MERCER

# IND AS19

# Actuarial Valuation Report as at December 31, 2020

## Gratuity plan

Sample Client India Private Limited

February 14, 2021

welcome to brighter

# Contents

# 1
# Introduction

I have prepared this report for Sample Client India Private Limited to (i) present actuarial estimates of liabilities as at December 31, 2020 in respect of the Gratuity plan to be incorporated, as Sample Client India Private Limited deems appropriate, in the financial statements prepared under India accounting standard IND AS19, and (ii) provide an actuarial estimate of the defined benefit cost for the fiscal year ending December 31, 2021.

All figures in this report are expressed in INR, unless otherwise stated.

Please see Section 3 of this report for further explanation as to the purposes and limitations of this report.

## Key results summary

Below are highlights of the results as at December 31, 2020 compared to the corresponding figures as at March 31, 2020.

| | Fiscal year ending March 31, 2020 | Fiscal year ending December 31, 2020 |
|---|---|---|
| P&L charge/(credit) | 4,014,449 | 2,550,029 |
| Other comprehensive (income)/loss | (2,626,438) | 1,634,014 |
| **Defined benefit cost** | **1,388,011** | **4,184,043** |
| Benefit obligation | 51,320,324 | 54,881,607 |
| Fair value of assets | 52,579,676 | 51,956,916 |
| Effect of asset celing/onerous liability | - | - |
| **Net liability/(asset) at the end of the year** | **(1,259,352)** | **2,924,691** |

The defined benefit cost for the fiscal year ending December 31, 2020 includes no charges/credits due to special events.

I have not been notified by Sample Client India Private Limited nor are we aware of any events subsequent to December 31, 2020, which in our opinion would have a material impact on the results of the valuation.

I have prepared the report in accordance with guidance and principles laid down by Actuarial Practice Standard 27, issued by Institute of Actuaries of India.

## Changes in Gratuity provisions

There were no changes in Gratuity provisions since the previous reporting period. Details are shown in Appendix G.

## Changes in actuarial assumptions

The actuarial assumptions have changed since the last actuarial valuation as at March 31, 2020. Details are shown in Appendix E. The approach used for setting the assumptions is similar to the prior year.

## Changes in actuarial methods

There have been no changes to the accounting methods or accounting policies since the prior valuation.

## Changes in data

We have incorporated new census data as at December 31, 2020 in the actuarial valuation at December 31, 2020. This has changed the benefit obligation by INR (10,329).

To our knowledge, there have been no other changes since the prior valuation that will affect the valuation results.

Details of the disclosure information are shown in Appendix A. The estimated defined benefit cost information are shown in Appendix B. Please refer to the remainder of the report for more information about these summary numbers.

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# Basis of valuation

## Gratuity data

To prepare this report I have used and relied on financial data submitted as at the measurement date by Sample Client India Private Limited without further audit. Customarily, this information would not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

I have also used and relied on participant data as described in the Gratuity's plan as supplied by Sample Client India Private Limited. The participant data is summarized in Appendix H.

Sample Client India Private Limited is responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the Gratuity plan or otherwise entitled to benefits that is sufficiently comprehensive and accurate for the purposes of this report. If the data supplied are not sufficiently comprehensive and accurate for the purposes of this report, the valuation results may differ significantly from the results that would be obtained with such data; this may require a later revision of this report. Although I have reviewed the data for internal consistency and general reasonableness I have not verified or audited any of the data or information provided.

## Actuarial assumptions

To prepare the valuation report, assumptions are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the Gratuity's plan actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely 'correct' and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A 'sensitivity analysis' shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report.

An indication of the sensitivity of the results to changes in the most material assumptions is included in Appendix I. At the client's request, I am available to perform additional sensitivity or scenario analysis.

Assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

## Actuarial methods

A valuation report is only a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of a plan. Over time, a plan's total cost will depend on a number of factors, including the amount of benefits a 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 modelling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of estimates to facilitate the modelling of future events in an efficient and cost-effective manner. We may also exclude factors 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 a plan.

Valuations do not affect the ultimate cost of a plan, only the timing of when benefit costs are recognized. Cost recognition occurs over time. If the costs recognized over a period of years are lower or higher than necessary, for whatever reason, normal and expected practice is to adjust future expense levels with a view to recognizing the entire cost of a plan over time.

As instructed, I have prepared the accounting disclosures in this report based on Sample Client India Private Limited's accounting policies.

A summary of the actuarial methods, accounting policies and valuation procedures is provided in Appendix F.

## Gratuity provisions

I have used and relied on the Gratuity plan documents, including amendments, and interpretations of Gratuity plan provisions, supplied by Sample Client India Private Limited as summarized in Appendix G. Sample Client India Private Limited is solely responsible for the validity, accuracy and comprehensiveness of this information. If any Gratuity 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. Moreover, Gratuity plan documents may be subject to different interpretations, each of which could be reasonable, and the results under each of the different interpretations could vary.

# 3
# Notices and Certification

I have prepared this report exclusively for Sample Client India Private Limited.

The only purpose of this report is to present actuarial estimates of liabilities as at December 31, 2020 in respect of the Gratuity plan to be incorporated, as Sample Client India Private Limited deems appropriate, in the financial statements prepared under India accounting standard IND AS19, and provide an actuarial estimate of the defined benefit cost for the fiscal year ending December 31, 2021.

This report may not be used for any other purpose.

I am providing this report in its capacity as actuary and, as such, the report is not a substitute for advice from an accredited accountant or lawyer. This report was prepared in accordance with generally accepted actuarial principles and procedures. The actuarial assumptions were selected by Sample Client India Private Limited. I have not assessed the reasonableness of assumptions, as such an assessment would have required a substantial amount of additional work that was outside the scope of our engagement.

All parts of this report, including any documents incorporated by reference, are integral to understanding and explaining its contents; no part may be taken out of context, used, or relied upon without reference to the report as a whole.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security, and/or benefit-related issues should not be made on the basis of this report, but only after careful consideration of alternative economic, financial, and demographic factors.

Sample Client India Private Limited is ultimately responsible for selecting the Gratuity's accounting policies, methods, and assumptions and is responsible for obtaining formal confirmation from its auditors that its accounting policies are compliant with all necessary accounting standards. This information is referenced or described in Section 2 of this report. Sample Client India Private Limited is solely responsible for communicating to me about any changes required to those policies, methods, and assumptions.

This report has been prepared in accordance with applicable provisions, to the extent they are relevant and material, under the current Actuarial Practice Standard 27, issued by Institute of Actuaries of India as on date of report.

This report is confidential and its content may not be modified, incorporated into, or used in other material, sold or otherwise provided, in whole or in part, to any other person or entity, without permission. Notwithstanding the foregoing, Sample Client India Private Limited may share this report for information purposes with its auditors in connection with the audit of its financial statements.

The report may not be used or relied upon by any third party and I do not accept any duty, liability or responsibility to any third party, including Sample Client India Private Limited's auditors. I am not responsible for the consequences of any unauthorized use.

Sample Client India Private Limited should notify me promptly after receipt of this report if Sample Client India Private Limited disagrees with anything contained herein or is aware of any information that would affect the results of this report that has not been communicated to me or incorporated therein.

## Professional qualifications

I am available to answer any questions on the material contained in this report, or to provide explanations or further details as may be appropriate. The undersigned is a qualified by education and experience to render the actuarial opinion contained in this report. 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 this work.

February 14, 2021

**Hemanshu Jain**
**F.I.A.I, Membership No. 18301**

**Date**

The above signed is an employee of Mercer Consulting (India) Pvt. Ltd. However, the report is submitted by the above signed in his independent professional capacity.

# Appendix A

# Disclosure information

| A. Change in defined benefit obligation | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Defined benefit obligation at end of prior year | INR | 48,719,777 | 51,320,324 |
| 2. | Service cost | | | |
| | a. Current service cost | | 4,094,246 | 2,797,999 |
| | b. Past service cost | | - | - |
| | c. (Gain) / loss on settlements | | - | - |
| 3. | Interest expense | | 3,176,306 | 2,305,270 |
| 4. | Cash flows | | | |
| | a. Benefit payments from plan assets | | (2,197,984) | (3,080,789) |
| | b. Benefit payments from employer | | - | - |
| | c. Settlement payments from plan assets | | - | - |
| | d. Settlement payments from employer | | - | - |
| | e. Participant contributions | | - | - |
| | f. Administrative expenses included in the DBO | | - | - |
| 5. | Other significant events | | | |
| | a. Increase (decrease) due to effect of any business combinations / divestitures / transfers | | - | - |
| | b. Increase (decrease) due to plan combinations | | - | - |
| 6. | Re-measurements | | | |
| | a. Effect of changes in demographic assumptions | | - | - |
| | b. Effect of changes in financial assumptions | | (3,495,147) | 1,549,132 |
| | c. Effect of experience adjustments | | 1,023,126 | (10,329) |
| 7. | Effect of changes in foreign exchange rates | | - | - |
| **8.** | **Defined benefit obligation at end of year** | INR | **51,320,324** | **54,881,607** |

Prior year financials have been taken from prior actuary reports.

DBO for FY December 2020 includes pending payments of INR 390,500.

| B. Change in fair value of plan assets | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Fair value of plan assets at end of prior year | INR | 48,817,140 | 52,579,676 |
| 2. | Interest income | | 3,256,103 | 2,553,240 |
| 3. | Cash flows | | | |
| | a. Total employer contributions | | | |
| | (i) Employer contributions | | 2,550,000 | - |
| | (ii) Employer direct benefit payments | | - | - |
| | (iii) Employer direct settlement payments | | - | - |
| | b. Participant contributions | | - | - |
| | c. Benefit payments from plan assets | | (2,197,984) | (3,080,789) |
| | d. Benefit payments from employer | | - | - |
| | e. Settlement payments from plan assets | | - | - |
| | f. Settlement payments from employer | | - | - |
| | g. Administrative expenses paid from plan assets | | - | - |
| 4. | Other significant events | | | |
| | a. Increase (decrease) due to effect of any business combinations / divestitures / transfers | | - | - |
| | b. Increase (decrease) due to plan combinations | | - | - |
| 5. | Re-measurements | | | |
| | a. Return on plan assets (excluding interest income) | | 154,417 | (95,211) |
| 6. | Effect of changes in foreign exchange rates | | - | - |
| **7.** | **Fair value of plan assets at end of year** | INR | **52,579,676** | **51,956,916** |

| C. Change in reimbursement rights | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Reimbursement rights at end of prior year | INR | - | - |
| 2. | Reimbursement service cost | | - | - |
| 3. | Gain / (loss) on settlements | | - | - |
| 4. | Interest income | | - | - |
| 5. | Cash flows | | | |
| | a. Employer contributions to reimbursement rights | | - | - |
| | b. Reimbursements to employer | | - | - |
| 6. | Other significant events | | - | - |
| | a. Increase (decrease) due to effect of any business combinations / divestitures / transfers | | - | - |
| | b. Increase (decrease) due to plan combinations | | - | - |
| 7. | Re-measurements | | | |
| | a. Return on reimbursement rights (excluding interest income) | | - | - |
| 8. | Effect of changes in foreign exchange rates | | - | - |
| **9.** | **Reimbursement rights at end of year** | INR | **-** | **-** |

| D. Change in asset ceiling/onerous liability | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Asset ceiling/onerous liability at end of prior year | INR | - | - |
| 2. | Interest income | | - | - |
| 3. | Re-measurements | | | |
| | a. Changes in asset ceiling/onerous liability (excluding interest income) | | - | - |
| 4. | Effect of changes in foreign exchange rates | | - | - |
| **5.** | **Reimbursement rights at end of year** | INR | **-** | **-** |

| E. Amounts recognized in the statement of financial position | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Defined benefit obligation | INR | 51,320,324 | 54,881,607 |
| 2. | Fair value of plan assets | | 52,579,676 | 51,956,916 |
| **3.** | **Funded status** | | **(1,259,352)** | **2,924,691** |
| 4. | Effect of asset ceiling/onerous liability | | - | - |
| **5.** | **Net defined benefit liability (asset)** | **INR** | **(1,259,352)** | **2,924,691** |

| F. Components of defined benefit cost | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Service cost | | | |
| | a. Current service cost | INR | 4,094,246 | 2,797,999 |
| | b. Reimbursement service cost | | - | - |
| | c. Past service cost | | - | - |
| | d. (Gain) / loss on settlements | | - | - |
| | **e. Total service cost** | | **4,094,246** | **2,797,999** |
| | | | | |
| 2. | Net interest cost | | | |
| | a. Interest expense on DBO | | 3,176,306 | 2,305,270 |
| | b. Interest (income) on plan assets | | (3,256,103) | (2,553,240) |
| | c. Interest (income) on reimbursement rights | | - | - |
| | d. Interest expense on effect of (asset ceiling)/onerous liability | | - | - |
| | **e. Total net interest cost** | | **(79,797)** | **(247,970)** |
| 3. | Remeasurements of Other Long Term Benefits | | - | - |
| 4. | Administrative expenses and/or taxes (not reserved within DBO) | | - | - |
| **5.** | **Defined benefit cost included in P&L** | **INR** | **4,014,449** | **2,550,029** |
| | | | | |
| 6. | Remeasurements (recognized in other comprehensive income) | | | |
| | a. Effect of changes in demographic assumptions | | - | - |
| | b. Effect of changes in financial assumptions | | (3,495,147) | 1,549,132 |
| | c. Effect of experience adjustments | | 1,023,126 | (10,329) |
| | d. (Return) on plan assets (excluding interest income) | | (154,417) | 95,211 |
| | e. (Return) on reimbursement rights (excluding interest income) | | - | - |
| | f. Changes in asset ceiling/onerous liability (excluding interest income) | | - | - |
| | **Total remeasurements included in OCI** | **INR** | **(2,626,438)** | **1,634,014** |
| **7.** | **Total defined benefit cost recognized in P&L and OCI** | **INR** | **1,388,011** | **4,184,043** |

Treatment of plan is as per Post Employment Benefit.

| G. Net defined benefit liability (asset) reconciliation | | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|---|
| 1. | Net defined benefit liability (asset) | INR | (97,363) | (1,259,352) |
| 2. | Defined benefit cost included in P&L | | 4,014,449 | 2,550,029 |
| 3. | Total remeasurements included in OCI | | (2,626,438) | 1,634,014 |
| 4. | Other significant events | | | |
| | a. Net transfer in/(out) (including the effect of any business combinations/divestitures) | | - | - |
| | b. Amounts recognized due to plan combinations | | - | - |
| 5. | Cash flows | | | |
| | a. Employer contributions | | 2,550,000 | - |
| | b. Employer direct benefit payments | | - | - |
| | c. Employer direct settlement payments | | - | - |
| 6. | Effect of changes in foreign exchange rates | | - | - |
| 7. | **Net defined benefit liability (asset) as of end of year** | **INR** | **(1,259,352)** | **2,924,691** |

| H. Significant actuarial assumptions | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|
| 1. | Weighted-average assumptions to determine obligation | | |
| | a. Discount rate | 6.67% | 6.30% |
| | b. Salary increase rate | 6.00% | 6.00% |
| 2. | Duration (in years) | - | 8 |
| 3. | Weighted-average assumptions to determine defined benefit cost | | |
| | a. Discount rate | 7.65% | 6.67% |
| | b. Salary increase rate | 7.00% | 6.00% |

| I. Expected cash flows for following year | | | December 31, 2020 |
|---|---|---|---|
| 1. | Expected employer contributions | INR | 13,175,617 |
| 2. | Expected total benefit payments | | |
| | Year 1 | | 13,175,617 |
| | Year 2 | | 2,948,311 |
| | Year 3 | | 3,217,492 |
| | Year 4 | | 3,992,604 |
| | Year 5 | | 4,472,319 |
| | Next 5 years | | 29,609,422 |

* Benefit payments represent undiscounted projected benefit payments for current employees considering their future salary increments and service. These payments have been further adjusted for the expectation of employee continuation with organization.

| J. Other key disclosures | | December 31, 2020 |
|---|---|---|
| 1. The net defined benefit liability (asset) consist of: | | |
| a. Noncurrent assets | INR | - |
| b. Current liabilities | | - |
| c. Noncurrent liabilities | | 2,924,691 |

# Appendix B

# Estimated defined benefit cost

| A. Components of defined benefit cost | | December 31, 2021 |
|---|---|---|
| 1. Service cost | | |
| a. Current service cost | INR | 3,807,735 |
| b. Reimbursement service cost | | - |
| c. Past service cost | | - |
| d. (Gain) / loss on settlements | | - |
| **e. Total service cost** | | **3,807,735** |
| 2. Net interest cost | | |
| a. Interest expense on DBO | | 3,030,208 |
| b. Interest (income) on plan assets | | (3,273,285) |
| c. Interest (income) on reimbursement rights | | - |
| d. Interest expense on effect of (asset ceiling)/onerous liability | | - |
| **e. Total net interest cost** | | **(243,077)** |
| 3. Remeasurements of Other Long Term Benefits | | - |
| 4. Administrative expenses and/or taxes (not reserved within DBO) | | - |
| **5. Defined benefit cost included in P&L** | **INR** | **3,564,658** |
| 6. Expected Cash flows | | |
| a. Benefit payments from plan assets | | (13,175,617) |
| b. Benefit payments from employer | | - |
| c. Employer contribution | | 13,175,617 |
| d. Employee contribution | | - |
| 7. Key assumptions | | |
| a. Discount rate | | 6.30% |
| b. Salary rate | | 6.00% |

Note - this is only an actuarial estimate of the defined benefit cost for fiscal year ending December 31, 2021. Actual expense for period may vary due to any significant events.

# Appendix C

# Gratuity assets

Gratuity plan assets have been taken at their fair value as at December 31, 2020 as provided by Sample Client India Private Limited. A summary of the breakdown of the fair value of assets is shown in the table below.

| Asset class | Fair value as at December 31, 2020, in INR |
|---|---|
| Cash and cash equivalents | - |
| Equity instruments | - |
| Debt instruments | - |
| Real estate | - |
| Derivatives | - |
| Investment funds | 51,956,916 |
| Assets held by insurance company | - |
| Other | - |
| **TOTAL** | **51,956,916** |

The breakdown of asset categories have been provided by Sample Client India Private Limited. Sample Client India Private Limited must consider the overall objectives in investment policies and strategies when deciding whether additional categories of Gratuity assets or further disaggregation of major categories should be disclosed. Mercer has no opinion on this breakdown.

# Appendix D

# Actuarial Gain\Loss analysis

Any variations from the expected liability figures are described as actuarial gains or losses. If the experience is better than expected, there is an “actuarial gain”. Conversely, if experience has been worse than expected, there is an “actuarial loss”. Actuarial gains and losses also result from changing the assumptions used to value liabilities.

The following table breaks down the components of the actuarial gains and losses for reporting period December 31, 2020 and provides further explanation:

| Actuarial (Gains)/Losses | Figures in INR | Explanation |
|---|---|---|
| Effect of changes in demographic assumptions | - | |
| ***Effect of change in financial assumptions*** | *1,549,132* | |
| a. Effect of changes in discount rate | 1,549,132 | Discount rate has changed from 6.67% p.a. to 6.30% p.a. |
| b. Effect of changes in salary rate | - | Salary rate has changed from 6.00% p.a. to 6.00% p.a. |
| ***Effect of experience adjustments*** | *(10,329)* | |
| a. New entrants | 148,151 | Increase in obligation due to new joiners |
| b. Salary experience | (1,974,537) | Actual salary increase is 1.5% against expected increase of 6.00% |
| c. Terminated employees | 1,507,783 | Higher than expected payments compared to liability provisions. |
| d. All others | 308,274 | Continuity of service against higher decrements for employees |

# Appendix E
# Actuarial assumptions

The assumptions as at the reporting date are used to determine the present value of the benefit obligation at that date and the defined benefit cost for the following year.

## Discount rate

The objective of the financial assumptions under India accounting standard (IND AS19) is that they should reflect the average expected benefit payment over the term of the liabilities.

According to IND AS19, the rate used to discount liability obligations should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no “deep market in such bonds”, market yields on government bonds should be used instead. As there is no deep market in corporate bonds in the India, we felt the most sensible approach would be to rely on the India Government bond market for determining an appropriate discount rate for this valuation.

This method for discount rate determination is also consistent with Actuarial Practice Standard APS 27, issued by Institute of Actuaries of India.

The discount rate for current year has been determined to be **6.30%** p.a. based on government bond rates as at December 31, 2020 and a weighted average duration of **8 years**. For the prior period March 31, 2020, discount rate was determined to be 6.67% p.a..

## Salary rate

The assumption of future increases in salaries is a long term assumption (over the service lifetime of employees) and the company management’s best estimate. The assumption needs to take into account inflation, seniority, promotion and any other relevant factors such as supply and demand in the employment market. Salary increases can also be very dependent on the circumstances of the individual company so would also need to take into account the company's own expectations. The company has selected **6.00%** as their best estimate assumption for future increases in salaries. The salary increase rate used as at March 31, 2020 was 6.00%.

## Demographic assumptions

These assumptions are used to determine timing of payments expected from plan in future periods. Key demographic assumptions used in valuation as on December 31, 2020 are:

- **Withdrawal rate (attrition)** : Upto 30 years: 3%; 31-44 years: 2%; 45 years and above : 1%
- **Retirement age** : For union employees: 58 years; For others: 55 years
- **Mortality rate** : Indian Assured Lives Mortality (IALM) (2006-08) (modified) Ult.
- **Disability rate** : 5.0% of mortality rate

## Other assumptions

In addition to above assumptions, some additional assumptions have been considered for valuation as at reporting date of December 31, 2020.

- **Inflation** : Not applicable
- **Leave availment rate** : Not applicable
- **Leave in-service encashment rate** : Not applicable

# Appendix F
# Actuarial methods

Benefit obligations are estimated using the Projected Unit Credit method. Under this method each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total benefit to which each participant is expected to become entitled at termination is broken down into units, each associated with a year of past or future credited service.

If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, these benefits are attributed on a straight-line basis. A description of the calculation follows:

- An individual's estimated attributed benefit for valuation purposes related to a particular separation date (for example, expected date of retirement, leaving service or death) is the benefit described under the plan based on credited service as at the valuation date, but determined using the projected salary that would be used in the calculation estimate of the benefit on the expected separation date.

- The benefit attributed to an individual's service during a plan year is the excess of the attributed benefit for valuation purposes at the end of the plan year over the attributed benefit for valuation purposes at the beginning of the plan year. Both attributed benefits are estimated from the same projections to the various anticipated separation dates.

- An individual's estimated benefit obligation is the present value of the attributed benefit for valuation purposes at the beginning of the plan year, and the service cost is the present value of the benefit attributed to the year of service in the plan year. If multiple decrements are used, the benefit obligation and the service cost for an individual are the sum of the component benefit obligations and service costs associated with the various anticipated separation dates. Such benefit obligations and service costs reflect the estimated attributed benefits and the probability of the individual separating on those dates.

In all cases, the benefit obligation is the total present value of the individuals' attributed benefits for valuation purposes at the valuation date, and the service cost is the total present value of the individuals' benefits attributable to service during the year. If multiple decrements are used, the present values take into account the probability of the individual leaving employment at the various anticipated separation dates.

## Accounting policies

The accounting policies in cases where Sample Client India Private Limited has a choice of policy are set out below.

There have been no changes to the accounting methods or accounting policies since the prior valuation.

**Materiality threshold:** Sample Client India Private Limited has not instructed us to make any adjustments to the valuation procedures described in order to satisfy its materiality threshold.

**Defined benefit cost measurement:** The defined benefit cost charged to profit or loss is budgeted for at the start of each reporting period using actuarial assumptions fixed at the start of the period, including assumptions about expected pensionable salaries, contributions and benefit payments that will be made during the period. It is only updated to allow for subsequent experience in the event of material changes.

**Interest on service cost:** Interest on the service cost is allowed for in the service cost.

**Administration expenses:** These are met directly by Sample Client India Private Limited rather than from Gratuity plan assets and are charged directly to profit or loss as a business expense outside of IND AS19, so they are excluded from this report.

**Discretionary benefits:** No allowance is made in the benefit obligation for discretionary benefits on the grounds that there is no constructive obligation to provide such benefits. Therefore any benefit increases that are awarded on a discretionary basis are accounted for as a past service cost.

**Significant events:** All known significant events during the reporting period that require accounting policy decisions have been captured in valuation.

# Appendix G

# Gratuity provisions

The following is a summary of what we understand to be the most relevant Gratuity provisions for purposes of this report. This broadly reflects the benefits communicated to members via membership booklets, announcements and correspondence outlining special terms where applicable. This summary should not be used for purposes of determining individual Gratuity plan benefits.

The summary is produced solely based on our working knowledge of the Gratuity plan and not on a review of the Gratuity plan documentation. We are not able to give legal advice. If Sample Client India Private Limited wishes to confirm that this summary reflects all the relevant benefits in the Gratuity plan documentation, including that they have been properly implemented, then you should consider taking legal advice.

| | |
|---|---|
| Nature of benefits | Post Employment Benefit |
| Vesting Criteria | 5 years of continuous service except in case of death and disability |
| Applicable Salary | Last drawn monthly basic salary |
| Benefit Calculation | 15/26 * Applicable salary * number of years of service (rounded to nearest integer) |
| Maximum Accumulation | INR 2,000,000 |
| Benefit payable on exit | Same as mentioned in benefit calculation |
| Benefit payable in service | None |
| Normal retirement age | For union employees: 58 years; For others: 55 years |

Plan benefits are same as compared to the Payment of Gratuity Act, 1972.

# Appendix H

# Membership data

The defined benefit obligation at fiscal year end December 31, 2020 is based on the member data as at December 31, 2020, that has provided by Sample Client India Private Limited.

| Description | | March 31, 2020 | December 31, 2020 |
|---|---|---|---|
| Actives | | | |
| a. Headcount | | 541 | 536 |
| b. Total monthly salary for benefit | INR | 8,230,124 | 8,078,587 |
| c. Average age | | 40.80 | 41.04 |
| d. Average service | | 9.79 | 10.15 |
| e. Average monthly salary | INR | 15,213 | 15,072 |
| f. Other statistics | | | |
| i. Average earned leaves | | N/A | N/A |
| ii. Total monthly CTC\Gross salary | INR | N/A | N/A |
| | | - | - |
| Other members | | | |
| a. Headcount | | - | - |
| b. Average age | | 0.00 | 0.00 |
| | | - | - |

# Appendix I

# Sensitivity analysis

The sensitivity analysis of significant actuarial assumptions as of reporting period December 31, 2020 is shown below.

| | | December 31, 2020 |
|---|---|---|
| Discount rate - 50 BP | INR | 57,115,346 |
| Discount rate + 50 BP | | 52,807,847 |
| Salary rate - 50 BP | | 52,929,327 |
| Salary rate + 50 BP | | 56,942,386 |
| Withdrawal rate - 50 basis points | | 54,838,519 |
| Withdrawal rate + 50 basis points | | 54,921,727 |
| Discount rate - 100 basis points | | 60,000,000 |
| Discount rate + 100 basis points | | 55,000,000 |

# Appendix J

# Glossary

### Actuarial Accrued Liability

The portion of the present value of the benefits members expect to receive in future that is allocated to service before the valuation date in accordance with the actuarial cost method.

### Actuarial Cost Method

Sometimes called the “funding method,” a technique used by actuaries for estimating the amount and incidence of the future actuarial cost of pension plan benefits.

### Actuarial Gain or Loss

This reflects changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or because the actuarial assumptions have changed.

The actuarial loss is the excess of the plan’s unfunded actuarial accrued liability on the valuation date over the unfunded actuarial accrued liability that would have resulted had all of the actuarial assumptions been realized and/or the assumptions been unchanged. If the actuarial loss is less than zero, it is called an actuarial gain.

### Actuarial Present Value

The current value (on the calculation date) of an amount or series of amounts payable or receivable in the future. The actuarial present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

### Adjustment for Limit on Net Asset

A reduction of the net asset that may be necessary in situations where the company is unable to recover a surplus of the plan either through reduced contributions in the future or through refunds from the plan.

### Current Service Cost

The actuarial present value of benefits attributed by the pension benefit formula to services rendered by employees during that period based on assumptions as to future compensation levels. The interest rate used in determining the present value is the discount rate.

### Curtailment

An event that significantly reduces expected years of future service of present employees or eliminates benefit accruals for some or all future service for a significant number of employees.

## Deficit or Surplus

The excess of the present value of the plan liabilities over plan assets. A negative deficit is a surplus.

## Discount Rate

The rate of interest used to discount post-employment benefit obligations (both funded and unfunded). Following the requirements of the accounting standard, the discount rate is based on the market yields at the reporting date on high quality corporate bonds. The currency and term of the corporate bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

## Expense Recognized in Profit or Loss

The amount recognized in an employer's financial statements as the cost of a pension plan for a period. Components of expense are service cost (including past service cost and settlement and curtailment charges (if any)) and interest cost.

## Fair Value of Plan Assets

The assets out of which the plan's benefits have to be settled, measured at their fair value.

## INDAS19 (Indian Accounting Standard)

The accounting standard prescribing an employer's accounting and disclosure to address the more specific topic of compensation for employment benefits.

## Interest Cost

The increase in the present value of liabilities due to the passage of time.

## Past Service Cost

Plan amendments often include provisions that increase benefits based on services rendered in prior periods. These provisions give rise to past service costs.

## Present Value

Sometimes called "actuarial present value" as defined above.

## Present Value of the Defined Benefit Obligation

The actuarial present value calculated at a particular date, of all benefits attributed by the pension benefit formula to employee service rendered before that date. The present value of the defined benefit obligation is defined in IND AS19 and is measured based on the discount rate and other assumptions used for accounting disclosure purposes, including assumptions as to future compensation levels.

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