assumptions, an actuarial gain or loss occurs. For example, an actuarial gain would occur if the plan assets earned 12% for the year while the assumed rate of return used in the valuation was 8%. Other causes of actuarial gains or losses would include changes in actuarial assumptions and / or demographic changes in the population profile.

- **Balance Sheet Asset/(Liability):** The sponsor's balance sheet asset/(liability) entry, the net recognised amount, is the sum of the cumulative excess of contributions to the plan over net Annual Expense and other plan-related charges to income due either to business combination or accelerated recognition pursuant to IAS 19. The difference between this account and the Funded Status is the unrecognised net loss/(gain) unvested prior service costs [and net transition obligation]

- **Funded Status:** This is the excess/(shortfall) of the fair value of plan assets over the Plan Liability.

- **Plan Liability:** This quantity is the discounted present value of all benefits attributed by the plan's benefit formula to service rendered prior to the measurement date. It is measured using an assumption as to future pay levels.

- **Service Cost:** This is the discounted present value of benefits attributed by the plan's benefit formula to services rendered by employees during the accounting period. It is measured using an assumption as to future pay levels.

- **Interest Costs:** The increase in the Plan liability over the accounting period due to interest (the time value of money).

- **Expected Return on Assets:** The expected return on plan assets over the accounting period, based on an assumed rate of return.

- **Net Periodic Benefit Cost:** This is the profit and loss charge for the accounting period, and comprises the sum of the service and interest costs less the expected return on assets, plus allowance for amortization of any net liabilities not recognized in the balance sheet.