HDFC Standard Life Insurance Company Limited

Financial Year ending March 2015
Agenda

A. Economic Overview

Overview of Indian Life Insurance Industry

HDFC Life’s Strategy and Performance Snapshot

Financial Overview

Awards and Accolades
India is world’s third largest economy with 6.4% of global GDP (based on purchasing power parity)

Insurance penetration in India is lower, compared to other savings dominated markets

Insurance density in India is considerably below global counterparts – reflecting significant portion of uninsured and underinsured population

Source: IMF WEO (October 2014), OECD Economic Outlook No.95 and Swiss Re Sigma World Insurance Report (2014)
Definitive opportunity in retirement and protection products, led by:

- Improving life expectancy
- Growing proportion of working population (*within age bracket of 25-49 years*)
- Emergence of nuclear families

---

**Life expectancy (Years)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1999-02</th>
<th>2006-10</th>
<th>2016-20 (E)</th>
<th>2021-25 (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>63</td>
<td>67</td>
<td>70</td>
<td>71</td>
</tr>
<tr>
<td>Expectancy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Population composition (Bn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>1999-02</th>
<th>2006-10</th>
<th>2016-20 (E)</th>
<th>2021-25 (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 years</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
</tr>
<tr>
<td>25-49 years</td>
<td>14%</td>
<td>16%</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>50 years and above</td>
<td>33%</td>
<td>34%</td>
<td>36%</td>
<td>37%</td>
</tr>
<tr>
<td>E</td>
<td>53%</td>
<td>50%</td>
<td>45%</td>
<td>43%</td>
</tr>
</tbody>
</table>

---

Source: * Census of India  
Life insurance poised for growth

- Stabilising real estate demand and softening gold prices expected to result in potential shift of household savings towards financial assets
- Life insurance represents unique offering of long-term savings and protection products

Online and digitisation offers untapped potential

High Digital Influence Across Value Chain

% Category Buyers Digital Footprint

- Life Insurance (38%)
  - Digital Influence 12%
  - % buyers with digital influence: 53%
- Health Insurance (57%)
  - Digital Influence 14%
  - % buyers with digital influence: 32%

Figures in boxes represent internet access among the category buyers.

Digital Life Policies More Cost Efficient with Higher Persistency

- **Highest Persistency Amongst Channels**
  - % by Premium
  - 13th: Digital 90, Physical 20
  - 25th: Digital 76, Physical 24
  - 37th: Digital 62, Physical 38
  - 49th: Digital 48, Physical 52
  - 61st: Digital 34, Physical 66

- **Lowest Direct Sales Cost Amongst Current Channels**
  - Direct Sales Cost/ANBP (%)
  - Digital: 11
  - Bancassurance: 13
  - Brokers: 28
  - Corporate Agents: 39
  - Agency: 62

Source: BCG CCCI digital influence study 2013

- Online life insurance segment ideally positioned to expand by 2-2.5X by 2020
- Digital insurance set to grow exponentially in India, supported by broadening of the digital influence through increasing mobile internet penetration beyond metros and expanding reach of digital world across age bands

Note: Physical channels include agency, bancassurance, brokers, corporate agents and direct sales force
Agenda

Economic Overview

Overview of Indian Life Insurance Industry

HDFC Life’s Strategy and Performance Snapshot

Financial Overview

Awards and Accolades
The liberalization of the sector led to entry of private players since 2000 – 23 private players currently operating in India

Focus on business quality along with frequent regulatory changes has resulted in muted performance for the industry over last few years – industry is now expecting to witness a more positive trend going forward

With the industry moving towards better quality and sustainability, agile larger players such as HDFC Life, are well positioned to grow and increase market share

* Basis Individual Weighted Received Premium (WRP)
Source: IRDAI, Life Insurance Council, HDFC Life Analysis
Online and other new direct distribution channels serve as a cost-efficient mode of distribution and offer high penetration potential. Agency and bancassurance continues to be the significant contributors.

Reduced distributors’ payout and high expense structure forced many players to move to Conventional products over last few years.

Source: IRDAI, Life Insurance Council, HDFC Life Analysis
Agenda

- Economic Overview
- Overview of Indian Life Insurance Industry
- HDFC Life’s Strategy and Performance Snapshot
- Financial Overview
- Awards and Accolades
Strategic elements – five pillars

1. Long term orientation
   - Focus on establishing long term business model
   - Increase awareness towards protection and long term products

2. Owning customer segments
   - Niche product offering to cater to customers across segments
   - Optimum product mix with balanced risk and value proposition

3. Fortify and diversify distribution
   - Diversified sourcing and servicing engines
   - Continue to develop and nurture new avenues with focus on profitable partnerships

4. Achieve cost leadership
   - Driving operating leverage to achieve cost leadership
   - Increase operational efficiency across processes with quality focus

5. Unique customer experience
   - Enhanced experience through speedy and hassle free processes
   - Efficient technology usage to augment customer satisfaction

Maximizing value for all stakeholders of the Company
- Robust performance delivered across premium categories
- Specific initiatives on revival of lapsed policies resulted in high renewal premium collection
- Thrust on group protection business yielded into healthy increase of 47% in group business
Market ranking

- Consistent market position across years – Ranked amongst top 3 private players
- Recouped market share versus FY14
Persistency and Conservation Ratio$^{1,2}$

- Improving persistency across cohorts contributed by intense efforts on collections and customer interaction initiatives – also reflected in industry leading conservation levels
- Ongoing drive to encourage self service through numerous service initiatives such as Missed Call, SMS fund alerts, IVR interactions, Customer Portal enhancement contributed in steady performance
- Last mile connectivity initiative launched in FY14 for lapsed and paid-up customers contributed in higher revivals of Rs 623 Crs in FY15 vs Rs 342 Crs in FY14

Notes: 1. Persistency ratios are calculated with a 1 month lag for the period of April-March for respective years on reducing balance basis
2. Persistency and Conservation ratio are for individual business
Maintained healthy positive premium less benefit payouts, reflecting high business quality – Highest among private players

Surrenders and withdrawals increased by 75% vs FY14, primarily due to:
- Higher base of unit linked policies completing the lock-in period
- Higher fund value supported by well performing equity markets
- More premiums being paid for policies prior to surrender, resulting in higher corpus

Claims saw a rising trend due to higher mix of protection business written, more policies achieving maturity and increased annuity payout. Overall claims payout well within expectation

Notes: 1. Total Premium and benefits paid are gross of reinsurance
2. Based on 9M FY15 data and FY15 results disclosed for players till May 10, 2015
Product portfolio

Offering for every customer need... Recognised by experts

2 Segments

Consistently awarded 'Best Product of the Year' over last five years

- Golden Peacock Innovative Product/Service Award – 2015: Click 2 Invest
- Product of the Year 2013 under Life Insurance category: Smart Woman Plan
- Winners of the Indian Insurance award for Best Product Innovation 2012: Sampoorn Samriddhi
- Awarded at Indian Insurance Award 2012: Sampoorn Samriddhi
- Winner at Indian Insurance Awards 2011: Crest

Comprehensive product suite catering to all life cycle needs

- Youngstar
- Woman's
- Protection
- Retirement & pension
- Employment benefit solutions
- Savings & investment
- Health
Company follows a channel level product strategy weaved with customer needs to ensure profitable segment mix.

- Diversified product composition within the segments with non reliance on any single product
- Highest number of products being sold amongst peers
- Innovative products such as Click2Protect plus and Click2Invest introduced in line with Company’s philosophy of offering best-in-class products to its customers.

Note: The percentages are with reference to APE for individual business.
New business sum assured

- New business sum assured on an increasing trend with high focus on long term pure protection business
- Increased mix of pension products resulted in reduction of new business sum assured for Others

Note: The above numbers are based on Overall (Individual + Group) business
The company’s focus on insurance as a long-term solution reflected in the policy term.

Need based selling results in protection/savings contracts having a younger age-profile and pensions a higher age-profile.

Note: The average term and age of the individual new business policies sold in FY15.
Operators out of 414 HDFC Life’s offices serving 1,000 cities in India and a liaison office in Dubai

Established relationship with various banks, NBFCs and MFIs with 5,000+ partner branches

Maintained leadership in Online segment, with 3% contribution to new business (FY14: 1%)

Launched unique program in association with Manipal Global to train and create a professional entry level sales force

Note: The percentages are with reference to APE for individual business
NBFC - Non-Banking Financial Corporation, MFI - Micro-finance Institutions
Cost trends

- Opex / Total Premium Ratio continues to decline and is amongst the lowest in the private industry
- Continued to invest with long term orientation in new distribution channels, training, technology and product innovation

Note: Operating expenses exclude service tax
Customer touch points

- 95%* death claims settled within 10 working days. FY15 claim repudiation at 5.9% (NOP terms)
- Tied up with Common Service Centres to utilise their network to expand reach to rural areas
- Use of technology to improve service efficiency and enhance overall customer experience
  - 1st private life insurer to have a responsive website
  - Ranked #1 across social media and digital platforms
  - 2nd most buzzed brand on Twitter during ICC Cricket World Cup
  - 79% of service transactions through online mode; 54% of renewal payments received through online and direct debit modes
  - 85% of new business applications initiated using Point of Sale platform

* Out of the non-investigative cases
Agenda

Economic Overview

Overview of Indian Life Insurance Industry

HDFC Life’s Strategy and Performance Snapshot

Financial Overview

Awards and Accolades
Continued to rank amongst top 3, in terms of assets under management in private sector

Highest compounded annual growth rate (CAGR) of 26% in AUM in the last 5 years amongst top 7* players including LIC

* Based on Asset under Management as on December 31, 2014
Returns analysis

- Company outperformed benchmarks in all the major fund categories across time horizons
- Strengthened research capabilities within the investments team to deliver consistent superior performance


Benchmarks: Growth Fund: BSE 100, Balanced Fund: 45% BSE-100 & 55% Crisil Composite Bond Index, Secured Fund: CRISIL Composite Bond Index, Opportunities Fund: CNX MIDCAP Index

Fund performance represented in CAGR
Stable solvency ratio, despite consistent growth in underlying business - RSM increased @ CAGR of 32% in last two years

Excluding the dividend payouts, solvency ratio would have been 216% as on 31\textsuperscript{st} Mar 2015
Profitability trends

<table>
<thead>
<tr>
<th></th>
<th>FY13</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting profits</td>
<td>3.9</td>
<td>5.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Shareholders' income</td>
<td>0.6</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td><strong>Return on equity</strong></td>
<td>41.4%</td>
<td>44.7%</td>
<td>35.1%</td>
</tr>
<tr>
<td><strong>Return on invested capital</strong></td>
<td>20.9%</td>
<td>33.6%</td>
<td>36.4%</td>
</tr>
</tbody>
</table>

- Healthy dividend payout of ₹ 1.4 Bn (7%), 40% higher over FY14
- 78% of profits contributed by underwriting income
- Ended the year with accumulated profits of ₹ 3.8 Bn

*Return on equity is calculated as a factor of profit after tax and average net worth (Net worth comprises of Share capital, Share premium and Accumulated profits/(losses))

#Return on invested capital is calculated as a factor of profit after tax and share capital including share premium

^Dividend @ 7% on face value of shares of ₹ 10 each excluding Dividend Distribution Tax

Note: The shareholders’ income for FY14 includes surplus of ₹ 0.8 Bn due to one time tax adjustment
Underwriting profits breakup

- Profits from core insurance activities on an increasing trend
- Increase in new business and shift in product mix towards linked and non-participating products resulted in higher new business strain
New business margins

- New business margin *(pre expense overruns)* for FY15 marginally lower vs FY14 due to revised expense assumptions
- Improvement in post overrun margin aided by higher mix of protection and Non Par products

Note: New business profits are computed on MCEV basis
Value of new business (VNB) walkthrough

<table>
<thead>
<tr>
<th>NBM</th>
<th>FY14 VNB</th>
<th>Impact of Higher EPI</th>
<th>Change in Product Mix</th>
<th>Change in Assumptions</th>
<th>FY15 VNB</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.09</td>
<td>0.65</td>
<td>1.16</td>
<td>-0.04</td>
<td>5.86</td>
</tr>
</tbody>
</table>

- VNB increased due to growth in new business and higher non-participating business

Note: The above numbers are based on Overall (individual + Group) business
Market Consistent Embedded Value (MCEV)

- TVFOG includes cost of guarantees for conventional non participating and participating products

1. The above is based on unaudited figures
2. PVFP pertains to Overall (Individual + Group) business
3. PVFP – Present Value of Future Profits; TVFOG - Time Value of Financial Options and Guarantees; FC – Frictional Cost; CNHR – Cost of Non Hedgeable Risk; VIF – Value of InForce business
4. Detailed explanation of components provided in the Appendix to the corporate presentation
* Analysis of change in MCEV

- 26% growth in MCEV over last year
- Investment variance reflects buoyant performance of equity markets in FY15

Note: The above is based on unaudited figures
## Sensitivity analysis

<table>
<thead>
<tr>
<th>Change in</th>
<th>Scenario</th>
<th>VNB</th>
<th>% Change in VNB</th>
<th>% Change in NBM</th>
<th>EV</th>
<th>% Change in EV</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest rate</strong></td>
<td>Increase by 1%</td>
<td>6.4</td>
<td>8%</td>
<td>1.5%</td>
<td>87.5</td>
<td>(0.6%)</td>
</tr>
<tr>
<td></td>
<td>Decrease by 1%</td>
<td>5.8</td>
<td>(0.8%)</td>
<td>(0.2%)</td>
<td>88.8</td>
<td>0.9%</td>
</tr>
<tr>
<td><strong>Equity values</strong></td>
<td>Increase by 10%</td>
<td>5.9</td>
<td>negligible</td>
<td>negligible</td>
<td>89.6</td>
<td>1.7%</td>
</tr>
<tr>
<td></td>
<td>Decrease by 10%</td>
<td>5.9</td>
<td>negligible</td>
<td>negligible</td>
<td>86.5</td>
<td>-1.7%</td>
</tr>
<tr>
<td><strong>Persistency</strong></td>
<td>Increase by 10%</td>
<td>6.4</td>
<td>8%</td>
<td>1.5%</td>
<td>90.1</td>
<td>2.3%</td>
</tr>
<tr>
<td></td>
<td>Decrease by 10%</td>
<td>5.4</td>
<td>(8%)</td>
<td>(1.4%)</td>
<td>86.1</td>
<td>(2.2%)</td>
</tr>
<tr>
<td><strong>Maintenance expenses</strong></td>
<td>Increase by 10%</td>
<td>5.6</td>
<td>(5%)</td>
<td>(0.9%)</td>
<td>87.2</td>
<td>(1.0%)</td>
</tr>
<tr>
<td></td>
<td>Decrease by 10%</td>
<td>6.2</td>
<td>5%</td>
<td>0.9%</td>
<td>88.9</td>
<td>1.0%</td>
</tr>
<tr>
<td><strong>Mortality</strong></td>
<td>Increase by 10%</td>
<td>5.6</td>
<td>(5%)</td>
<td>(0.9%)</td>
<td>87.1</td>
<td>(1.1%)</td>
</tr>
<tr>
<td></td>
<td>Decrease by 10%</td>
<td>6.2</td>
<td>5%</td>
<td>0.9%</td>
<td>89.0</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

### Additional Info

<table>
<thead>
<tr>
<th>VNB</th>
<th>% Change in VNB</th>
<th>% Change in NBM</th>
<th>EV</th>
<th>% Change in EV</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.7</td>
<td>14%</td>
<td>2.6%</td>
<td>89.1</td>
<td>1.2%</td>
</tr>
<tr>
<td>6.0</td>
<td>2%</td>
<td>0.3%</td>
<td>90.3</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

1. Post overrun total VNB for Individual and Group business
2. The NBM impact in interest rate fall scenario is low as the TVFOG charged is sufficient to absorb the impact of such decrease in interest rate

Note: The above is based on unaudited figures
The shareholder IRR measured on EV generated is showing a steady growth on back of growth in business.

Note: The IRR has been calculated based on MCEV and not on appraisal value.
## Performance summary

<table>
<thead>
<tr>
<th>Orientation</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total premium (₹ Bn)</td>
<td>120.6</td>
<td>148.3</td>
</tr>
<tr>
<td>Market share¹</td>
<td>13.8%</td>
<td>14.8%</td>
</tr>
<tr>
<td>Conservation ratio²</td>
<td>79%</td>
<td>90%</td>
</tr>
<tr>
<td>Net premium (₹ Bn)</td>
<td>73.6</td>
<td>65.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Distribution</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td># of branches</td>
<td>429</td>
<td>414</td>
</tr>
<tr>
<td># of agents (‘000)</td>
<td>75</td>
<td>86</td>
</tr>
<tr>
<td># of employees</td>
<td>13,963</td>
<td>14,348</td>
</tr>
<tr>
<td>Online business (%)</td>
<td>1%</td>
<td>3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewal premium by Online / Direct debit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Policy servicing complaints</td>
<td>10,987</td>
<td>6,578</td>
</tr>
<tr>
<td>Sales related complaints</td>
<td>41,380</td>
<td>25,379</td>
</tr>
<tr>
<td>Claims repudiation (%)³</td>
<td>4.7%</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Segments⁴</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Linked : Traditional mix</td>
<td>49:51</td>
<td>62:38</td>
</tr>
<tr>
<td>Protection mix</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>Avg. policy term (yrs.)</td>
<td>13.8</td>
<td>15.5</td>
</tr>
<tr>
<td>Avg. sum assured (MM)</td>
<td>1.1</td>
<td>1.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Orientation</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax (₹ Bn)</td>
<td>7.3</td>
<td>7.9</td>
</tr>
<tr>
<td>NBAP (₹ Bn)⁵</td>
<td>4.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Return on capital⁶</td>
<td>33.6%</td>
<td>36.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Distribution</th>
<th>FY14</th>
<th>FY15</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBM (Post OR)⁵</td>
<td>16.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td>MCEV (₹ Bn)</td>
<td>69.9</td>
<td>88.1</td>
</tr>
<tr>
<td>AUM (₹ Bn)</td>
<td>506</td>
<td>670</td>
</tr>
</tbody>
</table>

Notes:
1. Market Share is computed on Individual Weighted Received Premium (WRP) basis
2. Conservation ratio is for individual business
3. Based on no. of policies
4. Segment mix and Protection mix is calculated basis APE
5. NBAP and NBM for individual business only, after adjusting for acquisition expense overrun
6. Return on invested capital is calculated basis profit after tax and share capital including share premium
Economic Overview

Overview of Indian Life Insurance Industry

HDFC Life’s Strategy and Performance Snapshot

Financial Overview

Awards and Accolades
Awards and accolades

HDFC Life's Mymix, Finnoviti 2015, an award that salutes the spirit of innovation.

Best Product Innovation (Life Insurance), Best Technology Innovation (Life Insurance) and Most Socially Responsible Insurer (Overall), 2014

Amongst ‘50 Most Talented Quality Professionals of India’ at World Quality Congress and Awards, 2014

TDWI Best Practices Award 2014 for BI on a Limited Budget

32nd in ‘Top 50 Best Places to Work for’

National Quality Excellence Awards 2014 for Best Business Process Excellence Program

For more details about our Awards & Accolades, kindly refer our website at www.hdfclife.com
For more details about our Awards & Accolades, kindly refer our website at www.hdfclife.com

Awards and accolades (continued)

Loyalty Award for Financials – Non Banking Financial Sector at the 7th Loyalty Awards and Summit, 2014

ICAI award from The Institute of Chartered Accountants of India for Excellence in Financial Reporting for the annual report of FY14

‘Most Admired Life Insurance Companies in Private Sector’ at the BFS&I Awards, 2014

Innovative Leadership in Quality Award at the World Quality Congress and Awards, 2014

National Gold Award for Excellence in Cost Management organized by ICAI

My FM Stars of the Industry - Youth Icon Award at the My FM Stars of the Industry Awards, 2014

Ranked amongst Top 100 CISOs at Infosec Maestros Awards, 2014

For more details about our Awards & Accolades, kindly refer our website at www.hdfclife.com
Appendix & Glossary
Appendix 1 : MCEV methodology and approach

MCEV methodology

The calculations of embedded value and new business profits have been performed using a market consistent embedded value ("MCEV") approach. This approach differs from a traditional EV approach primarily in respect of the way in which allowance for risk is made.

Within the traditional EV approach allowance is made for risk through an increase in the risk discount rate used to value future shareholder cash flows, whilst within the MCEV calculation explicit separate allowances are made for risk.

Components of MCEV

There are two components to the MCEV:

1. Adjusted net worth – It represents the market value of assets attributable to shareholders. This amount is derived from the Indian GAAP balance sheet and adjusted to allow for assets on a market value basis.

2. Value of in-force – It is derived as

   Present value of future profits ("PVFP") less
   Time Value of Financial Options and Guarantees ("TVFOG") less
   Frictional Costs of Required Capital ("FCRC") less
   Cost of non hedgeable risk ("CNHR")
Appendix 2: Components of value of in force (“VIF”)

**Present value of future profits ("PVFP")**

This component is the present value of the projected future after tax shareholder profits expected to arise on the business existing at the valuation date.

The projection is carried out on a deterministic basis using market-consistent economic assumptions and best estimate non-economic assumptions (such as persistency, mortality, morbidity, expenses, inflation). The economic assumptions (future investment returns and risk discount rate) are based on the risk free (government bond) yield curve at the valuation date.

**Time Value of Financial Options and Guarantees ("TVFOG")**

This component represents the cost that may arise due to embedded financial options and guarantees.

Different economic scenarios are derived on the basis of a stochastic simulation process using suitable statistical distributions for interest rates and equity returns calibrated to Indian market conditions.

The cost of the options and guarantees is calculated using these economic scenarios with methodology and non-economic assumptions consistent with the underlying PVFP.

**Frictional Costs of Required Capital ("FCRC")**

This represents the frictional costs of holding required capital ("FCRC"). Required capital is set equal to the amount of shareholder attributable assets required to back local regulatory solvency requirements. The frictional costs represent the investment costs and taxes associated with holding the required capital.

**Cost of non hedgeable risk ("CNHR")**

This represents the deduction to allow for non hedgeable risks. The CNHR has been derived using a cost of capital approach and is calculated as the discounted value of the annual charge applied to projected risk bearing capital.

- The initial risk capital has been calculated based on stress events for non economic assumptions. These events are based on the Solvency II, QIS5 framework.
- Appropriate risk drivers are used in projecting the risk capital at future time points.
- The annual charge applied to the projected risk capital is 4% p.a.
Appendix 3: Key assumptions underlying MCEV and NBP

**Economic assumptions**
- The closing MCEV is calculated by basing the projected earned and risk discount rates on the risk free (government bond) yield curve at the closing balance sheet date.
- The new business profitability is calculated with similar assumptions, except that the yield curve at the start of the quarter in which the new business has been written is taken.
- For detailed assumptions, refer Appendix 5

**Non-economic assumptions**

**Expenses**
- Maintenance expenses have been based on the latest expense analysis carried out in March 2015 with appropriate allowance for future inflation. These assumptions do not incorporate any allowance for future productivity improvements.
- Based on an analysis carried out by the Company, the projected long-term acquisition expense assumptions have been revised and these are higher than those used earlier and have been incorporated into the calculation of pre-overrun margins for FY15.

**Mortality and morbidity**
- Mortality and morbidity assumptions are set for different products based on past experience.

**Persistency**
- Persistency assumptions are set for different product lines, payment mode and duration in-force, based on past experience and expectations of future experience. Separate decrements are modeled for lapses, surrenders, paid-ups and partial withdrawals.

**Tax**
- Tax assumptions are based on our interpretation of existing tax legislation, where appropriate supported by legal opinion.
- Profits attributable to shareholders are assumed to be taxed at 14.42% for Life business and 0% for Pensions business.
- Allowance is made within the tax computation for dividend offsets permitted under Section 2A of the Income Tax Act.
Appendix 4: Key components underlying MCEV movements

Analysis of change in MCEV

- Opening modeling, assumptions and methodology changes: The models, assumptions and methodology are continuously refined and improved and the impact of these refinements is reflected in the opening changes.

- Expected return on inforce: It reflects expected investment income on shareholder assets during the period and unwind of the discount rate on the opening PVFP.

- Operating Variances: The Operating Variances capture the impact of the difference between the actual expenses, mortality and persistency experience from those expected in the opening MCEV calculation.

- Investment variances and change in economic assumptions: This reflects the impact due to the actual investment return being different from expected and the impact due to the change in economic assumptions (represented by change in yield curve during the period).
### Appendix 5: Economic Assumptions

<table>
<thead>
<tr>
<th>Years</th>
<th>Forward rates</th>
<th>Spot rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY14</td>
<td>FY15</td>
</tr>
<tr>
<td>1</td>
<td>8.74%</td>
<td>7.91%</td>
</tr>
<tr>
<td>2</td>
<td>8.73%</td>
<td>7.91%</td>
</tr>
<tr>
<td>3</td>
<td>9.05%</td>
<td>7.96%</td>
</tr>
<tr>
<td>4</td>
<td>9.31%</td>
<td>7.97%</td>
</tr>
<tr>
<td>5</td>
<td>9.45%</td>
<td>7.98%</td>
</tr>
<tr>
<td>10</td>
<td>9.58%</td>
<td>7.98%</td>
</tr>
<tr>
<td>15</td>
<td>9.59%</td>
<td>7.98%</td>
</tr>
<tr>
<td>20</td>
<td>9.59%</td>
<td>7.98%</td>
</tr>
<tr>
<td>25</td>
<td>9.59%</td>
<td>7.98%</td>
</tr>
<tr>
<td>30+</td>
<td>9.59%</td>
<td>7.98%</td>
</tr>
</tbody>
</table>

- The forward rates derived from the spot-rates of risk-free government bonds are used in projecting future investment returns and discounting of future profits in VNB and MCEV calculation.
APE (Annualized Premium Equivalent) – The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups.

Conservation ratio – Ratio of current year renewal premiums to previous year’s renewal premium and first year premium.

First year premiums – Regular premiums received during the year for all modes of payments chosen by the customer which are still in the first year. For example, for a monthly mode policy sold in March 2014, the first installment would fall into first year premiums for 2013-14 and the remaining 11 installments in the first year would be first year premiums in 2014-15.

New business received premium – The sum of first year premium and single premium.

Operating expense – All expenses of management excluding service tax. It does not include commission.

Operating expense ratio – Ratio of operating expenses (excluding service tax) to total premiums.

Renewal premiums – Regular recurring premiums received after the first year.

Solvency ratio – Ratio of available solvency margin to required solvency margins.

Total premiums – Total received premiums during the year including first year, single and renewal premiums for individual and group business.

Weighted received premium (WRP) – The sum of first year premium and 10% weighted single premiums and single premium top-ups.

13th month persistency – Percentage of contracts, measured by premium, still in force 13 months after they have been issued.
Disclaimer

This release is a compilation of published financial results, other information and is not a statutory release. This may also contain statements that are forward looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ from our expectations and assumptions. We do not undertake any responsibility to update any forward looking statements nor should this be constituted as a guidance of future performance. This release is a privilege copy intended for reference of selected group.

These disclosures are subject to the prevailing regulatory and policy framework as on March 31, 2015 and do not reflect any subsequent changes.
In partnership with Standard Life