

Significant Accounting Policies

1. Accounting Convention

- 1.1 The Balance Sheet, Profit & Loss Account and Revenue Account are drawn up in accordance with the provisions of Section 11 (1) of the Insurance Act, 1938, read with the provisions of sub-sections (1), (2) and (5) of Section 211 and sub-section (5) of Section 227 of the Companies Act, 1956.
- 1.2 The Financial Statements also conform to the stipulations specified under the Insurance Regulatory and Development Authority (Preparation of Financial Statements and Auditors' Report of Insurance Companies) Regulations, 2002, to the extent applicable.
- 1.3 The said statements are prepared on "Historical Cost" convention, on "Accrual" & "Going Concern" basis, in accordance with the generally accepted Accounting Principles, and other Statutory provisions and practices prevailing in the general insurance industry in India, to the extent applicable, complying with the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956, as far as applicable to the Company, except as otherwise stated.

2. Policyholders' Fund and Shareholders' Fund

The Policyholders' Fund shall include Technical Reserves (including Reserve for Unexpired Risks) and Provision for Outstanding Claims (including IBNR & IBNER). The Shareholders' Fund includes Share Capital, General Reserve, any other free Reserve, balance in Profit & Loss A/c and Capital Reserve.

3. Revenue Recognition

- 3.1 Premium is recorded, net of reinsurance, based on assumption of risk, in the Revenue Account.
- 3.2 In respect of National Agricultural Insurance Scheme [NAIS], premium received from Nodal Banks upto 31st March as per the Scheme is accounted for, in conformity with the accounting year of the Company.
- 3.3 Premium refunds/adjustments are accounted for on the basis of endorsements passed during the year.
- 3.4 Interest Income is accounted for on accrual basis in respect of investments in Fixed Deposits in Banks, Government Securities, Bonds & other Instruments.
- 3.5 Dividend is accounted for in the year of declaration. Dividend/Interest on Shares/Debentures pending delivery/under objection is accounted for on realization. Interim Dividend is accounted for where the warrants are issued by 31st March.

4. Fixed Assets

- 4.1 Fixed Assets are valued at cost less depreciation. Cost includes cost of acquisition (including duties, levies and taxes) and other directly attributable costs to bring the Asset to its working condition for its intended use.

4.2 Depreciation on Fixed Assets

4.2.1 Depreciation on Fixed Assets is charged on "Written Down Value" at the rates specified in Schedule XIV of the Companies Act, 1956.

4.2.2 Depreciation is provided on addition/sale/loss of Fixed Assets on pro-rata basis. Individual Asset costing upto Rs. 5000/- is depreciated in full in the year of purchase.

4.2.3 Depreciation on Leasehold Improvements is amortized over the period of the lease from the date of capitalization.

4.2.4 Computer software which is not an integral part of the related hardware has been classified as Intangible Asset and is being amortized over its estimated useful life not exceeding the period of thirty-six months

5. **Investments**

5.1 Investment in debt securities including Government Securities are considered as held to maturity securities and valued at historical cost. In terms of IRDA regulations, the premium paid at the time of acquisition of such securities is amortized over the residual period of maturity.

5.2 Investments in Mutual Funds are valued at Net Asset Value (NAV) at the year end and the difference between cost/book value and NAV is accounted for in Fair Value Change Account. However, if there is impairment in value, the same is charged to Revenue and the book value of investment is reduced accordingly. Any reversal of impairment loss earlier recognized is taken to Revenue Account to the extent of reduction in impairment loss recognized earlier.

5.3 Investment Portfolio in respect of Equity / Equity related instruments is segregated into Actively Traded and Thinly Traded as prescribed by IRDA Regulations. A security is treated as thinly traded taking into consideration the prescribed SEBI guidelines governing mutual funds.

5.4 Actively traded equity / equity related instruments are shown at their Fair Value. "Fair Value" for this purpose is the lower of the closing prices at NSE and BSE on the Balance Sheet Date, as per IRDA Regulations and the net unrealised gain/loss on such valuation is reflected in the "Fair Value Change Account". On realization it is reported in the Profit & Loss Account and unrealized gains/losses arising due to changes in the fair value of actively traded equity shares are accounted in "Fair Value Change Account." Pending realization, the credit balance in the "Fair Value Change Account" is not available for distribution.

5.5 Investment in thinly traded equity shares and unlisted equity shares are shown at cost. However, difference between cost and break-up value is provided for as diminution in value. If the break-up value is negative then the provision is made for the entire cost. Further, if the published accounts of an unlisted company are not available for last three accounting years ending on or immediately preceding the date of working out diminution in value, then provision is made for the entire cost.

- 5.6 Investment in listed Equity/Equity related instruments/Preference Shares made in those companies which are making losses continuously for the last 3 years and where capital is eroded, are considered to have impaired in value. Further, if the published accounts of a company are not available for the last three accounting years ending on or immediately preceding the date of working out the impairment in value, it is presumed that the value of investment is fully impaired and is written off to a value of Re. 1/- per company. Valuation of such investments is done as under:-
- 5.6.1 In respect of other than actively traded Equity Shares, the least of the Cost Price and the Market Price of Break-up Value provided the Break-up value is positive. However, if the Break-up Value is negative, the nominal value is taken at Re. 1/- per company.
- 5.6.2 In respect of Preference Shares, if the dividend is not received for the last three years, the Preference Shares are written down to a value which will bear to its face value, the same proportion as value taken / which would have been taken for writing down equity shares / bears to the face value of the equity shares. However, if the Equity Shares are written down to Re. 1/- per company, Preference Shares are also written down to a nominal value of Re. 1/- per company.
- 5.7 "Collateralized Borrowing and Lending Obligation" (CBLO) which is issued at discount to the Face Value, is treated as Money Market Instrument as per RBI Notification. Discount earned, if any, at the time of lending through CBLO is shown as income, which is apportioned on time basis.
- 5.8 Provisions for standard/non-performing loans/debt securities are made on the basis of prudential norms issued by RBI as applicable to Financial Institutions, as required by IRDA.
- 5.9 In respect of Crop Insurance schemes sponsored by the Government, the income on investment of funds received from the Government towards specific Funds (viz. "NAIS-Corpus Fund") is credited to the relevant Fund; no credit for investment income, if any, is given to the Government in respect of other amounts received to meet the financial liabilities under the Scheme as these amounts are meant for implementation of the Scheme and are required to be kept in readiness for disbursement of claims/meeting out of other financial obligations at short notice.
- 5.10 Income from Investments is apportioned between the "Revenue Account", "Profit and Loss Account", and the "NAIS-Corpus Fund" in the ratio of the balances standing in the "Policyholders' Fund", "Shareholders' Fund", & "NAIS-Corpus Fund" respectively at the beginning of the year.
- 5.11 Expenses relating to Investments, such as for safe custody, collection of interest/dividend, bank charges, etc., are apportioned between the "Revenue Account" and "Profit and Loss Account" in the ratio of the balances standing in the "Policyholders' Fund" and "Shareholders' Fund" respectively at the beginning of the year.
6. **Apportionment of Expenses**
Expenses not directly allocable to a particular Insurance Scheme/Product and/or a particular State/UT are apportioned amongst the relevant Schemes/Products and States/UTs annually on the basis of Gross Premium.

7. **Short and Excess Collection**
Short and Excess Collection of Premium is accounted for Scheme-wise, State/UT-wise. Net Excess Collection above Rs. 100/- per Nodal Bank per season is refunded. Recovery of Short Collection, Refund of Excess Collection and adjustment of Short against Excess of the same Nodal Bank, are made season-wise, from time to time. The net residual balance after the period of three years is transferred to "Miscellaneous Income" account.
8. **Provision in respect of Crop Insurance Business**
Provision in this regard is made at the time of annual closing of accounts. Currently, as per the Statutory requirements and the Policy of the Company in force, the following Provisions are made:
 - 8.1 Reserve for Unexpired Risks [RUR]

RUR is made to the extent of 50% of Net Premium Income of the year.
[Net Premium = Direct Premium (received or receivable during the year) – Premium Refund – Premium on reinsurance ceded]
9. **Provision in respect of Crop Insurance Claims**
Provisions are made at the time of annual closing of accounts. The total of the Provision for Outstanding Claims (including IBNR & IBNER) under NAIS, is not to exceed the "Maximum Potential Liability" [MPL] of the Company, as the claims in excess thereof are borne by the Government. Currently, as per the Statutory requirements and the Policy of the Company in force, the following Provisions are made:
 - 9.1 Provision for Outstanding Claims
 - 9.1.1 Estimated Liability for Outstanding Claims in respect of Crop Insurance Business is provided for at the year-end, in terms of the concerned scheme/policy provisions.

No Provision is made for claims contested by the claimants through litigation but not acknowledged as debt by the Company.
 - 9.1.2 In respect of litigation cases, where awards have been made against the Company, appropriate Provisions are made to the extent of the Company's liability.
 - 9.2 Claims – IBNR & IBNER

Provisions for Claims Incurred but Not Reported (IBNR), and Provisions for Claims Incurred but Not Enough Reported (IBNER) are made as per the Actuarial Certification.
10. **Contingent Assets**
Contingent Assets are neither recognized nor disclosed.
11. **Income Tax**
Tax expense is the aggregate of current year's tax, earlier year's tax and deferred tax. These are charged (credited) to the Profit & Loss Account.
 - 11.1 Provision for taxation in respect of current year's income is based on the assessable income of the Company as per the Income Tax Act, 1961.

- 11.2 Provision for taxation in respect of earlier years is recorded, as considered appropriate, for matters under appeal.
- 11.3 Provision for deferred tax is made, based on the tax effect of timing differences resulting from the recognition of items in the financial statements and in estimating its current income-tax provision. Deferred Tax Assets arising from temporary timing differences are recognized to the extent there is reasonable certainty that the assets can be realized in future.
12. **Employees' Retirement Benefits**
Liabilities on account of retirement benefits to the employees such as Pension, Gratuity and Leave Encashment are provided for as per the actuarial valuation.
13. **Miscellaneous**
- 13.1 Telephone/Electricity/Water or such other deposits with the Local /Statutory Authorities have been charged off to the Revenue Account after retaining Re. 1 under the Deposit Head, for control purposes. If any amount is subsequently recovered towards these deposits, the same is credited to "Miscellaneous Income".
- 13.2 Only those prepaid expenses which are Rs. 10,000/- or more are carried forward to the next financial year.

(Kanika Sharma Shandil)
Company Secretary

(M.K. Poddar)
Dy. Gen. Manager

(P.C. James)
General Manager

(K. N. Bhandari)
Director

(S. K. Chanana)
Director

(M. Parshad)
Chairman-cum-Managing Director

For M/s S. P. Puri & Co.
Chartered Accountants

For M/s Kishore & Kishore
Chartered Accountants

(Vidur Puri)
Partner
M. No. 90163

(Anshu Gupta)
Partner
M. No. 77891

Place: New Delhi

Date: 28.07.2009