HDFC Life Insurance

Investor presentation – Q1 FY19

Agenda

A Performance Snapshot

Additional Business Information

Annexures

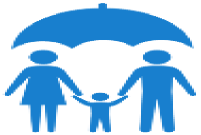
Company overview

Financial and Actuarial snapshot

Total premium / Growth %	Total NB / Growth %	VNB[1] / NB margin (Post overrun)[1]	IEV[2] / EVOP[3] %	AUM / Growth %	Net-worth[4] / ROE[5]	13M Persistency[6] / 61M Persistency[6]
Rs 50.6 bn	Rs 26.8 bn	Rs 2.5 bn	Rs 156.9 bn	Rs 1,096.3 bn	Rs 51.1 bn	87%
37%	62%	24.2%	18.4%	16%	31.0%	50%

Operational snapshot


10.3 mn
NB (Individual and Group segment) lives insured


Rs 1,234 bn
New business sum assured


17,800+
Employee headcount

163
Bancassurance partners


26
Non-traditional distribution partners


413
Offices[7]

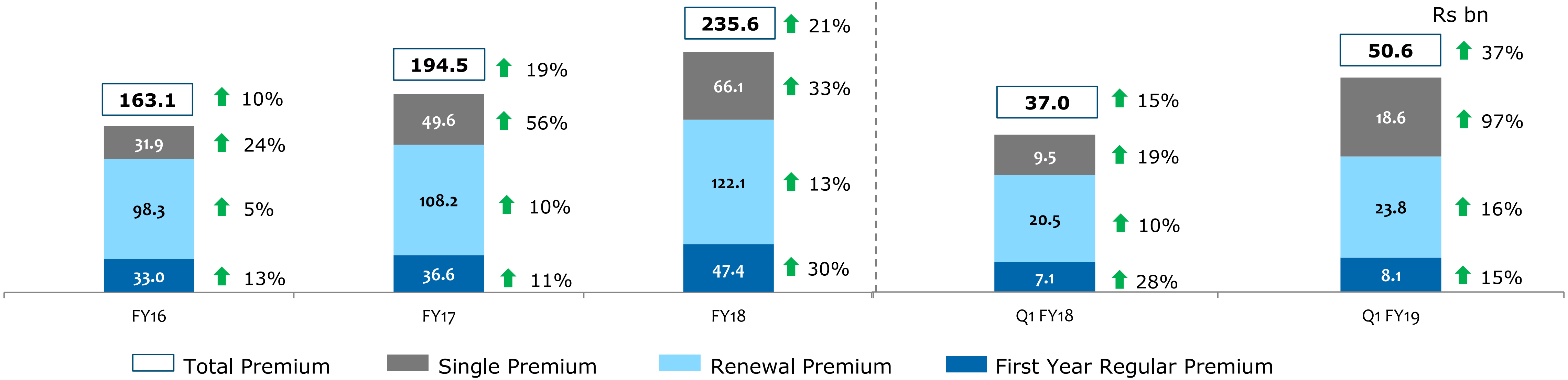

15,000+
Partner branches[8]

Notes: [1] VNB: Value of New business; [2] IEV: Indian Embedded value; [3] Operating return on EV – Annualised EVOP (Embedded value operating profit)/Opening EV; [4] Net worth comprises of Share capital (including share application money received, but pending allotment), Share premium and Accumulated profits/(losses); [5] Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits/(losses)); [6] Calculated as per IRDAI circular (based on original premium). Group business, where persistency is measurable, has been included in the calculations; [7] Including corporate office in Mumbai and 2 hub operations; [8] For top 15 bancassurance partners

PS: The numbers throughout the presentation are based on standalone financial results of the Company

Strong premium growth and market positioning

Consistent growth across premium categories despite volatile operating environment



Private Market share / Ranking	FY16	FY17	FY18	Q1 FY18	Q1 FY19
Individual WRP	14.7% / 3	12.7% / 3	13.3% / 3	11.8% / 3	13.3%/ 3
Group premium	18.3% / 1	24.3% / 1	28.5% / 1	25.0% / 1	30.1%/ 1
Total new business received premium	15.8% / 3	17.2% / 2	19.1% / 1	16.4% / 3	22.3%/ 1

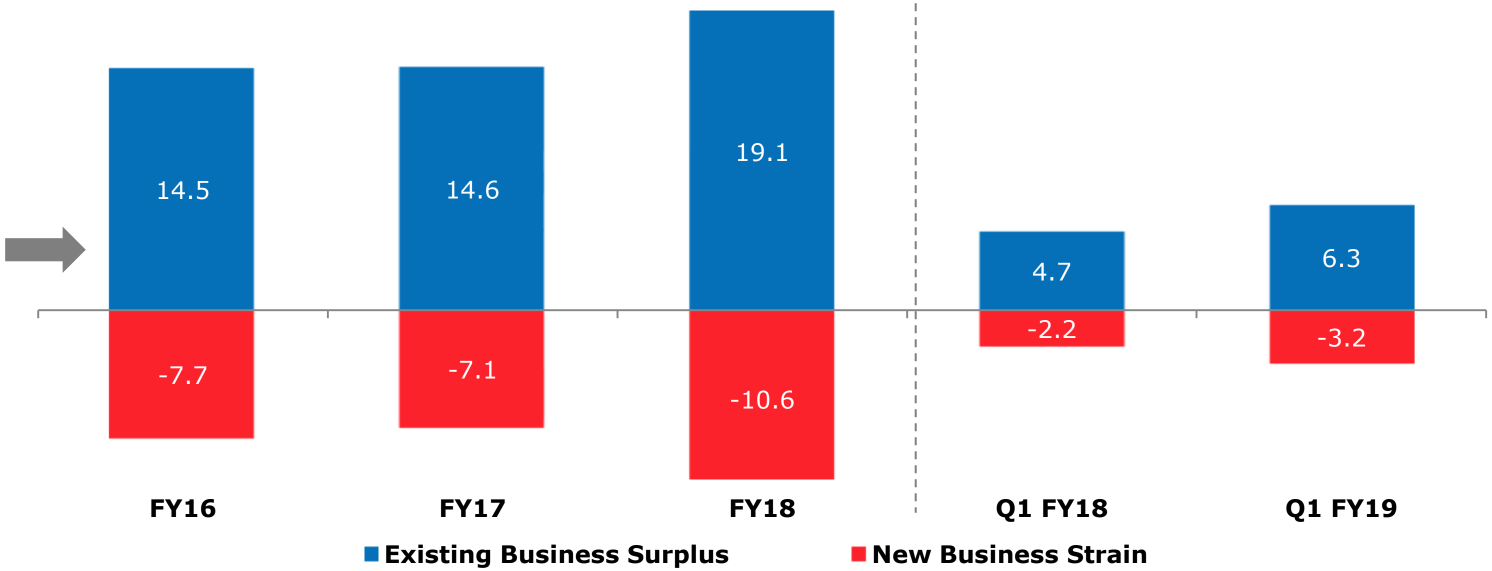
Profits breakup

Rs bn

	FY16	FY17	FY18	Q1 FY18	Q1 FY19
New business margins	19.9%	22.0%	23.2%	20.5%	24.2%
Profit after tax (PAT)	**8.2**	**8.9**	**11.1**	**3.2**	**3.8**
Shareholder's surplus	1.4	1.4	2.6	0.6	0.7
Underwriting profits	6.8	7.5	8.5	2.5	3.1

NBM impact of the Product Committee recommendations on Surrender value changes for non-linked products[2] is < 1%

Underwriting profits breakup[1]



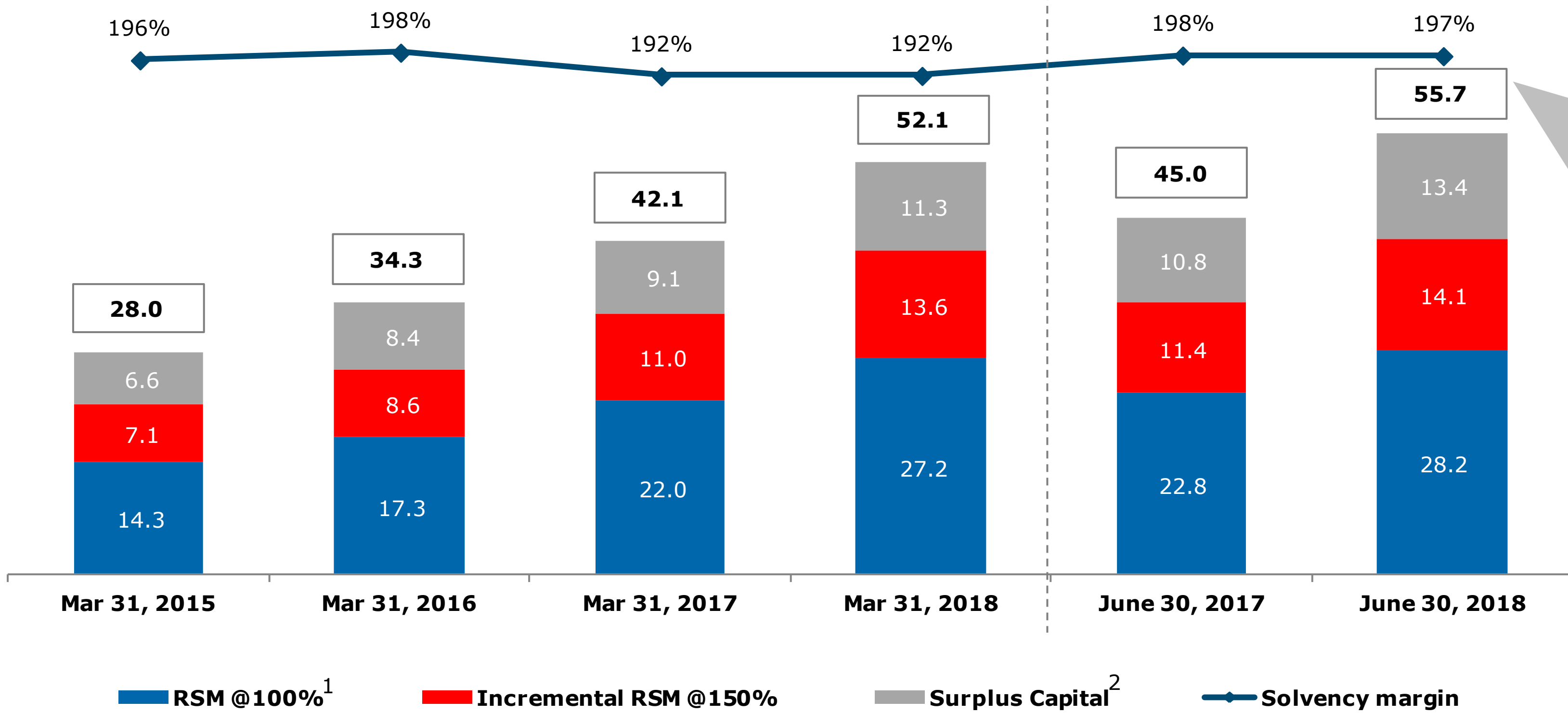
- Steady increase in underwriting profits backed by healthy existing business surplus, neutralising impact of new business strain caused by growth in business

Notes:
1. *Based on internal Company analysis, numbers may not add up due to rounding off*
2. *The NBM impact of the Product Committee recommendations (for increase in surrender value on non linked products) has been assessed, assuming no other changes in product features or distribution costs. The actual impact would depend on the final regulatory changes*

Capital position

Rs bn

	Mar 31, 2015	Mar 31, 2016	Mar 31, 2017	Mar 31, 2018	June 30, 2017	June 30, 2018
Dividend paid	1.7	2.2	2.6	3.3	-	-
New business growth	36%	18%	33%	32%	18%	62%



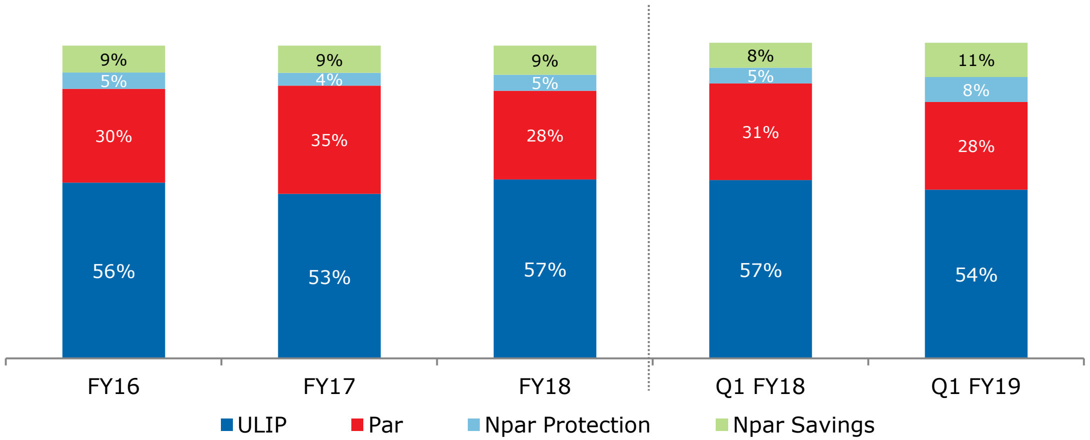
No capital infusion required even if NB APE grows at CAGR of 50% in the next 3 years, as internal accrual of surplus from backbook can support the growth

- Stable solvency ratio, despite consistent growth in underlying business
- No capital infused in last seven years *(except through issuance of ESOPs)*, despite paying healthy dividends

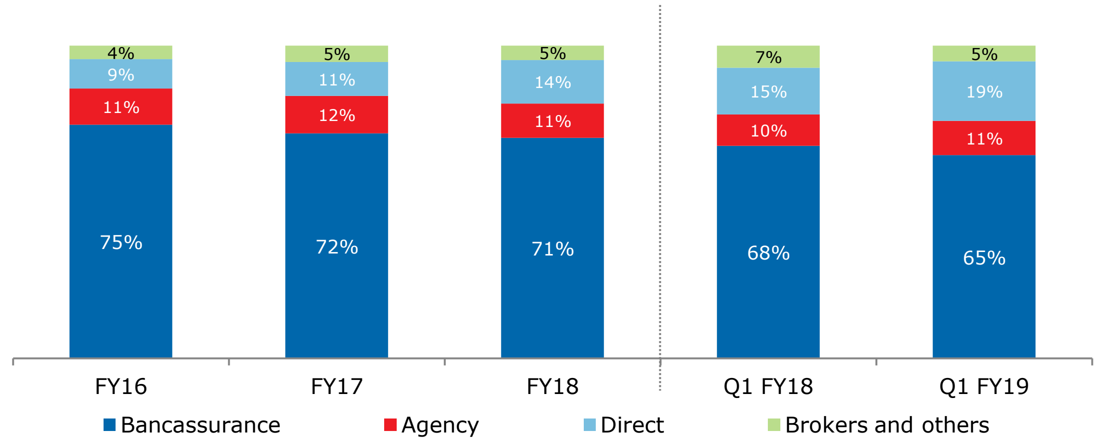
Notes:
1. RSM represents Required solvency margin
2. Investment in subsidiaries not considered in solvency margin

Maintained consistent balance in product and distribution

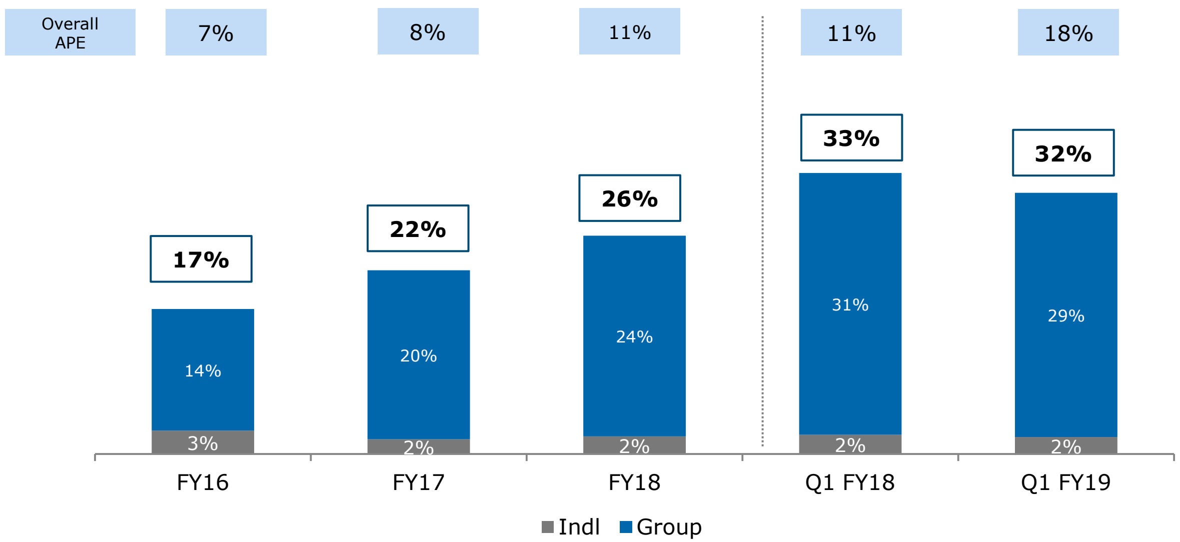
Balanced product mix (based on Individual APE)



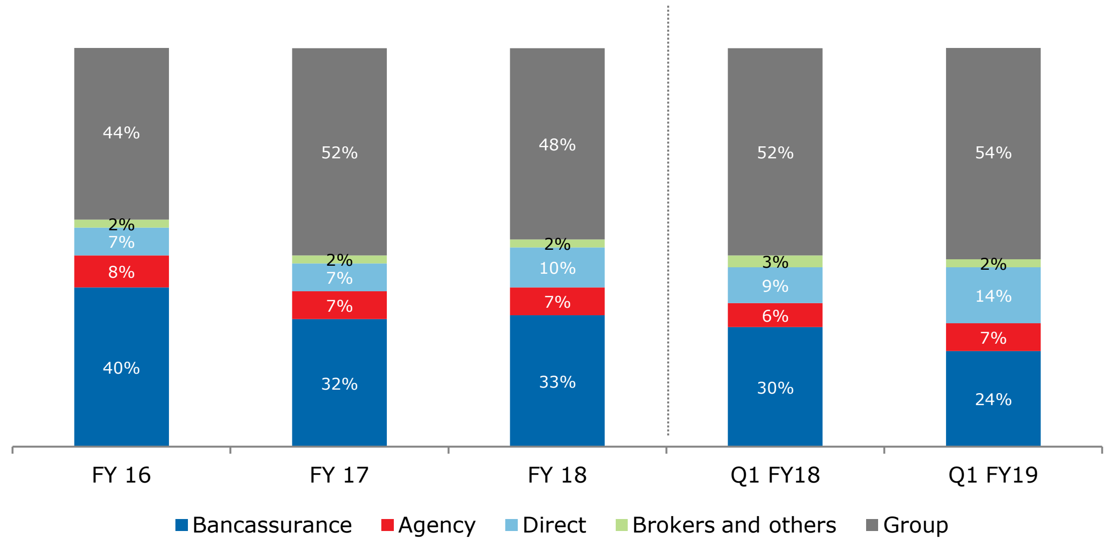
Stable distribution mix (based on Individual APE)



Increasing share of protection[1] products (as % of total NBP)



Stable distribution mix (based on total NBP)



Notes:
1. Previous year group numbers have not been reclassified based on current year numbers

Continued focus on protection

Opportunity

Rising protection gap

- India has the highest protection[1] gap: Gap has increased over 4x in last 15 years

Low retail loan protection

- Retail credit: Increasing retail credit by banks provide opportunity for insurance penetration

Health Insurance

- Lack of adequate health cover: Low penetration, rising medical cost and demand for quality healthcare to drive growth

Focus areas

Easy accessibility

- Simplified products with wide options: Selling products with multiple riders option with limited underwriting (Credit protect) across geographies

Support

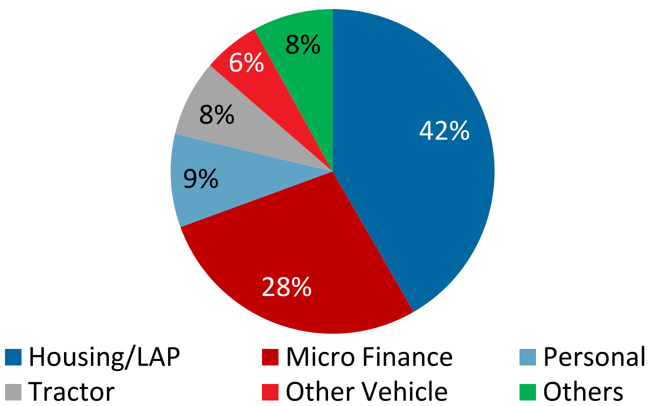
- End-to-end support: Provide our distribution partners with support throughout the process, from customer on-boarding to claims settlement

Digital Enablement

- Technology enablement: Initiatives like mobility platform gives us competitive edge to service the customer faster

Group protection - Credit protect (CP)

Credit protect (CP) – Loan Portfolio[2]



- Diversified portfolio across loan segments
- 189 distribution partners is testament to our strong reputation as preferred business partner
- HDFC group entities contributed <25% of the CP business
- The average rate[3] charged to CP customers is 30% higher than that charged on individual protection product in lieu of limited underwriting
- Extensive manpower and support, with dedicated niche technology platforms offered to the partners to create further growth opportunities

Notes:
1. *Previous year group numbers have not been reclassified based on current year numbers*
2. *Based on internal company analysis*
3. *Based on the New business profile of FY18*

Financial and operational snapshot (1/2)

	FY16	FY17	FY18	CAGR	Q1 FY18	Q1 FY19	Growth
Key Metrics (Rs bn)							
New Business Premium (Indl+Group)	*64.9*	*86.2*	*113.5*	*32%*	*16.5*	*26.8*	*62%*
Renewal Premium (Indl+Group)	*98.3*	*108.2*	*122.1*	*11%*	*20.5*	*23.8*	*16%*
Total Premium	163.1	194.5	235.6	20%	37.0	50.6	37%
Individual APE	34.3	37.4	48.9	19%	7.3	8.4	15%
Group Premium (NB)	28.3	44.2	54.1	38%	8.6	14.4	67%
Premium Less Benefit Payouts (1)	80.6	94.8	104.7	14%	10.7	21.3	98%
Profit after Tax	8.2	8.9	11.1	16%	3.2	3.8	20%
- *Policyholder Surplus*	*6.8*	*7.5*	*8.5*	*11%*	*2.5*	*3.1*	22%
- *Shareholder Surplus*	*1.4*	*1.4*	*2.6*	*38%*	*0.6*	*0.7*	15%
Dividend Paid (2)	2.2	2.6	3.3	23%	-	-	-
Assets Under Management	742.5	917.4	1,066.0	20%	947.5	1,096.3	16%
Embedded Value (3)	102.3	124.7	152.2	22%	132.2	156.9	19%
Net Worth (4)	31.5	38.1	47.2	22%	41.3	51.1	24%
New Business Sum Assured (5)	2,714.9	3,887.6	4,734.5	32%	966.1	1,234.4	28%
No. of Individual Policies (NB) sold (In 000s) (6)	1,150.3	1,082.3	1,049.6	-4%	183.9	202.5	10%

Notes:

1. *Gross of reinsurance for both individual and group business*
2. *Including dividend distribution tax (DDT)*
3. *Based on internal company analysis(IEV methodology)*
4. *Comprises share capital, share premium and accumulated profits/(losses)*
5. *Comprises individual and group business*
6. *Including rural policies. NOPs*
7. *Previous year group numbers have not been reclassified based on current year numbers*

HDFC Life

Financial and operational snapshot (2/2)

	FY16	FY17	FY18	Q1 FY18	Q1 FY19
Key Ratios					
Overall New Business Margins (post overrun)	19.9%	22.0%	23.2%	20.5%	24.2%
Operating Return on EV (1)	20.7%	21.7%	21.5%	22.0%	18.4%
Operating Expenses / Total Premium	11.6%	12.6%	13.5%	15.4%	14.4%
Total Commissions / Total Premium	4.3%	4.1%	4.6%	4.2%	3.9%
Return on Invested Capital (2)	37.9%	41.0%	49.1%	57.7%	65.3%
Return on Equity (3)	28.7%	25.7%	26.0%	31.9%	31.0%
Solvency Ratio	198%	192%	192%	198%	197%
Persistency (13M / 61M) (4)	81%/50%	84%/59%	87%/51%	85%/57%	87%/50%
Indl Conservation Ratio	80%	82%	85%	87%	87%
Business Mix (%)					
- Product (UL/Non par savings/Non par protection/Par) (5)	56/9/5/30	52/9/4/35	57/9/5/28	57/8/5/31	54/11/8/28
- Indl Distribution (CA/Agency/Broker/Direct) (5)	75/12/4/9	72/12/5/11	71/11/5/14	68/10/7/15	65/11/5/19
- Total Distribution (CA/Agency/Broker/Direct/Group) (6)	40/8/2/7/43	32/7/2/7/52	33/7/2/10/48	30/6/3/9/52	24/7/2/14/54
- Share of protection business (Basis APE)	7.3%	7.8%	11.3%	11.1%	18.2%
- Share of protection business (Basis NBP)	17.2%	21.8%	25.9%	33.4%	31.6%

Notes:

1. *EVOP (Embedded value operating profit)/Opening EV*
2. *Calculated using net profit and average share capital including share premium*
3. *Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits/(losses))*
4. *Persistency ratios (based on original premium) as per methodology specified in IRDA circular no. IRDA/ACT/CIR/MISC/035/01/ 2014 dated January 23, 2014. Group business, where persistency is measurable, has been included in the calculations.*
5. *Based on individual APE excluding service tax. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off*
6. *Based on total new business premium including group. Percentages are rounded off*
7. *Previous year group numbers have not been reclassified based on current year numbers*

HDFC Life

Key differentiators of HDFC Life

1 **Balanced business mix**

Developing multiple channels of growth and driving contextual, need-based product distribution

2 **Market-leading product innovation**

Effective risk management driving product designs that cater to innate and latent customer needs; and setting benchmarks in the life insurance industry

3 **Focus on profitable growth**

Leveraging emerging profit pools to achieve the fine balance between sales growth and profitability

4 **Reimagining insurance**

Market-leading digital capabilities to shape the insurance operating model of tomorrow

5 **Quality of Board and management**

Stable and experienced leadership guided by an independent and competent Board

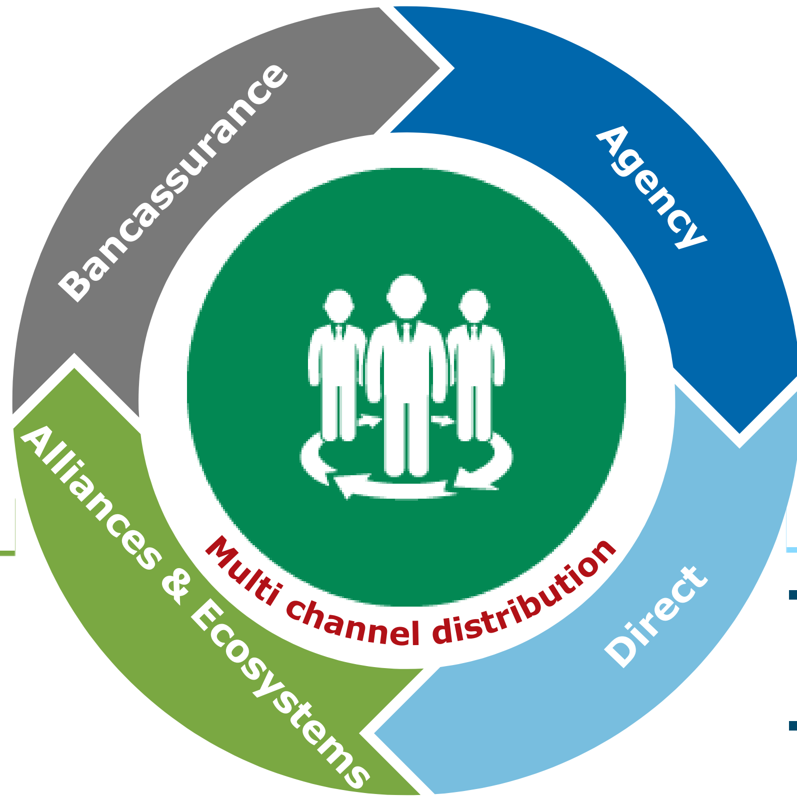
Balanced business mix

Bancassurance (65% share)

- HDFC group entities sourced 13% of total group business and 29% of total new business in Q1 FY19
- 163 bancassurance partners (14 partners added in Q1 FY19)
- Top 15 bancassurance partners have over 15,000 branches
- Well positioned to capitalise on opportunities provided by open architecture

Alliances (incl. Broker) & Ecosystems (5% share)

- 26 partners across non traditional ecosystem, who offers tremendous growth potential (4 partners added in Q1 FY19)
- Tie-up with most of the marquee insurance brokers and insurance marketing firms



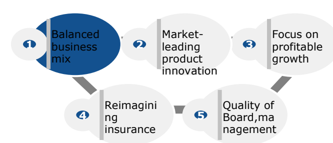
Agency (11% share)

- Launched specialised "Agency LIFE" program last year with greater focus on recruiting quality agents, improving agent training and productivity
- Agency registered a growth of 26% over last year
- 83,128 individual agents as on 30th Jun 2018 – net addition of 6,080 during the quarter
- Continue to implement enhanced technology and mobile solutions to drive agent productivity

Direct (incl. Online) (19% share)

- 1,500+ frontline sales staff across direct sales channels including branch, group sales (B2B), online and digital sub-channels
- Robust online and digital sub-channel contributing 7% of Individual APE
- Aim to emphasize cross selling and up selling by leveraging analytical tools

Notes:
1. *All figures are pertaining to Q1 FY19*
2. *Growth figures and channel share % is basis individual APE*



Market-leading product innovation

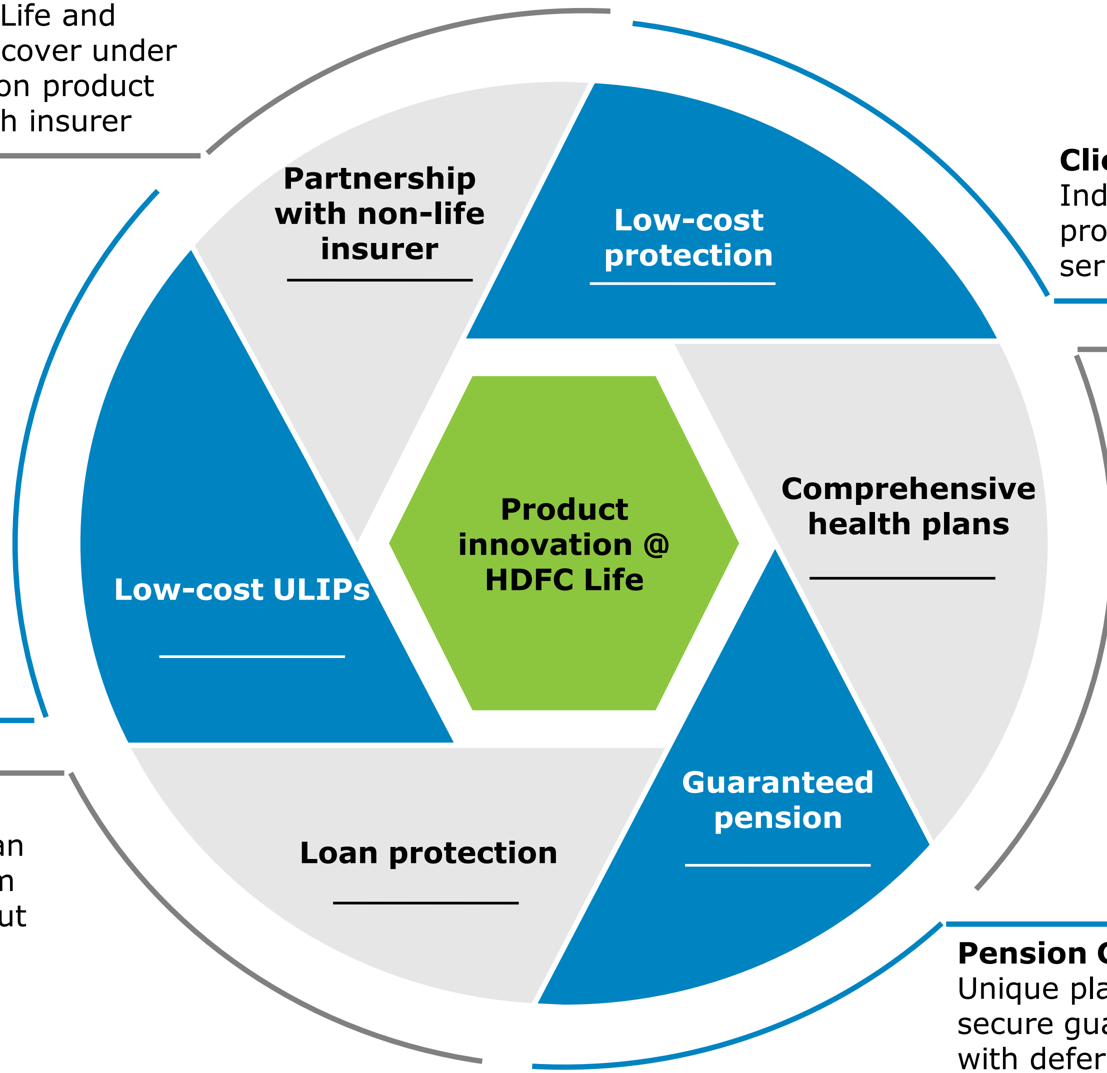
Click2Protect Health: Life and indemnity-based health cover under a single plan- combination product with a stand-alone health insurer

Click 2 Protect: Industry-leading protection product series

Cardiac Care: Protection against 18 cardiac diseases

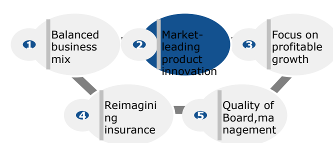
Cancer Care: Lump sum benefit and waiver of premium

Click 2 Invest: One of the first minimal charge structure ULIPs with 8 fund options available with exposure across asset classes



Credit Protect: Protection against loan worries with minimum documentation without medicals

Pension Guaranteed Plan: Unique plan with ability to secure guaranteed return with deferment



Focus on profitable growth

Differentiated products with profit leadership potential

- Protection play: Health, CI, ADB, Term
- Retirement products
- Composite products

New partners are widening customer base

- Small Finance Banks & NBFCs
- Rural innovators
- Payment apps

Integration with new ecosystems will drive growth

- Consumer insights from social media, app & mobile usage
- E-commerce players, aggregators and other new-age start-ups as new sales platforms
- Payment banks to provide physical access
- UIDAI, data analytics firms for better understanding of the customer
- UPI, wallets for ease of payment
- Credit agencies to support risk and claims management

Reimagining insurance

Differentiators

- Segregation of systems of records and system of engagement
- Improved CRM platform
- Enhanced security
- Rules Engine

- Technology: from back office function to arrowhead
- From digitizing the data to source data being digital
- Mobile enabled end-to-end journeys

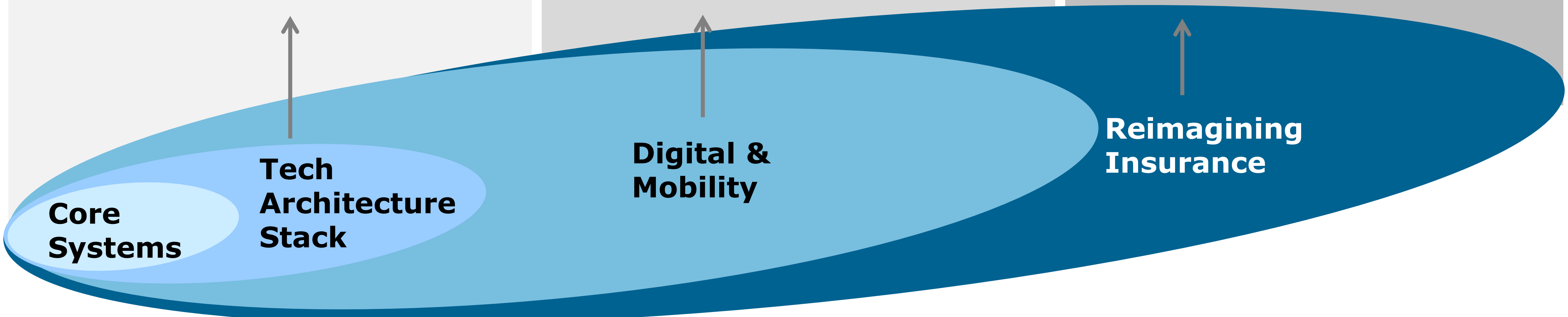
- Data lake
- Customer 360
- Alternative data sources
- Nudge & recommendation engines

Benefits

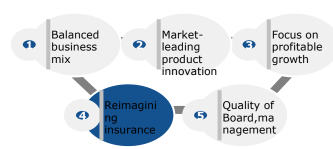
- Setting benchmark in responsiveness thru faster Go-To-Market & better TATs
- Scalability
- Optimized processes

- Ownership of e-product space
- Empowered sales force
- Paperless issuance
- Shift from online channels to digital channels

- Plug & play partner integration
- Creation of platforms & ecosystems
- Hyper-personalization
- Enhanced share of customer wallet
- Cashless, frictionless, instant issuance
- Virtual Assistants



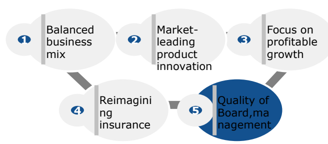
Wave 1 ***Wave 2*** ***Wave 3.....*** ***Disruption continues***



HDFC Life

Quality of Board and Management

- Seasoned and stable senior management team, with decades of experience in financial services
- Track record of delivering consistent results across business cycles
- Active well-informed and independent Board oversees how the management serves and protects the interests of all stakeholders
- Board evaluates performance based on an objective range of performance indicators



Performance of wholly-owned subsidiary companies

HDFC Pension

- Fastest growing Pension Fund Manager under the National Pension System (NPS) architecture with AUM of Rs 30.2 bn as on 30th Jun 2018 (113% YoY growth)
- Consistently gaining market share
- HDFC Pension ranks #1 across all the categories including AUM, Monthly Fund Flow and No. of Retail and Corporate Customers amongst private PFMs[1]

HDFC International

- Offers reinsurance of individual life products and group credit schemes with UAE, Oman & Bahrain based ceding insurers
- Gross revenue of USD 0.7 million during Q1 FY19
- Became profitable during the quarter within three year of operation, which is testimony to the strength of underlying underwriting and risk assessment processes

Note:

1. Pension Fund Managers

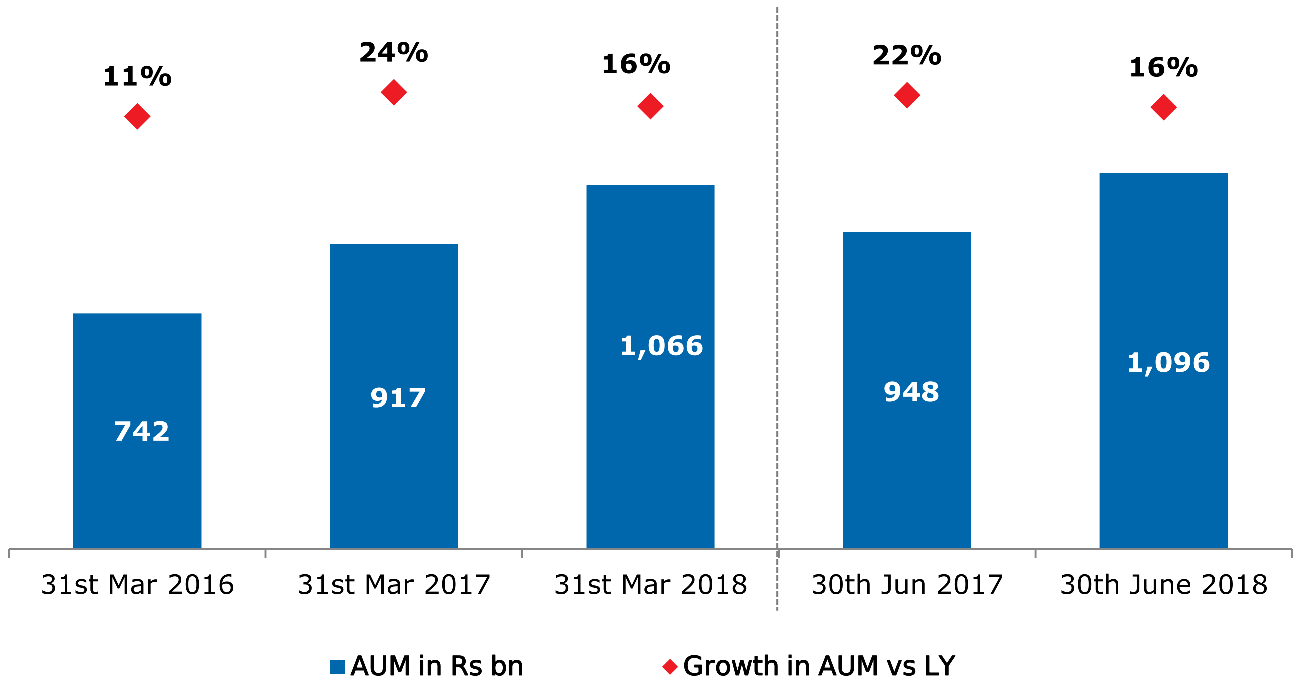
Agenda

Performance Snapshot

B Additional Business Information

Annexures

Assets under management



- Continued to rank[1] amongst top 3 private players, in terms of assets under management
- Debt:Equity mix of 61:39 as on Jun 30, 2018 - Over 96% of debt investments in AAA rated and Government bonds as on Jun 30, 2018
- As on Jun 30, 2018, 76% of our unit-linked funds[2] performed better than their respective benchmarks over a five-year period

Notes:
1. *Based on Asset under Management as on Mar 31, 2018*
2. *With identified benchmarks under the equity, hybrid and duration bond fund categories*

Channel wise product mix

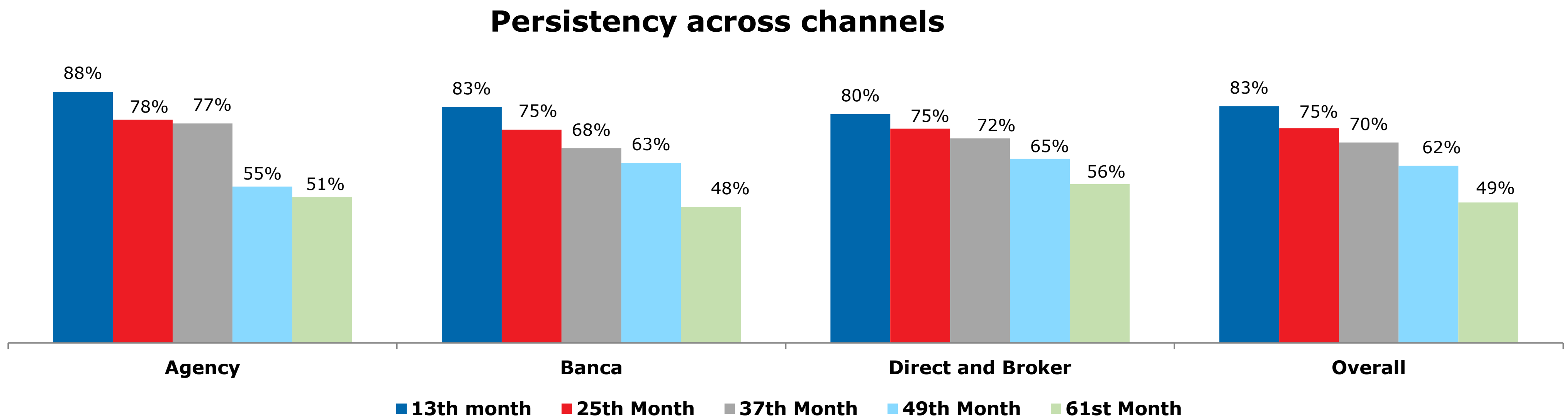
Channel summary[1]	Segment	FY15	FY16	FY17	FY18	Q1 FY18	Q1 FY19
Banca[2]	Par	10%	24%	30%	26%	26%	24%
	Non par protection	2%	2%	1%	1%	1%	3%
	Non par others	12%	9%	8%	9%	7%	8%
	UL	75%	66%	61%	64%	66%	65%
Agency	Par	55%	56%	57%	48%	53%	54%
	Non par protection	12%	13%	11%	11%	13%	13%
	Non par others	9%	6%	7%	8%	7%	13%
	UL	24%	25%	26%	33%	27%	20%
Direct and Broker	Par	50%	42%	41%	28%	34%	9%
	Non par protection	13%	17%	12%	16%	15%	24%
	Non par others	10%	9%	11%	11%	7%	20%
	UL	27%	32%	36%	45%	44%	47%
Total	Par	22%	30%	35%	28%	31%	28%
	Non par protection	5%	5%	4%	5%	5%	8%
	Non par others	11%	9%	9%	9%	7%	11%
	UL	62%	56%	52%	57%	57%	54%
Protection[3] mix (Basis Indl + Group APE)		6%	7%	8%	11%	11%	18%
Protection mix (Basis Indl + Group NBP)		12%	17%	22%	26%	33%	32%

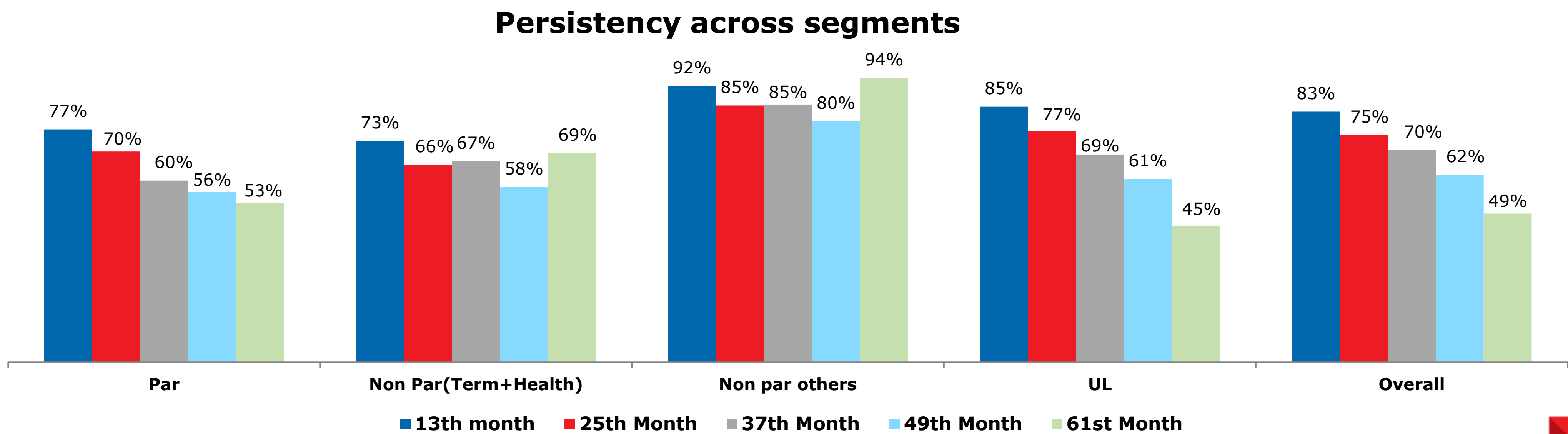
Notes:

1. *Basis Individual APE excluding tax*
2. *Includes banks and other corporate agents*
3. *Previous year group numbers have not been reclassified based on current year numbers*

HDFC Life

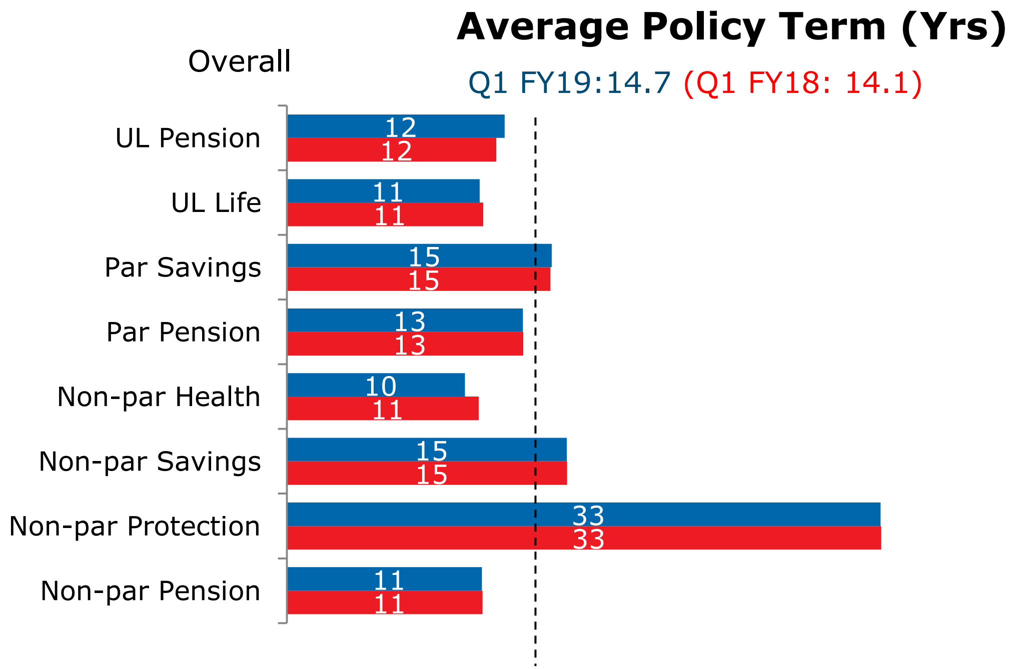
Individual persistency at channel and segment level – Q1 FY19

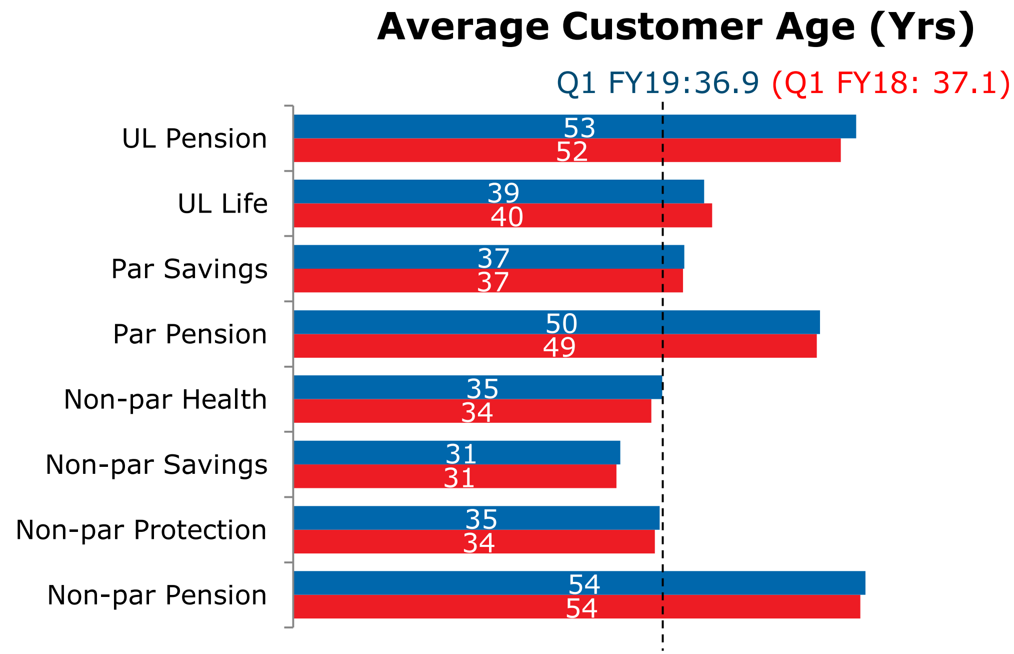




Note: 1. Calculated as per IRDAI circular (based on original premium) for period ended Jun 30, 2018 for individual business

Segment wise average term and age[1]





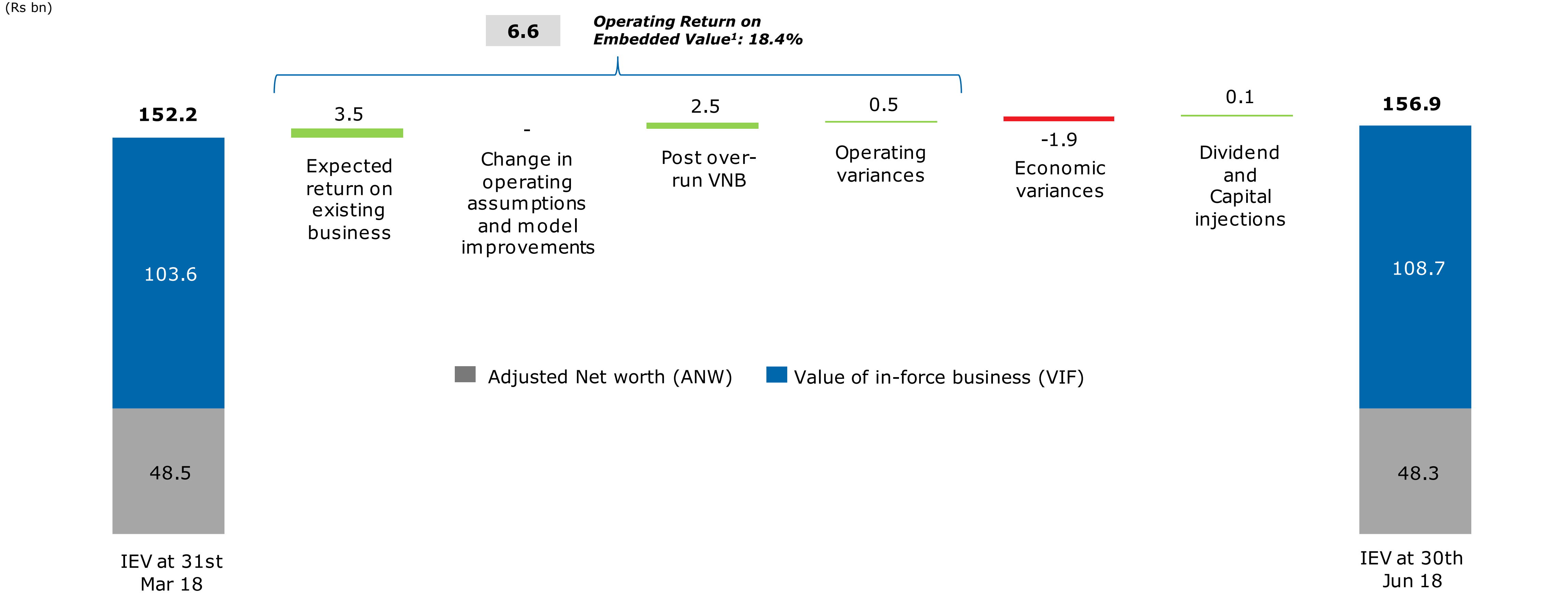
- Focus on long term insurance solutions, reflected in longer policy tenure
- Extensive product solutions catering customer needs across life cycles from young age to relatively older population

Note: 1. Basis individual new business policies (excluding annuity) sold in Q1 FY19

Analysis of change in IEV – Q1 FY19

Analysis of change in EV

(Rs bn)

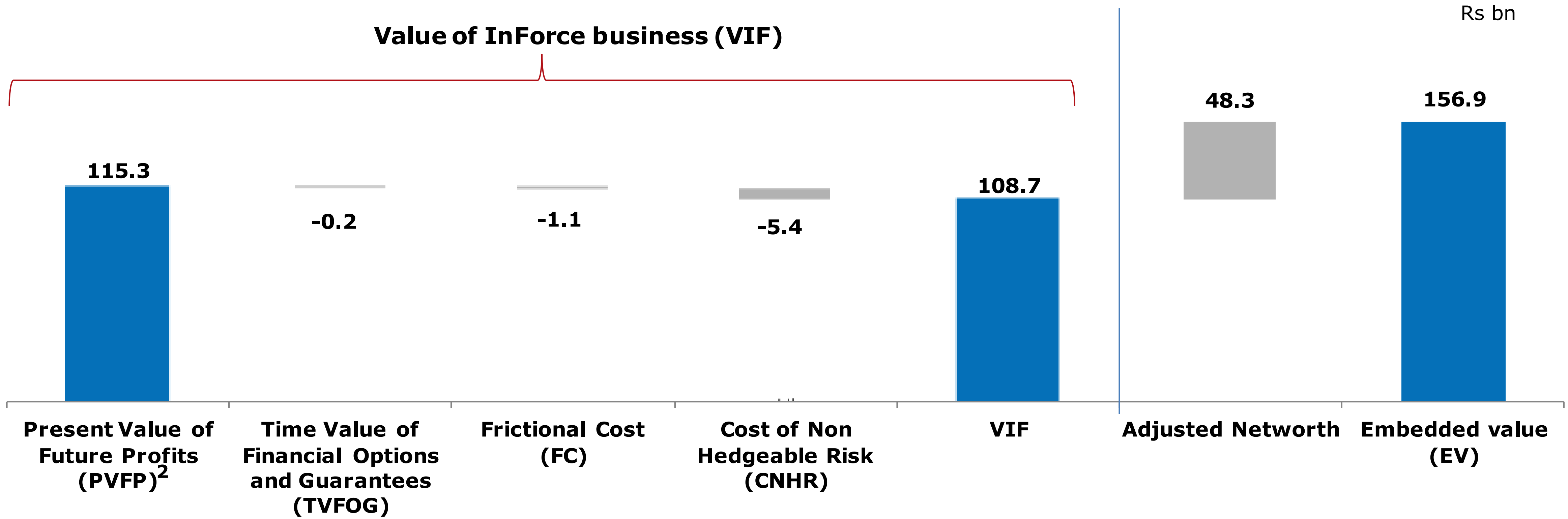


- Healthy operating return on EV delivered over a period of time in line with past trends
- Positive persistency, mortality and expense variances, reflecting favourable experience compared to assumptions

Note:

1. Operating Return on Embedded Value calculated as annualised EVOP (Embedded Value Operating Profit) to Opening EV

Indian Embedded Value (IEV)[1] – Q1 FY19



- Higher proportion of VIF at 69% of the total Embedded value
- TVFOG includes cost of guarantees for conventional participating products

Notes:

1. Based on internal analysis, detailed explanation of components provided in the Appendix to the presentation

2. PVFP pertains to Overall (Individual + Group) business

Value of new business (VNB) and NBM walkthrough[1]

Rs bn

NBM	Q1 FY18 VNB	Impact of higher APE	Change in assumptions	New Business Profile[2]	Expense impact	Q1 FY19 VNB
NBM	20.5%	-	1.2%	1.7%	0.7%	24.2%

- Higher VNB due to growth in new business and increasing focus on protection business
- Lower expenses and change in NB profile contributed in expansion of NBM to 24.2%

Note:

1. *Based on internal Company analysis*
2. *Reflects the impact of difference in mix of segment/distribution channel/tenure/age/sum assured multiple etc.*

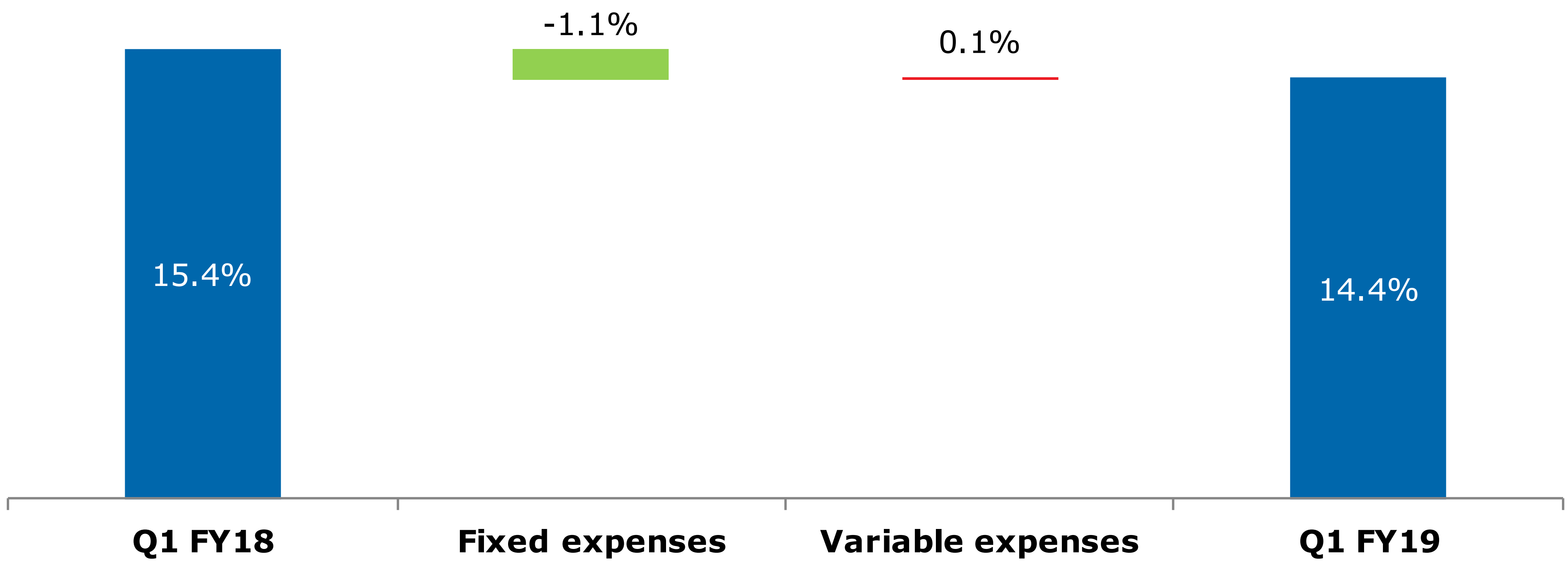
Sensitivity analysis – FY18

Analysis based on key metrics[1]	Scenario	% Change in VNB[2]	Change in VNB Margin[2]	% Change in EV
Change in				
Reference rate	Increase by 1%	0.27%	0.06%	-1.80%
	Decrease by 1%	-1.71%	-0.40%	1.93%
Equity market movement[2]	Decrease by 10%	-1.24%	-0.29%	-1.84%
Persistency (Lapse rates)	Increase by 10%	-5.63%	-1.30%	-1.75%
	Decrease by 10%	6.06%	1.41%	1.87%
Maintenance expenses	Increase by 10%	-2.18%	-0.51%	-0.63%
	Decrease by 10%	2.17%	0.51%	0.63%
Acquisition Expenses	Increase by 10%	-14.16%	-3.30%	NA
	Decrease by 10%	14.16%	3.30%	NA
Mortality / Morbidity	Increase by 5%	-5.19%	-1.21%	-0.77%
	Decrease by 5%	5.20%	1.21%	0.77%
Tax rate[3]	Increased to 25%	-14.38%	-3.35%	-7.55%

Notes:
1. *Please refer to the report from Milliman*
2. *Post overrun total VNB for Individual and Group business*
3. *The tax rate is assumed to increase from 14.56% to 25% and hence all the currently taxed profits in policyholder/shareholder segments are taxed at a higher rate. It does not allow for the benefit of policyholder surplus being tax-exempt as was envisaged in the DTC Bill.*

HDFC Life

Operating expense trend



Notes:
1. *Fixed costs include employee, infrastructure, information technology costs and any other costs which are fixed in nature*
2. *Variable costs include stamp duty, medical fees, sales incentives, brand awareness, operations support and any other costs which are linked to business*

Bancassurance partners and cross-selling trends

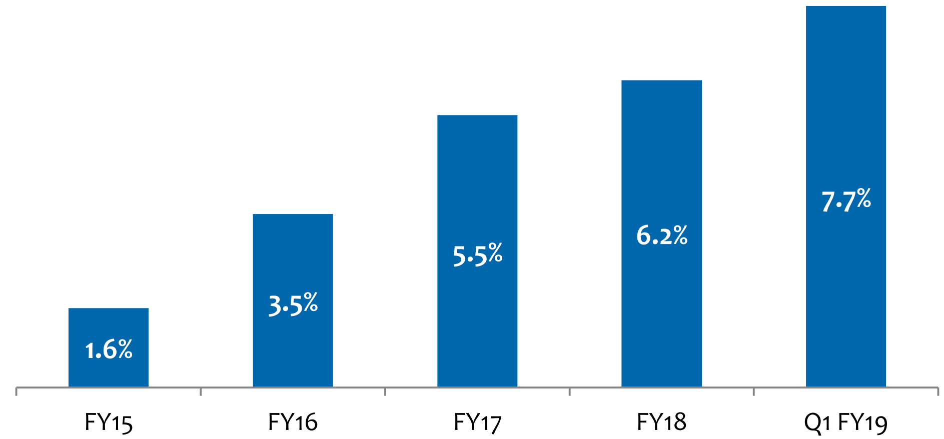
25 Banks

111 NBFCs

18 MFIs

9 SFBs

Increasing customer base provides unique opportunity to cross-sell[1]



- Wide access through our 163 bancassurance and 26 non-traditional ecosystem partnerships provides us with increased opportunity to cross-sell

Notes: [1]Calculated as Number of policies from existing group customers / Total number of individual new business policies

Agenda

Performance Snapshot

Additional Business Information

C Annexures

Annexures

Revenue and Profit & Loss A/c

Rs bn

Particulars	FY17	FY18	Q1 FY18	Q1 FY19
Gross Premium Income	194.4	235.6	37.0	50.6
Reinsurance (net)	(1.7)	(1.9)	(0.4)	(0.6)
Net Premium Income (A)	**192.7**	**233.7**	**36.6**	**50.0**
Income from Investments				
Policyholders	111.4	86.0	27.7	18.0
Shareholders	2.3	2.8	0.7	0.8
Total Income from Investments (B)	**113.7**	**88.8**	**28.4**	**18.8**
Other Income (C)	1.0	1.2	0.6	0.6
Total Income (D=A+B+C)	**307.4**	**323.7**	**65.7**	**69.3**
Expenses and Outflow				
Commission	7.9	10.8	1.6	2.0
Operating expenses	24.5	31.7	5.7	7.3
GST / Service tax on UL charges	2.2	3.0	0.6	0.8
Benefits Paid[1]	100.0	131.1	26.2	29.4
Provision for diminution in value of investments	0.0	(0.0)	(0.0)	0.1
Change in Valuation Reserves (net)	160.5	133.2	27.8	25.4
Change in funds for future appropriations	1.6	0.9	0.5	0.2
Provision for tax	1.7	1.9	0.3	0.4
Total Expenses and Outflow (E)	**298.5**	**312.6**	**62.5**	**65.5**
Profit after tax (D-E)	**8.9**	**11.1**	**3.2**	**3.8**

Note: 1. Benefits paid comprises of benefits paid (net), interim bonus and terminal bonuses paid

Balance Sheet

Rs bn

Particulars	31st Mar 2017	31st Mar 2018	30th Jun 2017	30th Jun 2018
SOURCES OF FUNDS				
Capital invested (Share capital + Premium)	21.9	23.3	22.0	23.3
Reserves and Surplus	16.2	23.9	19.3	27.7
Credit / (Debit) Fair Value Change Account	0.3	0.3	0.3	0.1
Sub-Total	**38.4**	**47.5**	41.6	**51.2**
Policy Liabilities	323.8	423.2	340.4	445.0
Provision for Linked Liabilities	508.1	546.0	516.4	546.8
Funds for discontinued policies	29.9	25.9	32.8	28.7
Funds for Future Appropriations	8.7	9.6	9.1	9.8
Change in fair value account	4.0	6.2	4.8	8.3
Current Liabilities & Provisions	38.2	46.4	31.3	36.9
Total Liabilities	**951.1**	**1,104.8**	**976.4**	**1,126.6**
APPLICATION OF FUNDS				
Investments				
Shareholders	32.5	40.7	33.6	41.3
Policyholders' assets	346.9	453.5	364.6	479.6
Assets held to cover linked liabilities	538.0	571.8	549.2	575.5
Loans	0.5	0.2	0.5	0.2
Fixed Assets	3.5	3.4	3.5	3.3
Cash & Bank Balances	8.0	11.1	3.1	3.3
Advances & Other Assets	21.7	24.1	21.9	23.4
Debit Balance in Profit and Loss Account	-	-	-	-
Total Assets	**951.1**	**1,104.8**	**976.4**	**1,126.6**

HDFC Life

Product committee recommendation

- The non-linked product regulations prescribe the minimum surrender value payable on surrender in each policy year as a certain % of the total premiums paid ranging from 30% in initial years to 90% of the premiums paid in later years.
- The surrender value of bonuses and guaranteed additions are payable over and above the guaranteed surrender value as a % of the premiums paid
- The surrender value on our non-linked products is higher than that specified and on average our surrender penalty is lower by 35% of that allowed under the regulations
- The persistency experience on our participating products is good especially after 2/3 years premiums are paid and this is reflected in the high conservation ratio of this segment
- The persistency experience is reflective of the need-based selling approach adopted by the Company wherein risk-averse policyholders prefer the guaranteed returns on the traditional products and stay invested for the original policy term
- If the recommendations of the Product Committee on increasing the minimum surrender value on non-linked products is implemented, the impact on our NBMs would be less than 1%

Embedded value: Methodology and Approach (1/2)

Overview

Embedded Value (EV) consists of:

- **Adjusted Net Worth (ANW),** consisting of:
  - Free surplus (FS);
  - Required capital (RC); and
- **Value of in-force covered business (VIF)**: Present value of the shareholders' interest in the earnings distributable from assets allocated to the covered business, after making sufficient allowance for the aggregate risks in the covered business.

Components of Adjusted Net Worth (ANW)

- **Free surplus (FS):** FS is the market value of any assets allocated to, but not required to support, the in-force covered business as at the valuation date. The FS has been determined as the adjusted net worth of the Company (being the net shareholders' funds adjusted to revalue assets to market value), less the RC as defined below.
- **Required capital (RC):** RC is the amount of assets attributed to the covered business over and above that required to back liabilities for the covered business. The distribution of this to shareholders is restricted. RC is set equal to the internal target level of capital equal to 170% of the factor-based regulatory solvency requirements, less the funds for future appropriations ("FFA") in the participating funds.

Embedded Value: Methodology and Approach (2/2)

Components of Value in-force covered business (VIF)

- **Present value of future profits (PVFP):** PVFP is the present value of projected distributable profits to shareholders arising from the in-force covered business determined by projecting the shareholder cash flows from the in-force covered business and the assets backing the associated liabilities.

- **Time Value of Financial Options and Guarantees (TVFOG):** TVFOG reflects the value of the additional cost to shareholders that may arise from the embedded financial options and guarantees attaching to the covered business in the event of future adverse market movements. The intrinsic value of such options and guarantees is reflected in the PVFP.

- **Frictional costs of required capital (FC):** FC represents the investment management expenses and taxation costs associated with holding the RC. VIF includes an allowance for FC of holding RC for the covered business. VIF also includes an allowance for FC in respect of the encumbered capital in the Company's holdings in its subsidiaries.

- **Cost of residual non-hedgeable risks (CRNHR):** CRNHR is an allowance for risks to shareholder value to the extent that these are not already allowed for in the TVFOG or the PVFP. In particular, the CRNHR makes allowance for:
  – asymmetries in the impact of the risks on shareholder value; and
  – risks that are not allowed for in the TVFOG or the PVFP.

  CRNHR has been determined using a cost of capital approach. CRNHR is the present value of the cost of capital charge levied on the projected capital in respect of the material risks identified.

Embedded Value: Economic assumptions[1]

Years	Forward rates %		Spot rates %	
	As at Jun 30, 2018	As at Jun 30, 2017	As at Jun 30, 2018	As at Jun 30, 2017
1	7.22	6.42	6.98	6.22
2	8.14	6.59	7.40	6.30
3	8.56	6.88	7.67	6.42
4	8.73	7.12	7.85	6.53
5	8.78	7.29	7.96	6.63
10	8.55	7.52	8.13	6.92
15	8.40	7.54	8.12	7.03
20	8.36	7.54	8.10	7.09
25	8.35	7.54	8.09	7.13
30+	8.35	7.54	8.07	7.15

Note: 1. Forward rates are annualised and Spot rates are continuous

Glossary

- **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 2018, the first instalment would fall into first year premiums for 2017-18 and the remaining 11 instalments in the first year would be first year premiums in 2018-19
- **New business received premium** - The sum of first year premium and single premium.
- **Operating expense** - It includes all expenses that are incurred for the purposes of sourcing new business and expenses incurred for policy servicing (which are known as maintenance costs) including shareholders' expenses. It does not include commission.
- **Operating expense ratio** - Ratio of operating expense (including shareholders' expenses) to total premium
- **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, based on reducing balance approach

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