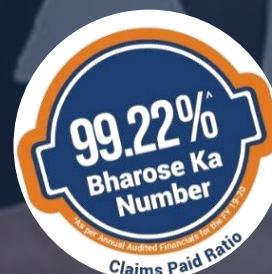




Max Financial Performance Update

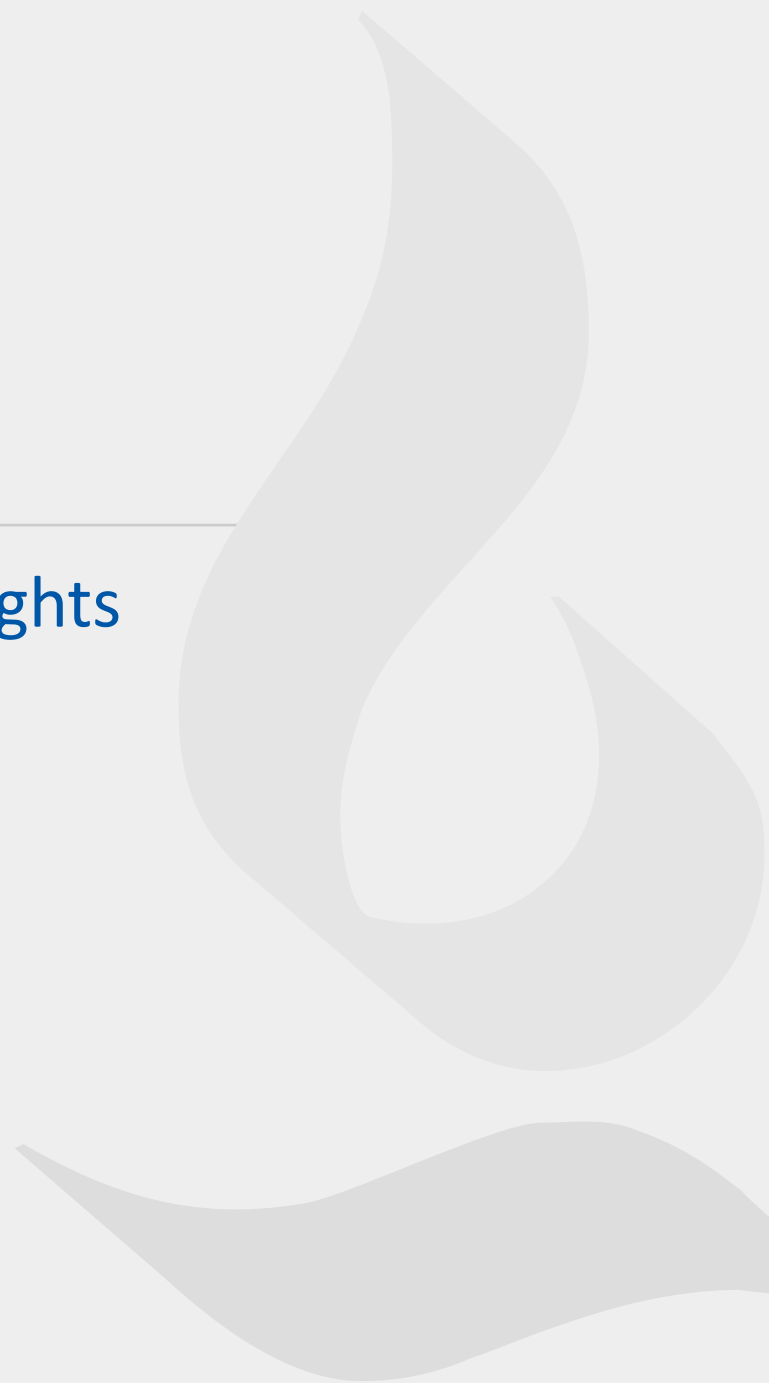
Investor Release 9M FY21

February 9, 2021





SECTION I

- ▶ Max Financial Services : 9MFY21 Key Highlights
- 

Max Financial Services : 9M FY'21 Key Highlights

1

Axis transaction update:

- CCI approval received
- IRDAI application under progress
- **MSI transaction update:** Concluded swap of **MSI 20.57%** stake in **Max Life**, with **21.87%** stake in **MFSL**

2

Consolidated Revenue* at **Rs 21,528 Cr**, grows **54%**. Consolidated PAT* at **Rs 490 Cr**, Up **84%**, growth in profits was aided by higher investment income and reserve release due to hedging of in-force Protection business

3

MCEV as at 31st Dec 2020 at **Rs. 11,723 Cr**; Operating RoEV at **18%**, including non-operating variances RoEV is **24%**

4

NBMs (post cost overrun) at **25.9%**, **490 bps** improvement y-o-y; **VNB** at **Rs 788 Cr** grew by **37%** y-o-y primarily driven by increase in non-par and protection business

5

Max Life market share improved by **158 bps** to **10.6%** ... grew **11%** against **Private Players** de-growth of **6%** driven by **E-commerce** and **Bancassurance** sales growth of **51%** and **15%** respectively

6

Individual Protection sales grew **54% y-o-y**, Individual protection mix improved from **8%** in PY to **10%**

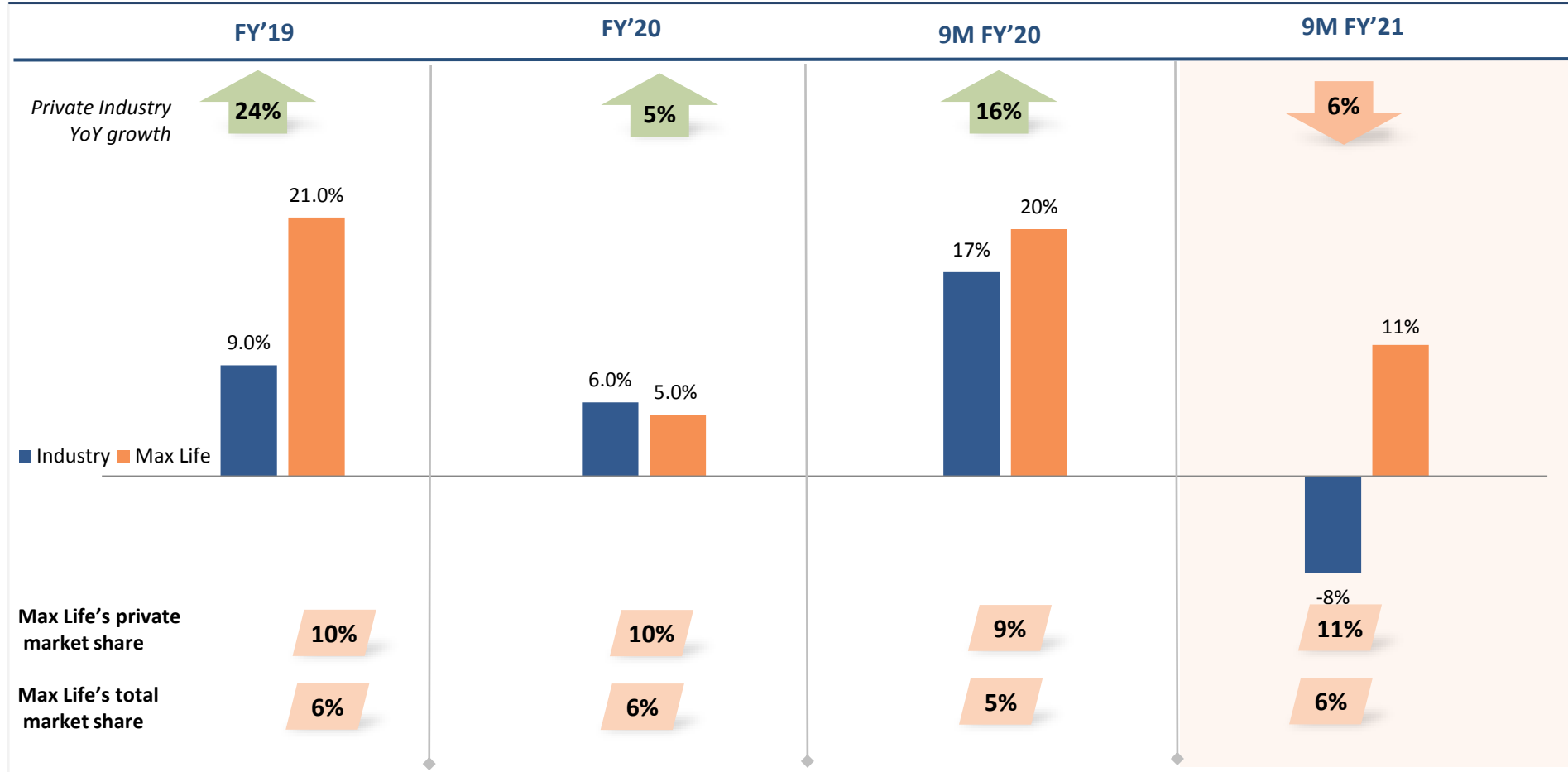


SECTION II

- ▶ Max Life Insurance – Business Overview
- 

Industry Landscape (9M FY'21): Despite COVID-19 challenges, Max Life continues to perform better than industry and recorded market share of 11% (gaining 158 bps)

YoY Growth basis Individual Adjusted FYP



- Max Life outperformed the private industry as well as top 3 private players in 9M FY21. Max Life grew 11%, while top 10 private players de-grew by 5%
- Max Life's market share improved in 9M to 10.6% (YoY: 158 bps)
- **Individual new business sum assured** at Rs 1.6 Lac Cr; 26% growth in 9M FY21 – gained 246 bps to reach **private market share of 15.9%**

Financial Performance Summary 9MFY'21

Pvt Market Share 11% [9%] 158 bps ↑	Individual APE Rs 3,014 Cr [Rs 2,718 Cr] 11% ↑	Gross Written Premium Rs 11,912 Cr [Rs 10,311 Cr] 16% ↑	AUM Rs 84,724 Cr [Rs 68,618 Cr] 23% ↑
Profit after tax Rs 417 Cr [Rs 308 Cr] 35% ↑	Net Worth Rs 3,089 Cr [Rs 2,727 Cr] 13% ↑	Policyholder Cost to GWP Ratio 21.7% [22.7%] 92 bps ↓	Policyholder Expense to GWP Ratio 15.4% [16.3%] 85 bps ↓
New Business Margins (actual cost) 25.9% [21.0%] 490 bps ↑	RoEV 18.0% [18.4%] 40bps ↓	Embedded Value 11,723 [10,077] 18% ↑	Solvency 208% [220%] -12% ↓
VNB (actual cost) 788 [576] 37% ↑	Policies Sold ('000) 432 [412] 5% ↑	Individual New business Sum Assured 1,56,385 [1,23,825] 26% ↑	Protection Mix** Individual Group Total 10% 6% 17% [8%] [6%] [13%] 430 bps ↑

Figures in [brackets] are for previous year numbers.

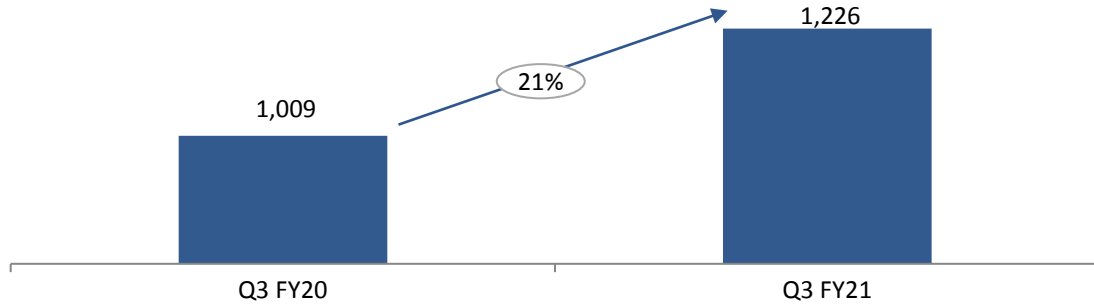
Growth on Embedded value is operating RoEV, **Group protection (incl. Group credit life adjusted for 10% for single premium and term business);



Max Life has demonstrated robust performance in Q3'FY21

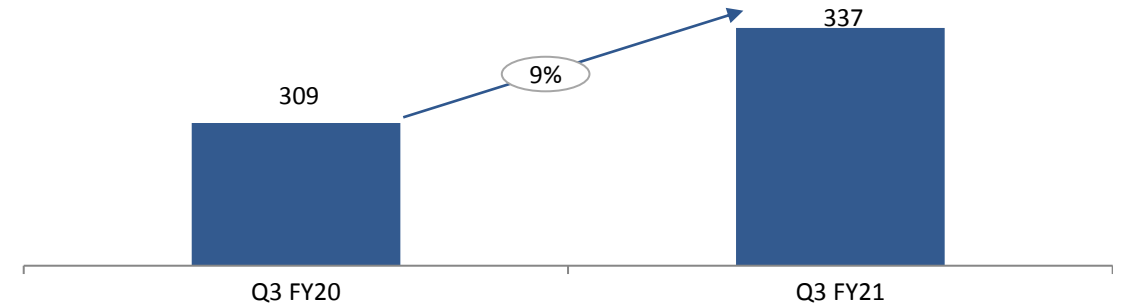
APE- Q3 sales grew by 21% driven both by proprietary and partnership channels

Amount in INR Cr



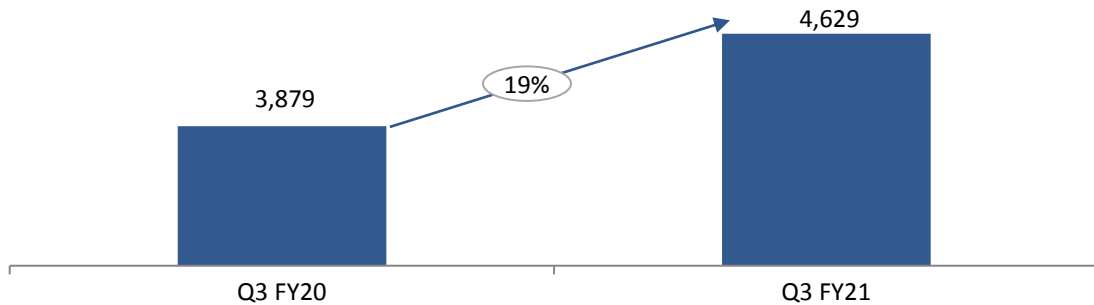
Proprietary Channel APE- Growth momentum back in proprietary channels

Amount in INR Cr



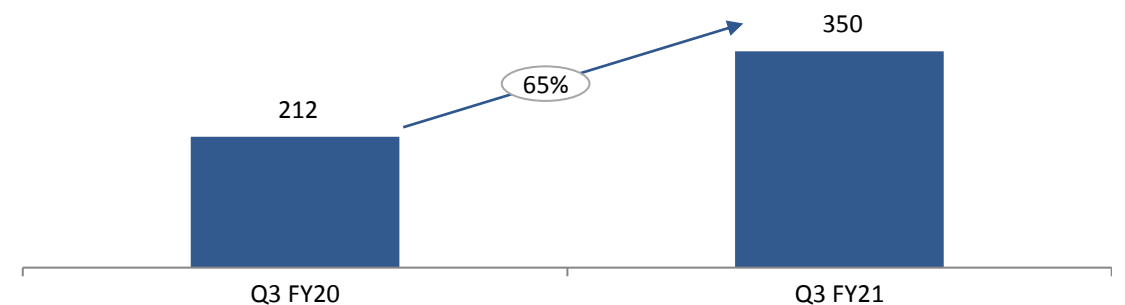
Gross Written Premium grew by 19% led by both new business and renewal income

Amount in INR Cr



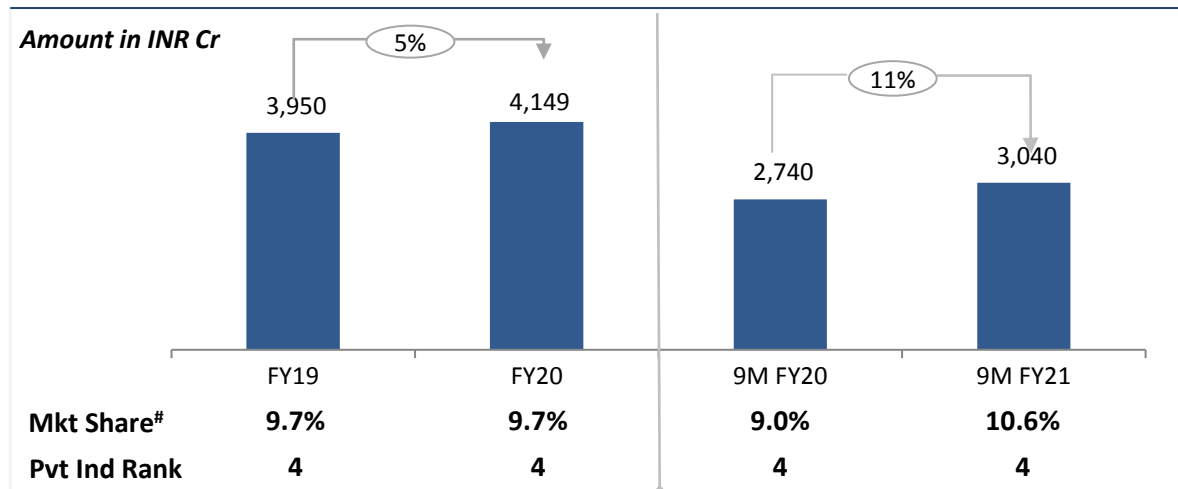
Value of New Business (VNB) grew by healthy 65% due to strong margin profile and healthy product mix

Amount in INR Cr

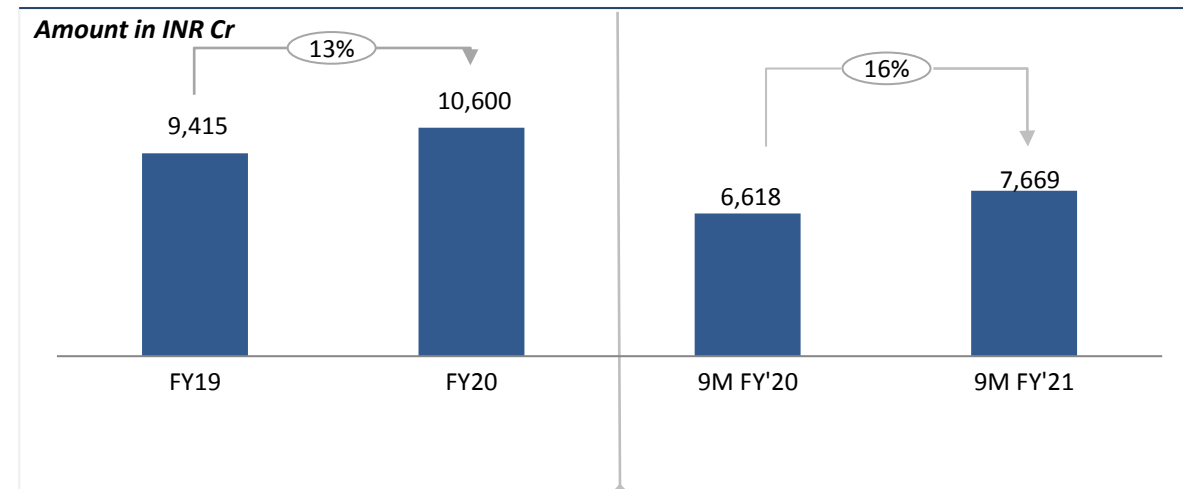


Max Life has delivered strong performance on new business; Maintained 4th rank in the private industry and increased market share by 158 bps. Sum assured grew by 26%

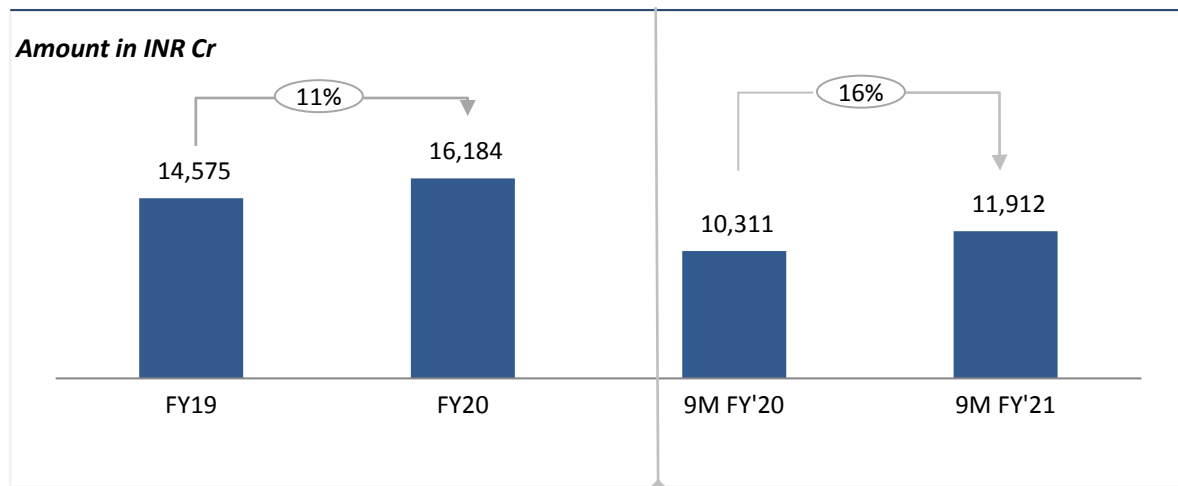
New Business Premiums (on APE basis)



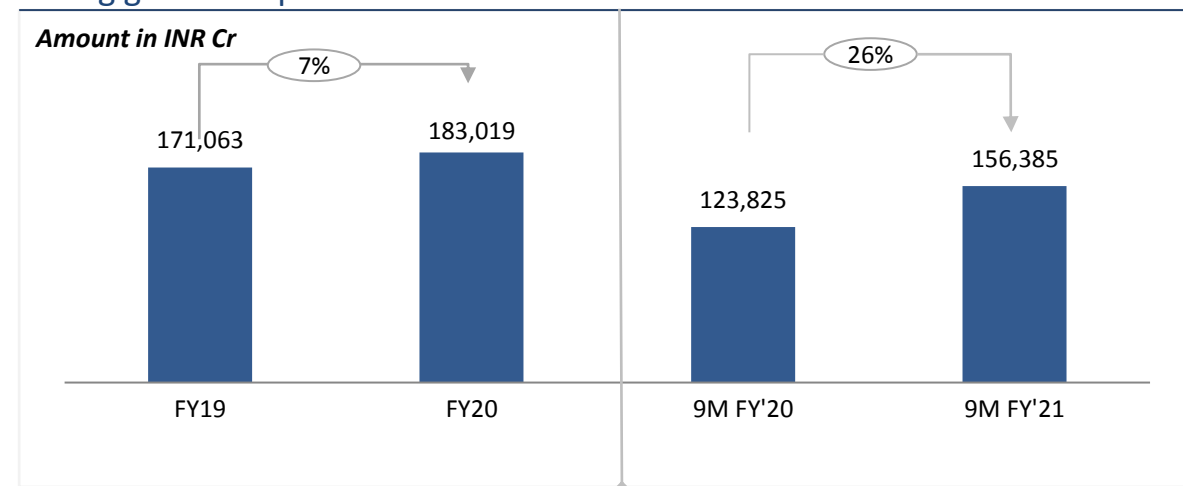
Renewal Income



Gross Written Premium

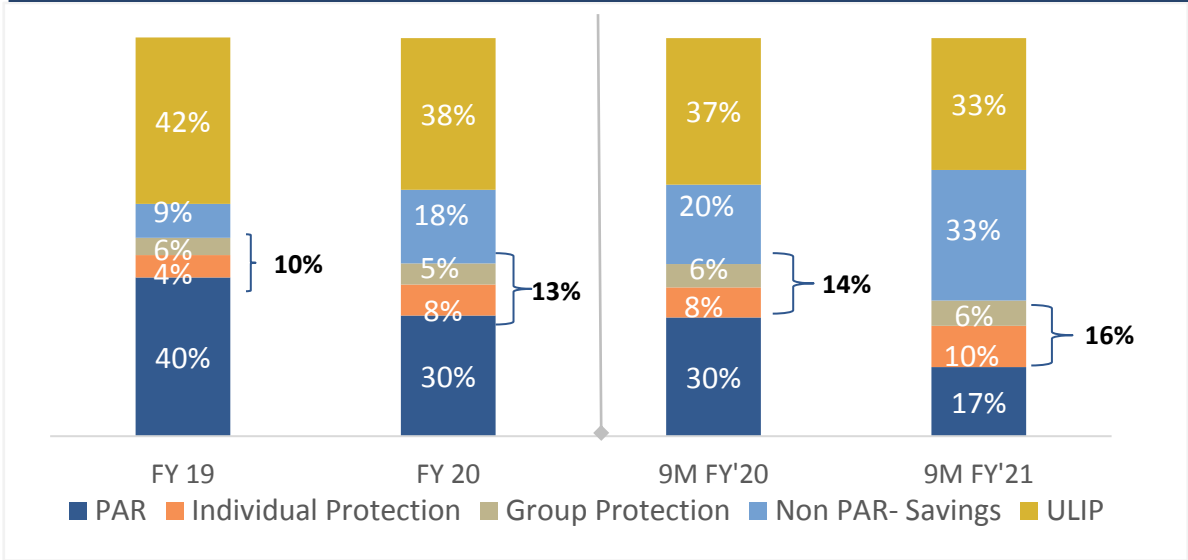


Individual Sum Assured of New business- 26% growth in 9MFY21 due to strong growth in protection business

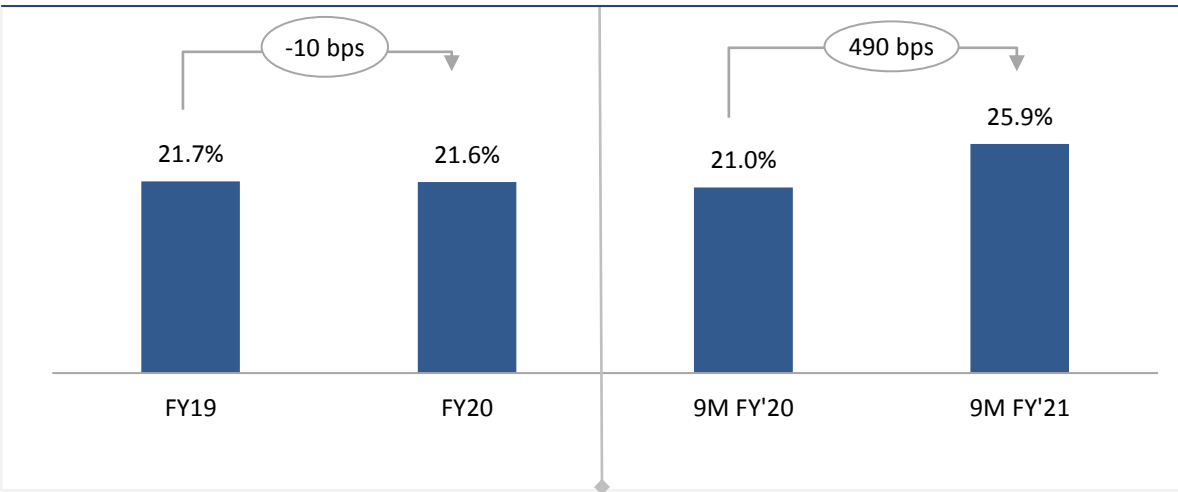


Individual protection penetration increased significantly; NBM expanded by 490 bps

Product Mix – Increase in NPAR savings owing to launch of new non par product

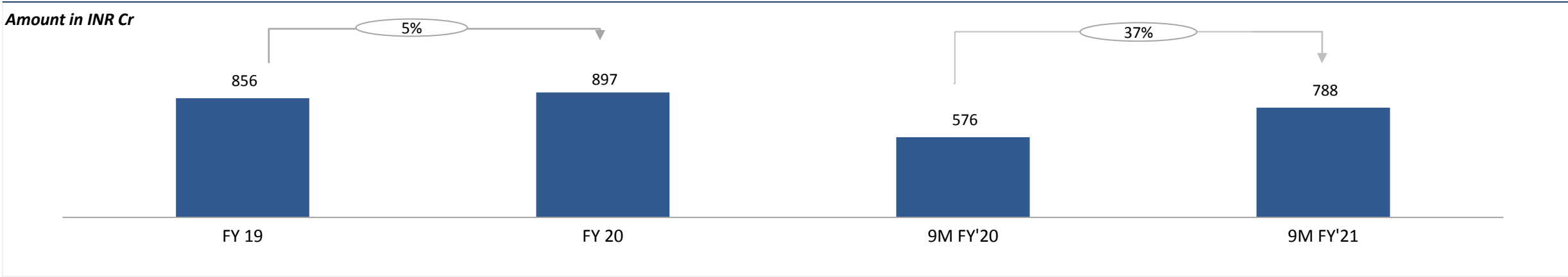


Margins



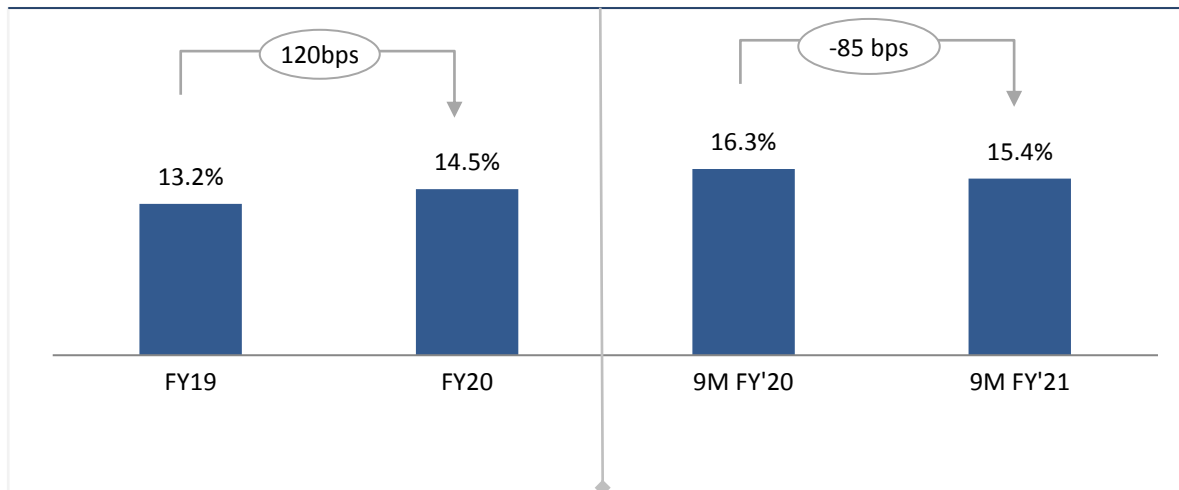
VNB- increased by 37%

Amount in INR Cr

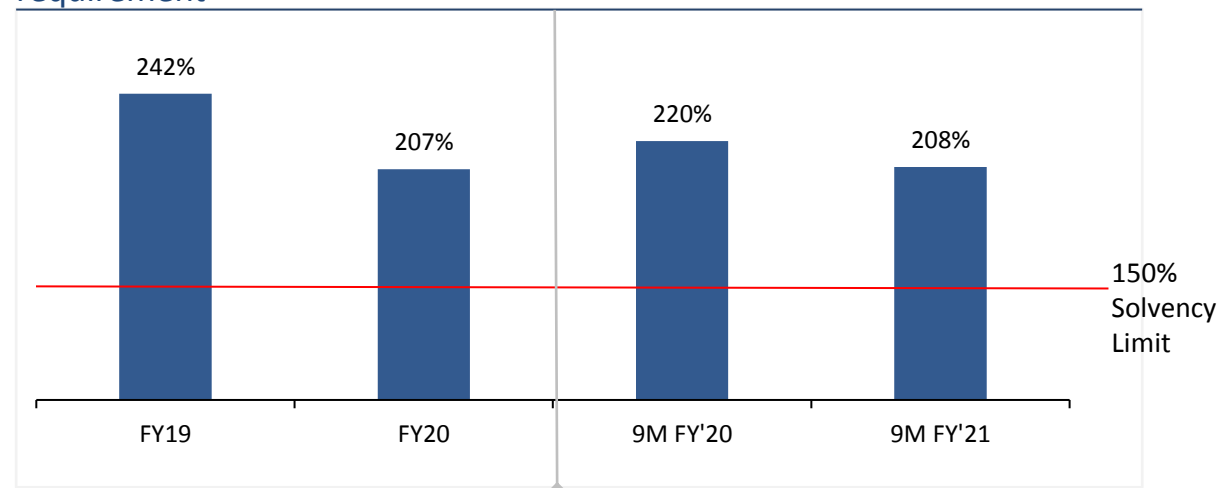


Efficient capital management with consistent RoE of 20%+... best in class among financial services

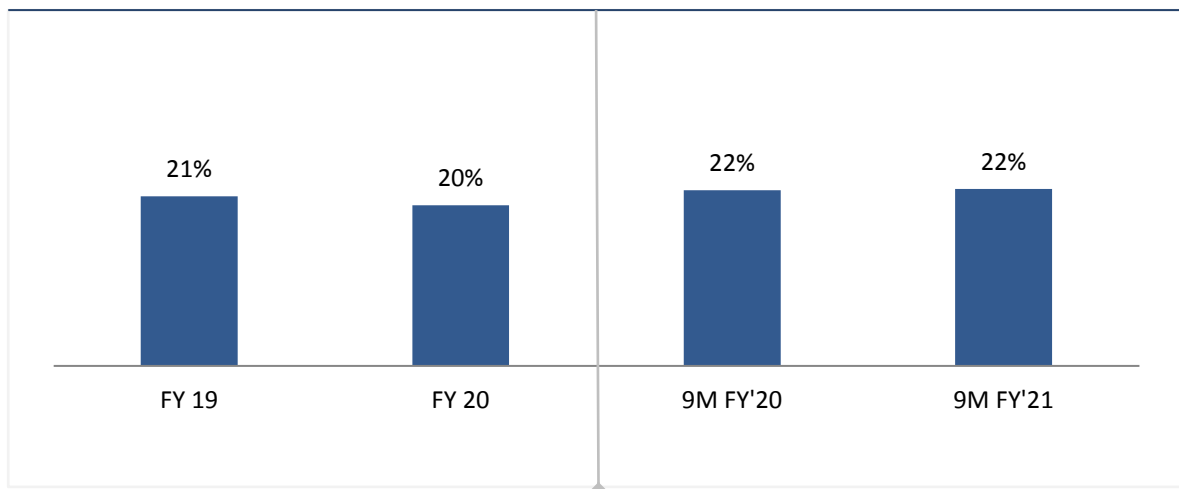
Opex to GWP* - Cost management actions improved Opex to GWP by ~85 bps



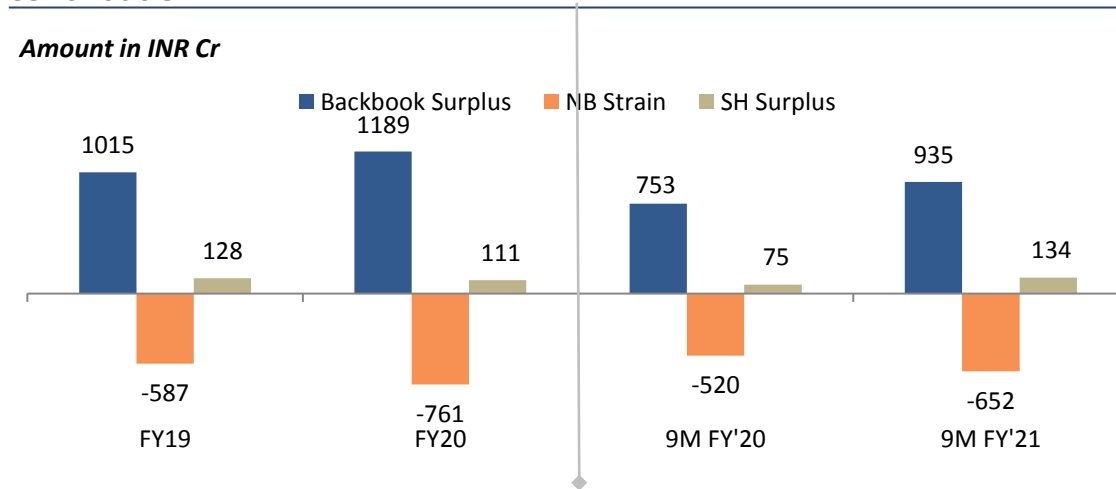
Solvency Ratio (pre dividend) - maintained well above the regulatory requirement



Return on Equity (RoE)# - maintained at consistently more than 20%



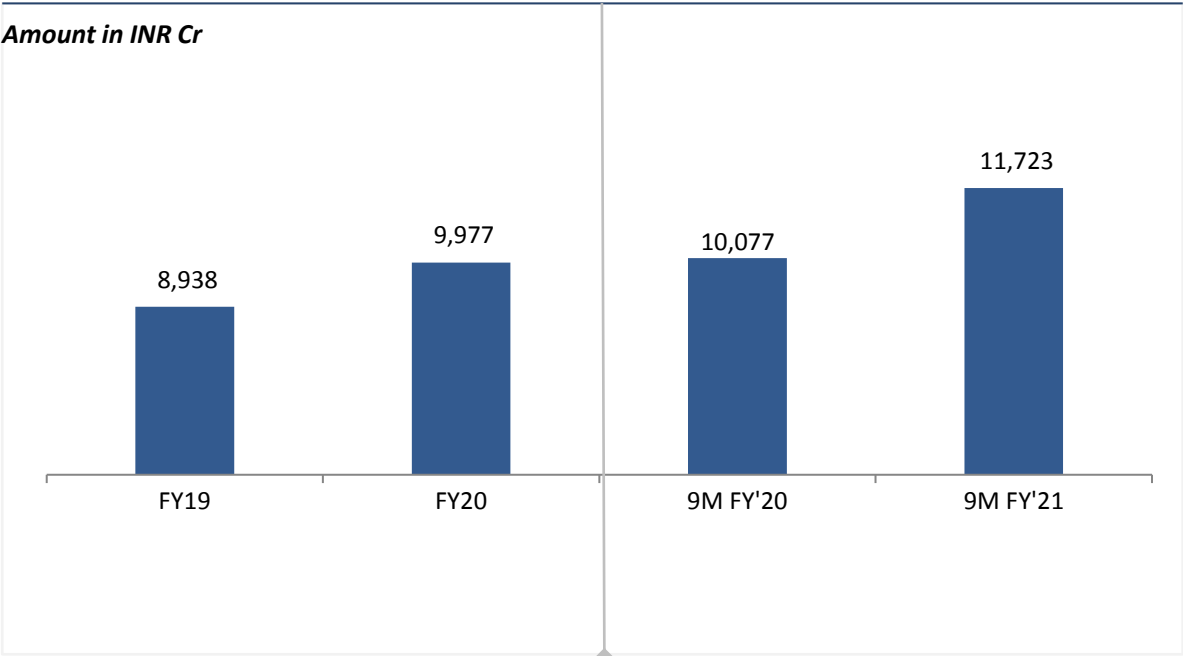
Underwriting Profits- Higher NB strain in 9M largely due to increase in NPAR contribution



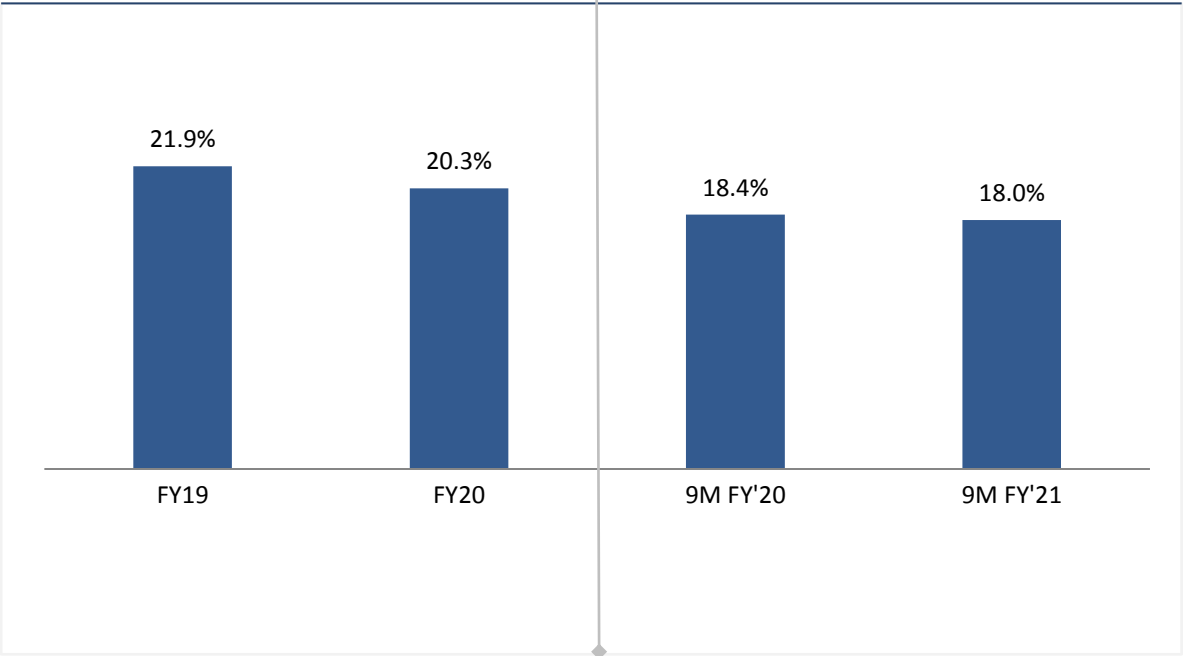
* Refers to the policyholder expense to GWP ratio; # ROE is PAT as a ratio of average Net worth during the year

Operating RoEV for 9MFY21 at 18%

Embedded Value (EV) - EV driven by growth in value of new business and quality of inforce business



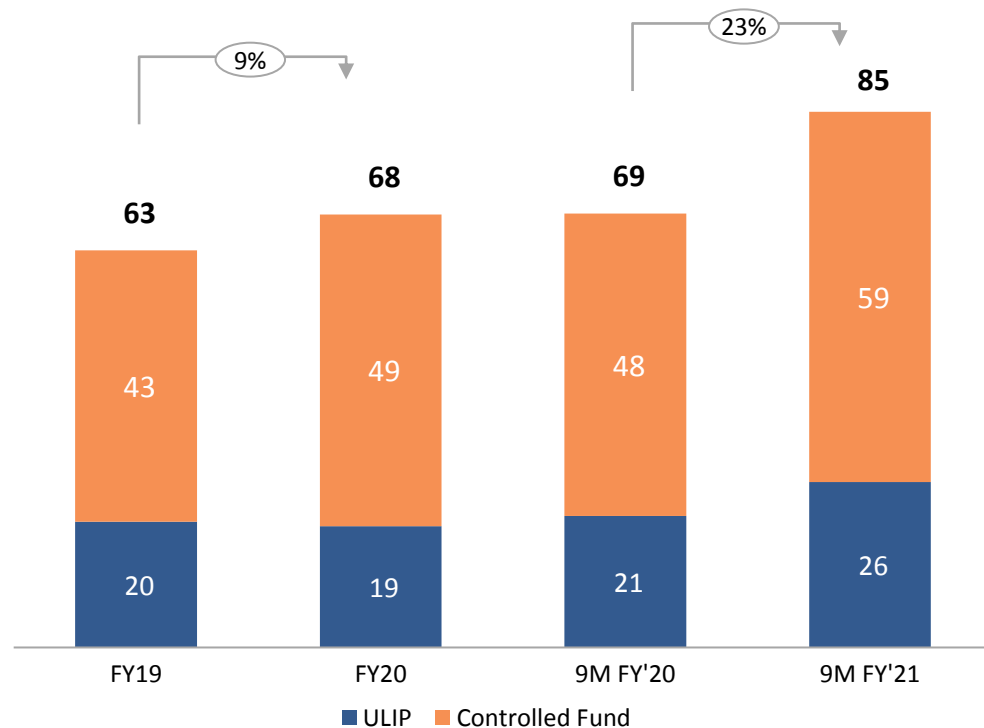
Operating Return on Embedded Value – Continue to deliver robust RoEV at 18%



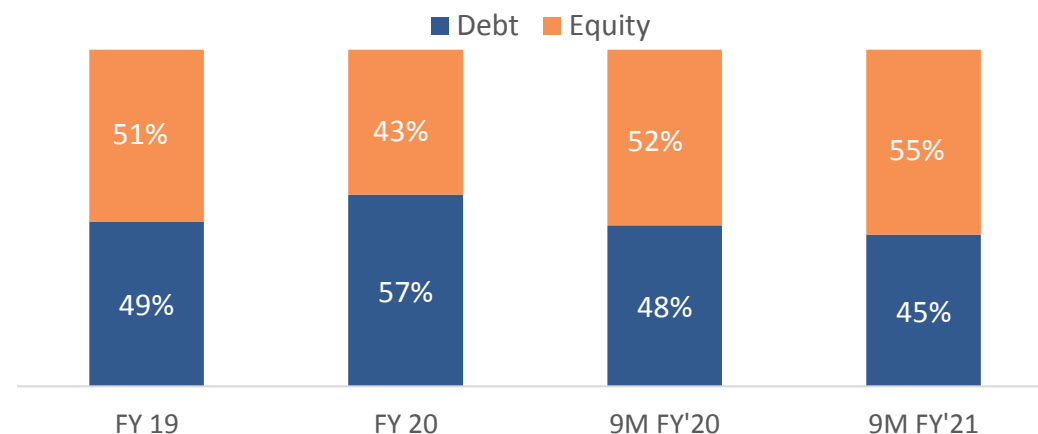
Max Life has consistently grown its Asset Under Management

Assets Under Management - MLI is the 4th largest manager of private LI AUMs, Par fund size ~45K

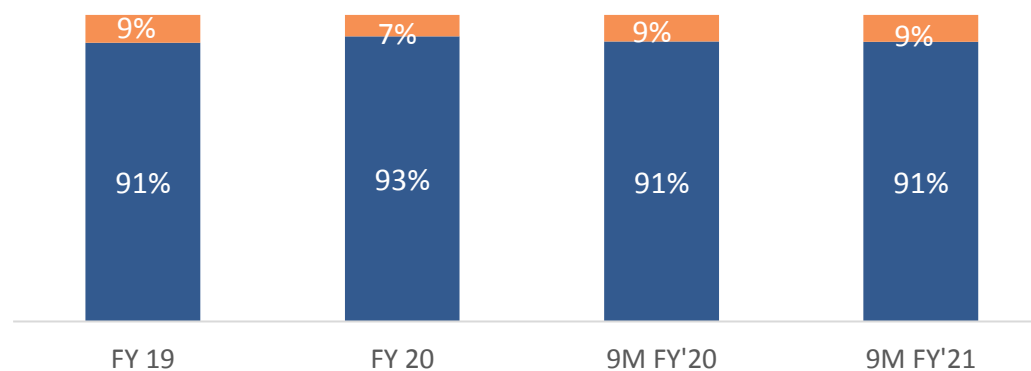
Amount in INR '000 Cr



ULIP: Healthy mix of Debt and Equity



Controlled: Healthy mix of Debt and Equity



More than 95% of debt investments is in sovereign papers and AAA rated securities

Max Life has been recognised by a number of Indian and foreign business bodies for its excellence in business, customer service and focus on people



Business Excellence



- Winner of CII Industry Innovation Award
- Most Admired Brand By White Paper International
- BFSI Smart Tech Awards 2019 - IPQ won the Best Use of Data and Analytics
- Won a Gold for Smart Term Plan under the category Product PR and a Silver for Max Life Family Run under the category Event PR at the Campaign India PR Awards 2020
- 3 Gold and 6 silver awards at the ACEF 9th Global Customer Engagement Awards 2020
- Best Use Innovation In Loyalty Marketing - Virtual Reality at Customer Fest Show 2020
- Smart Term Plan as Product of the Year award under the Term Life Insurance category, Nielsen Survey 2020
- Won 3 awards with our agency partners at DigiXX 2020 Awards
- Won 'Excellence in Digital Sales - Life Category' at FICCI Insurance Industry Awards 2020



Leaders in Quality



- No. 1 in Customer Loyalty survey by IMRB
- Gold at ASQ World Conference
- Winner of IMC Ramkrishna Bajaj National Quality Award
- Winner of CII Industry Innovation Award
- Asia Pacific Quality Organization (APQO) award for global performance excellence
- Silver Award in ASQ ITEA 2019 for Sell Right for Customer Delight at Axis Bank
- Silver Award in the 12th QCI-DL Shah Quality Awards for Enhancing S2R Conversion% Select 60 offices in Agency.
- At CMO Asia Awards, won Best Term Plan Company of the Year



Focus on People



- **Ranked 24th – India's Best Companies to work for in 2020. Best in Insurance industry**
- Top 25 BFSI companies to work for by Great Place to Work Institute, India in 2020
- Employee Engagement Leadership Award for "Best use of the Employee Award"
- Employee Engagement Leadership Award for "Best Social Responsibility"
- MD and CEO, featured in Impact Digital Power 100: Business Leaders List 2020
- Director and CMO, featured in Impact Digital Power 100: Marketing Leaders List 2020



SECTION III

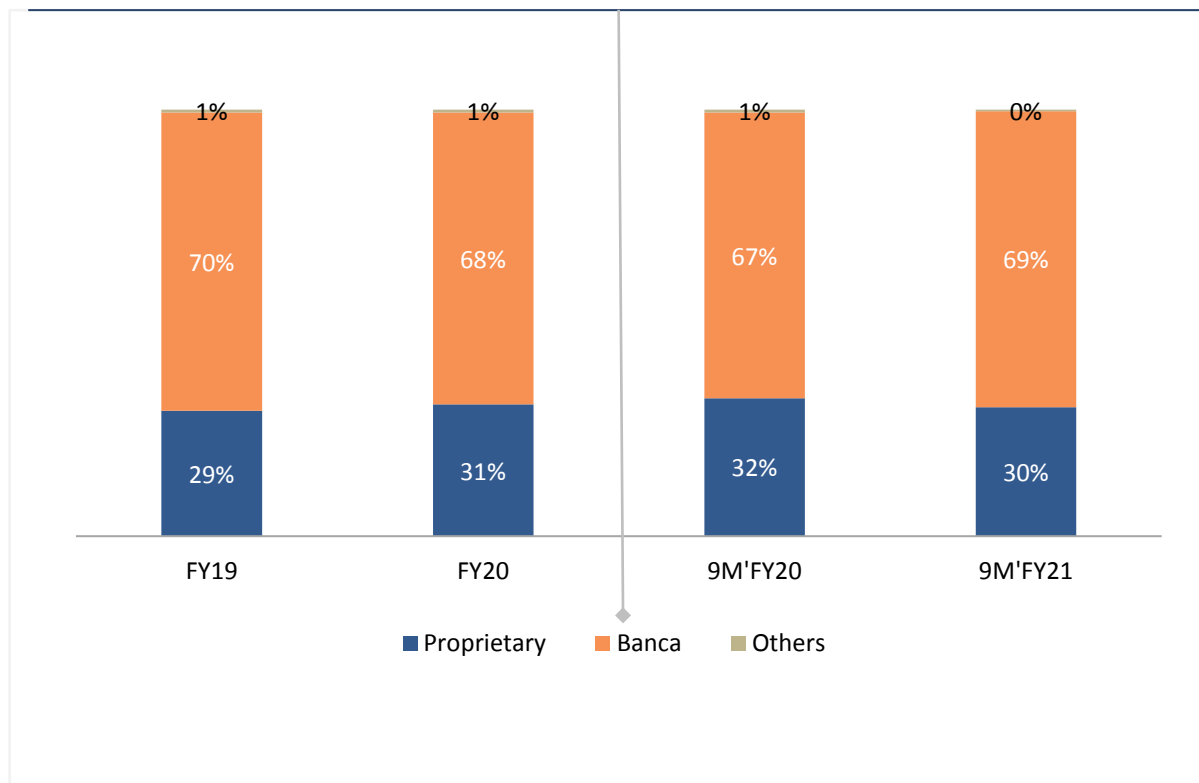
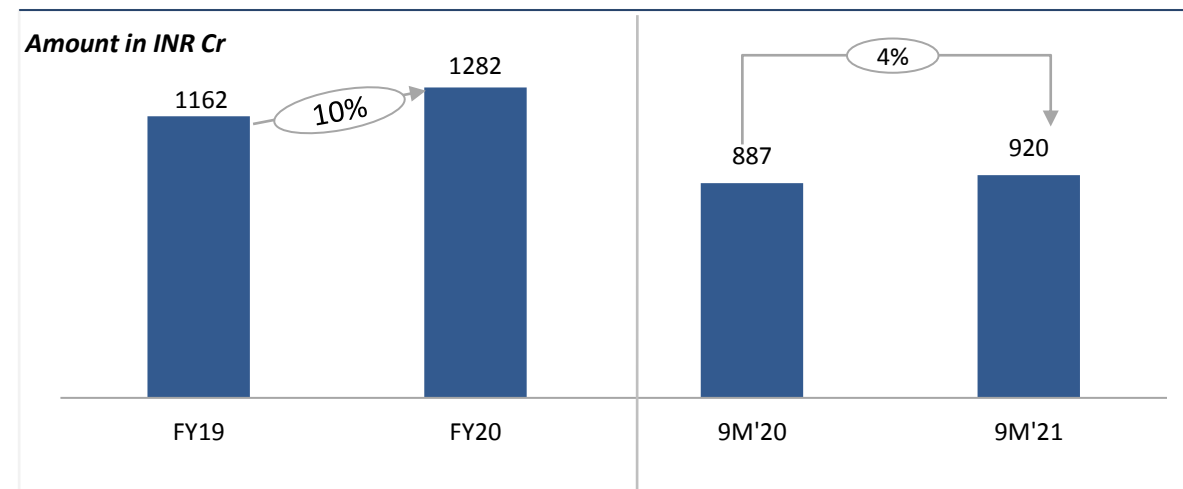
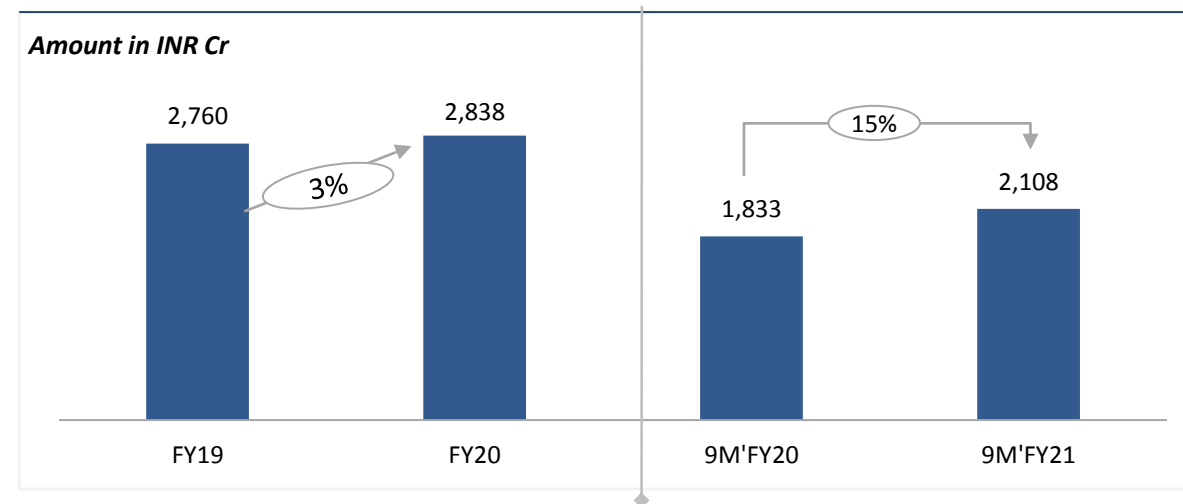
- ▶ Max Life Insurance – Strategy
- 

Significant progress made across key strategic priorities

INITIATIVES

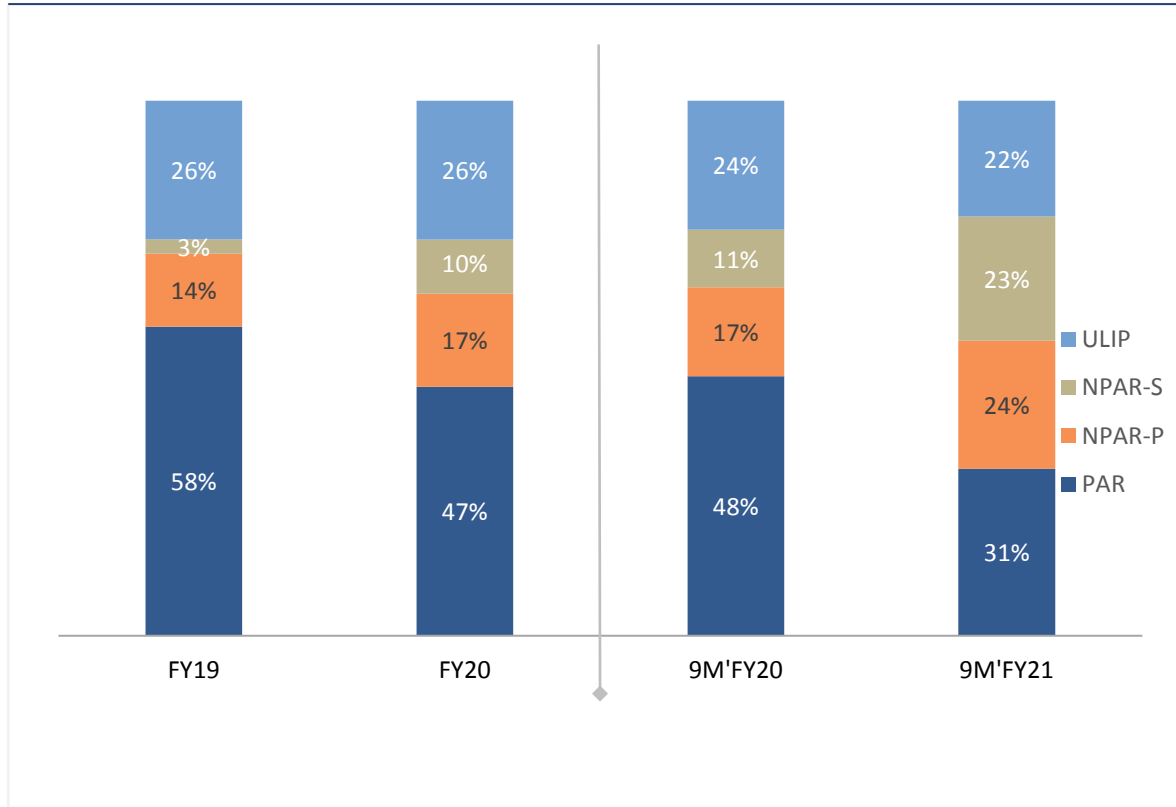
Progress achieved

A 	B 	C 	D 
Predictable & Sustainable growth	Product innovation to drive margins	Customer centricity across the value chain	Digitization for efficiency and intelligence
- Deepen Bancassurance partnerships - On-board new distribution partners - Scale up existing proprietary channels - Opportunistic play for inorganic growth	- Increase protection penetration - Drive Non PAR saving - Tap into new growth opportunities like health and retirements - Enhanced investment and mortality risk management	- Improve position in 13M and 61M persistency ranking - Highest Relationship Net Promoter Score (NPS) in the industry	- Continue with digitization agenda across the organisation - Build intelligence (AI) in all digital assets - Minimize back-office costs
- Entered into definitive agreements with Axis Bank* - Approached regulators for approval, CCI approval received - Extended corporate agency agreement with Yes Bank for 5 years - Strong growth in Ecommerce and other proprietary channels in Q3 - Tied up with 16 new partners in Q2 and Q3 - Key Partnerships: PayTM, L&T Finance, Satin Creditcare, Taraashna, Bajaj Housing finance, Tata Capital, Providence, Manappuram	- Focus remains on driving Protection, Retail protection business grew by 54% - Driven Non Par segment by launching Smart Wealth Plan - Tapped into health segment through launch of Critical Illness & Disability rider with a wellness app - covers 64 CI - Product innovation agenda furthered with launch of a unique Covid-19 rider providing diagnosis benefits to customers in addition to a death cover - Executed FRA contracts to augment non-par appetite	- Claim paid ratio at 99.22% at the end of FY20, among the best in the industry - Recovery in collection rates post COVID shock - Significant improvement in Grievance incidence rate (GIR) - 32 in 9M FY21 (9M FY20: 56). Max Life ranked 2 in private industry in H1 FY21 on GIR - Competitive index on Brand Consideration improved to 84 (YoY: +20)^	100% of all policies digitally sourced - Achieved 71%+ Insta-issuance 100% recruitment enabled through digital 82% requests enabled through digital self service means - Launched Max Life Innovations Lab 2.0 – 140 applications across 7 use cases - Progressing well on AI and modernizing IT journey

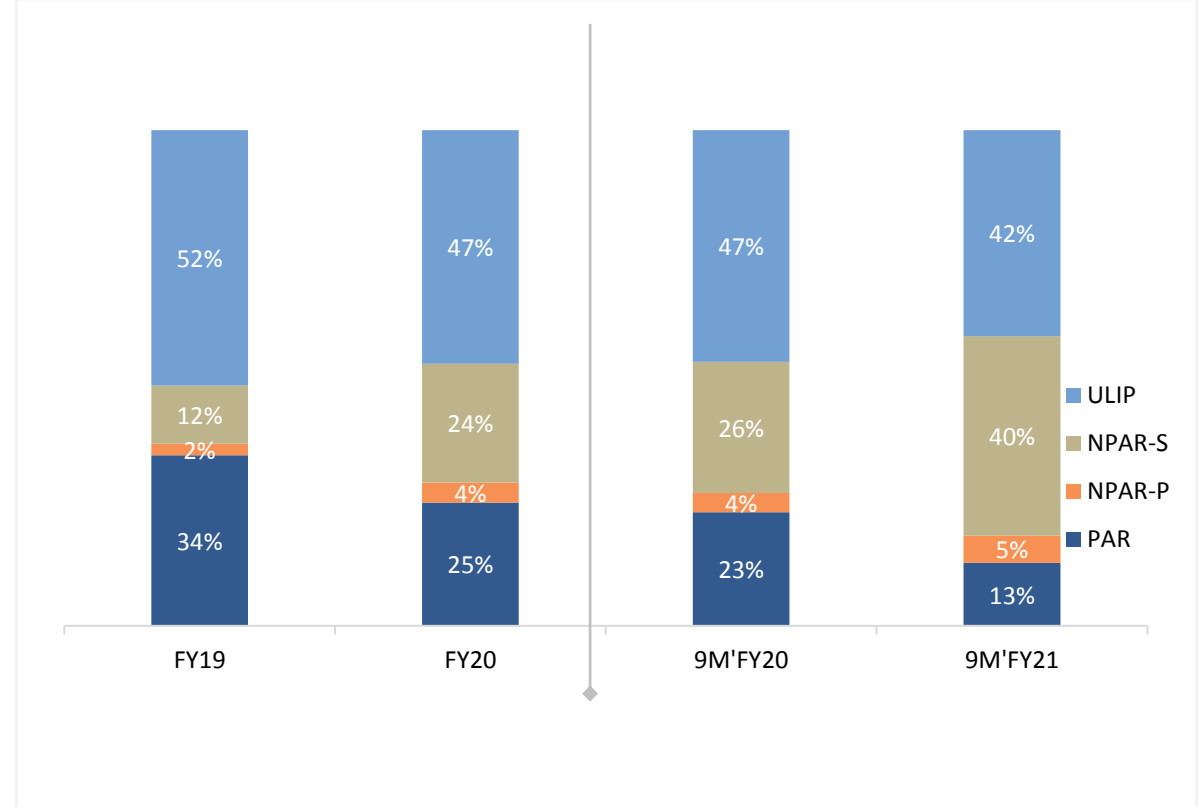
Channel Mix - Max Life has focused on maintaining a balanced distribution mix**Proprietary Channels New Business (APE) -****Bancassurance Channel (APE)**

Product mix in proprietary and Bancassurance channels aligned to customer needs; Protection driven across all channels

Proprietary Channels Product mix - biased towards traditional products and protection for driving margins



Bancassurance Product Mix - has been biased towards ULIPs to cater to target customer segments

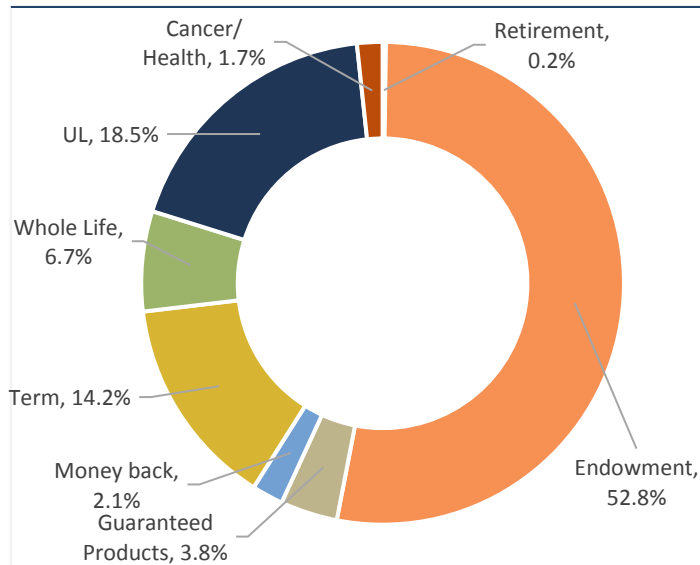


Max Life has a complete suite of products and focus is on selling longer term products along with improving penetration of pure protection offerings

Max Life has products across all categories

- 4** Protection plans **1** Health plan
- 4** Income plans **1** Annuity plan
- 4** Endowment plans **1** Retirement ULIP
- 4** ULIP plans **1** Whole life
- 2** Child plans **4** Riders

Current portfolio¹ biased towards traditional products



Product Type	Average Policyholder Age (Years)	Average Policy Term (Years)	Average PPT (Years)
Endowment	35	22	10
ULIP	38	14	10
Whole Life	36	64	51
Money back	27	17	17
Pure Term	35	36	33
Guaranteed products	43	19	9
Health	38	19	19
Cancer Insurance	37	30	30
Pension	33	23	23
Annuity	62	58	1

As on 31st Dec 2020

36

Average

25

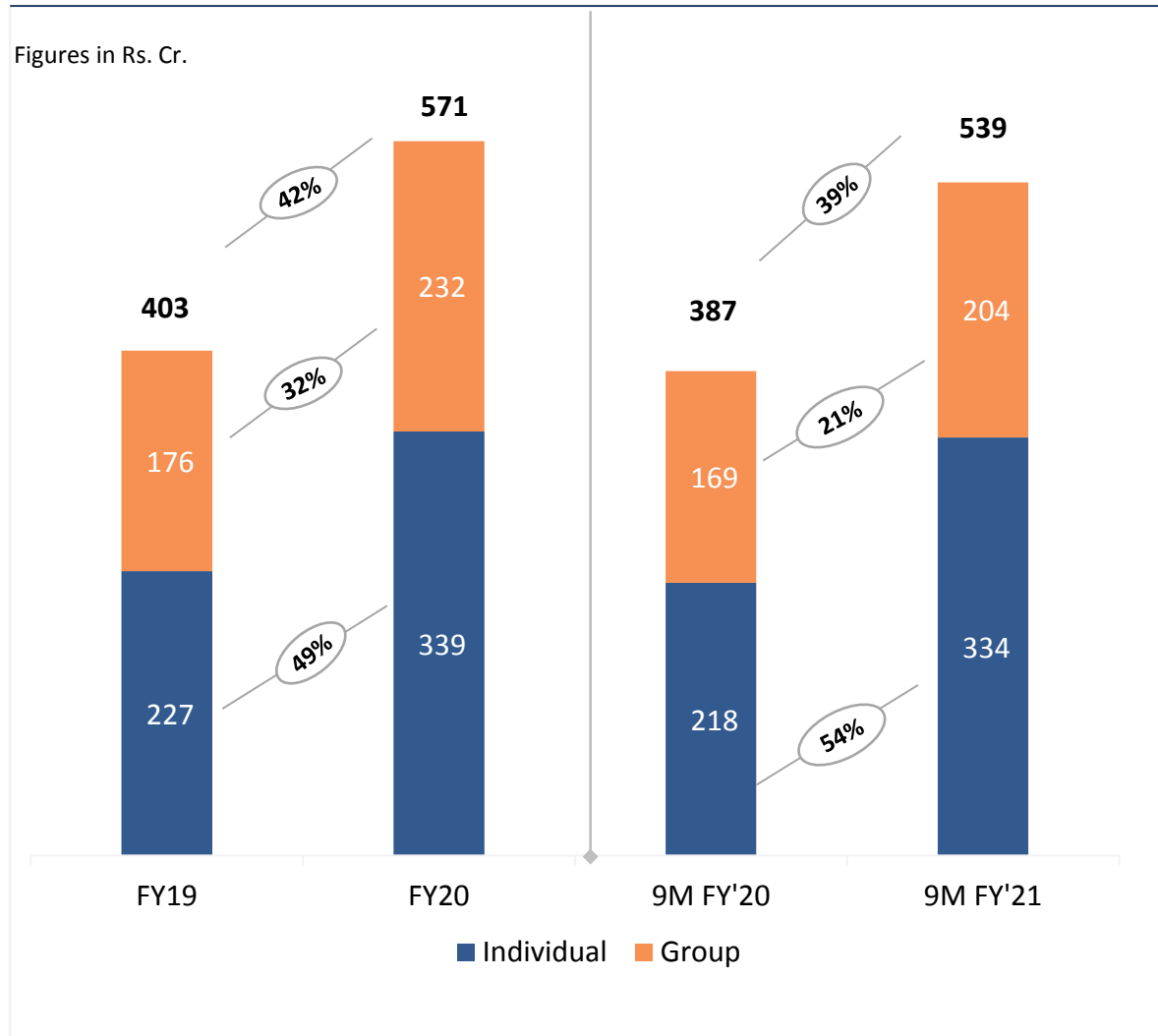
Average

17

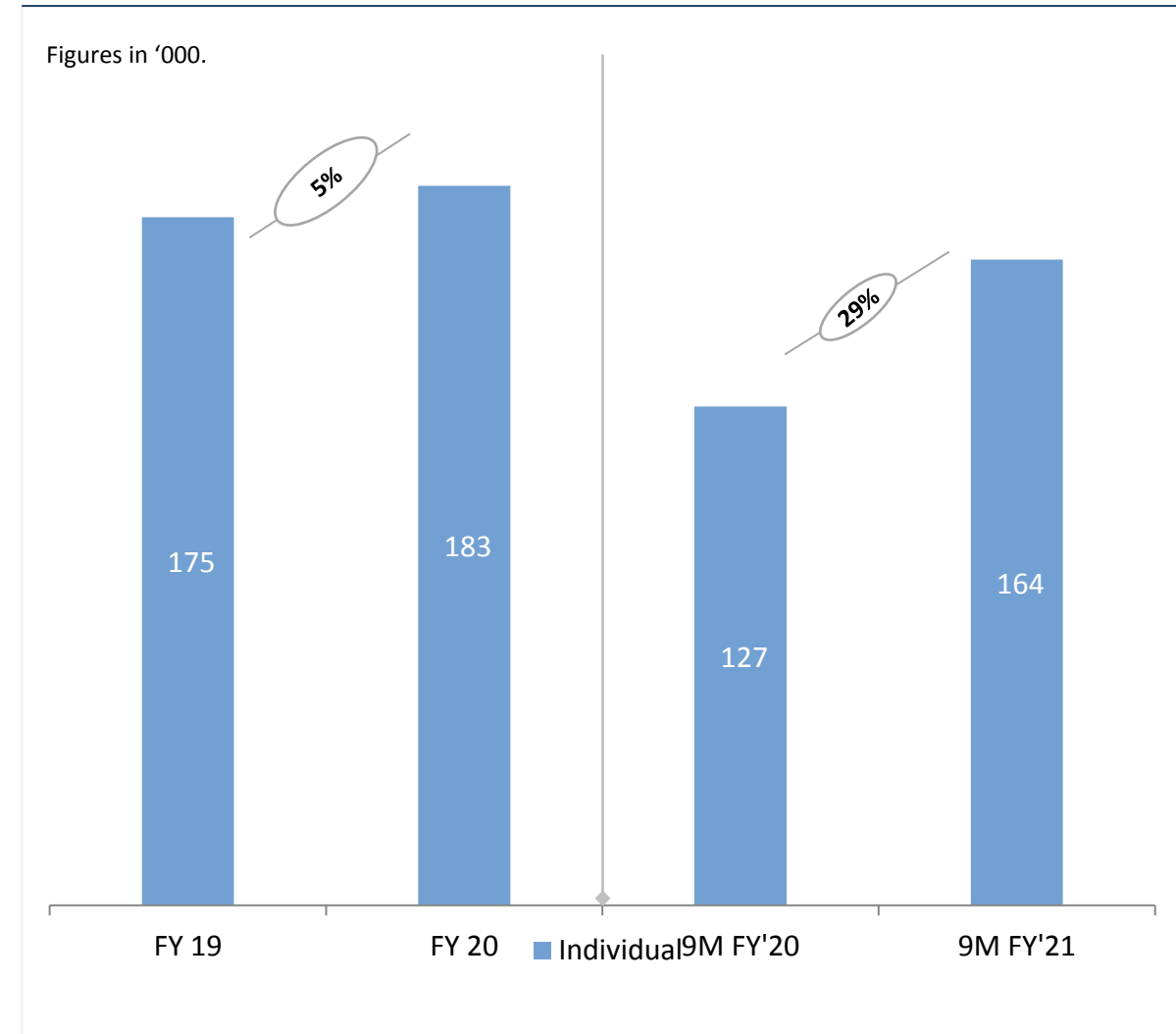
Average

Focus on Protection: ~54% growth in retail protection and 29% increase in policies

Total APE (Individual + Group)



No of Protection Policies (Individual)

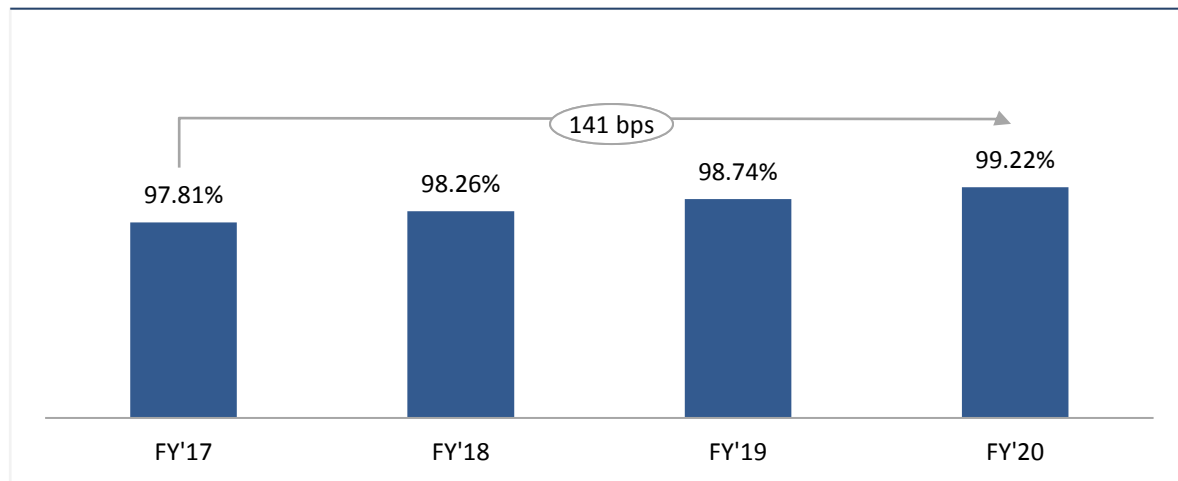




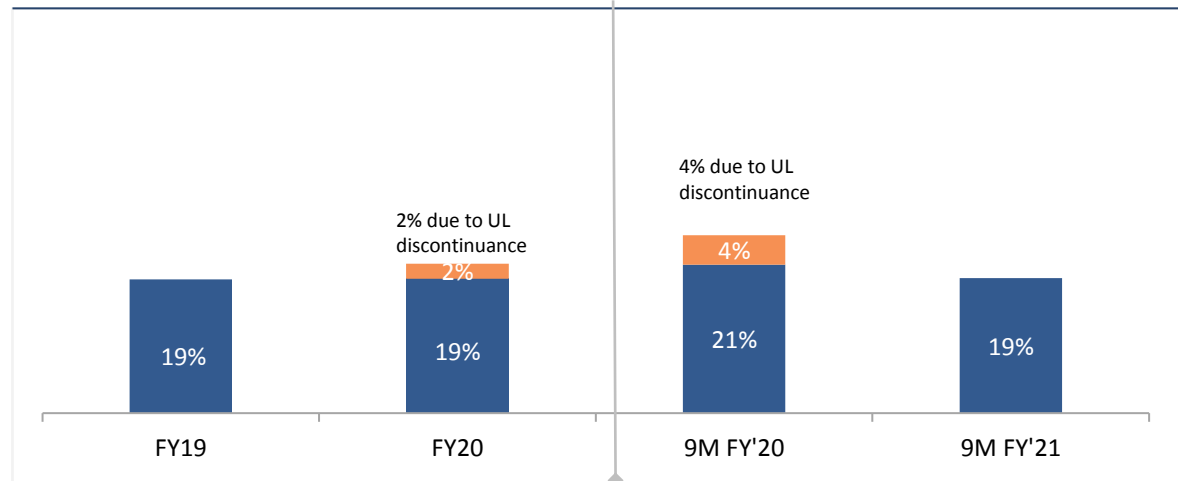
Strong focus towards customer measures has helped deliver superior performance across health parameters and will continue to remain an important priority



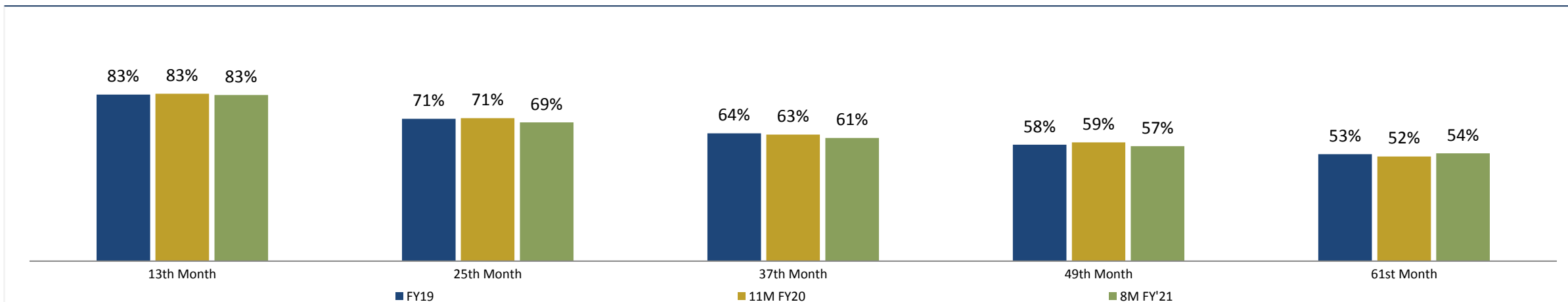
Claims Paid Ratio- One of the best claims paid ratio in the industry



Surrender to GWP



Persistency*- Improving and expected to be back on track soon

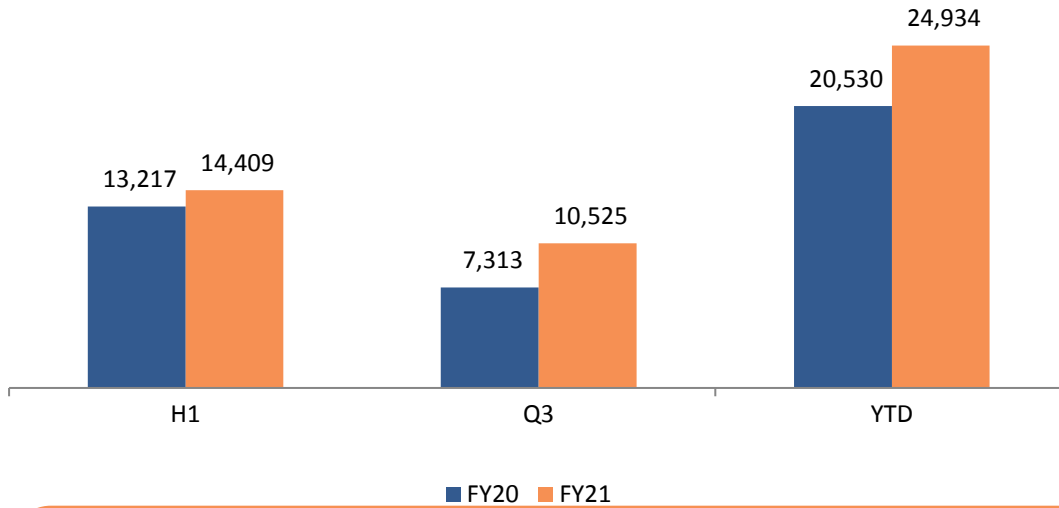


XX Change in persistency (in bps) *FY 20 persistency is reported for 11M as full year reporting accounts for grace period extension which may not be appropriate for comparison from last year
Full year persistency disclosure as follows: 13th month- 87%, 25th month- 73%, 37th month- 64%, 49th month- 60%, 61th month- 53%



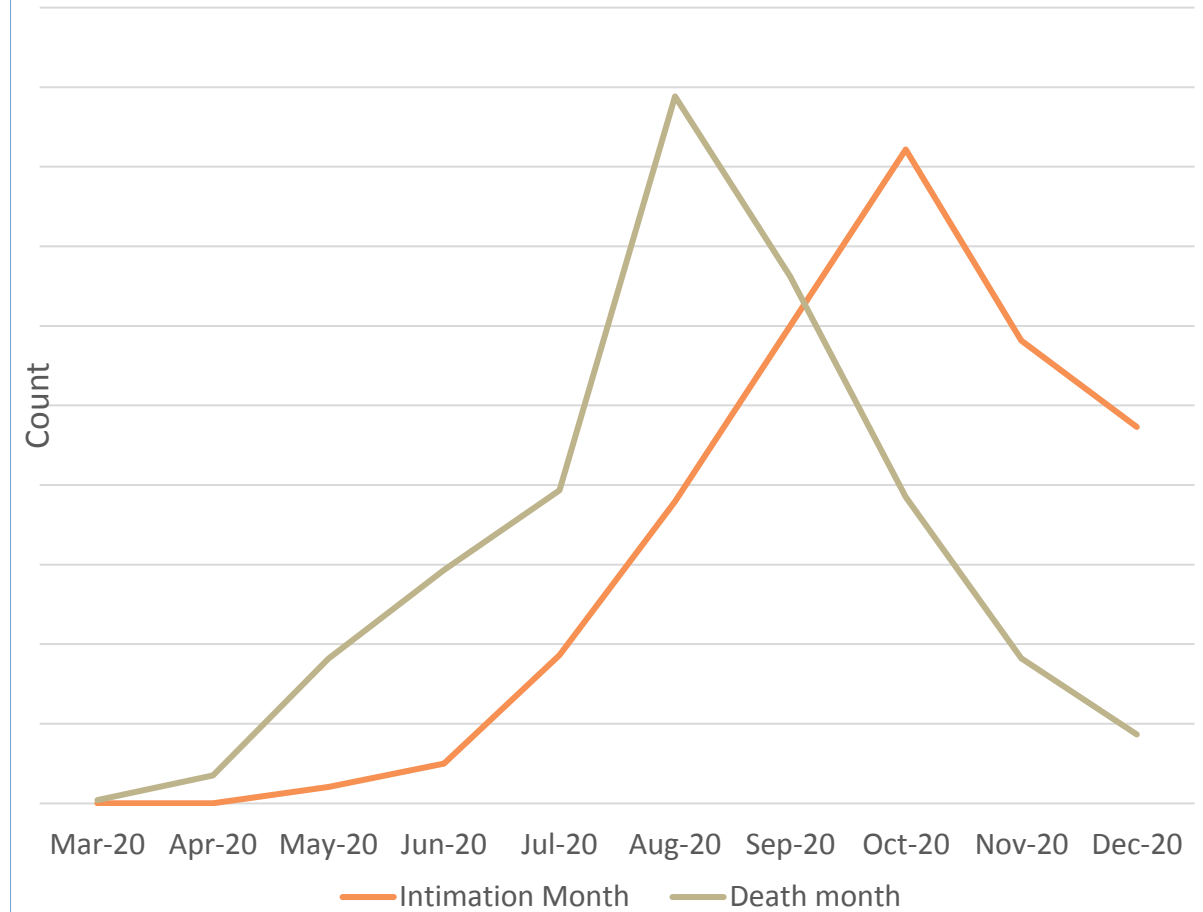
Death claim experience saw an expected increase in Q3, now expected to decline.

No of death claims reported



- Claim experience seems to have peaked out in October.
- Experience in November and December post a declining trend. However We are maintaining a tight watch
- Existing provisions are used to manage the current claim experience
- Mortality controls have been made more stringent on incoming profiles

COVID Deaths intimations seems to have peaked out



D

Significant progress in driving adoption of digital assets & embedding intelligence across insurance value chain aiding in effectiveness and efficiency (1/2)

	Recruitment 	Prospecting 	Fulfilment 
Digital Assets	 End-to-end agent recruitment platform facilitating faster agent prospecting and onboarding	 Products illustration generation tool  CSG/one CRM – Sales CRM tool for lead management  Cross sell and up sell tool	 Form filling, document collection and post sales verification in a seamless manner  Integration with Bank partners for customer data
Embedded intelligence	 Psychometric based scoring and selection	Predictive sales propensity models AI based pre-approved sum assured engines to generate customized offers for customers	OCR for document parsing to enable real time identification and verification of documents to reduce discrepancies Upfront persistency risk model- integration with various Bureaus & external databases to identify risk of lapsation Fraud checks on customer photographs
Impact	 100% recruitment digitally	 100% need analysis digitally	100% Policies issued digitally 70% FTR 71% Insta issuance (1 day)

Significant progress in driving adoption of digital assets & embedding intelligence across insurance value chain aiding in effectiveness and efficiency (2/2)

Underwriting



Rule-based underwriting engine for policy issuance

Renewal



CRM system for One view of customer

Multiple digital payment options

Easy revival options on website

Click to call and Robo call functionality

Scheduled customer reminders

Servicing



Customer Servicing tool



Milli – chatbot for query resolution



Self service options on website



Whatsapp for customer query and servicing



Digital Assets

Embedded intelligence

Model to identify early mortality risk - highlights risky policies and reduces overall issuance time

Integration with fraud database to identify and flag risky customers

Propensity to lapse model using Deep Learning

Early warning system to enable upfront persistency check

Email Bot for customer queries

Linguistic speech analyzer to extract meaningful information from customer calls

Smart Conversational IVR

Impact



Automated Underwriting: **61%** clear cases



70% digital payments

82%

Digital self-service adoption

>45 Lac

Self-service transactions

24x7

Query resolution using chat-bot



SECTION IV

- ▶ Max Life Insurance – ESG
- 



Environmental



Replace

- End to end digital solutions
- Live plants to improve air quality; 2,600 live plants placed in Head Office
- Replacement of plastic bottles by water jugs

Reduce

- Energy reduction by using energy efficient cooling and lighting across branches
- 60% water conserved through sensor based taps and urinals; 100% water gets recycled in Head Office
- >1 lac water saving nozzles distributed
- Managed print services and stationery
- Food wastage awareness drive in Head Office; food wastage reduced to half

Reuse & Recycle

- Dry and wet waste segregation
- E-waste disposal through certified vendors
- Saved 3 lacs paper cups and saved 60 trees by using ceramic cups



Social

Community Service

- Plantation Drive: >35,000 trees planted in FY20 across offices
- Joy of Giving: Provided sanitizers and masks to police officials during Covid -19, provided soaps and ration to underprivileged families, health checkup camps
- Financial Literacy: >5,400 employee volunteers; ~3 lac people connected

Customers

- Industry leader in individual claims settlement ratio of 99.22% in FY20
- COVID-19: Un-interrupted service & claims

Employees

- Diversity & Inclusion: 22% women employees, 31% women employees in non-distribution roles, 42% women agents
- Employee health and wellbeing - flexi working hours, paid paternity leave, paid maternity leave, 100% Work from home



Governance

Supervisory Board (Max Life Board)

- Diverse Board composition
- 30% Independent Directors
- Average board experience > 30 years

Risk Management

- Risk Management evolved to ERM 2.0 to better manage risks
- Strategic tie-up with Risk Management Society (RIMS), US, to promote risk management in India
- Periodic stress testing & sensitivity analysis

Compliance

- Information security and cyber security compliant with ISO guidelines

Governing Policies

- Policies on AML, Whistleblower, POSH, Anti-bribery & Corruption, Conflict of interest, Business code of conduct, Data privacy, Social media, Gifts, Relative hiring



SECTION V

- ▶ Max Life Insurance – MCEV Disclosures: 9M FY'21
- 

Key Results

The Embedded Value¹ (EV) as at 31st Dec 2020 is **Rs 11,723 Cr.**

The Operating Return on EV (RoEV) over 9M FY21 is **18.0%**. Including non-operating variances, the total RoEV is **24.0%**².

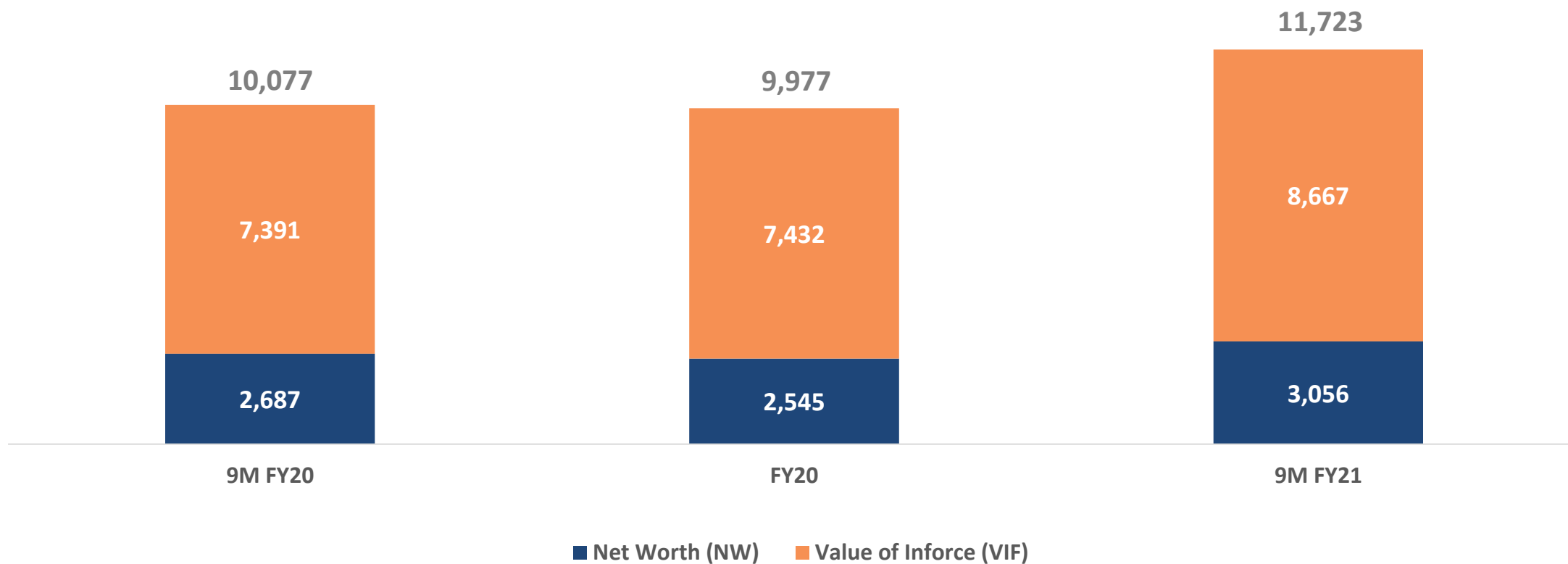
The New Business Margin (NBM) at actual cost for 9M FY21 is **25.9%**, with Value of New Business (VNB) written over the period being **Rs 788 Cr.**

Notes:

¹ Max Life's Embedded Value (EV) is based on a market consistent methodology. However, they are not intended to be compliant with the MCEV Principles issued by the Stitching CFO Forum Foundation (CFO Forum) or the Actuarial Practice Standard 10 (APS10) as issued by the Institute of Actuaries of India.

² The return on EV for 9M FY21 is calculated as 17.5 per cent (growth in EV) annualized to 24.0 per cent.

Progression of Embedded Value



1. EV as at 9M FY21 represents an increase of Rs 1,746 Cr from the EV of Rs 9,977 Cr as at FY20; implying a growth of 17.5 per cent over the period.
2. Dividend income of Rs 456 Cr paid during FY20.

Value of New Business and New Business Margins as at 31st Dec 2020

Description	9M FY20	9M FY21	Y-o-Y growth
APE ¹	2,740	3,040	11%
New Business Margin (NBM) (post cost overrun)	21.0%	25.9%	+490 bps
Value of New Business (VNB) (post cost overrun)	576	788	37%

- The New Business Margin (NBM) has increased by circa 490 bps to 25.9% for 9M FY21 as compared to 21.0% for 9M FY20.
- The increase in margins is primarily driven by increase in proportion of non-par business.

¹ Annual Premium Equivalent (APE) is calculated as 100% of regular premium + 10% of single premium.

² The VNB is accumulated from the point of sale to end of the reporting period (i.e. 31st Dec 2020), using the beginning of quarters' risk free yield curve.

Value of New Business (VNB) and New Business Margin (NBM) Walk

Figures in Rs Cr.



Sensitivity analysis as at 30th September 2020

Figures in Rs Cr.

Sensitivity	EV		New business	
	Value (Rs Cr)	% change	VNB (Rs Cr) NBM	% change
Base Case	11,047	-	438 24.2%	-
Lapse/Surrender - 10% increase	10,926	(1%)	434 23.9%	(1%)
Lapse/Surrender - 10% decrease	11,170	1%	441 24.3%	1%
Mortality - 10% increase	10,861	(2%)	419 23.9%	(4%)
Mortality - 10% decrease	11,234	2%	458 25.2%	4%
Expenses - 10% increase	10,944	(1%)	402 22.2%	(8%)
Expenses - 10% decrease	11,150	1%	474 26.1%	8%
Risk free rates - 1% increase	10,843	(2%)	453 24.9%	3%
Risk free rates - 1% reduction	11,103	1%	411 22.7%	(6%)
Equity values - 10% immediate rise	11,134	1%	438 24.2%	Negligible
Equity values - 10% immediate fall	10,959	(1%)	438 24.2%	Negligible
Corporate tax Rate - 2% increase	11,254	(2%)	424 23.4%	(3%)
Corporate tax Rate - 2% decrease	10,840	2%	453 25.0%	3%
Corporate tax rate increased to 25%	9,680	(12%)	344 19.0%	(22%)

1. Reduction in interest rate curve leads to an increase in the value of assets which offsets the loss in the value of future profits.
2. Risk free rate sensitivities under new business allow for the change in the value of assets as at the date of valuation.



ANNEXURES



Delivering consistent growth in top line and renewals coupled with driving cost efficiencies

Financial Performance

➤ Individual APE

➤ Renewal Premium

➤ Gross Premium

➤ Policyholder expense to GWP Ratio

➤ Policyholder Cost to GWP Ratio

➤ Expense to average AUM (Policyholder)

FY19

3,917

5%



FY20

4,116

9M FY'20

2,718



9M FY'21

3,014

9,415

13%



10,600

6,618



7,669

14,575

11%



16,184

10,311



11,912

13.2%

126 bps



14.5%

16.3%

85 bps



15.4%

20.0%

80 bps



20.8%

22.7%

92 bps



21.7%

3.6%

21 bps



3.8%

3.8%

38 bps



3.4%

Healthy and consistent profitability creating value to all the stakeholders while maintaining solvency above required levels

Financial Performance

➤ Profit(after Tax)

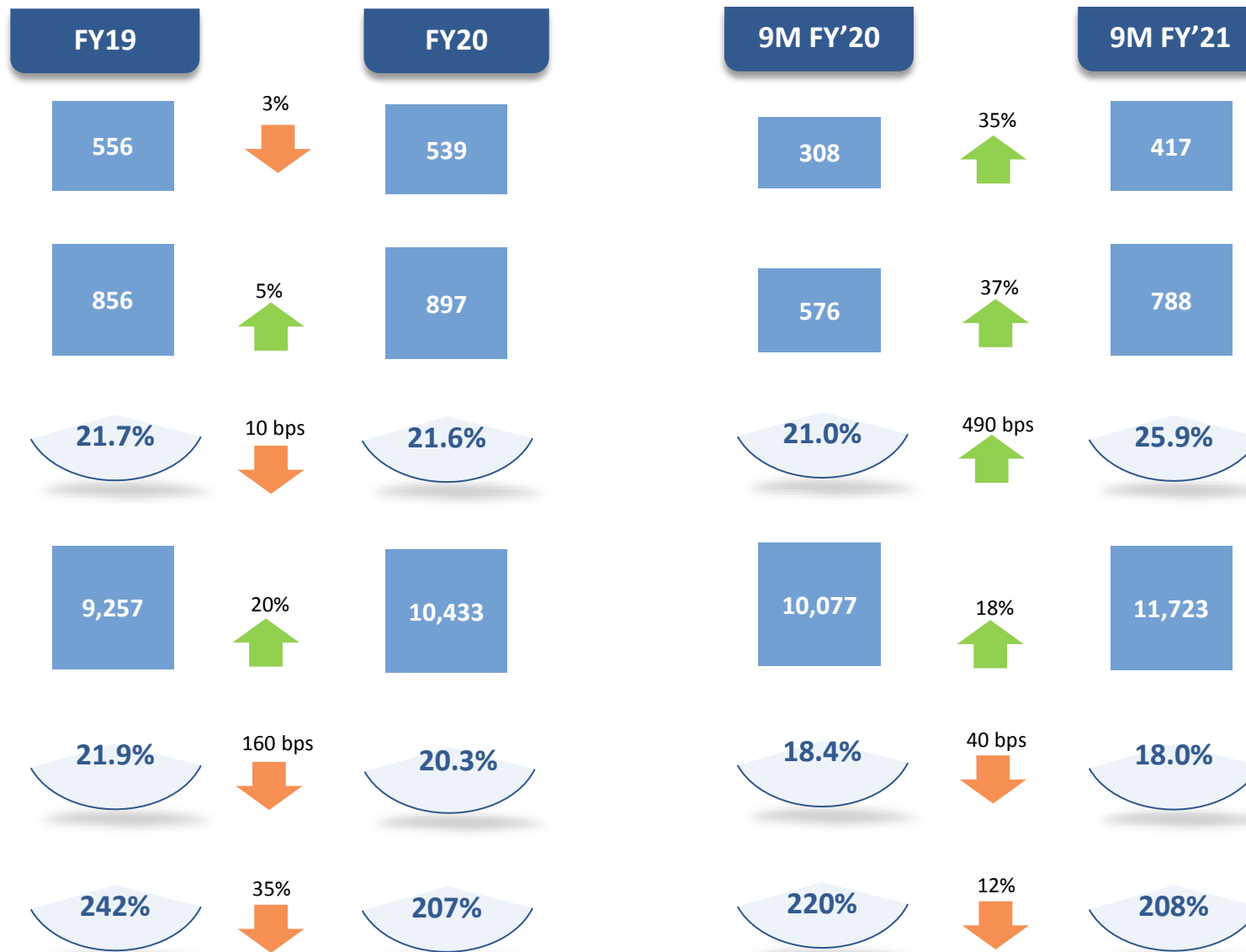
➤ VNB (Post Overrun)

➤ New Business Margin (Post Overrun)

➤ MCEV (pre dividend)^

➤ Operating RoEV

➤ Solvency Ratio



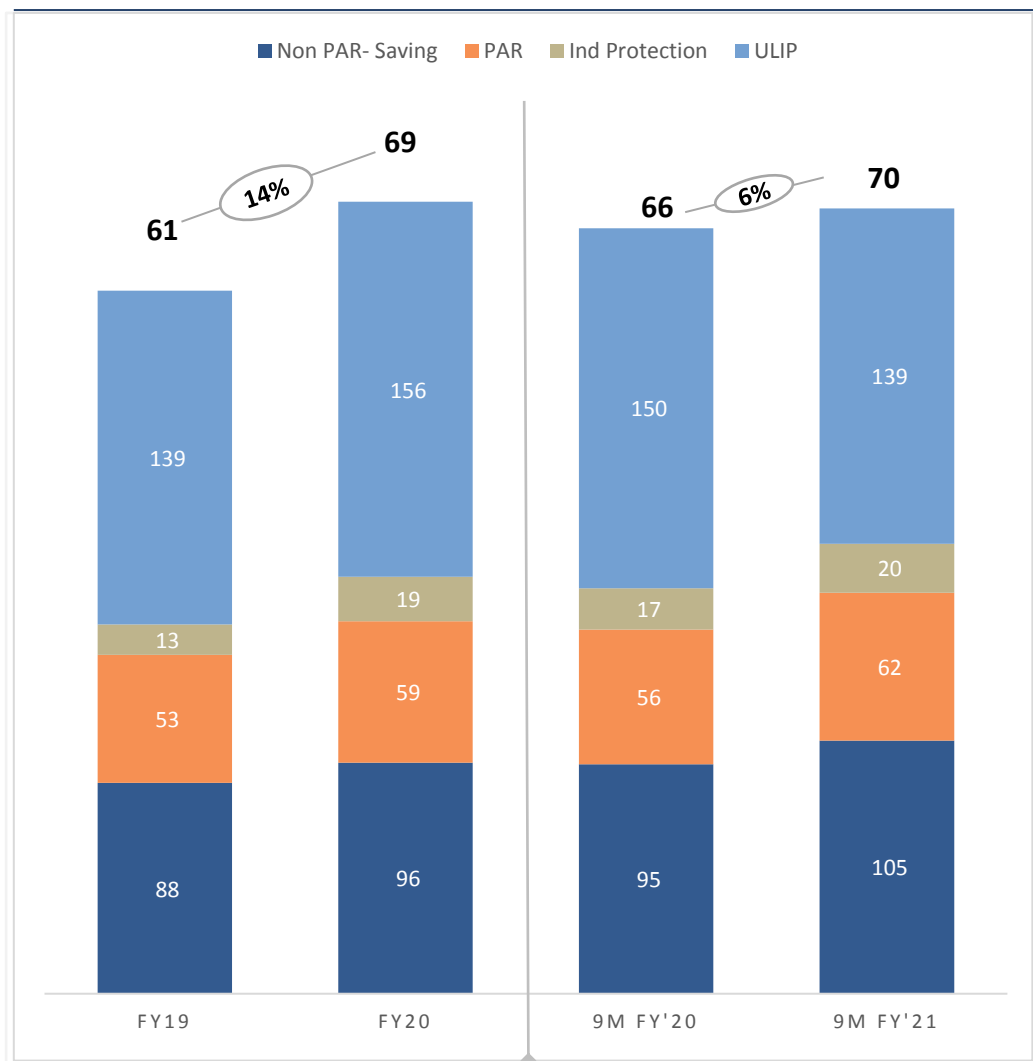
Figures in Rs. Cr.

^Arrow represents growth in Operating RoEV

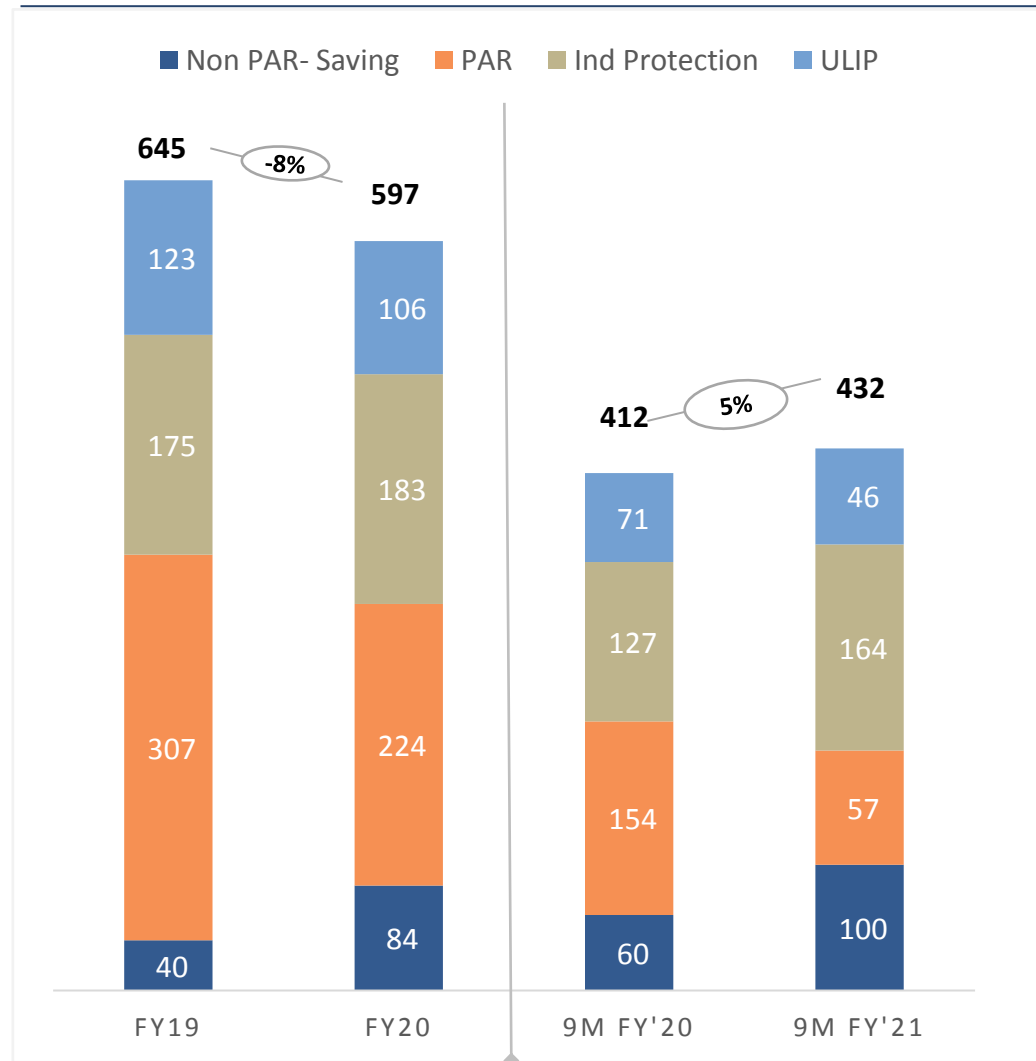
Key Business Drivers	Unit	Quarter Ended		Q-o-Q Growth	Period Ended		Y-o-Y Growth
		Dec'19	Dec'20		Dec'19	Dec'20	
a) Individual APE	Rs. Crore	1,001	1,210	21%	2,718	3,014	11%
b) Gross written premium income	Rs. Crore	3,879	4,629	19%	10,311	11,912	16%
First year premium	Rs. Crore	999	1,198	20%	2,698	2,947	9%
Renewal premium	Rs. Crore	2,477	2,880	16%	6,618	7,669	16%
Single premium	Rs. Crore	403	550	36%	996	1,296	30%
c) Shareholder Profit (Post Tax)	Rs. Crore	154	220	43%	308	417	35%
d) Policy Holder Expense to Gross Premium	%	15.6%	15.4%	23 bps	16.3%	15.4%	85 bps
e) Share Capital	Rs. Crore				1,919	1,919	0%
f) Individual Policies in force	No. Lacs				43.24	44.88	4%
g) Sum insured in force	Rs. Crore				8,74,145	10,90,347	25%
h) Grievance Ratio	Per Ten thousand				56	32	-43%

Protection – Expansion in both case size and number of policies sold

Case Size (INR'000)



NoPs (INR'000)



Definitions of the EV and VNB

Market consistent methodology

- The EV and VNB have been determined using a market consistent methodology which differs from the traditional EV approach in respect of the way in which allowance for the risks in the business is made.
- For the market consistent methodology, an explicit allowance for the risks is made through the estimation of the Time Value of Financial Options and Guarantees (TVFOG), Cost of Residual Non-Hedgeable Risks (CRNHR) and Frictional Cost (FC) whereas for the traditional EV approach, the allowance for the risk is made through the Risk Discount Rate (RDR).

Components of EV

The EV is calculated to be the sum of:

- Net Asset value (NAV) or Net Worth: It represents the market value of assets attributable to shareholders and is calculated as the adjusted net worth of the company (being the net shareholders' funds as shown in the audited financial statements adjusted to allow for all shareholder assets on a market value basis, net of tax).
- Value of In-force (VIF): This component represents the Present Value of Future expected post-tax Profits (PVFP) attributable to shareholders from the in-force business as at the valuation date, after deducting allowances for TVFOG, CRNHR and FC. Thus, $VIF = PVFP - TVFOG - CRNHR - FC$.

Covered Business

- All business of Max Life is covered in the assessment except one-year renewable group term business and group fund business which are excluded due to their immateriality to the overall EV.

Components of VIF (1/2)

Present Value of Future Profits (PVFP)

- Best estimate cash flows are projected and discounted at risk free investment returns.
- PVFP for all lines of business except participating business is derived as the present value of post-tax shareholder profits from the in-force covered business.
- PVFP for participating business is derived as the present value of shareholder transfers arising from the policyholder bonuses *plus* one-tenth of the present value of future transfers to the participating fund estate and one-tenth of the participating fund estate as at the valuation date.
- Appropriate allowance for mark-to-market adjustments to policyholders' assets (net of tax) have been made in PVFP calculations to ensure that the market value of assets is taken into account.
- PVFP is also adjusted for the cost of derivative arrangements in place as at the valuation date.

Cost of Residual Non-Hedgeable Risks (CRNHR)

- The CRNHR is calculated based on a cost of capital approach as the discounted value of an annual charge applied to the projected risk bearing capital for all non-hedgeable risks.
- The risk bearing capital has been calculated based on 99.5 percentile stress events for all non-hedgeable risks over a one-year time horizon. The cost of capital charge applied is 4% per annum. The approach adopted is approximate.
- The stress factors applied in calculating the projected risk capital in the future are based on the latest EU Solvency II directives recalibrated for Indian and Company specific conditions.

Components of VIF (2/2)

Time Value Of Options and Guarantees (TVFOG)

- The TVFOG for participating business is calculated using stochastic simulations which are based on 5,000 stochastic scenarios.
- Given that the shareholder payout is likely to be symmetrical for guaranteed non-participating products in both positive and negative scenarios, the TVFOG for these products is taken as zero.
- The cost associated with investment guarantees in the interest sensitive life non-participating products are allowed for in the PVFP calculation and hence an explicit TVFOG allowance has not been calculated.
- For all unit-linked products with investment guarantees, extra statutory reserves have been kept for which no release has been taken in PVFP and hence an explicit TVFOG allowance has not been calculated.

Frictional Cost (FC)

- The FC is calculated as the discounted value of tax on investment returns and dealing costs on assets backing the required capital over the lifetime of the in-force business. Required capital has been set at 170% of the Required Solvency Margin (RSM) which is the internal target level of capital, which is higher than the regulatory minimum requirement of 150%.
- While calculating the FC, the required capital for non-participating products is funded from the shareholders' fund and is not lowered by other sources of funding available such as the excess capital in the participating business (i.e. participating fund estate).

Key Assumptions for the EV and VNB (1/2)

Economic Assumptions

- The EV is calculated using risk free (government bond) spot rate yield curve taken from FBIL¹ as at 31st Dec 2020. The VNB is calculated using the beginning of respective quarter's risk free yield curve (i.e. 31st March 2020, 30th June 2020, 30th September 2020 respectively).
- No allowance has been made for liquidity premium because of lack of credible information on liquidity spreads in the Indian market.
- Samples from 31st Dec 2020 and 31st March 2020 spot rate yield curves used are:

Year	1	2	3	4	5	10	15	20	25	30	40
Dec-20	3.56%	3.90%	4.40%	4.92%	5.30%	6.04%	6.59%	7.01%	7.00%	6.69%	6.62%
Mar-20	4.82%	5.16%	5.40%	5.72%	6.24%	6.95%	6.97%	6.81%	6.95%	6.68%	6.93%
Change	-1.26%	-1.26%	-1.00%	-0.81%	-0.95%	-0.91%	-0.38%	0.19%	0.06%	0.01%	-0.31%

Demographic Assumptions

The lapse and mortality assumptions are approved by Board committee and are set by product line and distribution channel on a best estimate basis, based on the following principles:

- Assumptions are based on last one year experience and expectations of future experience given the likely impact of current and proposed management actions on such assumptions.
- Aims to avoid arbitrary changes, discontinuities and volatility where it can be justified.
- Aims to exclude the impacts of non-recurring factors.

¹ Financial Benchmark India Pvt. Ltd.

Key Assumptions for the EV and VNB (2/2)

Expense and Inflation

- Maintenance expenses are based on the recent expense studies performed internally by the Company. The VIF is reduced for the value of any maintenance expense overrun in the future. The overrun represents the excess maintenance expenses expected to be incurred by the Company over the expense loadings assumed in the calculation of PVFP.
- Future CSR related expenses have been taken to be 2% of post tax (risk adjusted) profits emerging each year.
- Expenses denominated in fixed rupee terms are inflated at 6.0% per annum.
- The commission rates are based on the actual commission payable, if any.

Tax

- The Corporate tax rate is the effective tax rate, post allowing for exemption available on dividend income. Tax rate is nil for pension business.
- For participating business, the transfers to shareholders resulting from surplus distribution are not taxed as tax is assumed to be deducted before surplus is distributed to policyholders and shareholders.
- Goods and Service tax is assumed to be 18%.
- The mark to market adjustments are also adjusted for tax.