



Chapter 28 – Financial Statements

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Additional Space for Notes



Introduction

In this chapter we explore financial statements prepared in accordance with the rules and standards applying in Australia at the current time.

AASB 1038 prescribes general purpose reporting requirements in accordance with accounting principles whilst Life Reporting Standards 110.0 to 430.0 issued by APRA prescribes special purpose reporting requirements in accordance with the prudential regulation framework. However, in the development of the respective regimes the AASB and APRA have endeavoured to achieve these objectives through a single set of financial reports.

Financial statements for funds management companies are less complex and are prepared on a "fees less expenses" basis.

Life Insurance Company Data

We will use the data below to prepare elements of the financial statements for an Australian life insurance company with two statutory funds.

The actuary will normally have a trial balance which consists of the revenue account (showing cash flows for the period) and the balance sheet. The item that the actuary needs to determine is the policy liabilities. The increase in policy liabilities determines the profit for the period.

For participating business, the profit is apportioned between policy owners and shareholders.

The spreadsheet that accompanies this chapter contains a combined summary of the various tables below.

The first table shows the revenue accounts and balance sheets, including some start of year items. The income component of premiums and expense component of claims have been shown separately. The reasons for this split are discussed later.



	SF1 ordinary participating business	SF1 ordinary non participating business	SF1 super participating business	SF1 super non participating business
Gross Premiums	3,000	55,000	1,000	32,000
Income component of premiums	3,000	55,000	1,000	19,000
Reinsurance premiums	-	27,000	-	7,000
Investment income	14,000	11,000	9,000	27,000
Claims	12,000	25,000	3,000	72,000
Expense component of claims	12,000	25,000	3,000	10,000
Reinsurance claims	-	18,000	-	9,000
Expenses	3,000	28,000	1,000	9,000
Tax	4,000	6,000	2,000	8,000
Gross policy liabilities at start of year	157,000	115,000	80,000	276,000
Gross policy liabilities ceded at start of year	-	80,000	-	5,000
Policy owner retained profits at start of year	36,000	-	16,000	-
Shareholder retained profits (Australian participating) at start of year	9,000	-	4,000	-
Shareholder retained profits (non participating) at start of year	-	105,000	-	57,000
Gross policy liabilities at end of year (excluding declared bonus)	145,000	95,000	79,000	236,000
Gross policy liabilities ceded at end of year	-	75,000	-	5,000
Declared bonus at end of year	4,000	-	4,000	-
Amount transferred to shareholder fund from Shareholder retained profits (Australian participating)	1,000	-	1,000	-
Amount transferred to shareholder fund from Shareholder retained profits (non participating)	-	25,000	-	25,000
Property holdings at end of year	16,000	9,000	10,000	27,000
Equity holdings at end of year	50,000	29,000	24,000	64,000
Interest bearing securities holdings at end of year	81,000	46,000	60,000	160,000
Other asset holdings at end of year	66,000	36,000	15,000	38,000
Non policy liabilities at end of year	14,000	7,000	6,000	14,000

Table 28.1 - Statutory Fund No 1, Non Investment Linked Business



We will assume that policy owners are allocated 80% of profits on participating business. This is the minimum that can be allocated to policy owners under the Life Insurance Act 1995.

	SF2 ordinary non participating business	SF2 superannuation non participating business
Gross Premiums	96,000	911,000
Income component of premiums	1,000	11,000
Investment income	20,000	139,000
Claims	86,000	800,000
Expense component of claims	-	-
Expenses	3,000	58,000
Tax	8,000	(7,000)
Gross policy liabilities at start of year	164,000	3,860,000
Shareholder retained profits (non participating) at start of year	180,000	31,000
Gross policy liabilities at end of year	177,000	4,044,000
Amount transferred to shareholder fund from Shareholder retained profits (non participating)	-	30,000
Property holdings at end of year	57,000	179,000
Equity holdings at end of year	177,000	2,719,000
Interest bearing securities holdings at end of year	62,000	837,000
Other asset holdings at end of year	102,000	428,000
Non policy liabilities at end of year	35,000	103,000

Table 28.2 - Statutory Fund No 2, Investment Linked Business

Investment income	9,000
Expenses	4,000
Tax	2,000
Shareholder capital at start of year	10,000
Shareholder retained profits at start of year	125,000
Property holdings at end of year	-
Equity holdings at end of year	108,000
Interest bearing securities holdings at end of year	54,000
Other asset holdings at end of year	75,000
Non policy liabilities at end of year	17,000

Table 28.3 - Shareholder Fund



Based on the information above we can calculate the profit for each fund. The total (policy owner plus shareholder) profit is calculated as net premiums plus investment income less net claims, expenses, increase in net policy liability and tax. For participating business, the increase in net policy liability is calculated as the net policy liability at the end of year excluding bonus less the net policy liability at the start of the year.

The profit for each fund is shown in the following tables.

	SF1 ordinary participating business	SF1 ordinary non participating business	SF1 superannuation participating business	SF1 superannuation non participating business
Gross Premiums	3,000	55,000	1,000	32,000
Reinsurance premiums	-	(27,000)	-	(7,000)
Investment income	14,000	11,000	9,000	27,000
TOTAL INCOME	17,000	39,000	10,000	52,000
Claims	12,000	25,000	3,000	72,000
Reinsurance claims	-	(18,000)	-	(9,000)
Expenses	3,000	28,000	1,000	9,000
Increase in net policy liability	(12,000)	(15,000)	(1,000)	(40,000)
TOTAL OUTGO	3,000	20,000	3,000	32,000
OPERATING PROFIT BEFORE TAX	14,000	19,000	7,000	20,000
Tax	4,000	6,000	2,000	8,000
OPERATING PROFIT AFTER TAX	10,000	13,000	5,000	12,000
Allocated to:				
Policy owners	8,000	-	4,000	-
Shareholder	2,000	13,000	1,000	12,000

Table 28.4 - Statutory Fund No 1, Non Investment Linked Business



	SF2 ordinary non participating business	SF2 superannuation non participating business
Gross Premiums	96,000	911,000
Investment income	20,000	139,000
TOTAL INCOME	116,000	1,050,000
Claims	86,000	800,000
Expenses	3,000	58,000
Increase in net policy liability	13,000	184,000
TOTAL OUTGO	102,000	1,042,000
OPERATING PROFIT BEFORE TAX	14,000	8,000
Tax	8,000	(7,000)
OPERATING PROFIT AFTER TAX	6,000	15,000

Table 28.5 - Statutory Fund No 2, Investment Linked Business

Investment income	9,000
TOTAL INCOME	9,000
Expenses	4,000
TOTAL OUTGO	4,000
OPERATING PROFIT BEFORE TAX	5,000
Tax	2,000
OPERATING PROFIT AFTER TAX	3,000

Table 28.6 - Shareholder Fund

Having calculated the profit in each fund, we will now derive the total (policy owner plus shareholder) retained profits at the end of the year and compare this to the net assets in each fund.



	SF1 ordinary participating business	SF1 ordinary non participating business	SF1 super participating business	SF1 super non participating business
Policy owner retained profits at start of year	36,000	-	16,000	-
Plus policy owner profit allocated	8,000	-	4,000	-
Less policy owner profit distributed as bonus	(4,000)	-	(4,000)	-
Policy owner retained profits at end of year	40,000	-	16,000	-
Shareholder retained profits (Australian participating) at start of year	9,000	-	4,000	-
Plus shareholder profit allocated	2,000	-	1,000	-
Less amount transferred to shareholder fund	(1,000)	-	(1,000)	-
Shareholder retained profits (Australian participating) at end of year	10,000	-	4,000	-
Shareholder retained profits (non participating) at start of year	-	105,000	-	57,000
Plus shareholder profit allocated	-	13,000	-	12,000
Less amount transferred to shareholder fund	-	(25,000)	-	(25,000)
Shareholder retained profits (non participating) at end of year	-	93,000	-	44,000
TOTAL RETAINED PROFITS	50,000	93,000	20,000	44,000
Property holdings at end of year	16,000	9,000	10,000	27,000
Equity holdings at end of year	50,000	29,000	24,000	64,000
Interest bearing securities holdings at end of year	81,000	46,000	60,000	160,000
Gross policy liabilities ceded at end of year	-	75,000	-	5,000
Other asset holdings at end of year	66,000	36,000	15,000	38,000
TOTAL ASSETS	213,000	195,000	109,000	294,000
Gross policy liabilities at end of year (including declared bonus)	149,000	95,000	83,000	236,000
Non policy liabilities at end of year	14,000	7,000	6,000	14,000
TOTAL LIABILITIES	163,000	102,000	89,000	250,000
NET ASSETS	50,000	93,000	20,000	44,000

Table 28.7 - Statutory Fund No 1, Non Investment Linked Business



	SF2 ordinary non participating business	SF2 superannuation non participating business
Shareholder retained profits (non participating) at start of year	180,000	31,000
Plus shareholder profit allocated	6,000	15,000
Less amount transferred to shareholder fund	-	(30,000)
Shareholder retained profits (non participating) at end of year	186,000	16,000
TOTAL RETAINED PROFITS	186,000	16,000
Property holdings at end of year	57,000	179,000
Equity holdings at end of year	177,000	2,719,000
Interest bearing securities at end of year	62,000	837,000
Other asset holdings at end of year	102,000	428,000
TOTAL ASSETS	398,000	4,163,000
Gross policy liabilities at end of year	177,000	4,044,000
Non policy liabilities at end of year	35,000	103,000
TOTAL LIABILITIES	212,000	4,147,000
NET ASSETS	186,000	16,000

Table28.8 - Statutory Fund No 2, Investment Linked Business

Shareholder capital at start of year	10,000
Plus transfers of shareholder capital	-
Shareholder capital at end of year	10,000
Shareholder retained profits at start of year	125,000
Plus shareholder profit	3,000
Plus transfers of shareholder retained profits	82,000
Shareholder retained profits at end of year	210,000
TOTAL CAPITAL AND RETAINED PROFITS	220,000
Property holdings at end of year	-
Equity holdings at end of year	108,000
Interest bearing securities at end of year	54,000
Other asset holdings at end of year	75,000
TOTAL ASSETS	237,000
Non policy liabilities at end of year	17,000
TOTAL LIABILITIES	17,000
NET ASSETS	220,000

Table28.9 - Shareholder Fund



Profit and Loss Statement

The profit and loss statement shows the shareholder profit for the statutory funds and shareholder fund combined. This is also known as the "income statement" or "statement of financial performance".

The profit reported is the profit allocated to shareholders. It does not include profit allocated to policy owners. This is achieved by:

- a. Defining the increase in net policy liability to be the net policy liability at the end of year including bonus less the net policy liability at the start of the year and
- b. Showing the increase in policy owner retained profits as an outgo item (i.e. as an increase in liabilities).

The revenue and expenses shown on the income statement must exclude the deposit components of the premiums and claims if a deposit component can be measured separately. This is sometimes referred to as "premium and claim splitting". Deposits are not regarded as revenue as they are effectively held on trust for policy owners. Splitting is not required if a deposit component cannot be separately identified e.g. for traditional contracts. For risk business all premiums are treated as revenue – there is no deposit component.

Premium and claim splitting has no effect on profit – it only affects the presentation of revenue and expenses. The reduction in revenue caused by exclusion of the deposit components is exactly offset by a reduction to the increase in policy liabilities.

In table 28.10, the revenue and expenses for SF1 superannuation non-participating business have been adjusted to exclude the deposit components. Similar adjustments are made in table 28.2 for SF2 investment-linked business.

For investment-linked business, revenue consists of fees and investment income. If there is no deferral of entry fees or acquisition costs, the increase in policy liabilities shown on the income statement will be the investment income credited to policies net of policy owner tax. This effectively reverses out the revenue item for investment income on policy owner assets and the expense for policy owner tax. Profit therefore comprises fees plus investment income on shareholder assets, less expenses and shareholder tax. If this business was issued by a fund management company instead of a life company, the items for investment income on policy owner assets, policy owner tax and increase in policy liabilities would not appear. We would simply be left with fees and operating expenses, investment income on shareholder assets and shareholder tax.

Note that in both tables 28.10 and 28.11 only the fees related to premiums are shown. In practice life companies would report all fees as revenue, i.e. including policy fees and fees levied on assets under management. If these extra fees were reported as revenue there would need to be a corresponding increase to the item for increase in net policy liabilities, so that profit remained unchanged.

If entry fees or acquisition costs are deferred this must also be reflected in the revenue and expenses. The increase in policy liabilities reported on the income statement is the increase in balance sheet policy liabilities, less the deposit component of premiums, plus the deposit component of withdrawals, plus the non-premium related fees, plus the increase in the liability for deferred entry fee revenue, less the increase in the liability for deferred acquisition costs. A reconciliation of the increase in policy liabilities shown on the income statement with the actual increase in policy liabilities reported on the balance sheet is given in the notes to the accounts (see later section of this chapter).



Statutory Fund No 1, Non Investment Linked Business				
	SF1 ordinary participating business	SF1 ordinary non participating business	SF1 superannuation participating business	SF1 superannuation non participating business
Insurance Contracts Revenue	3,000	55,000	1,000	19,000
Outward Reinsurance Expense	-	(27,000)	-	(7,000)
Net Insurance Contracts Premiums	3,000	28,000	1,000	12,000
Fees for Management Services rendered	0	0	0	0
Investment revenue	14,000	11,000	9,000	27,000
Other revenue	0	0	0	0
Total Revenue	17,000	39,000	10,000	39,000
Claims Expenses	12,000	25,000	3,000	10,000
Reinsurance Recoveries Revenue	-	(18,000)	-	(9,000)
Net Claim Expenses	12,000	7,000	3,000	1,000
Operating Expenses	3,000	28,000	1,000	9,000
Increase/(Decrease) in Net Policy Liabilities	(8,000)	(15,000)	3,000	9,000
Increase/(Decrease) in Policy Owner Retained Profits	4,000	-	-	-
Other Expenses	0	0	0	0
Total Expenses	11,000	20,000	7,000	19,000
Operating Profit/(Loss) before income tax	6,000	19,000	3,000	20,000
Income Tax Attributable to Operating Profit	4,000	6,000	2,000	8,000
Life Insurance Act Operating Profit (Loss) after income tax	2,000	13,000	1,000	12,000
Changes in Retained Profits				
Life Insurance Act Retained Profits at the beginning of the Year	9,000	105,000	4,000	57,000
Net Profit	2,000	13,000	1,000	12,000
Transfer of Retained Profits between life companies	(1,000)	(25,000)	(1,000)	(25,000)
Life Insurance Act Shareholders' Retained Profits at the End of the Year	10,000	93,000	4,000	44,000

Table 28.10 - Income Statement SF1



The table below presents the profit in Statutory Fund No 2 allowing for premium and claim splitting. Please note that the increase in net policy liabilities has been adjusted to remove the deposit component of premiums and the withdrawal component of claims.

Statutory Fund No 2, Investment Linked Business		
	SF2 ordinary non participating business	SF2 superannuation non participating business
Income component of premiums	1,000	11,000
Investment income	20,000	139,000
TOTAL INCOME	21,000	150,000
Expense component of claims	-	-
Expenses	3,000	58,000
Increase in net policy liability	4,000	84,000
TOTAL OUTGO	7,000	142,000
OPERATING PROFIT BEFORE TAX	14,000	8,000
Tax	8,000	(7,000)
OPERATING PROFIT AFTER TAX	6,000	15,000

Table 28.11 - Income Statement SF2

The following table shows how the profit and loss statement would be presented for this company. Note that the company would also have to show comparatives (i.e. figures for the prior year) and, if it has subsidiaries, a consolidated profit and loss statement for the current and prior year.

	Shareholder profit for the statutory funds and shareholder fund combined
Insurance premium, fee and other revenue	90,000
Outward reinsurance expense	(34,000)
Investment revenue	229,000
TOTAL REVENUE	285,000
Claims expense	50,000
Reinsurance recoveries	(27,000)
Administration expenses	106,000
Increase in net policy liabilities	77,000
Increase in unvested policy owner benefits	4,000
TOTAL EXPENSES	210,000
OPERATING PROFIT BEFORE TAX	75,000
Income tax expense	23,000
OPERATING PROFIT AFTER TAX	52,000

Table 28.12 - Shareholder profit



Balance Sheet

The balance sheet shows the shareholder retained profits and capital for the statutory funds and shareholder fund combined. The policy owner retained profits are excluded from net assets by treating them as a liability. The balance sheet is also known as the "statement of financial position".

The balance sheet for this company is shown below.

	Shareholder capital and retained profits for the statutory funds and shareholder fund combined
Cash, outstanding premiums and other receivables	760,000
Outstanding Premiums	0
Other Receivables	0
Equity securities	3,171,000
Debt securities	1,300,000
Investment Property	298,000
Other Investments	0
Total Investment Assets	5,529,000
Property, Plant and Equipment	0
Gross Policy Liabilities Ceded Under Reinsurance	80,000
Other assets	-
LIFE INSURANCE ACT TOTAL ASSETS	5,609,000
Creditors	0
Provisions	196,000
Borrowings	0
Premiums in advance	0
Subordinated Debt	0
Gross Policy Liabilities	4,784,000
Gross Policy Liabilities Assumed Under Reinsurance	0
Policy Owner Retained Profits	56,000
Other Liabilities	0
TOTAL LIABILITIES	5,036,000
LIFE INSURANCE ACT NET ASSETS	573,000
Share Capital	10,000
Reserves	0
Shareholder retained Profits	563,000
Foreign Currency Reserve	0
Total Life Insurance Interest in Shareholders' Equity	573,000
Outside equity interests	0
Life Insurance Act Total Shareholders' Equity	573,000



Notes to the Financial Statements

There are a number of notes to the financial statements where actuarial input is or may be required. These include:

- a. Summary of significant actuarial methods and assumptions
- b. Summary of shareholders' interests
- c. Reconciliation to Life Insurance Act 1995 profits
- d. Capital base and prescribed capital amount
- e. Insurance premium revenue
- f. Claims expense
- g. Policy liabilities
- h. Statement of sources of operating profit
- i. Statutory Fund and segment information
- j. Risk Management Policies.

We will consider these notes, giving examples based on our life insurance company data where appropriate.

Summary of Significant Actuarial Methods and Assumptions

As the name suggests, the actuary must disclose what method (e.g. projection, accumulation) has been used to value the liabilities and, for the projection method, what profit carriers have been used. Disclosure is required of the process used to determine the assumptions that have the greatest effect on the recognised assets, liabilities, income and expense cash flows arising from life insurance contracts.

The assumptions that are disclosed include:

- Discount rates
- Bonus and interest crediting rates
- Future expenses and indexation
- Inflation
- Future participating benefits
- Voluntary discontinuances and premium dormancy
- Surrender values
- Unit prices
- Mortality and morbidity
- Taxation and commission.

There is also a requirement to show the effect of changes in assumptions on the value of future profit margins and policy liabilities.



Summary of Shareholders' Interests

The balance sheet shows a single figure for shareholder net assets. This note provides more detail about that figure, splitting it between the statutory funds and the shareholder fund and between shareholder capital and the shareholder retained profit pools.

An example of this note, based on our earlier data is presented below.

	Statutory Funds	Shareholder Fund	Total
Operating profit after tax	49,000	3,000	52,000
Shareholder retained profits at the start of the year	386,000	125,000	511,000
Transfer of profits between funds	(82,000)	82,000	-
Shareholder retained profits at the end of the year	353,000	210,000	563,000
Shareholder capital	-	10,000	10,000
Total shareholder equity	353,000	220,000	573,000

	Components of shareholders' interest in the statutory funds
Shareholder retained profits (Australian participating)	14,000
Shareholder retained profits (non participating)	339,000
Total shareholder equity	353,000

Reconciliation to Life Insurance Act Profits

The profit and loss statement shown in the financial statements excludes the policy owner profit. Similarly, the balance sheet treats the policy owner retained profits as a liability not as a component of net assets. This note shows the alternative presentation where the interests of participating policy owners are treated as "equity interests", not liabilities. An example of this note, based on our earlier data is presented below.

	Policy owner interests	Shareholder interests	Statutory Fund Total
Operating profit after tax	-	49,000	49,000
Bonuses provided for or paid	8,000	-	8,000
Increase in policy owner retained profits	4,000	-	4,000
Life Insurance Act operating profit after tax	12,000	49,000	61,000



	Policy owner interests	Shareholder interests	Statutory Fund Total
Sources of the Life Insurance Act operating profit			
From non investment linked business			
- Australian participating business	12,000	3,000	15,000
- non participating business	-	25,000	25,000
From investment linked business			
- non participating business	-	21,000	21,000
	12,000	49,000	61,000

	Policy owner interests	Shareholder interests	Statutory Fund Total
Retained profits at the start of the year	-	386,000	386,000
Liability for policy owner retained profits	52,000	-	52,000
Life Insurance Act retained profits at the start of the year	52,000	386,000	438,000
Life Insurance Act operating profit after tax	12,000	49,000	61,000
Transfer to shareholder fund			
- Australian participating business	-	(2,000)	(2,000)
- non participating business	-	(80,000)	(80,000)
Provision for bonuses to participating policy owners	(8,000)	-	(8,000)
Life Insurance Act retained profits at the end of the year	56,000	353,000	409,000
Policy owner retained profits at the end of the year	56,000	-	56,000
Shareholder retained profits at the end of the year	-	353,000	353,000
Components of Life Insurance Act retained profits at the end of the year			
- Australian policy owner	56,000	-	56,000
- Shareholder (Australian participating)	-	14,000	14,000
- Shareholder (non participating)	-	339,000	339,000
	56,000	353,000	409,000



Capital Requirements

The disclosure requirements for the capital base and prescribed capital amount are discussed in the chapter on capital management.

Insurance Premium Revenue

The profit and loss statement only shows the income component of premiums (e.g. a premium for risk insurance or the fee component of an investment premium). In this note we show the total premium, the deposit component and the income component. Based on our data the note would appear as follows:

	Non investment linked business	Investment linked business	Statutory Fund Total
Direct consideration for immediate annuities	-	-	-
Other insurance direct premiums	91,000	1,007,000	1,098,000
Policy conversions	-	-	-
Direct insurance premium revenue	91,000	1,007,000	1,098,000
Inwards reins. premium revenue	-	-	-
Insurance premium revenue	91,000	1,007,000	1,098,000
Insurance premium recognised as a change in policy liability	(13,000)	(995,000)	(1,008,000)
Total insurance premium received or receivable	78,000	12,000	90,000



Claims Expense

The profit and loss statement only shows the expense component of claims (e.g. the sum insured for risk insurance). In this note we show the total claims, the withdrawal component and the expense component. Based on our data the note would appear as follows:

	Non investment linked business	Investment linked business	Statutory Fund Total
Death and disability	35,000	-	35,000
Maturities	-	-	-
Annuities	-	-	-
Surrenders and terminations	77,000	886,000	963,000
Policy conversions	-	-	-
Direct claims expense	112,000	886,000	998,000
Inwards reins. claims expense	-	-	-
Total claims expense	112,000	886,000	998,000
Policy payments recognised as a change in policy liability	(62,000)	(886,000)	(948,000)
Total claims paid or payable	50,000	-	50,000

Policy Liabilities

There are three parts to the policy liabilities note:

- Part 1 shows the movement in policy liabilities, adjusted for the deposit component of premiums and the withdrawal component of claims
- Part 2 shows the movement in policy owner retained profits
- Part 3 shows the components of insurance contract liabilities (present value of future benefits, present value of future expenses, present value of future premiums and present value of future profit margins) both on the current and prior year bases.

An example of the format of this note is shown below.



Part 1 – Movement in policy liabilities

	Insurance contracts	Investment contracts	Statutory Fund Total
Gross policy liabilities	563,000	4,221,000	4,784,000
Gross policy liabilities ceded	(80,000)	-	(80,000)
Net policy liabilities	483,000	4,221,000	4,704,000
Reconciliation of net increase/(decrease) in net policy liabilities			
Net increase/(decrease) in net policy liabilities shown on the face of the P&L	(11,000)	88,000	77,000
Plus deposits recognised as an increase in policy liabilities	13,000	995,000	1,008,000
Less withdrawals recognised as a reduction in life insurance policy liabilities	(62,000)	(886,000)	(948,000)
Net increase/(decrease) in net policy liabilities	(60,000)	197,000	137,000
A summary of the movements in net policy liabilities for the year is as follows			
Opening Balance	543,000	4,024,000	4,567,000
Net increase/(decrease) in net policy liabilities	(60,000)	197,000	137,000
Closing balance	483,000	4,221,000	4,704,000

Part 2 – Movement in policy owner retained profits

	Non investment linked business	Investment linked business	Statutory Fund Total
Unvested policy owner benefits at the end of the year	56,000	-	56,000
Unvested policy owner benefits at the start of the year	52,000	-	52,000
Increase/(decrease) in unvested policy owner benefits	4,000	-	4,000



Part 3 – Components of insurance contract liabilities

	Value of net policy liabilities on prior year basis	Value of net policy liabilities (current year basis)
Best estimate liability		
For non investment linked business		
- value of future policy benefits	612,000	637,000
- value of future expense	156,000	120,000
- value of future premiums	(352,000)	(367,000)
Total best estimate liability	416,000	390,000
Value of future profits		
For non investment linked business		
- value of future policy owner bonuses	16,000	17,000
- value of future shareholder profit margins	35,000	68,000
Total value of future profits	51,000	85,000
Total value of declared bonuses	8,000	8,000
Net policy liabilities	475,000	483,000

Part 3 of the policy liabilities note provides users of financial statements with quantification of the impact of changes in the assumptions.

AASB 101 requires separate disclosure of current and non-current assets and liabilities. Life insurers therefore need to disclose estimates of policy liabilities that are expected to be settled within 12 months of the reporting date and those expected to be settled in more than 12 months after the reporting date. Industry practice is to include these disclosures in the policy liability note.



Statement of Sources of Operating Profit

The statement of sources of operating profit note is essentially an analysis of profit showing the interest on retained profits, profit margins emerging, experience profit and loss recognition/reversal. An example of the format of this note appears below.

Insurance contracts	
The shareholder's operating profit after tax in the statutory funds is represented by:	
Investment earnings on shareholder retained profits and capital	11,000
Emergence of shareholder profit margins	6,000
Experience profit/(loss)	7,000
Loss reversal/(loss recognition)	4,000
Shareholder profit after tax	28,000
Cumulative losses carried forward at the end of the year	1,000
The Life Insurance Act policy owner operating profit after tax is represented by:	
Investment earnings on policy owner retained profits	1,000
Emergence of policy owner profit margins	7,000
Experience profit/(loss)	4,000
Life Insurance act policy owner profit after tax	12,000

Note that the cumulative losses carried forward at the end of the year are also shown. This indicates the scope for future loss reversal.

Statutory Fund and Segment Information

The statutory fund and segment information includes:

- A list of the statutory funds and the major products in each fund.
- A profit and loss account by statutory fund
- A profit and loss account by statutory fund, class (ordinary/ superannuation) and category (participating/ non participating)
- A balance sheet by statutory fund
- A balance sheet by statutory fund, class (ordinary/ superannuation) and category (participating/ non participating)
- Life Insurance Act operating and retained profits by statutory fund.



Risk Management Policies

Under AASB 1038, life insurers are required to disclose information about the amount, timing and uncertainty of future cash flows. This includes:

- Details of the company's objectives in managing risks arising from life insurance contracts and its policies for mitigating these risks
- The terms and conditions of the products issued by the life insurance company that materially affect its cash flows
- The sensitivity of profit and loss and equity to changes in variables that have a major effect on them.
- Concentrations of insurance risk
- The development of claims that are not resolved within one year. This disclosure would not normally be required for most life insurance products and annuities are specifically exempt
- Information about credit and interest rate risk
- Information about exposures to interest rate risk or market risk under embedded derivatives not measured at fair value.

Funds Management Companies

As noted earlier, financial statements for funds management companies are less complex. The profit and loss statement shows fee income (including premium and asset fees) and expenses. The balance sheet shows the assets backing the shareholder net assets. Many of the notes included in financial statements for life insurance companies are not required for funds management companies.

Interpreting Financial Statements

When interpreting the financial statements of a life insurance company, one of the most important notes is the statement of sources of operating profit. This note analyses the profit into "one-off" components (experience profit and loss reversal) and "ongoing" components (planned profit and interest on retained profit). It can be used to estimate the profit in the following year.

Other notes which are useful in estimating future profit include the summary of significant actuarial methods and assumptions, which indicates how the best estimate assumptions have moved, and part 3 of the policy liabilities note (components of policy liabilities), which quantifies the impact of the assumption changes on the present values of benefits, expenses, premiums and profit margins.

The financial statements can also be used to see:

- a. trends in premium revenues and claims
- b. the amount of capital base supporting the prescribed capital amount and
- c. the assets backing the liabilities.