Accounting Technical Workshop

New Irish GAAP- FRS 102/103

13 November 2015
Agenda

Welcome & Introduction
Shane Guckian

Recap
Shane Guckian
- Where we are now and how we got here
- Key differences between Old and New Irish GAAP
- Steps to successful transition

Financial Instruments (Sections 11, 12 & 34 of FRS 102)
Carla Young
- Measurement considerations
- Disclosures

FRS 103
Karen Dunne
- What’s Changing
- Disclosures

Other Changes to Consider
Susan Rice
- Primary Statements
- Transitional Disclosures
- Foreign Currency
The GAAPs on offer – in a nutshell

| FRS 100 | ‘Application of financial reporting requirements’
|         | Which standard to apply; application of SORPs; Statement of compliance; effective date; meaning of ‘equivalence’ |
| FRS 101 | ‘Reduced disclosure framework’
|         | List of disclosure exemptions from full IFRSs for ‘qualifying entities’ |
| FRS 102 | ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’
|         | Operational FRS derived from the IFRS for SMEs; list of disclosure exemptions from this FRS for ‘qualifying entities’ |
| FRS 103 | ‘Insurance Contracts’
|         | Accounting requirements for entities with insurance contracts |
| FRS 104 | Preparation of interim financial reports |
The GAAPs on offer – decision-making time

- FRSs 100-103 effective for periods **beginning on/after** 1 January 2015.
- Early adoption was permitted (but required disclosure).
- Transition to IFRSs possible at any stage.
- The timeline below indicates what an effective date of 1 January 2015 means for a company with a year end of 31 December:
FRS 102 Key differences between Old and New Irish GAAP
### High Level summary of key impacts moving to FRS 102:

| **Financial instruments** | ‘Comprehensive accounting guidance  
Derivatives on-balance sheet  
Limited and specific hedge accounting  
Certain investments with a reliably measurable fair value are measured at FVTPL |
|----------------------------|--------------------------------------------------------------------------|
| **Goodwill and Intangibles** | Acquired intangibles (including goodwill) must be amortised.  
The maximum useful life is 5 years, if there is no more reliable estimate. |
| **Business combinations** | Finite useful lives for goodwill and intangible assets  
Deferred tax provided on FV uplifts on acquisition |
<p>| <strong>Development costs</strong> | Option to capitalise if criteria are met. |
| <strong>Property, plant and equipment</strong> | Accounting policy choice between cost and revaluation through OCI |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax</td>
<td>Timing difference ‘plus’ approach could result in larger deferred tax balances. No discounting permitted.</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>Transactions recorded in functional currency and presented in presentation currency.</td>
</tr>
<tr>
<td>Pension schemes</td>
<td>No multi-employer exemption where entities under common control.</td>
</tr>
<tr>
<td>Investments Property</td>
<td>Movements in value of investment property in P&amp;L vs STRGL. Investment portfolio subsidiaries at FVTPL.</td>
</tr>
<tr>
<td>Borrowing costs</td>
<td>Option to capitalise or expense.</td>
</tr>
<tr>
<td>Cashflow Statements</td>
<td>Required in every set of financial statements. No exemption on grounds of size.</td>
</tr>
</tbody>
</table>
Additional disclosures required include:

- Key judgements and estimates
- Statement of compliance
- Basic and complex financial instruments
- Key management compensation
- Financial Institutions (S34 Disclosures)
Disclosure exemptions for FRS 102 preparers

As with FRS 101 these are available to 'qualifying entities':

“A member of a group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated.”

As specified by FRS 102:1.12

- Cash flow statements
- Key management compensation
- Financial instruments†
- Share based payments

† No Exemption for Financial Institutions
Transitioning – the different steps of a conversion process.
What should Companies be doing?

- Develop an implementation plan
- Preparation of detailed spreadsheets with transition journals
- Opening balance sheet/comparative audits
- First new GAAP accounts
- Disclosure changes

Implement

- Finalise accounting policy choices
- Determine the detailed impact of the standards

Assess the impact

- Finalise accounting policy choices
- Identify Key GAAP differences
- Identify significant accounting policies and judgments

FRS 101
- FRS 102
- IFRS

Identify key accounting issues

- Consider impact of GAAP changes on tax charge
- Wider impact - assessing impact on remuneration, earn-outs, debt covenants, distributable profits etc

Determine the options available to them & select appropriately.

Finalise process
Companies will need to consider the impact to the wider business:

**Impact on:**

- taxation on transition;
- distributable profits;
- earn out agreements;
- reporting and accounting systems;
- remuneration schemes linked to financial measures;
- the group structure; and
- loan covenants.
FRS 102 - Financial Instruments

Agenda

1. Accounting Policy Choice
2. Key Definitions: Financial instruments – basic / other
3. Measurement
4. Derivatives
5. Hedge accounting
6. Section 34: Financial Institution disclosures
   - 6.1 Fair Value disclosures
   - 6.2 Risk disclosures
1. Accounting Policy Choice

- Entities reporting under FRS 102 have an accounting policy choice over which **recognition and measurement** requirements to apply for financial instruments:

  - **IAS 39**
    - Financial Instruments: Recognition and Measurement
  - **SECTION 11**
    - Basic Financial Instruments
    - & SECTION 12
    - Other Financial Instruments
    - Issues
  - **IFRS 9**
    - Financial Instruments
    - (not yet endorsed but can still adopt as part of FRS 102)

- **Presentation and disclosure** requirements of FRS 102 always apply.
2. Key Definitions

What is a financial instrument?

A **contract** that gives rise to a **financial asset** of one entity and a **financial liability** or **equity instrument** of another entity.

**Examples of financial instruments**
- Ordinary shares
- Preference shares
- Loans
- Bonds
- Trade receivables
- Interest rate swap
- FX forward
- Finance lease
- Share based payments

**Examples of non financial instruments**
- Prepayment
- Tax liability
- Operating lease

**Financial Instruments not covered by Section 11 & 12**
- Most leases
- Investment in subsidiaries
- Share based payments
- Employee benefits
- Own equity
- Insurance contracts
- Associates and jointly-controlled entities
- Financial guarantee contracts
2. Key Definitions

**Section 11 – ‘Basic’ Financial Instruments**

**What is a basic financial instrument?**
- Cash (incl. demand and fixed term deposits)
- Debt instruments meeting certain conditions
- A commitment to receive/make a loan that i) cannot be settled net in cash and ii) is expected to meet the conditions for basic on settlement
- Investments in non-convertible and non-puttable preference shares
- Investments in non-puttable ordinary shares.

**Basic financial instrument examples**
- A zero coupon bond with fixed maturity
- A loan paying EURIBOR + 2% with an option to repay at par plus accrued interest

**Section 12 – ‘Other’ Financial Instruments**

**What is an other financial instrument?**
- All other financial instruments are deemed non-basic/other and fall within scope of Section 12.

**Other financial instrument examples**
- All derivatives – other than basic loan commitments (swaps, forwards, options)
- An investment in convertible debt
- A loan with an option to repay at fair value

Basic/Other classification is based on specific criteria rather than an overarching principle. Some features of debt instruments that may be regarded as simple and/or common may not be considered ‘basic’ under Section 11 as they do not comply with the conditions (see S.11.9)
3. Measurement

- Basic debt instruments
  - Generally amortised cost
  - Some short term payables/receivables at cost
  - Fair value option available, subject to conditions

- Equity instruments (and derivatives over equity instruments)
  - Fair Value Through Profit or Loss (FVTPL) if fair value is reliably measurable
  - Otherwise at cost less impairment

- Basic loan commitments
  - Cost less impairment

- Everything else
  - Fair Value Through Profit or Loss

For items not at FVTPL:
- Transaction costs are included in initial carrying amount
- Assets not at FVTPL are assessed for impairment at end of each reporting period
3. Measurement - Impairment

At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost.

**Objective Evidence of impairment include the following loss events:**

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- The creditor, for economic or legal reasons relation to the debtor’s financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;
- It has become probable that the debtor will enter bankruptcy or other financial reorganisation;
- Observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

If there is **objective** evidence of impairment, the entity shall recognise an impairment loss in profit or loss immediately.
3. Measurement – Deloitte guides

**A closer look**  
Transition to FRS 102 for financial instruments

The accounting for financial instruments will be one of the biggest challenges for entities adopting FRS 102. There are substantial changes, particularly for those entities transitioning from old Irish GAAP excluding FRS 26. FRS 102 provides entities with a closer look at the recognition and measurement requirements that apply to financial instruments. In this publication, we provide a brief look at how these new requirements have an impact on the financial reporting and some of the associated issues that may arise on implementation. The publication covers the following points:

- Identifying financial instruments;
- Identifying derivatives;
- Derecognition of items that do not qualify as assets or liabilities under FRS 102;
- Prepayment feature;
- Consideration of basic and non-basic;
- Amortised cost and revaluation accounting;
- Fair value measurement;
- Debt restructuring and the exception for retrospective application of FRS 102’s derecognition requirements;
- Hedge accounting;

For the purpose of this, we assume the entity is adopting the requirements of FRS 102 in its entirety.
4. Derivatives

Under FRS 102, derivatives must be recognised on-balance sheet and fair valued.

A derivative is a financial instrument or other contract with all three of the following characteristics:

(a) Its value changes in response to the change in specified underlying variable;
(b) It requires little or no initial net investment;
(c) It is settled at a future date.

Derivative examples include:

- Interest rate swaps
- Forward contracts
- Options

Not all derivatives are within the scope of sections 11 & 12: ‘Own use’ scope exemption for some contracts
4. Derivatives

Illustrative example:

An insurance entity that underwrites a significant amount of business in the U.K. enters into a forward contract to purchase sterling due to the volatility in the foreign currency rates. To cover their exposure to exchange rate fluctuations, the company enters into a forward contract at £0.75:€1, to purchase £450k for €600k in six months’ time.

Under old Irish GAAP (if FRS 26 was not adopted), this derivative would have been disclosed in the notes to the financial statements, however, under FRS 102, it is required to be measured at its fair value and put on the balance sheet as either a financial asset or a liability (depending on whether it is in or out of the money).

Any change in fair value from one period to the next results in a gain or loss recognised through the profit and loss account, resulting in volatility and potential tax effects.

Reporting entities will also need to consider the knock on effect which these accounting changes have on tax and other areas of their business e.g. systems and reporting, impact on banking covenants etc.
5. Hedge accounting
Hedge accounting under FRS 102 is optional and may be applied only when the relationship is formally designated as a hedge.

Key points:

• Specified criteria must be met – very limited scope for hedge accounting

• Limited instrument types: interest rate swap, foreign currency swap, a cross-currency interest rate swap, commodity or foreign currency forward or future (and foreign currency loans for net investment hedges only)

• Restrictions on the terms of instruments used

• Relationships must be formally designated and tested

Very different from current Irish practice
Potentially a key area of complexity
6. Section 34: Financial Institution disclosures

In addition to the disclosure requirements in Section 11 and Section 12, an insurance undertaking (considered a financial institution) must comply with the disclosure requirements set out in paragraphs 34.19 to 34.33 which covers:

• Significance of financial instruments
• Impairment
• Fair value

• Nature and extent of risks arising from financial instruments
• Capital management
• Reporting cash flows on a net basis

Today we will focus on:

- Fair Value disclosures
- Nature and extent of risks arising from financial instruments disclosures (credit risk, liquidity risk and market risk)
6.1 Fair Value disclosures

FRS 102 section 11.27, establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical asset or liabilities (Level A) and the lowest priority to unobservable inputs (Level C). The three levels of the fair value hierarchy are as follows:

<table>
<thead>
<tr>
<th>Level A</th>
<th>Quoted prices for an identical asset in an active market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level B</th>
<th>Prices of recent transactions for identical assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Level C</th>
<th>Valuation techniques using observable / unobservable data</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement.</td>
</tr>
</tbody>
</table>
6.1 Fair Value disclosures

Illustrative examples

Example 1

An entity purchased an exchange-traded option on a foreign currency for which there is a quoted market price in an active market.
6.1 Fair Value disclosures

**Illustrative examples**

**Example 2**

An entity entered into a forward exchange contract which is valued using observable forward exchange rates and yield curve data.

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**Level A**

*Quoted prices for an identical asset in an active market*

Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

**Level B**

*Prices of recent transactions for identical assets*

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.

**Level C**

*Valuation techniques using observable/unobservable data*

If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement.
FRS 102 - Financial Instruments

6.1 Fair Value disclosures

Illustrative examples

Example 3

An entity holds equity investments in Company XYZ. Although quoted prices are not available for Company XYZ’s shares, Company XYZ is comparable to many entities whose shares are actively traded.

Level A

Quoted prices for an identical asset in an active market
Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

Level B

Prices of recent transactions for identical assets
When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place.

Level C

Valuation techniques using observable / unobservable data
If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement.
In comparison to IFRS reporting, FRS 102 will require more financial instruments to be classified in the third level category. For example, some valuations that would fall into the second level under IFRSs (i.e. those based on observable data) will fall into the third level under FRS 102.

As a result of this difference in fair value hierarchies, there is a risk of:

1. Financial statement preparers classifying financial instruments within an incorrect level (NB for US GAAP reporting).

2. Financial statement users assuming the third level of the FRS 102 hierarchy is comparable to the IFRS hierarchy and hence assuming the entity holds riskier assets.
6.1 Fair Value disclosures

Exposure Draft FRED 62 - **Fair value hierarchy disclosures**

- Draft amendment will bring FRS 102 fair value hierarchy disclosures in line with EU-adopted IFRS
- When finalised will apply for accounting periods beginning on or after 1 January 2017
- Early adoption is permitted for financial statements with periods ending 31 December 2015 if those financial statements have not been approved by the time that the final amendments are issued
- Final amendments are expected to be issued in March 2016
FRS 102 - Financial Instruments

6.1 Fair Value disclosures – financial statements

- See accounting policy disclosures in note 2.10 (page 21)
- See key sources of estimation uncertainty note 3 (page 26)
- See financial instruments note 15/16 (page 37-39)
- See financial risk management note 30(a) (page 46-47)

**Financial risk management note 30(a)**

<table>
<thead>
<tr>
<th></th>
<th>Level A</th>
<th>Level B</th>
<th>Level C</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2015</td>
<td>2015</td>
<td>2015</td>
</tr>
<tr>
<td>Financial assets</td>
<td>€'000</td>
<td>€'000</td>
<td>€'000</td>
<td>€'000</td>
</tr>
<tr>
<td>Shares and other variable yield securities in unit trusts</td>
<td>7,243</td>
<td>2,611</td>
<td>-</td>
<td>9,854</td>
</tr>
<tr>
<td>Debt securities and other fixed income securities</td>
<td>3,622</td>
<td>5,001</td>
<td>-</td>
<td>8,623</td>
</tr>
<tr>
<td>Derivative assets</td>
<td>-</td>
<td>1,232</td>
<td>-</td>
<td>1,232</td>
</tr>
<tr>
<td></td>
<td>10,865</td>
<td>8,844</td>
<td>-</td>
<td>19,709</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>-</td>
<td>1,023</td>
<td>-</td>
<td>1,023</td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>-</td>
<td>1,023</td>
<td>-</td>
<td>1,023</td>
</tr>
</tbody>
</table>

Key sources of estimation uncertainty note 3

Valuation of financial instruments

(Reference: FRS 102 11.43)

The directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Company uses valuation techniques to measure such instruments. These techniques use “market observable inputs” where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Company estimates the non-market observable inputs used in its valuation models.

For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates although some assumptions are not supported by observable market prices or rates.
6.2 Risk disclosures

A financial institution shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk, liquidity risk and market risk arising from financial instruments (paragraph 34.23).

For each type of risk arising a financial institution must disclosure:

a) The exposures to risk and how they arise;

b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

c) Any changes in (a) or (b) from the previous period.

We would expect Insurance Undertakings to align the wording of their financial statement risk disclosures with the information that will be required under Solvency II, in particular drawing from the information included in their ORSA, RSR and SFCR. Important to make specific to your entity.
6.2 Risk disclosures

Credit Risk

A financial institution shall disclose:

a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period (this disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk).

b) A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk.

c) The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.

d) Information about the credit quality of financial assets that are neither past due nor impaired.

A financial institution shall provide:

a) The age of financial assets that are past due as at the end of the reporting period but not impaired; and

b) The financial assets that are individually determined to be impaired as at the end of the reporting period, including the factors the financial institution considered in determining that they are impaired.

Also see paragraph 34.27 for disclosure requirements when a financial institution obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (e.g. guarantees), and such assets meet the recognition criteria in other sections.
6.2 Risk disclosures

Credit Risk

See financial risk management note 30(c) (page 49-51)
6.2 Risk disclosures

Liquidity Risk

A financial institution shall provide a **maturity analysis** for financial liabilities that shows the remaining contractual maturities at undiscounted amounts separated between derivative and non-derivative financial liabilities (paragraph 34.28).

See financial risk management note 30(c) (page 52-53)

The following table shows details of the expected maturity profile of the Company’s undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. Unearned premiums are excluded from this analysis. The table includes both interest and principal cash flows.

<table>
<thead>
<tr>
<th></th>
<th>Less than 1 month</th>
<th>1 – 3 months</th>
<th>3 months to 1 year</th>
<th>1 – 5 years</th>
<th>5+ years</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
</tr>
<tr>
<td>2015</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
<td>€’000</td>
</tr>
</tbody>
</table>

Insurance contract liabilities
Unallocated divisible surplus
Derivative liabilities
Trade and other liabilities

FRS 103 paragraph 4.8c(j) states that an insurer need not provide the maturity analyses required by paragraph 34.28 of FRS 102 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position.
6.2 Risk disclosures

Market Risk

A financial institution shall provide a sensitivity analysis for each type of market risk (e.g. interest rate risk, currency risk, other price risk) it is exposed to, showing the impact on profit or loss and equity. Details of the methods and assumptions used should also be provided. (paragraph 34.29).

See financial risk management note 30(c) (page 48-49)

The following table details the Company’s sensitivity to a 10% increase and decrease in the Euro against the relevant foreign currencies. A 10% sensitivity rate is used when reporting foreign currency risk internally to key management personnel and represents management’s assessment of the reasonably possible change in foreign exchange rates. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>10% increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre tax profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10% decrease</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre tax profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FRS 103 paragraph 4.8cii) states that if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 34.29 of FRS 102. Such an insurer shall also provide the disclosures required by paragraph 34.30 of FRS 102.

We expect the sensitivity analysis disclosures of Insurance Undertakings will be in line with the stresses and scenarios used for Solvency II and SFCR purposes.
What’s new - Disclosures

- Capital Management (FRS 102 Section 34)
- Concentration of insurance risk (FRS 103)
- Claims development (FRS 103)
- Sensitivity to insurance risk (FRS 103)
FRS 102 Section 34 - Capital Management

Disclose the entity’s objectives, policies and processes for managing capital

Key points:

- What it manages as capital i.e. what does its capital structure consist e.g. Called up share capital presented as equity, Share premium account, P&L account

- Externally imposed capital requirements i.e. regulatory solvency requirements

- Any changes in the capital structure or objectives, policies and processes for managing capital since the previous year

- Disclosure stating whether the company was in compliance with the regulatory requirements and if not so the consequences

See pages 44 and 45

We expect the capital management disclosure of Insurance Undertakings will be in line with the wording used for Solvency II and SFCR purposes from 2016 onwards
**FRS 103 - Sensitivity to insurance risk**

An Insurer must disclose either:

- A sensitivity analysis that shows how *profit or loss and equity* would have been affected if there were changes in the relevant risk variable that were reasonably possible at the end of the reporting period had occurred

- the methods and assumptions used in preparing the sensitivity analysis;

- and any changes from the previous period in the methods and assumptions used.

**OR**

- Qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer’s future cash flows.

Examples of Sensitivities
- Loss ratios
- Expenses
- Interest rates
- Mortality
- Credit spreads

Sensitivities can be presented by line of business and/or geographical location also.

See page 55

We expect the sensitivity analysis disclosures of Insurance Undertakings will be in line with the stresses and scenarios used for Solvency II and SFCR purposes from 2016 onwards
### Life Disclosure example

**Long-term business**

<table>
<thead>
<tr>
<th>Sensitivities as at 31 December 2014</th>
<th>2014 Impact on profit before tax (£m)</th>
<th>2014 Impact on shareholders’ equity before tax (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest rates +1%</td>
<td>Interest rates -1%</td>
</tr>
<tr>
<td>Insurance participating</td>
<td>(10)</td>
<td>(66)</td>
</tr>
<tr>
<td>Insurance non-participating</td>
<td>(155)</td>
<td>130</td>
</tr>
<tr>
<td>Investment participating</td>
<td>(15)</td>
<td>(110)</td>
</tr>
<tr>
<td>Investment non-participating</td>
<td>(40)</td>
<td>20</td>
</tr>
<tr>
<td>Assets backing life shareholders’ funds</td>
<td>(75)</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(293)</td>
<td>160</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sensitivities as at 31 December 2013</th>
<th>2013 Impact on profit before tax (£m)</th>
<th>2013 Impact on shareholders’ equity before tax (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest rates +1%</td>
<td>Interest rates -1%</td>
</tr>
<tr>
<td>Insurance participating</td>
<td>(45)</td>
<td>—</td>
</tr>
<tr>
<td>Insurance non-participating</td>
<td>(145)</td>
<td>140</td>
</tr>
<tr>
<td>Investment participating</td>
<td>(10)</td>
<td>5</td>
</tr>
<tr>
<td>Investment non-participating</td>
<td>(20)</td>
<td>20</td>
</tr>
<tr>
<td>Assets backing life shareholders’ funds</td>
<td>(35)</td>
<td>55</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(175)</td>
<td>220</td>
</tr>
</tbody>
</table>

### Non-Life Disclosure example

**General insurance and health business sensitivities as at 31 December 2014**

<table>
<thead>
<tr>
<th>Sensitivities as at 31 December 2013</th>
<th>2014 Impact on profit before tax (£m)</th>
<th>2014 Impact on shareholders’ equity before tax (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest rates +1%</td>
<td>Interest rates -1%</td>
</tr>
<tr>
<td>Gross of reinsurance</td>
<td>(260)</td>
<td>250</td>
</tr>
<tr>
<td>Net of reinsurance</td>
<td>(805)</td>
<td>295</td>
</tr>
</tbody>
</table>

**Sensitivities as at 31 December 2013**

<table>
<thead>
<tr>
<th>Sensitivities as at 31 December 2013</th>
<th>2013 Impact on profit before tax (£m)</th>
<th>2013 Impact on shareholders’ equity before tax (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest rates +1%</td>
<td>Interest rates -1%</td>
</tr>
<tr>
<td>Gross of reinsurance</td>
<td>(245)</td>
<td>235</td>
</tr>
<tr>
<td>Net of reinsurance</td>
<td>(295)</td>
<td>295</td>
</tr>
</tbody>
</table>

For general insurance and health, the impact of the expense sensitivity on profit also includes the increase in ongoing administration expenses, in addition to the increase in the claims handling expense provision.
An Insurer must disclose actual claims compared to previous estimates.

The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year.

On the transition to FRS an entity need not disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies this FRS.

See pages 56 and 57.
Accumulated amounts paid during succeeding years related to each AY
By the end of 2014 £6,537 million had actually been paid in settlement of claims while the original estimated ultimate cost of claims of £7,106 million was re-estimated to be £6,612 million at 31 December 2014.

Technical reserves
This amount represents the Case and IBNR reserves in the Balance Sheet at year end.

Foreign exchange
The increasing claim payments and estimates of growing claims for each accident year are translated into the functional currency of the Company at the exchange rates that applied at the end of that accident year and the impact of using varying exchange rates is shown at the bottom of each table.

### (ii) Gross figures
Before the effect of reinsurance, the loss development table is:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross cumulative claim payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At end of accident year</td>
<td>(3,459)</td>
<td>(3,653)</td>
<td>(4,393)</td>
<td>(4,915)</td>
<td>(3,780)</td>
<td>(3,502)</td>
<td>(3,429)</td>
<td>(3,055)</td>
<td>(3,068)</td>
<td>(3,102)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two years later</td>
<td>(5,449)</td>
<td>(5,971)</td>
<td>(7,191)</td>
<td>(8,254)</td>
<td>(6,102)</td>
<td>(5,872)</td>
<td>(6,163)</td>
<td>(5,673)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(8,050)</td>
<td>(8,781)</td>
<td>(6,836)</td>
<td>(5,697)</td>
<td>(6,405)</td>
<td></td>
</tr>
<tr>
<td>Three years later</td>
<td>(6,784)</td>
<td>(6,272)</td>
<td>(7,513)</td>
<td>(8,304)</td>
<td>(6,393)</td>
<td>(6,163)</td>
<td>(5,457)</td>
<td>(5,374)</td>
<td>(5,457)</td>
<td>(6,405)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,784)</td>
<td>(6,393)</td>
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</tr>
<tr>
<td>Four years later</td>
<td>(6,001)</td>
<td>(6,531)</td>
<td>(7,836)</td>
<td>(6,607)</td>
<td>(6,001)</td>
<td>(5,872)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(6,001)</td>
<td>(5,872)</td>
<td></td>
</tr>
<tr>
<td>Five years later</td>
<td>(6,156)</td>
<td>(6,736)</td>
<td>(8,050)</td>
<td>(8,781)</td>
<td>(6,836)</td>
<td>(5,697)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(6,156)</td>
<td>(6,736)</td>
<td></td>
</tr>
<tr>
<td>Six years later</td>
<td>(6,311)</td>
<td>(6,936)</td>
<td>(8,144)</td>
<td>(8,906)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,311)</td>
<td>(6,936)</td>
<td></td>
</tr>
<tr>
<td>Seven years later</td>
<td>(6,467)</td>
<td>(7,015)</td>
<td>(8,224)</td>
<td>(9,062)</td>
<td>(8,050)</td>
<td>(6,836)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,062)</td>
<td>(6,683)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,467)</td>
<td>(7,015)</td>
<td></td>
</tr>
<tr>
<td>Eight years later</td>
<td>(6,496)</td>
<td>(7,062)</td>
<td>(5,697)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,496)</td>
<td>(7,062)</td>
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</tr>
<tr>
<td>Nine years later</td>
<td>(6,537)</td>
<td>(6,836)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,405)</td>
<td>(7,136)</td>
<td>(6,537)</td>
<td>(6,836)</td>
<td></td>
</tr>
</tbody>
</table>

| Estimate of gross ultimate claims |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| At end of accident year | (7,106) | (7,333) | (8,530) | (9,508) | (7,264) | (7,691) | (6,428) | (6,201) | (6,122) | (5,896) |       |       |       |       |       |        |
| One year later        | 6,958 | 7,218 | 8,430 | 9,222 | 7,297 | 7,000 | 6,330 | 6,028 | 6,093 |       |       |       |       |       |       |        |
| Two years later       | 6,813 | 7,413 | 8,493 | 9,277 | 7,281 | 6,950 | 6,315 | 6,001 |       |       |       |       |       |       |       |        |
| Three years later     | 6,589 | 7,130 | 8,292 | 9,141 | 7,871 | 6,914 | 6,292 |       |       |       |       |       |       |       |       |        |
| Four years later      | 6,603 | 7,149 | 8,409 | 9,235 | 7,204 | 6,912 |       |       |       |       |       |       |       |       |       |        |
| Five years later      | 6,605 | 7,176 | 8,446 | 9,253 | 7,239 |       |       |       |       |       |       |       |       |       |       |        |
| Six years later       | 6,591 | 7,167 | 8,381 | 9,213 | 7,239 |       |       |       |       |       |       |       |       |       |       |        |
| Seven years later     | 6,586 | 7,176 | 8,381 | 9,213 | 7,239 |       |       |       |       |       |       |       |       |       |       |        |
| Eight years later     | 6,604 | 7,184 |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| Nine years later      | 6,612 | 7,184 |       |       |       |       |       |       |       |       |       |       |       |       |       |        |

| Estimate of gross ultimate claims |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| Cumulative payments | 10,597 | 7,062 | (8,224) | (9,062) | (6,636) | (6,405) | (5,457) | (4,812) | (4,476) | (3,102) |       |       |       |       |       |        |

| Effect of discounting |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| Present value | (2,758) | 75 | 122 | 157 | 307 | 403 | 507 | 835 | 1,190 | 1,563 | 2,794 |       |       |       |       |        |
| Present value (cont'd) |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| Present value of foreign exchange movements |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
| Present value recognised in the statement of financial position |       |       |       |       |       |       |       |       |       |       |       |       |       |       |       |        |
### FRS 103 - Claims/Loss Development table (contd.)

#### (iii) Net of reinsurance

After the effect of reinsurance, the loss development table is:

<table>
<thead>
<tr>
<th>Accident year</th>
<th>All year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£m</td>
</tr>
<tr>
<td><strong>Net cumulative claim payments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At end of accident year</td>
<td>(5,281)</td>
<td>(3,012)</td>
<td>(4,317)</td>
<td>(4,808)</td>
<td>(5,650)</td>
<td>(5,386)</td>
<td>(3,300)</td>
<td>(2,925)</td>
<td>(2,925)</td>
<td>(2,972)</td>
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</tr>
<tr>
<td>One year later</td>
<td>(4,925)</td>
<td>(5,442)</td>
<td>(6,542)</td>
<td>(7,165)</td>
<td>(5,286)</td>
<td>(5,242)</td>
<td>(4,578)</td>
<td>(6,166)</td>
<td>(4,166)</td>
<td>(4,240)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Two years later</td>
<td>(5,344)</td>
<td>(5,381)</td>
<td>(7,052)</td>
<td>(7,538)</td>
<td>(5,885)</td>
<td>(5,637)</td>
<td>(4,963)</td>
<td>(4,575)</td>
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</tr>
<tr>
<td>Three years later</td>
<td>(5,671)</td>
<td>(5,181)</td>
<td>(7,356)</td>
<td>(6,094)</td>
<td>(6,177)</td>
<td>(5,905)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Four years later</td>
<td>(5,809)</td>
<td>(6,343)</td>
<td>(7,664)</td>
<td>(8,356)</td>
<td>(6,410)</td>
<td>(6,137)</td>
<td>(5,263)</td>
<td>(5,263)</td>
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</tr>
<tr>
<td>Five years later</td>
<td>(6,039)</td>
<td>(6,425)</td>
<td>(7,852)</td>
<td>(8,151)</td>
<td>(6,568)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Six years later</td>
<td>(6,188)</td>
<td>(6,724)</td>
<td>(7,942)</td>
<td>(8,626)</td>
<td>(6,294)</td>
<td>(6,831)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seven years later</td>
<td>(6,243)</td>
<td>(6,785)</td>
<td>(8,004)</td>
<td>(6,294)</td>
<td>(6,831)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eight years later</td>
<td>(6,294)</td>
<td>(6,831)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
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<td></td>
</tr>
<tr>
<td>Nine years later</td>
<td>(6,318)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
<td>(5,263)</td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Estimate of net ultimate claims

<table>
<thead>
<tr>
<th>Accident year</th>
<th>All year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£m</td>
</tr>
<tr>
<td>At end of accident year</td>
<td>6,818</td>
<td>7,197</td>
<td>8,302</td>
<td>9,104</td>
<td>7,057</td>
<td>7,671</td>
<td>6,103</td>
<td>5,765</td>
<td>5,745</td>
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</tr>
<tr>
<td>One year later</td>
<td>6,818</td>
<td>7,197</td>
<td>8,302</td>
<td>9,104</td>
<td>7,057</td>
<td>7,671</td>
<td>6,103</td>
<td>5,765</td>
<td>5,745</td>
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<td></td>
</tr>
<tr>
<td>Two years later</td>
<td>6,404</td>
<td>6,030</td>
<td>8,244</td>
<td>9,078</td>
<td>7,035</td>
<td>6,685</td>
<td>6,095</td>
<td>5,728</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Three years later</td>
<td>6,404</td>
<td>6,030</td>
<td>8,244</td>
<td>9,078</td>
<td>7,035</td>
<td>6,685</td>
<td>6,095</td>
<td>5,728</td>
<td></td>
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<td></td>
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<tr>
<td>Four years later</td>
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</tr>
<tr>
<td>Five years later</td>
<td>6,448</td>
<td>6,982</td>
<td>8,211</td>
<td>8,949</td>
<td>6,977</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Six years later</td>
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<td>8,149</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Seven years later</td>
<td>6,597</td>
<td>6,939</td>
<td>8,149</td>
<td>8,926</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Eight years later</td>
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<td>6,938</td>
<td>8,143</td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Nine years later</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Estimate of net ultimate claims (contd.)

<table>
<thead>
<tr>
<th>Accident year</th>
<th>All year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£m</td>
</tr>
<tr>
<td>Cumulative payments</td>
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<td>6,938</td>
<td>8,143</td>
<td></td>
<td></td>
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<td></td>
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#### Effect of discounting

<table>
<thead>
<tr>
<th>Accident year</th>
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<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td>£m</td>
</tr>
<tr>
<td>Present value</td>
<td>1,623</td>
<td>60</td>
<td>116</td>
<td>139</td>
<td>400</td>
<td>409</td>
<td>497</td>
<td>814</td>
<td>1,153</td>
<td>1,505</td>
<td>2,641</td>
<td>9,263</td>
</tr>
<tr>
<td>Cumulative effect of foreign exchange movements</td>
<td>287</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(287)</td>
</tr>
</tbody>
</table>

#### Effect of acquistions

<table>
<thead>
<tr>
<th>Accident year</th>
<th>All year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£m</td>
</tr>
<tr>
<td>Present value recognised in the statement of financial position</td>
<td>1,338</td>
<td>77</td>
<td>133</td>
<td>146</td>
<td>271</td>
<td>377</td>
<td>457</td>
<td>766</td>
<td>1,103</td>
<td>1,470</td>
<td>2,641</td>
<td>8,779</td>
</tr>
</tbody>
</table>

#### Present value recognised in the statement of financial position

<table>
<thead>
<tr>
<th>Accident year</th>
<th>All year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>£m</td>
</tr>
<tr>
<td>Present value recognised in the statement of financial position</td>
<td>1,338</td>
<td>77</td>
<td>133</td>
<td>146</td>
<td>271</td>
<td>377</td>
<td>457</td>
<td>766</td>
<td>1,103</td>
<td>1,470</td>
<td>2,641</td>
<td>8,779</td>
</tr>
</tbody>
</table>
Disclose a description of:

- how management determines concentrations and
- the shared characteristic that identifies each concentration (example by line of business, geographical area, or currency of liability);
An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts.

Carrying amount of Insurance liabilities (less related deferred acquisition costs and related intangible assets) adequate following Liability adequacy test:

Yes: No impact

No: Recognise entire deficiency in P&L

See page 25 for the accounting policy.
FRS 102 does not specially address operating segments. However, previously this disclosure was a requirement of the 1996 European Regulations and this has been encompassed in the 2015 European Regulations also as notes to supplement the profit and loss account. If a company has branches in foreign jurisdictions they must show the split of GWP between geographic location of the underwriting office.

See pages 28 and 29
Susan Rice
Other changes to consider
Other changes to consider

**Agenda**

1. Primary Statement Changes
2. Transitional Disclosures
3. Transitional Reliefs
4. Intercompany Loans
5. Goodwill / Intangibles
6. Foreign Currency Translation
7. Accounting Policies & Tax Impact
8. Employee Information
9. Director’s Remuneration
Primary Statement Changes

- Statement of Changes in Equity is presented as a primary statement, compared to the reconciliation of movement in shareholders’ funds in the notes under Irish GAAP (comparatives now required)

- Statement of Recognised Gains and Losses (STRGL) replaced by Statement of Comprehensive Income (SOCI)

- A **combined statement of income and retained earnings** can be presented instead of a separate Statement of Comprehensive Income if the only changes to equity arise from profit or loss, dividend payments, corrections of errors and changes in accounting policies.

- Financial Statements that comply with FRS 102 should include an explicit and unreserved statement of compliance

- Disclosures of critical judgements and key sources of estimation uncertainty is required
Transitional Disclosures

Explanation of transition to FRS 102

An entity shall explain how the transition from its previous financial reporting framework to this FRS affected its reported financial position and financial performance

- Description of the nature of each change
- Reconciliations of its equity determined under old GAAP to new GAAP for both of the following dates:
  - Date of transition
  - End of latest period presented in entity’s most recent annual FS
- Reconciliation of the profit or loss determined under old GAAP to new GAAP
- Any errors that entity becomes aware of under previous GAAP shall distinguish the correction of the error from change in the accounting policy

- See page 58

![Table]

32. Explanation of Transition to FRS 102 and 103

<table>
<thead>
<tr>
<th>Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>FRS 102 S</td>
</tr>
<tr>
<td>55.15</td>
</tr>
</tbody>
</table>

This is the first financial year that the Company has presented its financial statements under Financial Reporting Standard 102 and 103 (FRS 102 & 103) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous Irish GAAP were for the financial year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102 & 103, a number of accounting policies have changed to comply with these standards.

[Describe the nature of each change in accounting policy.]

<table>
<thead>
<tr>
<th>Reconciliation of equity</th>
<th>2014</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note</td>
<td>At 1 January</td>
<td>At 31 December</td>
</tr>
<tr>
<td>Equity reported under previous Irish GAAP</td>
<td>18,716</td>
<td>19,397</td>
</tr>
<tr>
<td>Adjustments to equity on transition to FRS102/103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Adjustment 1</td>
<td>(854)</td>
<td>(908)</td>
</tr>
<tr>
<td>2. Adjustment 2</td>
<td>245</td>
<td>215</td>
</tr>
<tr>
<td>3. Adjustment 3</td>
<td>(87)</td>
<td>(52)</td>
</tr>
<tr>
<td>Equity reported under FRS 102 &amp; 103</td>
<td>18,020</td>
<td>18,072</td>
</tr>
</tbody>
</table>

Notes to the reconciliation of equity at 1 January 2013

An entity does not retrospectively change the accounting it followed previously for the following transactions including but not exclusive to financial assets and liabilities that have been derecognised prior to transition, accounting estimates.
Transitional Reliefs

Some Transitional Reliefs / Voluntary Exemptions

- Certain financial instruments may be designated at FVTPL on the date of transition of certain criteria are met.
- Lease incentives on pre-existing leases can continue to be recognized.
- Borrowing costs may be capitalized from the date of transition.
- Dormant companies may retain their accounting policies for measurement of assets, liabilities, equity until balances change or undertake new transaction.
- PPE, investment property or intangibles held at valuation may use that previous GAAP valuation as ‘deemed cost’ going forward.
- Where a subsidiary becomes a first time adopter later than its parent, it may remeasure assets / liabilities on parents or subsidiary’s date of transition.
- PPE, investment property or intangibles may be revalued to fair value at transition and that fair value may be used as deemed cost going forward.
- Parents with investment in subsidiaries, associates or JVs measured at cost in separate FS may use previous carrying amount as ‘deemed cost’.
- Lease incentives on pre-existing leases that took place pre-transition are not required to be restated.
- Share-based payment arrangements set up pre-transition not required to follow Section 26.
- Some Transitional Reliefs / Voluntary Exemptions.

FRS 102 Section 35
Intercompany Loans

**Under Old Irish GAAP**
- Relatively straightforward
- Loan booked on initial recognition at the amount of the net proceeds (FV of consideration less issue costs)
- Finance costs of the debt allocated to periods over the term of the debt at a constant rate
- Often loan was interest free

**Under FRS 102**
- Depending on the terms and conditions of an intercompany loan the change in accounting under FRS 102 can be very different
Intercompany Loan Worked Example 1:

Facts:

• Parent advances cash of €100,000, interest free, to its subsidiary at 1 March 2015.
• The market rate of interest at this date is 5%.
• The loan is repayable at the end of five years.
• There are no transaction costs.

What should be recorded in Year 1 and over the life of the loan in:

1) The subsidiary’s financial statements and
2) The parent company financial statements
### Intercompany Loan Worked Example 1:

**Books of Parent:**

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 1, 2015</td>
<td></td>
</tr>
</tbody>
</table>

**Recognise I/co loan under FRS 4:**

- **Dr I/co Loan Receivable** €100,000
- **Cr Cash** €100,000

*(Plus relevant Companies Act disclosures)*

**1 March 2015**

**Effective Interest Income:**

**Years 1 to 5**

- **Dr I/co Loan Receivable** 78,350
- **Cr Finance Income (P/L)** 21,650

**Repayment:**

**At end of year 5:**

- **Dr Cash** €100,000
- **Cr I/co Loan Receivable** €100,000

**Books of Subsidiary:**

<table>
<thead>
<tr>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar 1, 2015</td>
<td></td>
</tr>
</tbody>
</table>

**Dr Bank** 100,000

**Dr I/co Loan Payable** 78,350

**Cr Capital contribution** 21,650

**Effective Interest Expense:**

**Years 1 to 5**

- **Dr Finance cost (P&L)** 21,650
- **Cr I/co Loan Payable** 21,650

**Repayment:**

**At end of year 5:**

- **Dr I/co Loan Payable** €100,000
- **Cr Bank** €100,000

At date of inception of the loan, calculate the present value if the market rate of interest is 5% and term of loan 5 years:

- i.e. Principal * (1/1+R)^yrs
- = €100,000 * (1/1.05)^5
- = €78,350
Intercompany Loan Worked Example 2:

Facts:

- Parent advances cash of €100,000, interest free, to its subsidiary at 1 March 2015.
- The market rate of interest at this date is 5%.
- The loan is repayable on demand.
- There are no transaction costs.

What should be recorded in Year 1 and over the life of the loan in:

1) The subsidiary’s financial statements and
2) The parent company financial statements
### Intercompany Loan Worked Example 2:

**Books of Parent:**

<table>
<thead>
<tr>
<th>1 Mar 2015:</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr I/co Loan Receivable</td>
<td>€100,000</td>
<td></td>
</tr>
<tr>
<td>Cr Cash</td>
<td></td>
<td>€100,000</td>
</tr>
</tbody>
</table>

**Final repayment:**

<table>
<thead>
<tr>
<th></th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Cash</td>
<td>€100,000</td>
<td></td>
</tr>
<tr>
<td>Cr I/co Loan Receivable</td>
<td></td>
<td>€100,000</td>
</tr>
</tbody>
</table>

(Plus relevant Companies Act disclosures)

**Books of Subsidiary:**

<table>
<thead>
<tr>
<th>1 Mar 2015:</th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr Cash</td>
<td>€100,000</td>
<td></td>
</tr>
<tr>
<td>Cr I/co Loan Payable</td>
<td></td>
<td>€100,000</td>
</tr>
</tbody>
</table>

**Final repayment:**

<table>
<thead>
<tr>
<th></th>
<th>DR</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr I/co Loan Payable</td>
<td>€100,000</td>
<td></td>
</tr>
<tr>
<td>Cr Cash</td>
<td></td>
<td>€100,000</td>
</tr>
</tbody>
</table>

(Plus relevant Companies Act disclosures)

---

**1 March 2015 & at final repayment date**

Entries are the same as old Irish GAAP.

- Loan remains classified as current, with present value reflecting the ‘demand’ feature as the same as the cash amount borrowed.

---

**1 March 2015 & at repayment date**

Entries are the same as old Irish GAAP.

- Loan remains classified as current, with present value reflecting the ‘demand’ feature as the same as the cash amount borrowed.

---

**“Old” Irish GAAP**

Companies should ensure they have terms of their loan documented, terms such as maturity, repayment schedules and interest charged.

Regardless of the type of loan, subordinated, shareholder, director, employee banking the accounting is likely to be impacted once the loan is **not on demand** and is **on terms other than market terms** existing at the inception of the loan.
Goodwill / Intangibles

- FRS 102 requires that Goodwill has a finite life, so the indefinite life and the 20 year rebuttable presumption for the useful life is now gone
- Entity must now make a reasonable estimate of useful life, **not exceeding 5 years**
- Acquired intangibles (including goodwill) must be amortised
- Reasons must be disclosed if the useful life is greater than 5 years

Company Law 2014 notes that comparative tables for movements in fixed assets (tangible/intangible/financial), reserves and provisions is now required
Foreign Currency Translation

- SSAP 20 permitted use of ‘local’ currency, providing limited further guidance
- Under FRS 102, transactions are recorded in functional currency (“FC”) and presented in presentational currency
- FX movements taken to profit or loss as a result of the functional currency approach will be taxable, causing more volatility in cash tax payable on an annual basis.
- Considerations when determining the FC of a foreign operation (including branches) and whether it is the same as that of the reporting entity:
  - Activities are carried out as extension of reporting entity
  - Transactions with reporting entity are a high low proportion of foreign operation’s activities
  - Cash flows from activities of foreign operation directly affect cash flow of reportin entity
  - Cash flows from activities of foreign operation are sufficient to service existing & normally expected debt obligations without funds from reporting entity
Foreign Currency Translation (continued)

- Results are translated at average rates of exchange during the period and their balance sheet at the rates ruling at the balance sheet date.
- Monetary assets (e.g. financial instruments) and monetary liabilities (e.g. outstanding claims) are retranslated at the rates prevailing on the balance sheet date.
- Non-monetary items measured at historical cost are not retranslated. Mismatch occurs and portfolios of business can be distorted by movements in exchange rates.
Accounting Policies & Tax Impact

**Accounting Policy Change:**

- S2.3 allows entities on adoption of FRS 103, or subsequently, to change their accounting policies providing the new policies are
  - More reliable and no less relevant
  - *More relevant and no less reliable*

  *e.g. aligning numbers to local regulatory reporting such as Solvency II numbers*

**Tax Impact**

- Companies who adopt Solvency II / Group accounting policies, on transition to FRS 102/103 are able to avail of the allowance set out in S4.2 of the Finance Act 2014 (signed on 23/12/2014) which allows companies to spread the tax charge, resulting from transition to new Irish GAAP, over *five years.*
Average number of persons employed by the company is now determined on a monthly basis instead of a weekly basis in accordance with Section 317 (4) & (5) Companies Act 2014.

Example of a disclosure is detailed below – see page 33

4.10. Employee Information

The average monthly number of people employed during the financial year (including directors) was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting</td>
<td>146</td>
<td></td>
</tr>
<tr>
<td>Claims</td>
<td>54</td>
<td></td>
</tr>
<tr>
<td>Operations</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>IT</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>304</strong></td>
<td></td>
</tr>
</tbody>
</table>
Directors’ Remuneration

Additional disclosures are now required for Directors’ Remuneration (S.305 (1) of Companies Act 2014)

These include:

• **Aggregate emoluments** must be disclosed in respect of qualifying services
  
  – New analyses introduced:
    
    – **pension contributions**: must split out between defined benefit and defined contribution
    
    – **Number of directors** in each type of scheme
    
    – **Aggregate amount of money** including shares but excluding share options under long term incentive schemes paid to or receivable by directors
    
    – Certain amounts regarding **past directors** to be disclosed separately from current directors

• See page 31
Closing Remarks