Strictly Confidential

Draft Report

As per AS 15 (Revised), 2005

Gratuity Scheme

XYZ Ltd.

Actuarial Valuation for the year ended 31 March 2022

Fellow Actuary Details

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Section 1: Purpose and Scope of the work assigned

The primary objective of this valuation exercise is to provide XYZ Ltd. (Hereinafter referred as “The Company”) with an actuarial valuation of the gratuity benefit that is currently being provided for its employees in India, as at 31-Mar-2022.

I have been requested by the Company to calculate the accounting expenses associated with the Gratuity Plan for the year ended March 31, 2022 in terms of Accounting Standard AS 15 (revised 2005) issued by the Institute of Chartered Accountants of India.

The results set out in this Report are based on requirements of AS 15 (revised 2005) and its application to the Plan. They have been prepared for the 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 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 AS 15 (revised 2005) issued by the Institute of Chartered Accountants of India (ICAI) and generally accepted actuarial principles.

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

The Company is valuing the liabilities for the first time, hence last year’s numbers are not provided.

Section 2: Summary of Results

2.1 The below table shows the summary of key results for the year ended 31-03-2022.

All Figures in INR	March 31, 2021	March 31, 2022
Fair Value of Plan Assets	NA	
Present value of obligation	NA	

2.2 Balance Sheet Position as on valuation date

All Figures in INR	March 31, 2021	March 31, 2022
Net asset/(liability) recognised in balance sheet	NA	

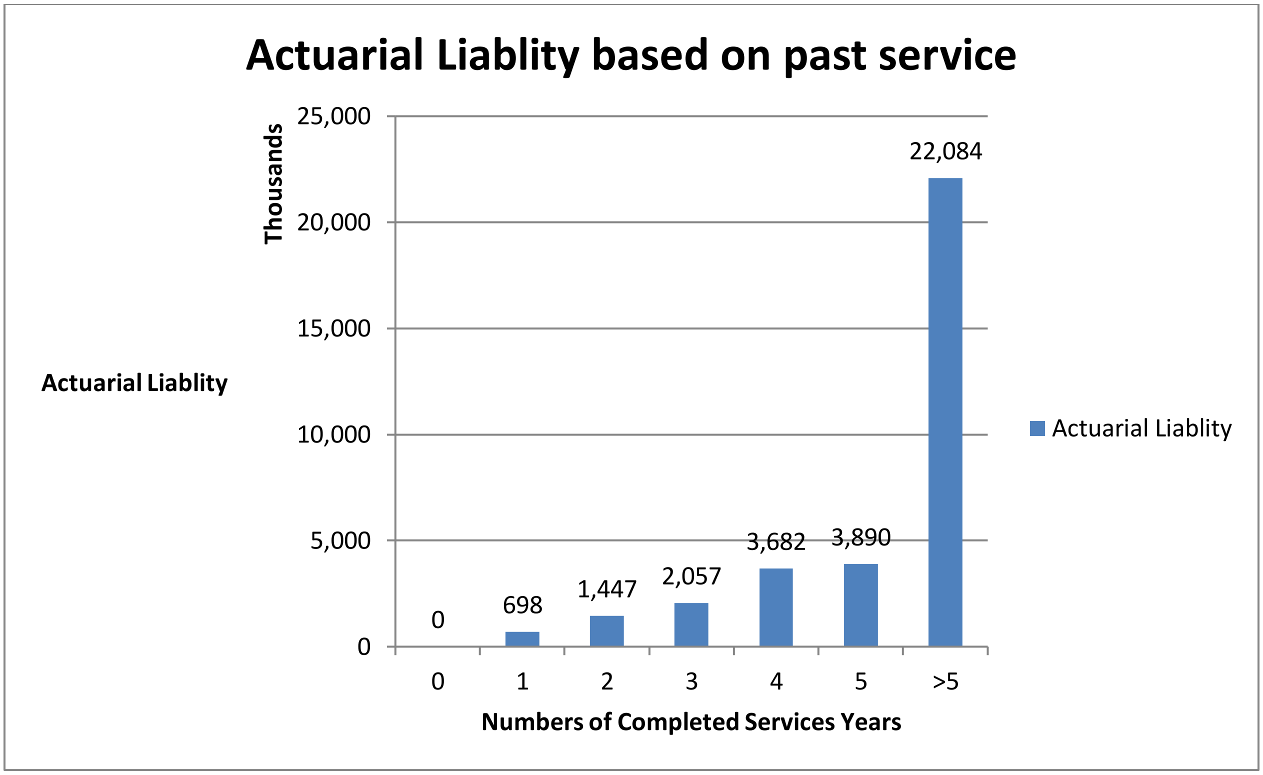
2.3 Expense Recognised in Profit and Loss Account

All Figures in INR	March 31, 2021	March 31, 2022
Total Employer Expense	NA	

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

All Figures in INR	March 31, 2021	March 31, 2022
Current Liability	NA	
Non-Current Liability	NA	
Total Liability	NA	

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.

3.1 Membership Data

The calculations have been based on the membership information for the Plan as at March 31, 2022 as supplied by the Company.
Following is the summary of employees profile data as on valuation date:

Item	March 31, 2021	March 31, 2022
Total Number of Employees	NA	
Total Monthly Salary in (in 000's) (As provided by Company)	NA	
Average Monthly Salary (absolute)	NA	
Average Age (Age last Birthday) (in Years)	NA	
Average past service (in Years)	NA	
Average future service (in Years)	NA	

We have assumed that Salary provided by the Company includes only basic/gross salary.

3.2 Asset Data

There were no plan assets set up by the company. Hence, we have taken zero value in this report.

The information related to plan assets is provided by the Company. The Summary of assets information provided is given below:

All Figures in INR	March 31, 2021	March 31, 2022
Opening fair value of Plan Assets	NA	
Actual Return on plan assets	NA	
Employer Contributions	NA	
Benefit Paid	NA	
Closing fair value of Plan Assets	NA	

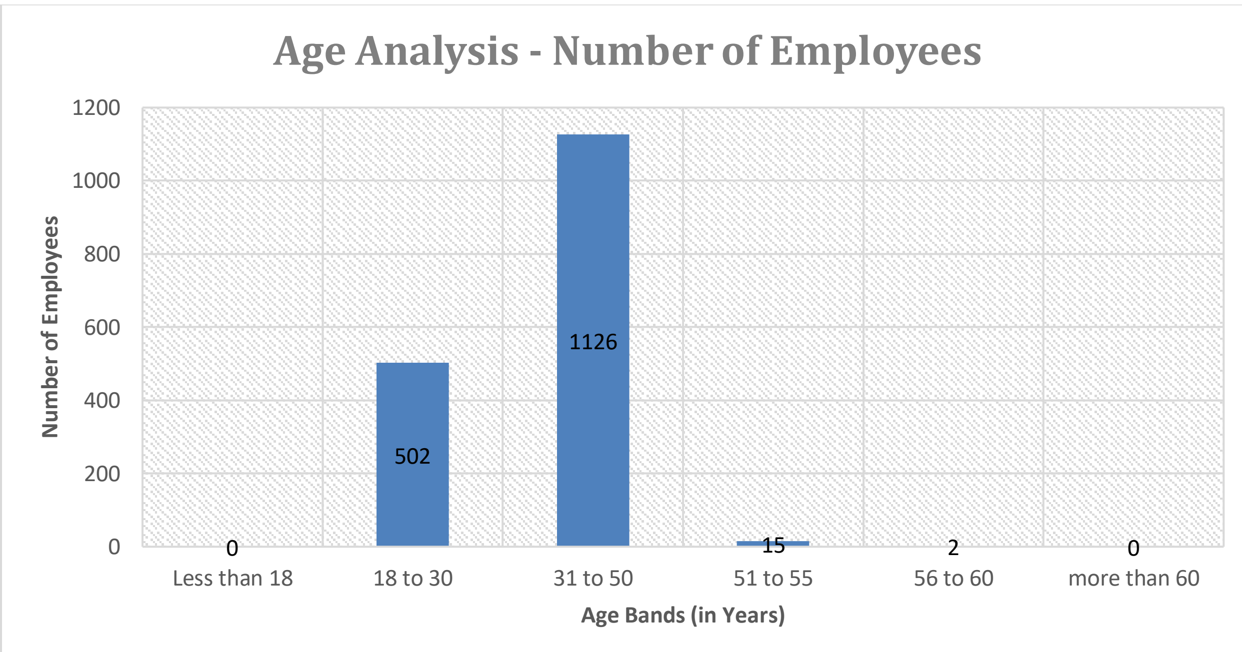
3.3 We have broadly performed the following consistency and validation checks:

- 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

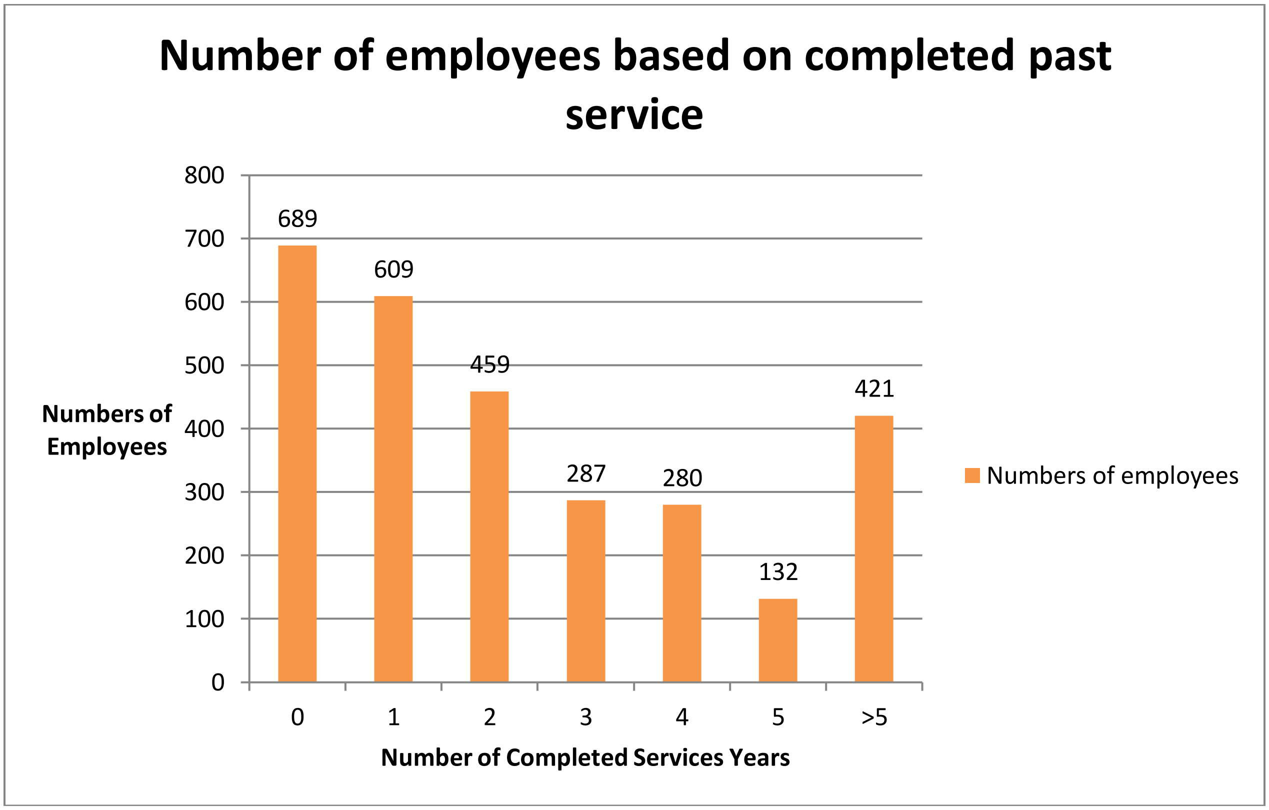
3.4 We have also conducted the following analysis on the data:

3.4(a): Number of Employees in various age bands

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



3.4(b) : 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 AS15 (Revised 2005).

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 Growth Rate Withdrawal Rate						
Mortality Rate	100% of IALM 2012-14					

Note: Due to insufficient data and experience, we have used 100% of industry mortality table IALM 2012-14 for this valuation.

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

Major assumption that had been used in last valuation ending at 31-Mar-2021:

Discount Rate	
Salary Growth Rate	
Withdrawal Rate	
Mortality Rate	100% of IALM 2012-14

Note: Due to insufficient data and experience, we have used 100% of industry mortality table IALM 2012-14 for this valuation.

4.4 The requirements relating to the major valuation assumptions were made clear as per AS15 (R) and same have been used 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 available on Government bonds 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. The duration of the liabilities is approximately 10 years.

4.6 The discount rate as at 31 March 2022 is based on the government bond yields as at 31 March 2022.

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.

The Projected Unit Credit Method requires an enterprise to attribute benefit to the current period (in order to determine current service cost) and the current and prior periods (in order to determine the present value of defined benefit obligations). An enterprise attributes benefit to periods in which the obligation to provide post-employment benefits arises. That obligation arises as employees render services in return for post-employment benefits which an enterprise expects to pay in future reporting periods.

Actuarial techniques allow an enterprise to measure that obligation with sufficient reliability to justify recognition of a liability.

Section 6: Provisions

6.1 The benefits payable under this plan are governed by “Gratuity Act 1972”

6.2 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 gratuity	As provided by the Company in the data
Benefits on Normal Retirement	15/26 * Salary * No. of years of completed service
Benefit on early exit due to early retirement/withdrawal/resignation	Same as normal retirement benefit
Benefit on death in service	Same as normal retirement benefit except that no vesting condition apply
Maximum Limit (Capped/Uncapped)	20 Lakhs
Minimum Service Condition (in Years) (Vesting Period)	5 Years
Normal Retirement Age (in Years)	58

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

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

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

6.5 The full results of our calculations are set out in Disclosure Tables in Section 7.

6.6 We would be pleased to discuss this report with you.

Section 7: Disclosure Format

This section provides the Report under AS 15 (Revised 2005) in respect of Gratuity Plan.

Table I: Assumptions

Assumptions	March 31, 2021	March 31, 2022
Discount Rate	NA	7.75% per annum
Rate of increase in Compensation levels	NA	8% per annum
Rate of Return on Plan Assets	NA	Not Applicable
Expected Future Service	NA	24.31 Years

Table II: Change in Present Value of Obligations

All Figures in INR	March 31, 2021	March 31, 2022
Present Value of Obligation as at the beginning of the year	NA	
Acquisition adjustment	NA	
Interest Cost	NA	
Past Service Cost	NA	
Current Service Cost	NA	
Curtailment Cost / (Credit)	NA	
Settlement Cost / (Credit)	NA	
Benefits paid	NA	
Actuarial (gain)/ loss on obligations	NA	
Present Value of Obligation as at the end of the year	NA	

Table III: Change in Fair Value of Plan Assets

All Figures in INR	March 31, 2021	March 31, 2022
Fair value of plan asset at the beginning of year	NA	
Acquisition Adjustments	NA	
Expected Return on Plan Assets	NA	
Employers' Contributions	NA	
Benefit Paid	NA	
Actuarial Gain /(loss) on Plan Assets	NA	
Fair value of plan assets at the end of year	NA	

Table IV: Fair Value of Plan Assets

All Figures in INR	March 31, 2021	March 31, 2022
Fair value of plan asset at the beginning of year	NA	
Acquisition Adjustments	NA	
Actual return on plan assets	NA	
Employers' Contributions	NA	
Benefits Paid	NA	
Fair value of plan assets at the end of year	NA	
Funded Status	NA	
Excess of actual over estimated return on plan assets	NA	

Table V: Actuarial Gain/Loss Recognised

All Figures in INR	March 31, 2021	March 31, 2022
Actuarial gain/(loss) for the year - Obligation	NA	
Actuarial (gain)/loss for the year - Plan Assets	NA	
Total (gain) / loss for the year	NA	
Actuarial (gain) / loss recognized in the year	NA	
Unrecognized actuarial (gains) / losses at the end of the year	NA	

Table VI: The amount to be recognized in Balance Sheet and Statements of Profit and Loss

All Figures in INR	March 31, 2021	March 31, 2022
Present Value of Obligation as at the end of the year	NA	
Fair Value of Plan Assets as at the end of the year	NA	
Funded Status	NA	
Unrecognized Actuarial (gains) / losses	NA	
Net Asset / (Liability) Recognized in Balance Sheet	NA	

Table VII: Expense Recognized in Statement of Profit and Loss

All Figures in INR	March 31, 2021	March 31, 2022
Current Service Cost	NA	
Past Service Cost	NA	
Interest Cost	NA	
Expected Return on Plan Assets	NA	
Curtailment Cost / (Credit)	NA	
Settlement Cost / (Credit)	NA	
Net actuarial (gain)/ loss recognized in the year	NA	
Expenses Recognized in the statement of Profit & Loss	NA	

Section 8: Reconciliation of Expense in Profit and Loss Statement

All Figures in INR	March 31, 2021	March 31, 2022
Present Value of Obligation as at the end of the year	NA	
Present Value of Obligation as at the beginning of the year	NA	
Benefit Paid	NA	
Actual Return on Assets	NA	
Acquisition Adjustment	NA	
Expenses Recognised in the Statement of Profit and Loss	NA	

Note: The expense amount mentioned in Table VII of Section 7 reconciled with Zero difference.

Section 9: Reconciliation of Liability in Balance Sheet

All Figures in INR	March 31, 2021	March 31, 2022
Opening Net Liability	NA	
Expenses as above	NA	
Employer Contribution	NA	
Acquisition Adjustment	NA	
Closing Net Liability	NA	

Note: The closing net liability amount mentioned in Table VI of Section 7 reconciled with Zero difference.

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

- There has been a significant increase/decrease in the number of employees.
- The average salary over the period has increased/decreased.
- The benefit structure has been changed from the last valuation.
- Changes in the Payment of Gratuity Act.

Section 10: Major Category of Plan Assets (as a % of total assets)

Item	As on March 31, 2021	As on March 31, 2022
Government of India Securities	0%	0%
State Government Securities	0%	0%
High Quality Corporate Bonds	0%	0%
Equity Shares of Listed Companies	0%	0%
Property	0%	0%
Special Deposit Scheme	0%	0%
Fund Managed by Insurer	0%	0%
Bank Balance	0%	0%
Other Investments	0%	0%
Total	0%	0%

Section 11: Experience History

All Figures in INR	Mar 31, 2017	Mar 31, 2018	Mar 31, 2019	Mar 31, 2021	Mar 31, 2022
Present value of obligation at the end of the period	Not Available	Not Available	Not Available	Not Available	
Fair value of plan assets at the end of the period	Not Available	Not Available	Not Available	Not Available	
Funded Status	Not Available	Not Available	Not Available	Not Available	
Actuarial gain/(loss) in PBO	Not Available	Not Available	Not Available	Not Available	
Actuarial (gain)/loss for the year - Plan Assets	Not Available	Not Available	Not Available	Not Available	

Certificate

I have prepared an actuarial valuation on the Group Gratuity benefits payable under Payment of Gratuity Act, 1972, provided for employees by the Company as at 31-Mar-2022, in accordance with the Accounting Standard AS 15 (Revised 2005) issued by the Institute of Chartered Accountant of India.

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 3.1 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 AS15(R) 2005.

The requirements relating to the major valuation assumptions were made clear to the Company as per AS15 (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

All definitions of terms are as per AS 15 (R). 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.