

IASB/FASB MEETING
1-2 MARCH 2011
APPENDIX TO AGENDA PAPER 2H

APPENDIX A-1 Current GAAP Presentation			
	Building Block Approach	Modified Approach	Total
Premium income	6,392	2,139	8,532
	-	-	-
Investment Income	1,657	157	1,815
Realized investment gains and losses	(710)	123	(587)
Investment income attributable to unit-linked policyholders	903	-	903
Total investment income	<u>1,850</u>	<u>280</u>	<u>2,130</u>
Total income	<u>8,243</u>	<u>2,419</u>	<u>10,662</u>
	-	-	-
Claims and benefits paid	(4,826)	(1,336)	(6,162)
Movements in insurance liabilities due to change in interest rates	843	9	852
Changes in unit-linked liabilities	(903)	-	(903)
Other movements in insurance liabilities	(1,486)	(42)	(1,528)
Acquisition costs	(319)	(444)	(763)
Other costs	(768)	(341)	(1,110)
Total expenses	<u>(7,459)</u>	<u>(2,155)</u>	<u>(9,614)</u>
Profit before tax	<u>784</u>	<u>265</u>	<u>1,048</u>
Income tax expense	(200)	(68)	(267)
Profit for year	<u>584</u>	<u>197</u>	<u>781</u>

Refer to Appendix B for various transpositions from Appendix A-7 to the alternative approaches.

NOTE: This represents a statement of comprehensive income under current IFRS 4; practice varies and more or less line items may be presented. This was used as the baseline for alternative presentation approaches.

Performance Statement (includes risk margin in modified approach)

APPENDIX A-2 ED Proposed Presentation¹

Line # (see B-1)	Modified Approach	Building Block Approach	Total
Premium revenue	2,139 A		2,139
Claims incurred	(1,422) B		(1,422)
Expenses incurred	(341) C		(341)
Amortisation incremental acquisition costs	(331) D		(331)
Underwriting margin short duration contracts	45		45
Release of risk adjustment claims liabilities, gross	144		
Release of risk adjustment claims liabilities, reinsurance	(22)		
Release of risk margin claims liabilities	123 E		123
Release of risk margin		169 AA	169
Release of residual margin		83 BB	83
Underwriting margin long duration contracts		252	252
1 New business losses		(57) CC	(57)
2 Non-incremental acquisition costs	(113) F	(83) DD	(196)
3 Experience results	(22) G	50 EE	28
4 Operating assumption changes	3 H	(39) FF	(36)
5 Change in discount rates	9 I	951 GG	960
6 Interest accretion	(60) J	(1,239) HH	(1,300)
7 Accretion unit linked liabilities		(903) II	(903)
Other expenses	(183)	(1,319)	(1,502)
Investment income own account	280 K	948 JJ	1,228
Investment income unit linked		903 KK	903
Total investment income	280	1,850	2,130
Profit before tax	265 L	784 LL	1,048
Income tax expense	68	200	267
Profit for the year	197	584	781

¹ Refer to Appendix B-1 for transposition from current GAAP presentation (A-1)

NOTE: This example presents an interpretation of the presentation proposed in the IASB ED with revenue recognized on a due basis.

(alpha) traces numbers to the transposition shown in Appendix B.

Performance Statement (includes risk margin in modified approach)

APPENDIX A-3 ED Proposed Presentation¹ with face disclosure of revenue

	Modified Approach	Building Block Approach	Total
Premium revenue	2,139	6,392	2,139
Claims incurred	(1,422)	(4,826)	(1,422)
Expenses incurred	(341)	(768)	(341)
Amortisation incremental acquisition costs	(331)		(331)
Release of risk adjustment	123	169	169
Release of residual margin	45	83	83
Underwriting margin	168	252	420
New business losses		(57)	(57)
Non-incremental acquisition costs	(113)	(83)	(196)
Experience results	(22)	50	28
Operating assumption changes	3	(39)	(36)
Change in discount rates	9	951	960
Interest accretion	(60)	(1,239)	(1,300)
Accretion unit linked liabilities		(903)	(903)
	(183)	(1,319)	(1,502)
Investment income general account	280	948	1,228
Investment income for account of policyholders		903	903
Total investment income	280	1,850	2,130
Profit before tax	265	784	1,048
Income tax expense	68	200	267
Profit for the year	197	584	781

NOTE: This example shows a summarized margin presentation for both approaches with volume information disclosed on the face of the statement but not as part of the components of income

APPENDIX A-4a Expanded Margin Approach				
	Modified Approach		Building Block Approach	Total
Premium due	2,139	AA	6,392	C 8,532
Claims	(1,422)	BB	(4,826)	D (6,247)
Expenses	(341)	CC	(768)	N (1,110)
Amortization of incremental acq. costs	(331)	DD	(236)	E (236)
Change in insurance liability			(562)	I (562)
Release of risk adjustments	123	EE	170	J
Release of residual margin			83	K 375
Underwriting result	<u>168</u>		<u>252</u>	<u>751</u>
1 Onerous contract loss	-		(57)	M (57)
2 Non-incremental acquisitions costs	(113)	HH	(83)	K (196)
3 Experience adjustments	(22)	FF	50	F 28
4 Change in estimate	3	GG	(39)	G (36)
5 Change in discount rates	9	JJ	951	H 960
6 Interest accretion on insurance liability	(60)	II	(1,239)	P (1,300)
Other expenses	<u>(183)</u>		<u>486</u>	<u>303</u>
Investment income	280	HH	948	A 1,228
Net investment results	280		45	325
Profit for the year	<u>265</u>		<u>784</u>	<u>1,379</u>
Income Tax	<u>68</u>		<u>200</u>	<u>267</u>
Profit for the year	<u><u>197</u></u>		<u><u>584</u></u>	<u><u>781</u></u>

Refer to Appendix B-2 for transposition

NOTE: This example presents an expanded margin approach. Revenue is recognized on a due basis. Policyholder (unit-linked) accounts are not included. The line "change in insurance liability" offsets the volume information (premium due, claims, expenses, amort. of acq. costs) in order to remove duplicate accounting of these items which is recorded in the release of margins over time.

{alpha} traces numbers to the transposition shown in Appendix B.

APPENDIX A-4b Expanded Margin Approach (alternative grouping)					
	Modified Approach		Building Block Approach		Total
Premium due	2,139	AA	6,392	C	8,532
Claims	(1,422)	BB	(4,826)	D	(6,247)
Expenses	(341)	CC	(768)	N	(1,110)
Amortization of incremental acq. costs	(331)	DD	(236)	E	(567)
Change in insurance liability			(562)	I	(562)
Release of risk adjustment	123	EE	170	J	293
Release of residual margin			83	K	83
3 Experience adjustments	(22)	FF	50	F	28
4 Operating assumption changes	3	GG	(39)	G	(36)
6 Interest accretion on insurance liability	(60)	II	(1,239)	P	(1,300)
5 Change in discount rates	9	JJ	951	H	960
1 Onerous contract losses	-		(57)	M	(57)
Underwriting result	98		(81)		17
2 Non-incremental acquisitions costs	(113)	HH	(83)	K	(196)
Other expenses	(113)		(83)		(196)
Investment income	280	HH	948	A	1,228
Net investment results	280		948		1,228
Profit for the year before net investment remeasurements	265		784		1,049
Investment fair value changes					
Net investment Remeasurements	-		-		-
Income Tax	68		200		267
Profit for the year	197		584		781
Refer to Appendix B-2 for transposition					

NOTE: This example presents an alternative grouping of the expanded margin approach to include all items impacting the measurement of the insurance contract (the present value of the expected cash flows) shown in Appendix A-3. The numbers on the left of certain line items illustrate the changes when compared to A-2 and A-4.

Another alternative grouping suggested proposes including line #5 (changes in discount rate) separately with investment fair value changes to isolate the components of the presentation responsible for volatility concerns. For consistency, line "net investment remeasurements" was not changed in examples where it is not applicable.

(alpha) traces numbers to the transposition shown in Appendix B.

APPENDIX A-4c - Expanded margin approach alternate grouping w/ separate accounting for policyholder accounts

	Modified Approach		Building Block Approach		Total
Premium due	2,139	AA	6,392	C	8,532
Premium for accounts of policyholders			929		929
Claims	(1,422)	BB	(4,826)	D	(6,247)
Claims for accounts of policyholders			(1,831)		(1,831)
Expenses	(341)	CC	(768)	N	(1,110)
Amortization of incremental acq. costs	(331)	DD	(236)	E	(567)
Change in insurance liability			(562)	I	(562)
Release of risk adjustment	123	EE	170	J	292
Release of residual margin			83	K	83
3 Experience adjustments	(22)	FF	50	F	28
4 Operating assumption changes	3	GG	(39)	G	(36)
6 Interest accretion on insurance liability	(60)	II	(1,239)	P	(1,300)
5 Change in discount rates	9	JJ	951	H	960
1 Onerous contract losses	-		(57)	M	(57)
Underwriting result	98		(983)		(885)
2 Non-incremental acquisitions costs	(113)	HH	(83)		(196)
Other expenses	(113)		(83)		(196)
Investment income	280	HH	948	A	1,228
Investment income unit-linked accounts			903	B	903
Net investment results	280		1,850		2,130
Investment fair value changes					
Net investment Remeasurements	-		-		-
Income Tax	68		200		267
Profit for the year	197		584		782

Refer to Appendix B-2 for transposition

NOTE: This example includes "premiums" and claims" for policy holder accounts (i.e. unit linked, segregated accounts, separate accounts, etc).

Another alternative grouping suggested proposes including line #5 (changes in discount rate) separately with investment fair value changes to isolate the components of the presentation responsible for volatility concerns. For consistency, line "net investment remeasurements" was not changed in examples where it is not applicable.

(alpha) traces numbers to the transposition shown in Appendix B.

APPENDIX A-5 Written (Expected cash flows of new business) approach

	Modified	Building Block	Total
Expected undiscounted cash flows of premiums	2,139	6,437	8,576
Expected undiscounted cash flows of claims and benefits	(1,378)	(5,817)	(7,194)
Expected undiscounted cash flows of expenses	(342)	(189)	(531)
Acquisition Costs	(331)	(236)	(567)
Risk adjustment	(44)	(178)	(222)
New business written residual margin	45	17	62
less unearned residual margin	23	16	39
Release of residual margin on new contracts	23	1	23
Existing Contracts			
Release of risk adjustment	122	181	303
Release of unearned/residual margin	23	72	
Experience adjustments	(22)	50	28
Change in estimates	3	(39)	(36)
Onerous contract losses		(57)	(57)
Underwriting Results	149	208	357
Non-incremental acquisitions costs	(113)	(83)	(196)
Other expenses	(113)	(83)	(196)
Investment income	280	948	1,228
Interest accretion on insurance liability	(60)	(1,239)	(1,300)
Net investment results	220	(292)	(72)
Profit for the year before net investment remeasurements	255	(166)	89
Investment fair value changes			
Change in insurance liability due to financial assumptions	9	951	960
Net investment Remeasurements	9	951	960
Income Tax	(68)	(200)	(267)
Profit for the year	197	585	782

NOTE: This example presents information on the expected cash flows of new business written separately from performance of contracts in-force at the beginning of the period. This example is intended to illustrate another approach to provide current period volume information using building block approach components.

This approach is not consistent with the modified approach as described in the ED however the modified approach is being discussed in a future Board meeting. The column heading was preserved for comparability to other examples. A building block approach is applied to both types of contracts. We assumed the residual margin on the shorter contracts (modified column) is released as time passes. For this example we assumed:

- Contracts were written evenly across the period
- All changes in estimates and other liability adjustments were applied as if they were a result of contracts previously written

APPENDIX A-6 Dual Statement Example Approach

Source of Earnings ¹		
Expected profit from in-force business		5,645
Impact of new business		(960)
Experience gains (losses)		(2,203)
Management actions and changes in assumptions		(5,319)
Earnings (loss) on surplus funds		718
Other		35.09
Income (loss) before income taxes		(2,489)
Income tax recovery (expense)		1,436
Net income (loss) attributed to shareholders		(853)

This is a source of earnings statement meant to show the following

Formula-driven release of PFADs (Provisions for Adverse Deviations) on the non-fee businesses and expected profit on fee businesses.

For non-fee income businesses, the capitalized value of future profits less PFADs in respect of new business. For fee income businesses, the non-capitalized acquisition expenses.

Earnings impact of any differences between actual experience in the current period relative to expected experience implicit in the actuarial liabilities, and differences in current period fee income due to market performance.

Earnings impact of:
 -management initiated actions in the period that generate a non-recurring current period impact
 -changes in methods and assumptions that impact actuarial liabilities or other liabilities
 -integration expenses from acquisitions that flow to income
 Actual investment returns on the Company's surplus (shareholders' equity).
 Earnings items not included in any other line of the SOE, including non-operations.
 Tax charges to income, consistent with the amount on the statement of operations.

Statement of Comprehensive Income		
Revenue		30,646
Premium income		15,825
Investments income		10,454
Other revenue		5,367
Subtotal revenue		59,292
Business unrealized gains (losses) on assets supporting policy liabilities and consumer assets ^{2,3}		62,347
Total revenue		121,639
Policy benefits and expenses		7,204
To policyholders and beneficiaries		9,365
Death, disability and other claims		5,053
Maturity and surrender benefits ⁴		1,882
Annuity payments		137
Policyholder dividends and experience rating refunds		23,008
Net transfers (from) to segregated funds		6,232
Change in actuarial liabilities ⁴		1,622
General expenses		6,273
Investment expenses		1,789
Commissions		438
Interest expense ³		1,735
Premium taxes		67
Goodwill impairment		64,304
Non-controlling interest in subsidiaries		(3,957)
Total policy benefits and expenses		149,591
Income (loss) before income taxes		1,456
Income tax recovery (expense)		(521)
Net income (loss)		935
Net income (loss) attributed to participating policyholders		(653)
Net income (loss) attributed to shareholders		(132)
Preferred share dividends		(785)
Net income (loss) available to common shareholders		(917)

This is a traditional statement of comprehensive income used to demonstrate comparability to the source of earnings statement and would be converted to one of the approaches previously discussed

