

HDFC Life Insurance

Investor presentation – 9M FY19



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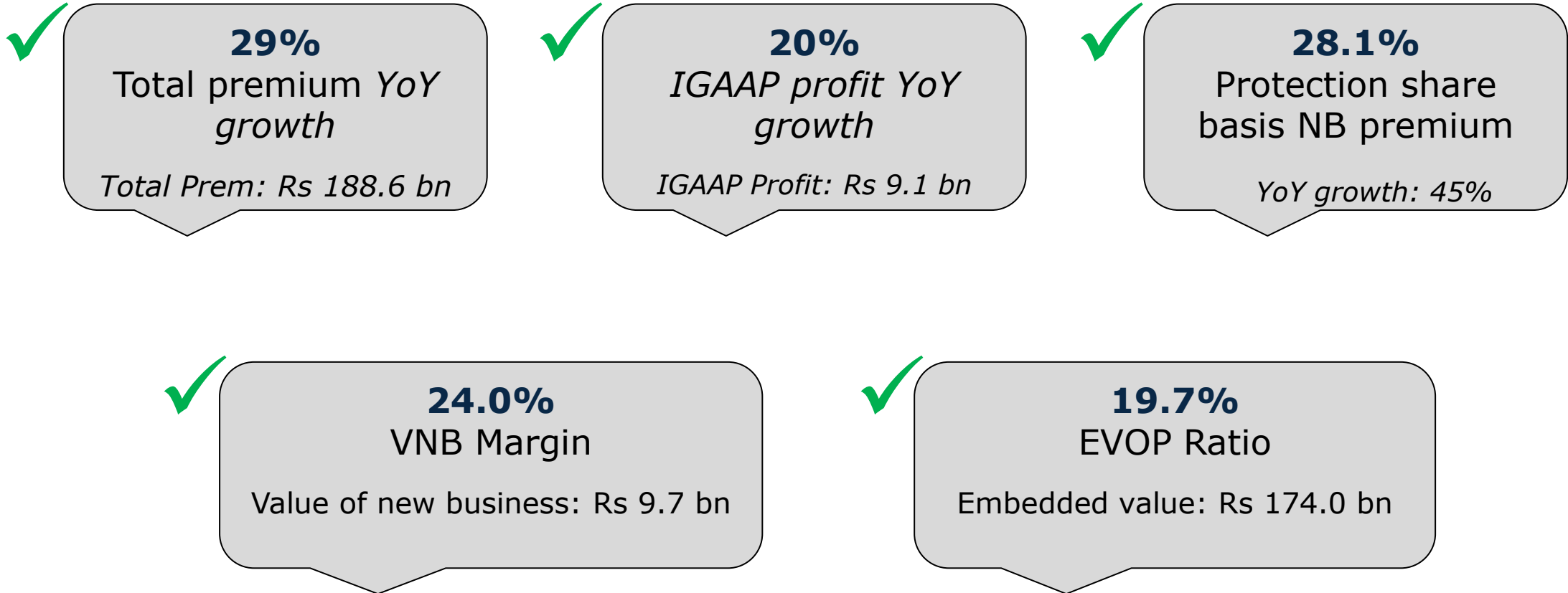
Performance Snapshot

Key Differentiators

Annexures

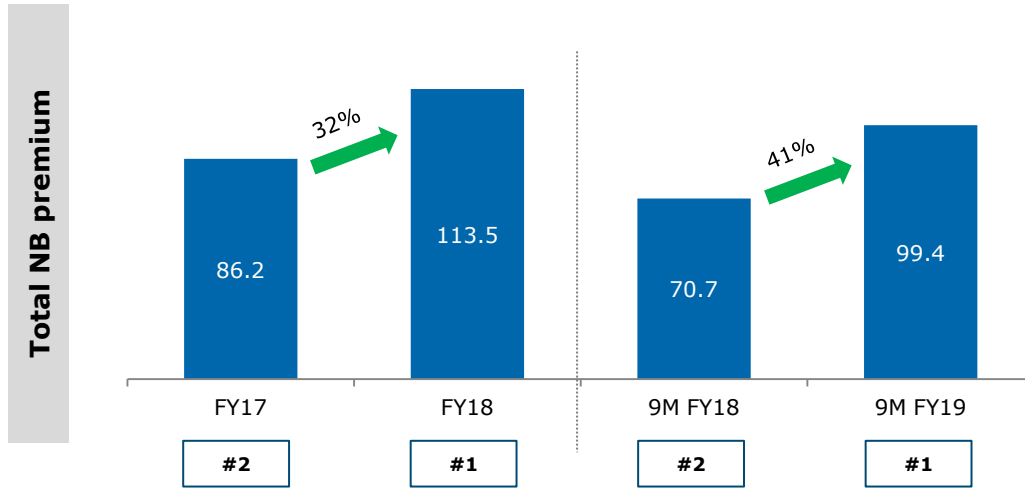
India Life Insurance

Executive summary: 9M FY19

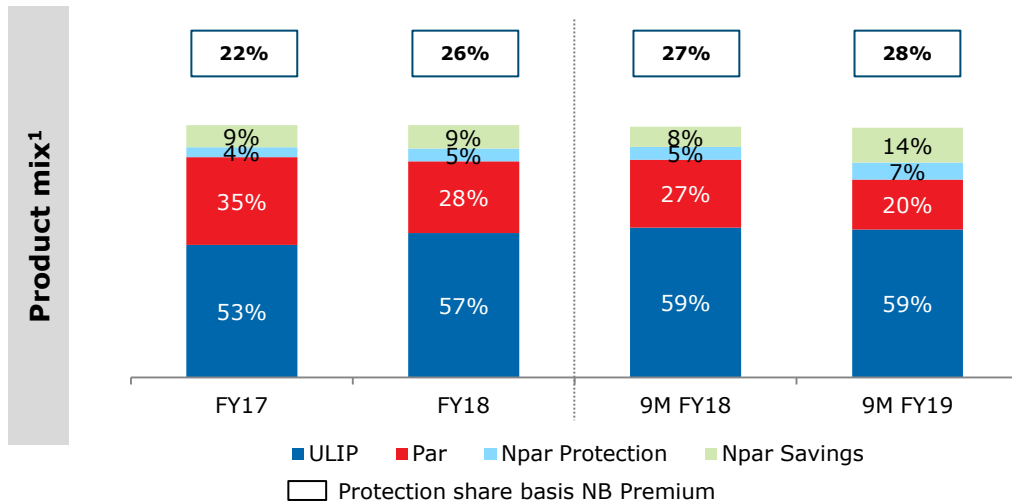


Performance snapshot: 9M FY19 (1/2)

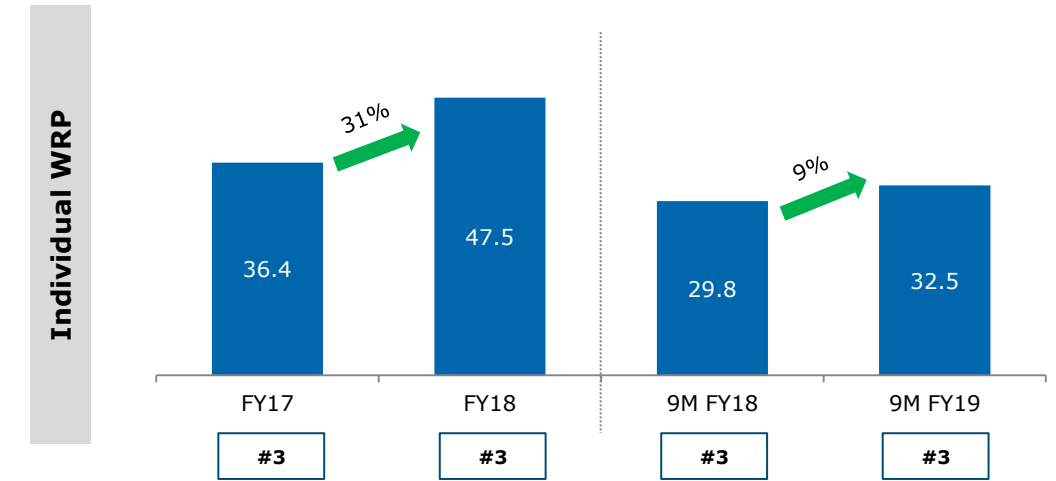
Leadership in new business premium



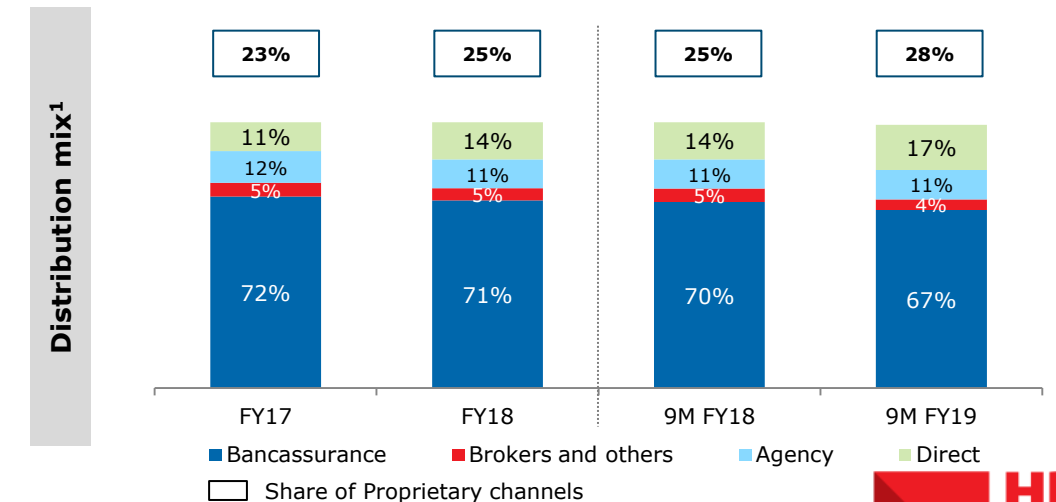
Maintaining a balanced product mix across business cycles



Sustained higher growth vs industry



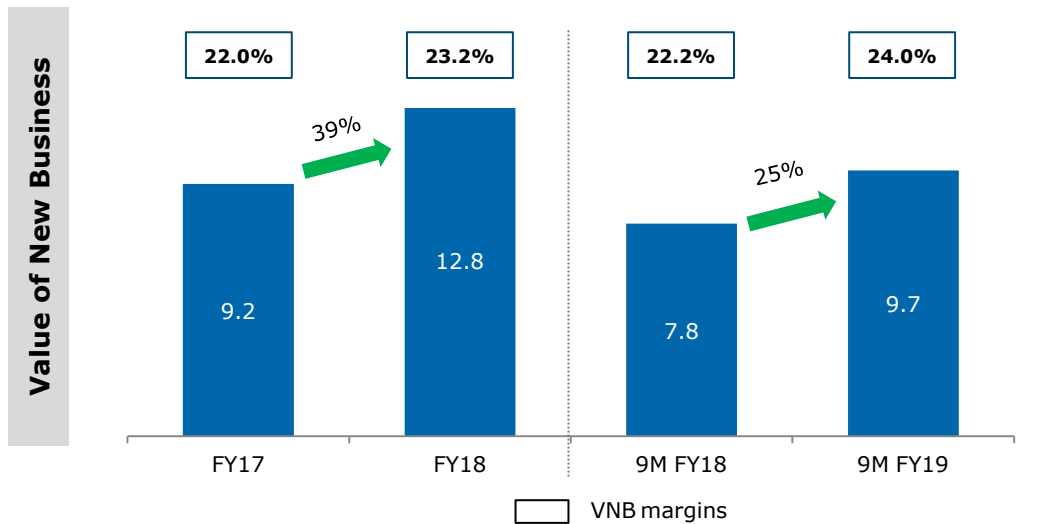
Focus on scaling proprietary channels



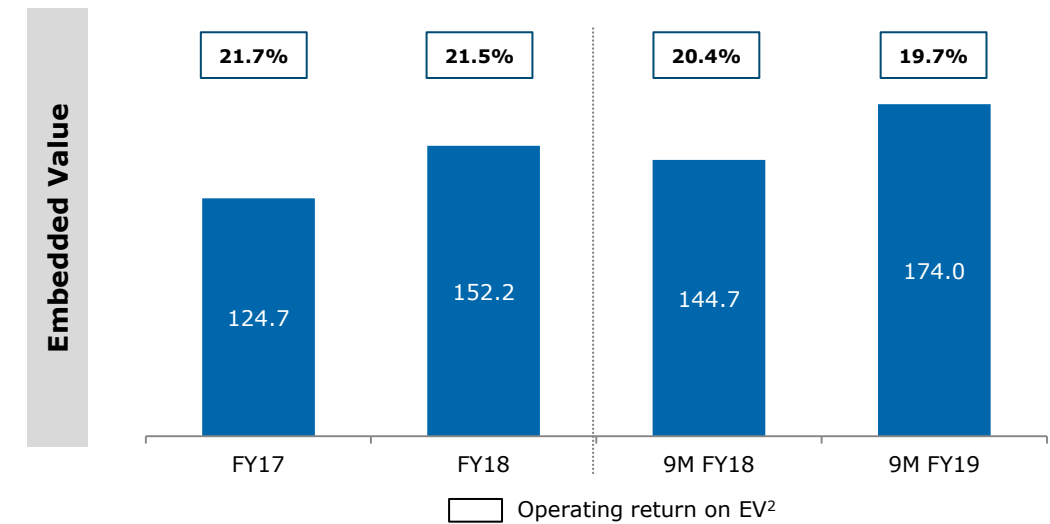
Rs bn

Performance snapshot: 9M FY19 (2/2)

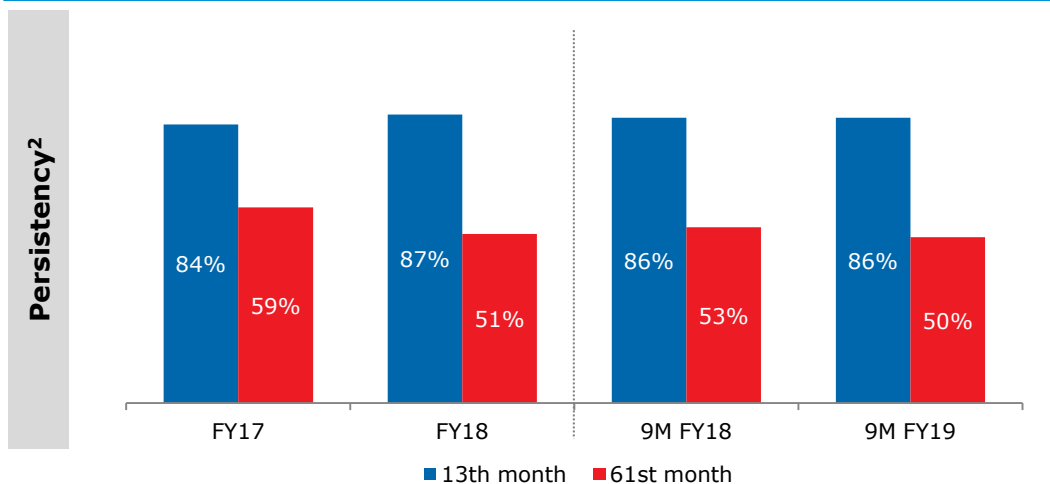
Industry leading VNB margins



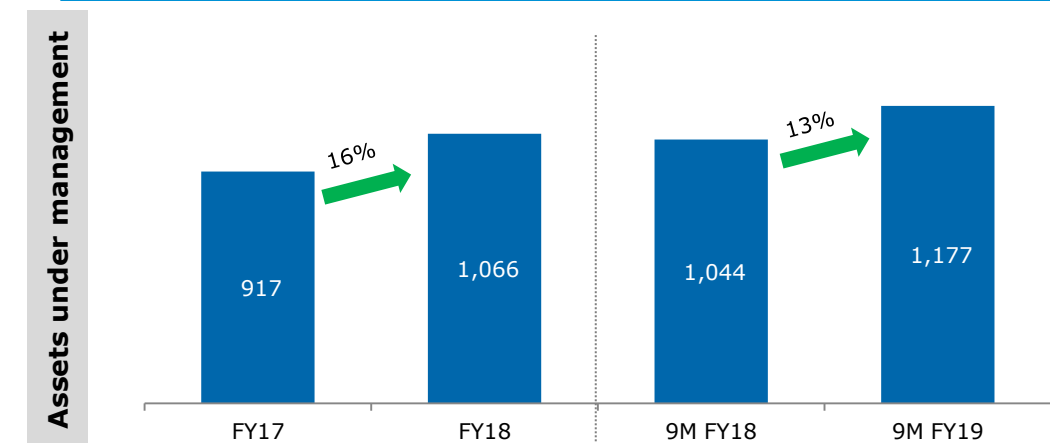
Healthy growth in Embedded Value¹



Stable persistency ratios



Showcased consistent growth in AUM



Rs bn

Notes: ¹ During 9M FY18, there was a one time operating assumption change of positive Rs 1.4 bn based on review by an external actuary as part of the IPO process. Excluding this one time adjustment, Operating return on EV would have been 18.7% for 9M FY18; ² 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
PS: The numbers throughout the presentation are based on standalone financial results of the Company

Financial and operational snapshot (1/2)

	FY16	FY17	FY18	CAGR	9M FY18	9M FY19	Growth
Key Metrics (Rs bn)							
New Business Premium (Indl+Group)	64.9	86.2	113.5	32%	70.7	99.4	41%
Renewal Premium (Indl+Group)	98.3	108.2	122.1	11%	75.4	89.2	18%
Total Premium	163.1	194.5	235.6	20%	146.1	188.6	29%
Overall APE	37.1	41.9	55.3	22%	35.1	40.5	16%
Group Premium (NB)	28.3	44.2	54.1	38%	35.8	49.6	39%
Profit after Tax	8.2	8.9	11.1	16%	7.6	9.1	20%
- Policyholder Surplus	6.8	7.5	8.5	11%	6.0	7.2	19%
- Shareholder Surplus	1.4	1.4	2.6	38%	1.6	1.9	21%
Dividend Paid ⁽¹⁾	2.2	2.6	3.3	23%	3.3	-	NA
Assets Under Management	742.5	917.4	1,066.0	20%	1,044.3	1,177.0	13%
Indian Embedded Value ⁽²⁾	102.3	124.7	152.2	22%	144.7	174.0	20%
Networth ⁽³⁾	31.5	38.1	47.2	22%	43.6	56.9	31%
NB (Individual and Group segment) lives insured (Mn)	15.4	20.9	33.2	47%	20.4	34.8	71%
New Business Sum Assured ⁽⁴⁾	2,714.9	3,887.6	4,734.5	32%	3,196.8	4,069.4	27%
No. of Individual Policies (NB) sold (In 000s) ⁽⁵⁾	1,150.3	1,082.3	1,049.6	-4%	689.9	664.6	-4%

Notes:

1. Including dividend distribution tax (DDT)
 2. 9M FY18 / 9MFY19 based on internal company analysis. IEV excluding investment variance has grown at 19% CAGR between FY16-18 and by 24% for the trailing 12m period
 3. Comprises share capital, share premium and accumulated profits/(losses)
 4. Comprises individual and group business
 5. Including rural policies
- PS Previous year group numbers have not been reclassified based on current year numbers for FY16 and FY17

Financial and operational snapshot (2/2)

	FY16	FY17	FY18	9M FY18	9M FY19
Key Ratios					
Overall New Business Margins (post overrun)	19.9%	22.0%	23.2%	22.2%	24.0%
Operating Return on EV ⁽¹⁾	20.7%	21.7%	21.5%	20.4%	19.7%
Operating Expenses / Total Premium	11.6%	12.6%	13.5%	14.2%	13.8%
Total Expenses (Opex + Commission) / Total Premium	15.9%	16.7%	18.0%	18.7%	17.6%
Return on Equity ⁽²⁾	28.7%	25.7%	26.0%	24.9%	23.4%
Solvency Ratio	198%	192%	192%	191%	191%
Persistency (13M / 61M) ⁽³⁾	81%/50%	84%/59%	87%/51%	86%/53%	86%/50%
Market Share (%)					
- Individual WRP	14.7%	12.7%	13.3%	12.8%	12.6%
- Group New Business	18.3%	24.3%	28.5%	28.6%	28.2%
- Total New Business	15.8%	17.2%	19.1%	18.4%	21.0%
Business Mix (%)					
- Product (UL/Non par savings/Non par protection/Par) ⁽⁴⁾	56/9/5/30	52/9/4/35	57/9/5/28	59/8/5/27	59/14/7/20
- Indl Distribution (CA/Agency/Broker/Direct) ⁽⁴⁾	75/12/4/9	72/12/5/11	71/11/5/14	70/11/5/14	67/11/4/17
- Total Distribution (CA/Agency/Broker/Direct/Group) ⁽⁵⁾	40/8/2/7/43	32/7/2/7/52	33/7/2/10/48	32/6/2/9/51	27/6/2/15/50
- Share of protection business (Basis Indl APE)	5.2%	4.0%	5.1%	5.2%	6.7%
- Share of protection business (Basis Overall APE)	7.3%	7.8%	11.3%	11.6%	16.6%
- Share of protection business (Basis NBP)	17.2%	21.8%	25.9%	27.3%	28.1%

Notes:

- During 9M FY18, there was a one time operating assumption change of positive Rs 1.4 bn based on review by an external actuary as part of the IPO process. Excluding this one time adjustment, Operating return on EV would have been 18.7% for 9M FY18
 - Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits)
 - Persistency ratios (based on original premium). Group business, where persistency is measurable, has been included in the calculations.
 - Based on individual APE. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off
 - Based on total new business premium including group. Percentages are rounded off
- PS Previous year group numbers have not been reclassified based on current year numbers for FY16 and FY17

Performance Snapshot

B

Key Differentiators

Annexures

India Life Insurance

Key Differentiators

1

Balanced distribution mix

Developing multiple channels of growth to drive contextual, need-based product distribution

2

Market-leading product innovation

Effective risk management driving product designs that cater to innate and latent customer needs, 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

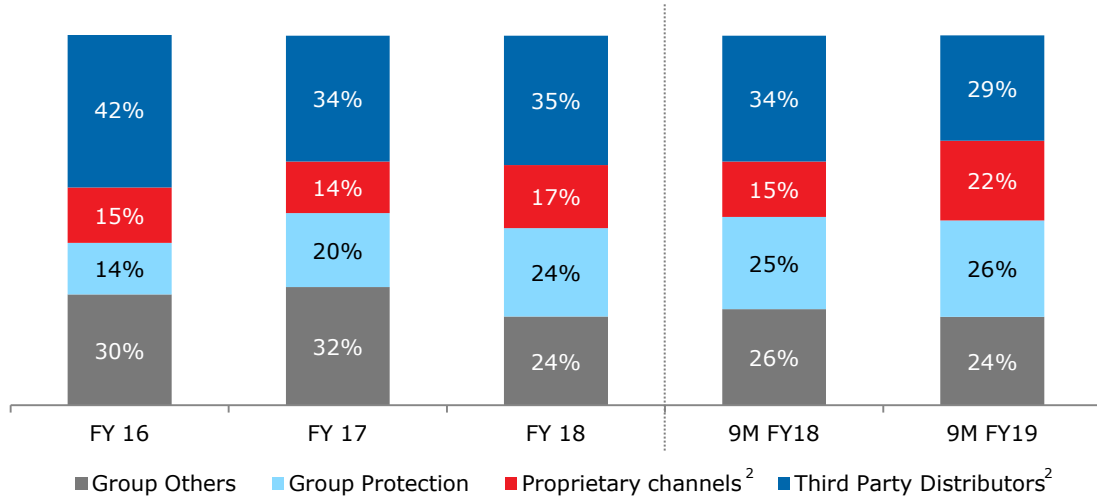
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Quality of Board and management

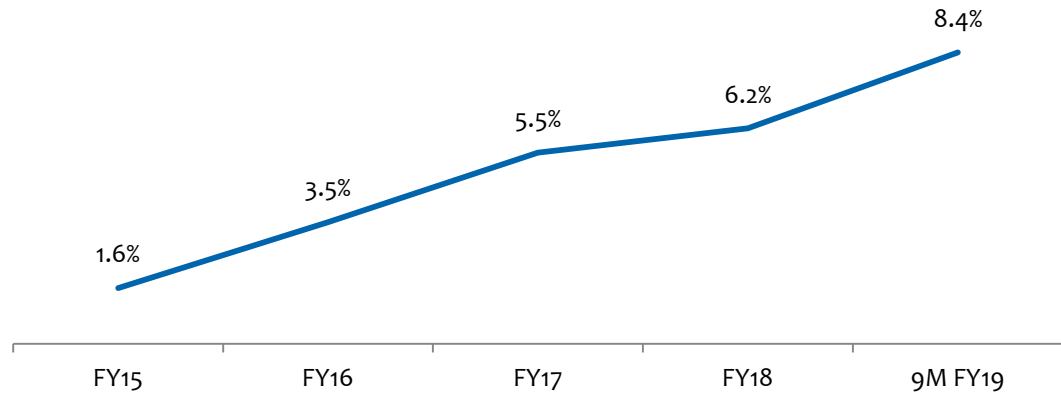
Seasoned leadership guided by an independent and competent Board

Constant endeavour to diversify distribution mix

Stable distribution mix (based on total NBP)



Optimizing cross-sell opportunities¹



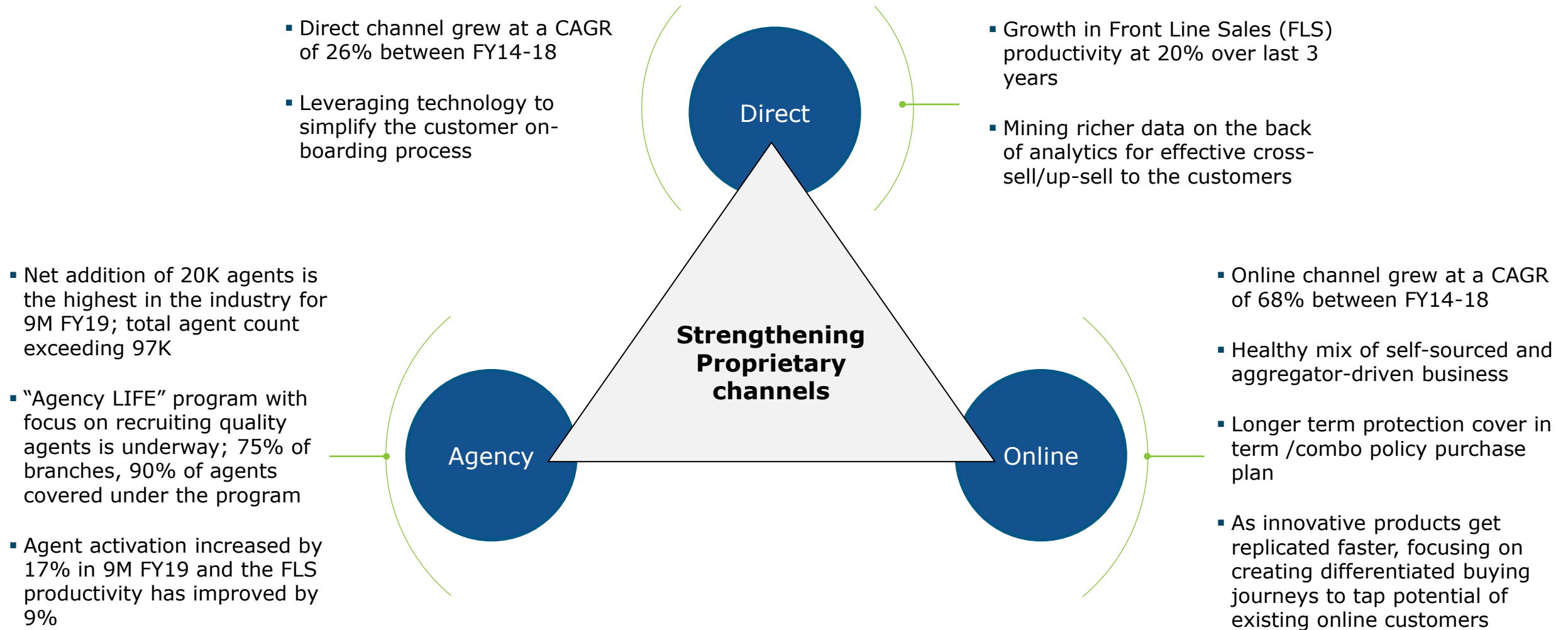
Strong diversified network of 246 partners incl. new ecosystems



Developing alternate channels of distribution – foraying into multiple eco-systems through newer partnerships



Focus on developing proprietary channels



Balanced
distribution mix

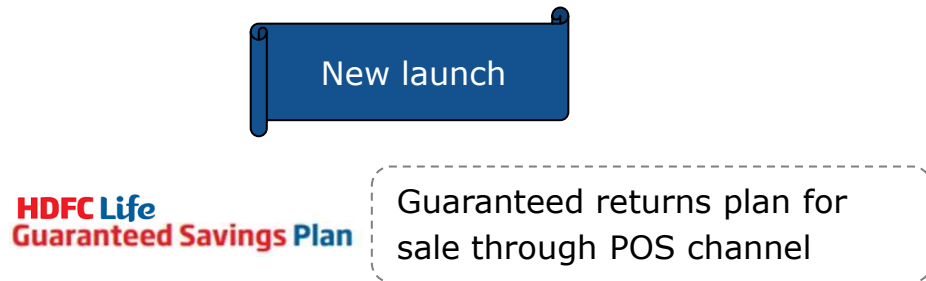
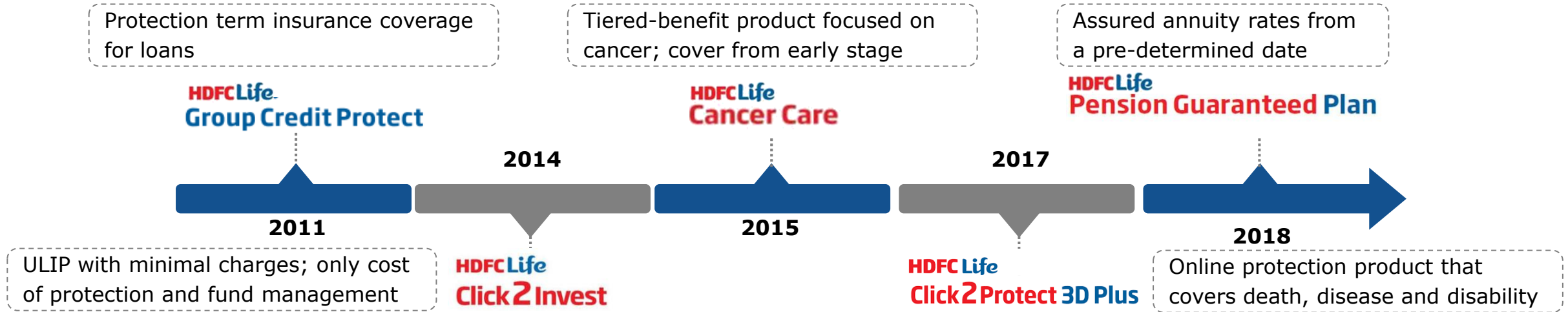
Product
innovation

Profitable growth

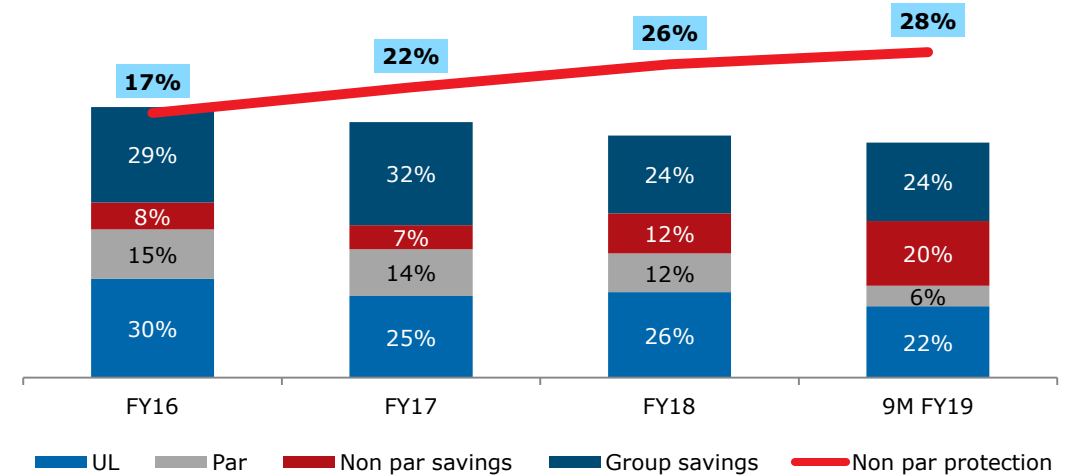
Reimagining
insurance

Quality of Board
and management

Expanding market through constant product innovation



Increasing share of protection (Basis NB Premium)



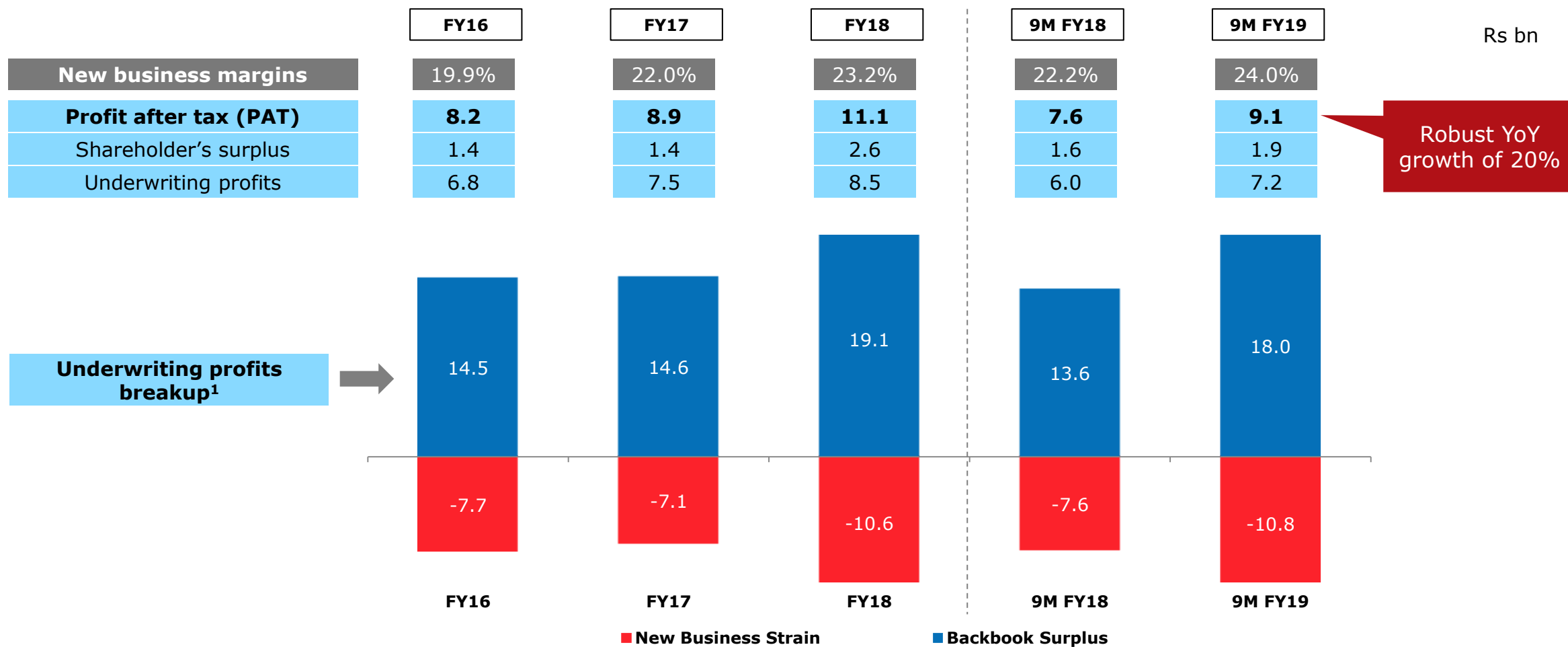
Product mix across key channels

Channel summary ¹	Segment	FY16	FY17	FY18	9M FY18	9M FY19
Banca²	UL	66%	61%	64%	67%	71%
	Par	24%	30%	26%	24%	15%
	Non par protection	2%	1%	1%	1%	2%
	Non par others	9%	8%	9%	8%	12%
Agency	UL	25%	26%	33%	35%	26%
	Par	56%	57%	48%	47%	49%
	Non par protection	13%	11%	11%	11%	13%
	Non par others	6%	7%	8%	7%	13%
Direct	UL	45%	48%	54%	58%	49%
	Par	24%	22%	12%	11%	6%
	Non par protection	23%	18%	21%	21%	21%
	Non par others	8%	13%	13%	9%	23%
Company	UL	56%	52%	57%	59%	59%
	Par	30%	35%	28%	28%	20%
	Non par protection	5%	4%	5%	5%	7%
	Non par others	9%	9%	9%	8%	14%
Protection mix (Basis Indl APE)		5%	4%	5%	5%	7%
Protection mix (Basis Indl + Group APE)		7%	8%	11%	12%	17%
Protection mix (Basis Indl + Group NBP)³		17%	22%	26%	27%	28%

Notes:

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

Focus on profitable growth



- Steady unwind of profits from the back book significantly higher than the new business strain caused by growth in business, resulting in healthy underwriting profits

Balanced
distribution mix

Product
innovation

Profitable growth

Reimagining
insurance

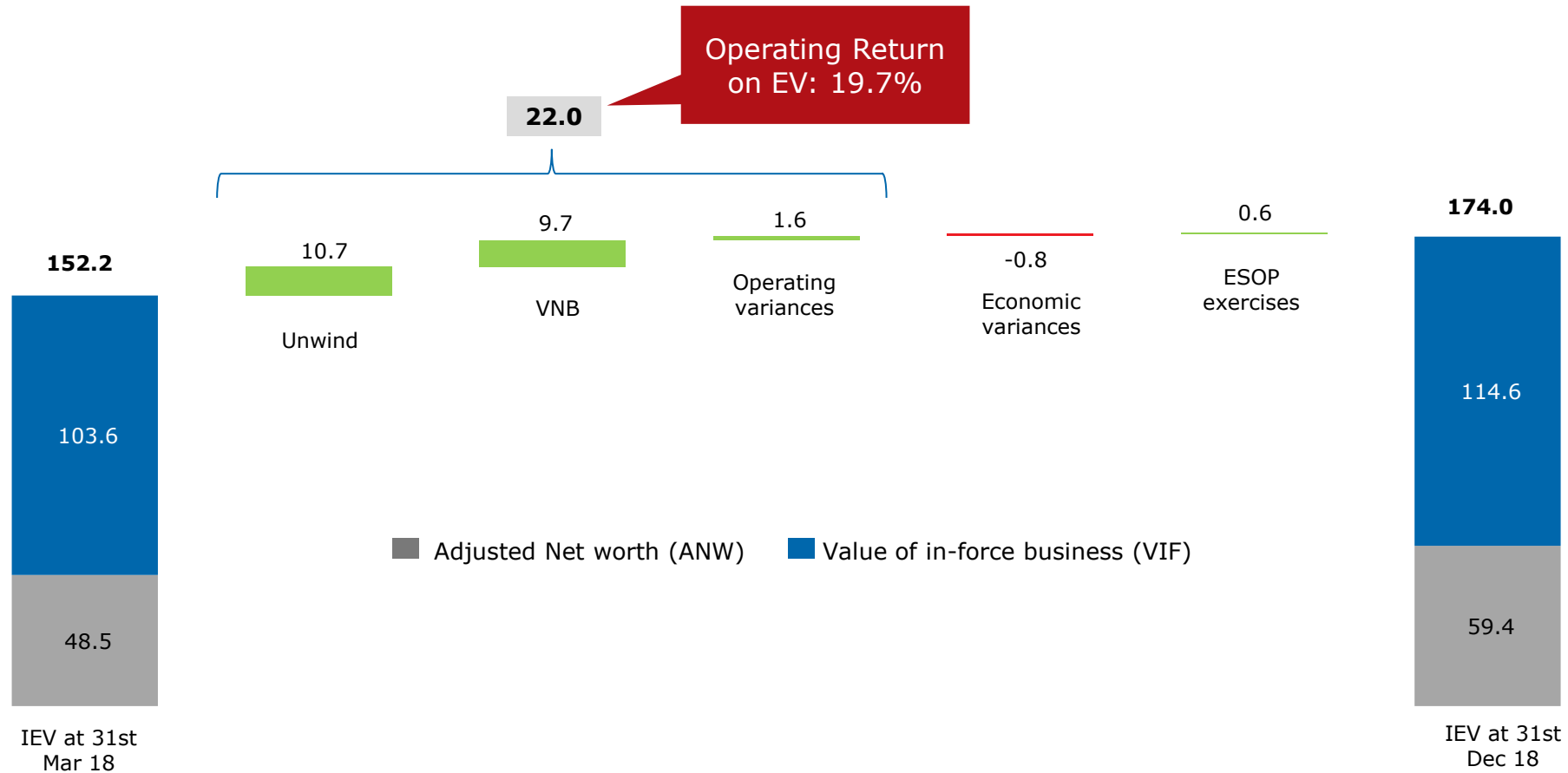
Quality of Board
and management

Note:

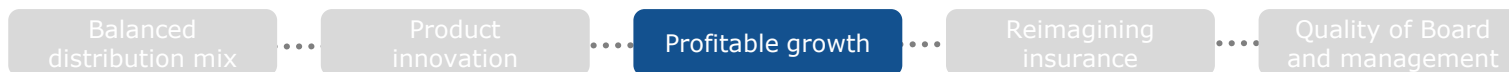
1. Based on internal Company analysis, numbers may not add up due to rounding off

Analysis of change in IEV

Rs bn



- Consistently delivered healthy operating returns on EV
- Continue to showcase positive operating variances over the last four years



Reimagining insurance



Real-time fulfillment

- Faster processing through instant data flow, e-KYC integration
- Robotics-led optimization has led to efficient processes



- 41% policies issued on the same day
- 96% of documents uploaded digitally
- 97% servicing requests¹ fulfilled in 8 hours



Ensuring suitability

- Video-enabled confirmation of customer understanding (pre-issuance)
- Automated suitability matrix to mitigate mis-selling



- 63% of verification via app
- Complaint reduction from 81 to 71 per 10K policies
- Facilitate distributor/customer engagement



Capability to customize

- Pre-approved sum assured on partner website/ mobile apps
- Customized new business and renewal collection process



- 45% apps sourced on mobile devices
- 83% of policy renewal via online & debit modes

Balanced
distribution mix

Product
innovation

Profitable growth

Reimagining
insurance

Quality of Board
and management

Quality of Board and Management

Experienced senior management

Seasoned senior management team with rich experience in financial services

Track record of delivering consistent results across business cycles

Independent and illustrious Board

Active, well-informed and independent Board oversees how the management serves and protects the interests of all stakeholders

Encouragement from Board to calibrate business strategies to harness new pools of profitability

Key Governance forums

More than 25 governance forums run within the company

Risk management

Disciplinary Panel for Malpractices

POSH

Whistle-blower Committee

Compliance Council

Policyholder protection

Claims Review

Information and Cyber Security Council

Product Council

Balanced distribution mix

Product innovation

Profitable growth

Reimagining insurance

Quality of Board and management

Performance of wholly-owned subsidiary¹ companies



HDFC Pension

- Market share grew from 21.4% in Mar'18 to 25.0% in Dec'18 amongst all Pension Fund Managers (PFM)
- Saw a YoY growth of 93% in AUM to Rs 39.7 bn as on Dec 31, 2018
- Company ranks #1 in Corporate subscribers base, #2 amongst all PFMs in Net Fund Flow, Retail subscriber base and AUM
- Total subscriber base is around 2.9 lakhs as on Dec 31, 2018



HDFC International Life and Re

- Our Dubai based subsidiary continues to work with reputable cedants
- Revenue lines consist of reinsurance of individual life products and group life & credit schemes from GCC / MENA based ceding insurers
- Registered growth of 107% in revenue and continues to be profitable for 9M FY19
- S&P Global Ratings has assigned its 'BBB' long-term insurer financial strength rating to the company

Agenda

Performance Snapshot

Key Differentiators

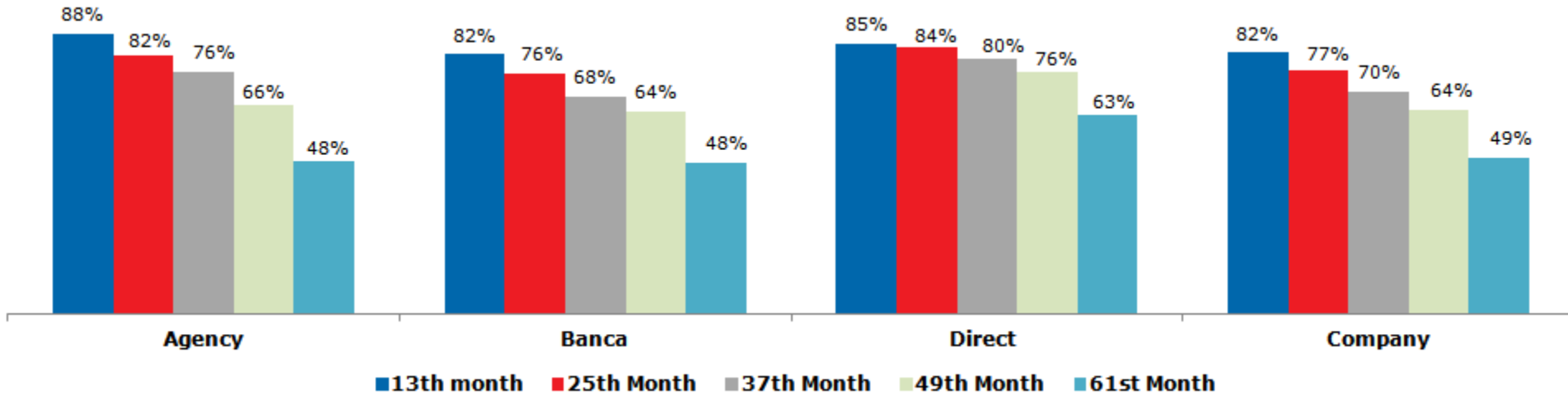
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Annexures

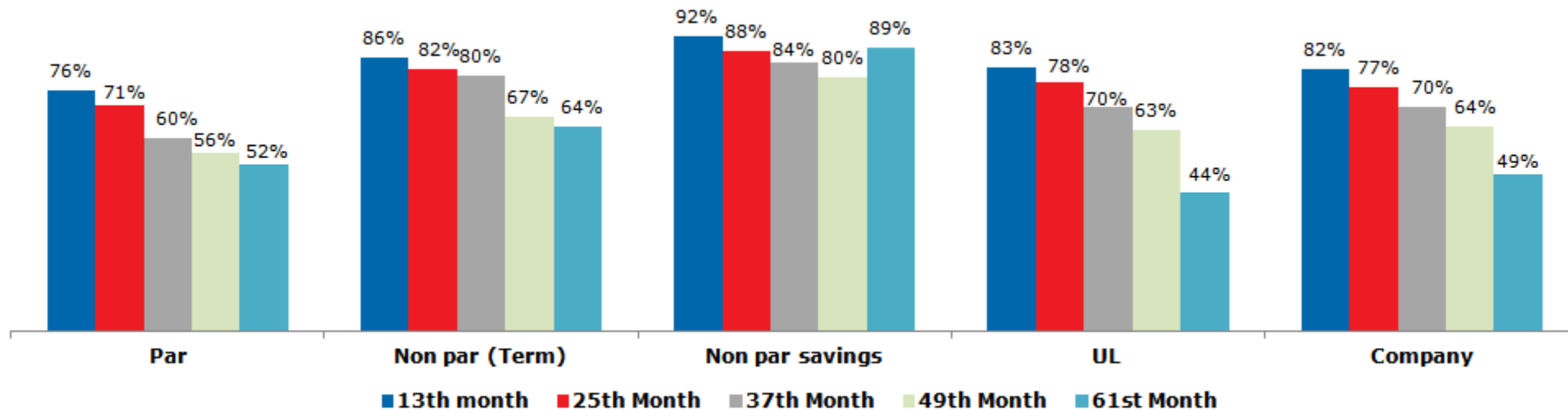
India Life Insurance

Individual persistency for key channels and segments

Across key channels

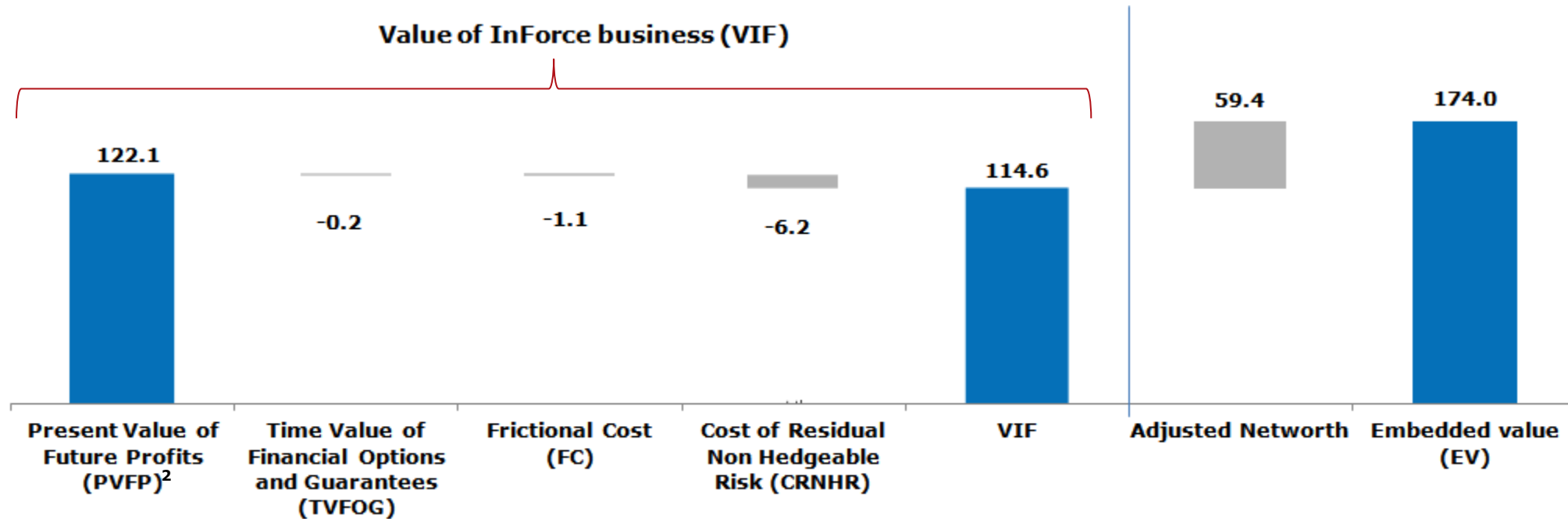


Across key segments



Indian Embedded Value (IEV)¹

Rs bn

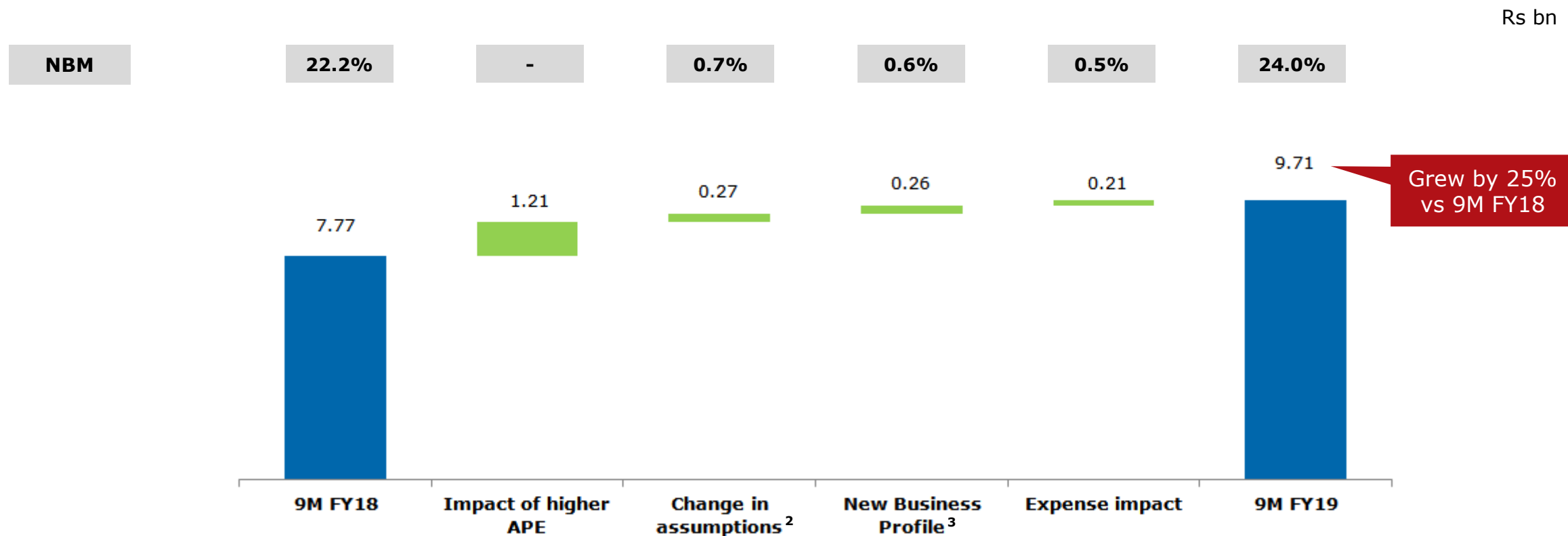


- Significant proportion of VIF at 2/3rd of the total Embedded value
- TVFOG includes cost of guarantees for conventional participating and unit linked products

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 walkthrough¹



Note:

1. Based on internal Company analysis
2. Impact of change in mainly persistency and mortality assumptions revised during annual review in March'18
3. Reflects the impact of difference in mix of segment/distribution channel/tenure/age/sum assured multiple etc

Sensitivity analysis: H1 FY19

Analysis based on key metrics	Scenario	% Change in VNB ¹	Change in VNB Margin ¹	% Change in EV
Change in				
Reference rate	Increase by 1%	0.85%	0.21%	-2.00%
	Decrease by 1%	-2.30%	-0.56%	2.10%
Equity market movement	Decrease by 10%	-1.03%	-0.25%	-1.60%
Persistency (Lapse rates)	Increase by 10%	-3.47%	-0.84%	-1.60%
	Decrease by 10%	3.67%	0.89%	1.70%
Maintenance expenses	Increase by 10%	-2.19%	-0.53%	-0.60%
	Decrease by 10%	2.19%	0.53%	0.60%
Acquisition Expenses	Increase by 10%	-15.27%	-3.71%	NA
	Decrease by 10%	15.27%	3.71%	NA
Mortality / Morbidity	Increase by 5%	-5.99%	-1.46%	-0.90%
	Decrease by 5%	5.99%	1.46%	0.90%
Tax rate²	Increased to 25%	-13.96%	-3.39%	-6.40%

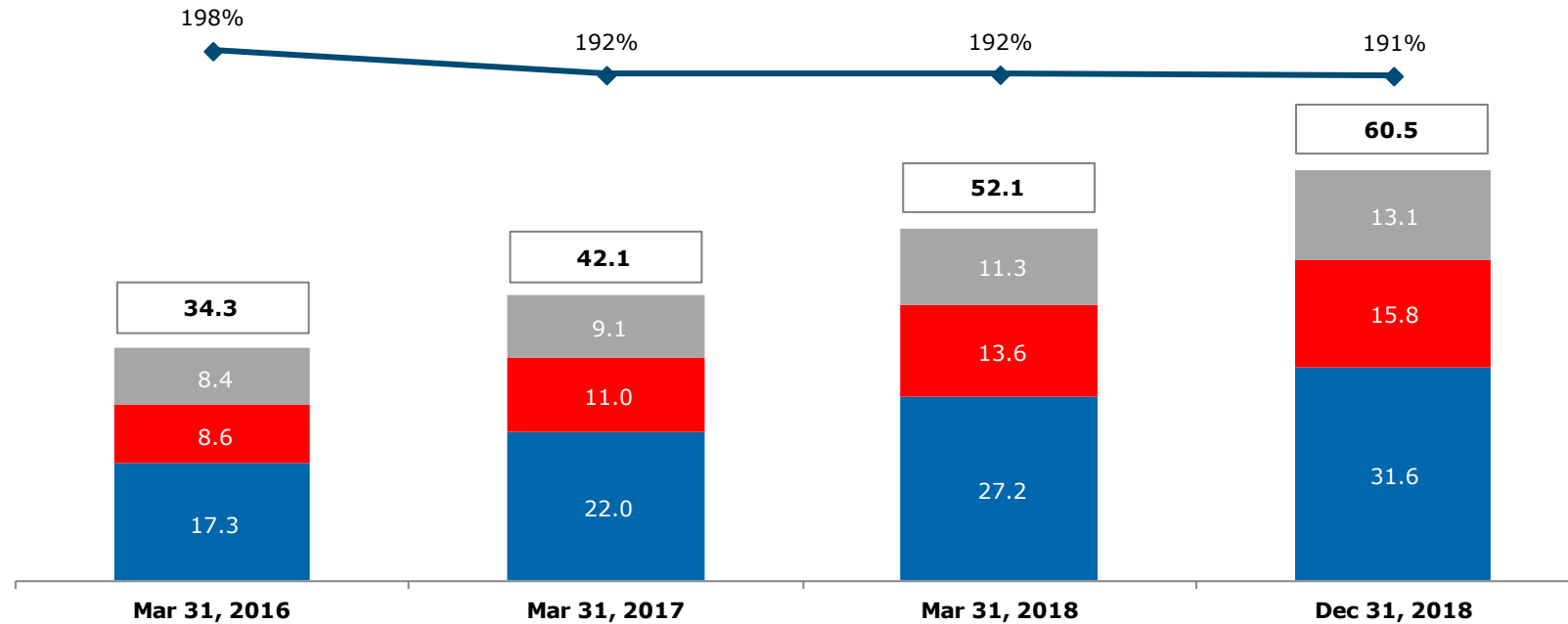
Notes:

1. Post overrun total VNB for Individual and Group business
2. 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.

Stable capital position

Rs bn

Dividend paid	2.2	2.6	3.3	-
New business growth	18%	33%	32%	41%



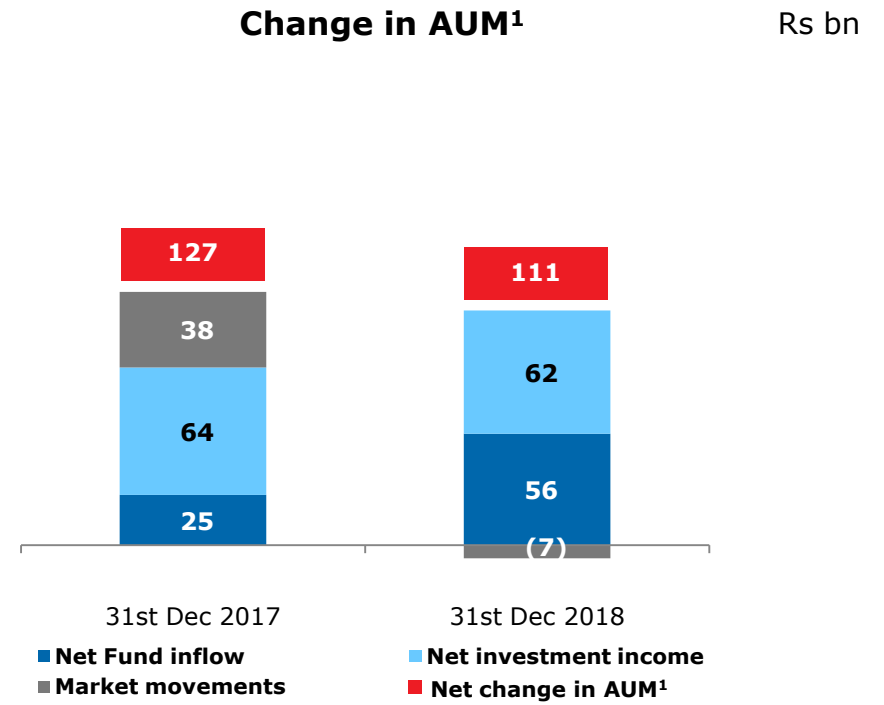
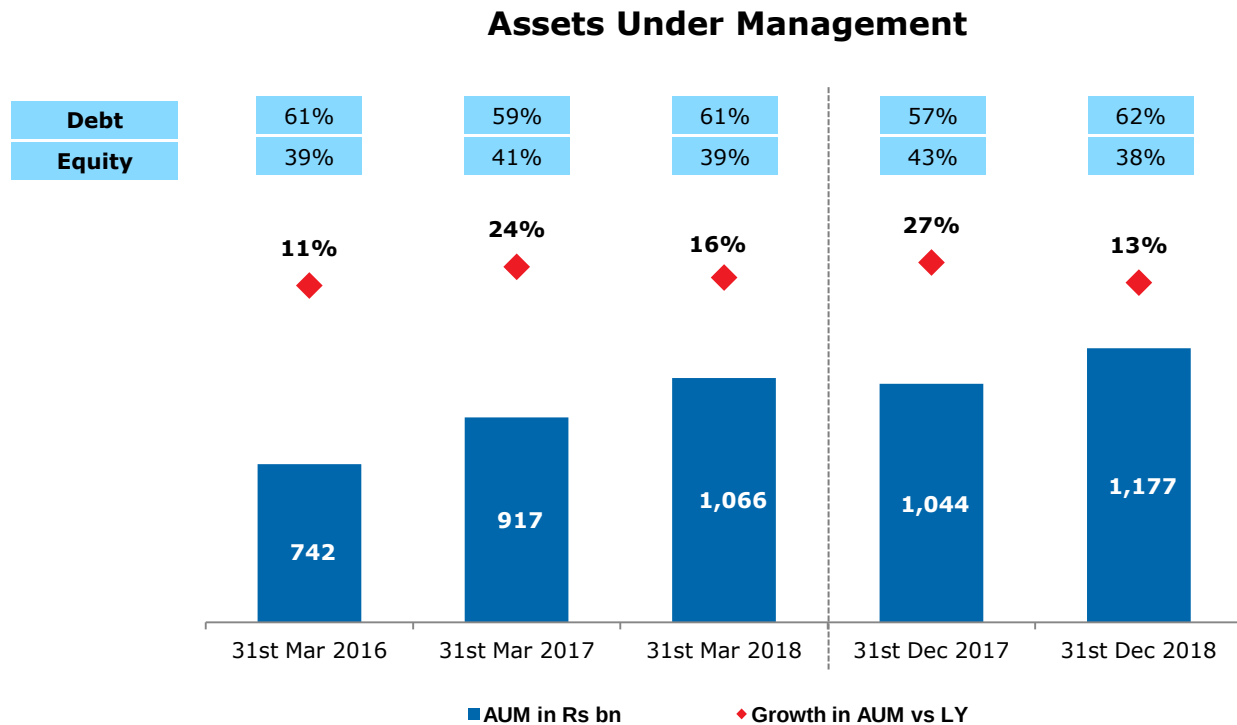
 ASM¹
 RSM @ 100%¹
 Incremental RSM @ 150%
 Surplus Capital
 Solvency margin^{2,3}

- Internal accrual of surplus from backbook has supported the capital requirement for robust new business growth
- Track record of healthy dividend payouts
- No capital infused in last seven years (except through issuance of ESOPs)

Notes:

1. ASM represents Available solvency margin and RSM represents Required solvency margin
2. Investment in subsidiaries not considered in solvency margin.
3. No capital infusion required even if NB APE grows at CAGR of 50% in the next 3 years

Assets under management

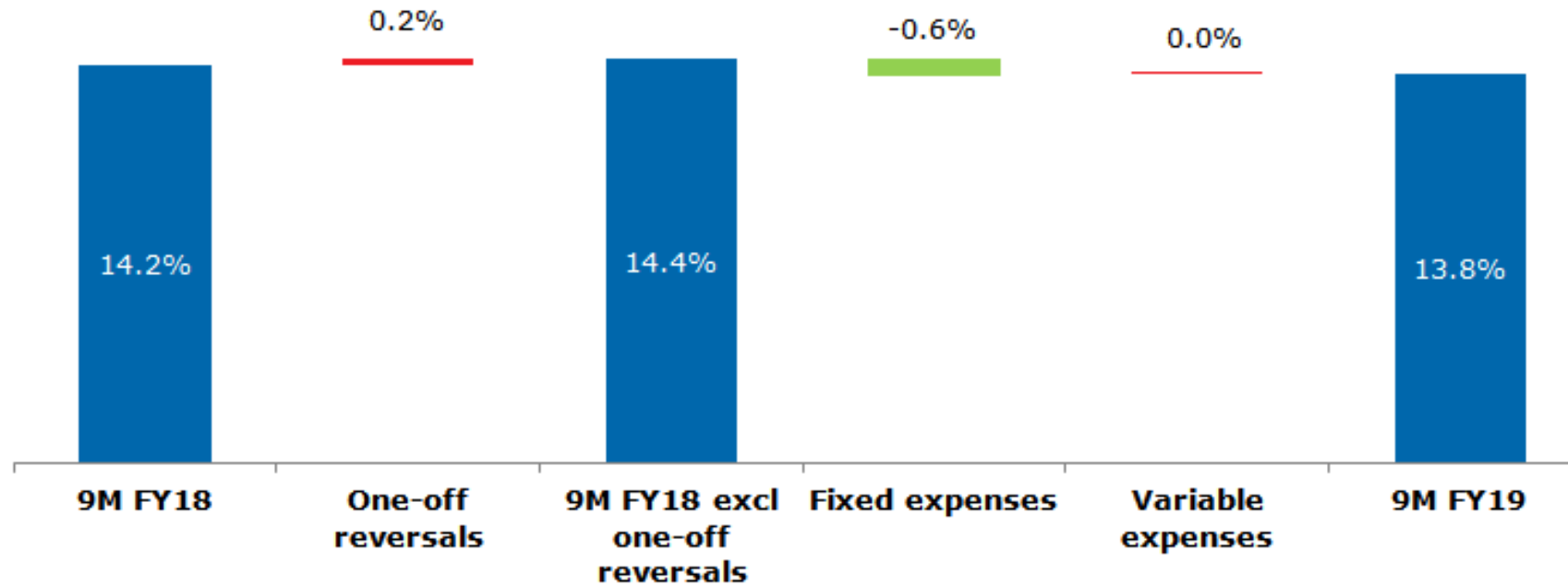


- Continue to rank amongst top 3 private players, in terms of assets under management²
- Over 96% of debt investments in AAA rated and Government bonds as on Dec 31, 2018
- Accretion to the AUM has been marginally impacted by the decline in the value of the investments due to volatile debt and equity markets

Notes:

1. Calculated as difference from April to December
2. Based on Asset under Management as on Sep 30, 2018

Operating expense trend



- Continue to focus our efforts in improving efficiency and rationalising costs through our various internal initiatives

Notes:

- One-off reversals comprise of reversal of previous year provisions relating to merger costs
- Fixed costs include employee, infrastructure, information technology costs and any other costs which are fixed in nature
- Variable costs include stamp duty, medical fees, sales incentives, brand awareness, operations support and any other costs which are linked to business

Agenda

Performance Snapshot

Key Differentiators

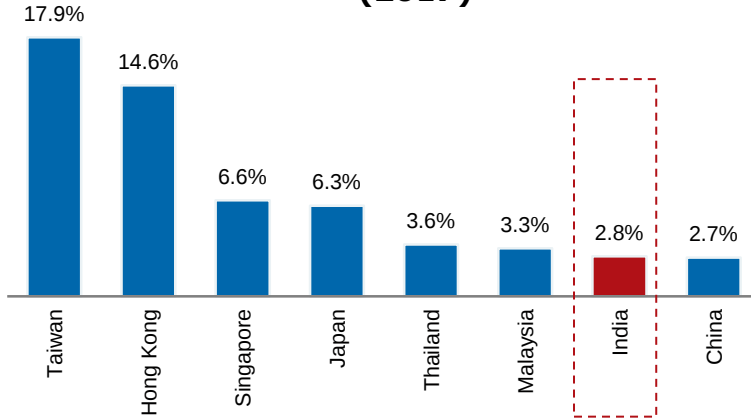
Annexures

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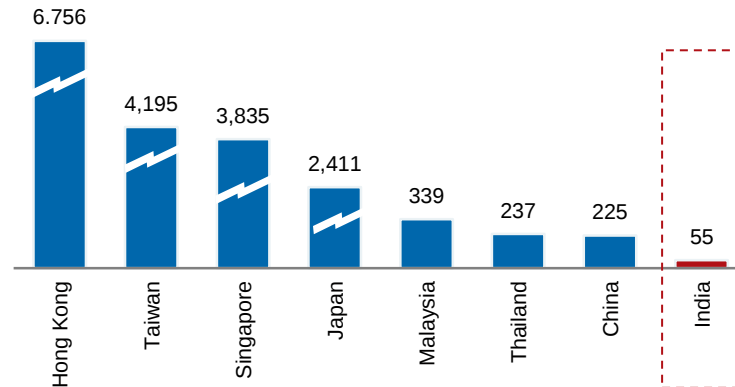
India Life Insurance

Growth opportunity: Under-penetration vs global benchmarks

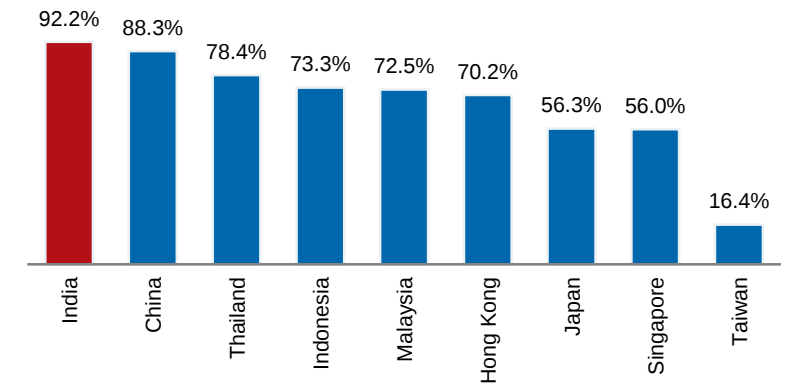
Life insurance penetration (2017)



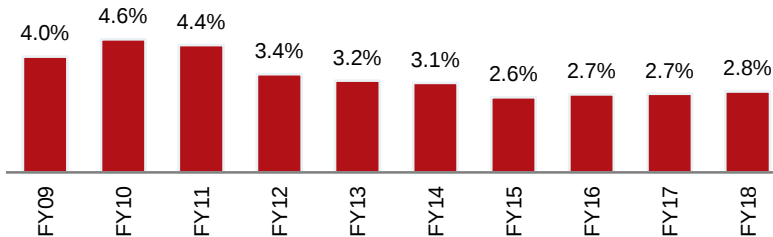
Life insurance density US\$ (2017)



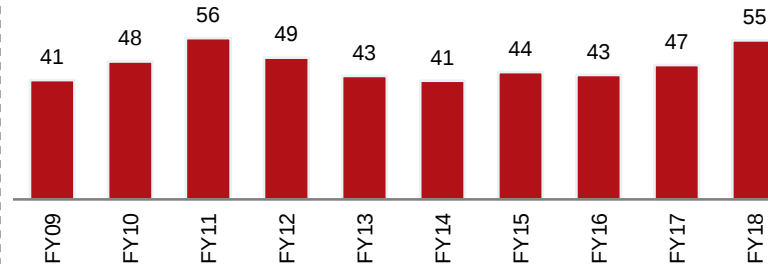
Protection gap (2014)



India life insurance penetration (FY09-18)



India life insurance density US\$ (FY09-18)



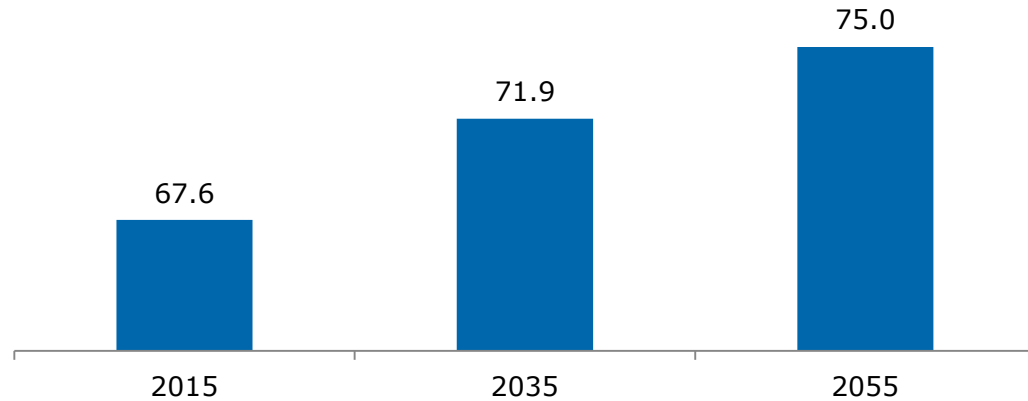
- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap has increased over 4x in last 15 years with significantly low insurance penetration and density

Note: Penetration as measured by premiums as % of GDP, Density defined as the ratio of premium underwritten in a given year to the total population

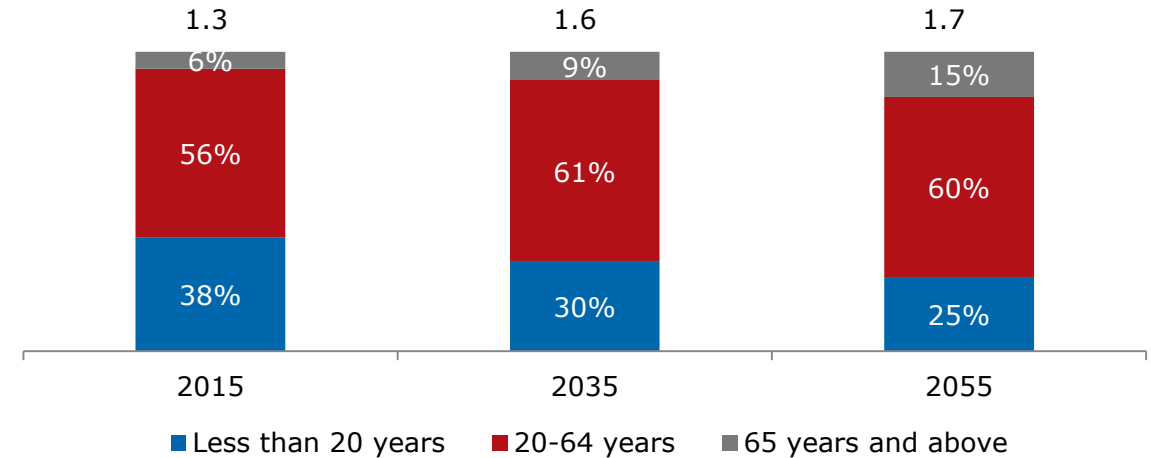
Source: Swiss Re (Based on respective financial year of the countries), MOSPI

Growth opportunity: Favourable demographics

Life expectancy (Years)¹



Population composition (bn)¹



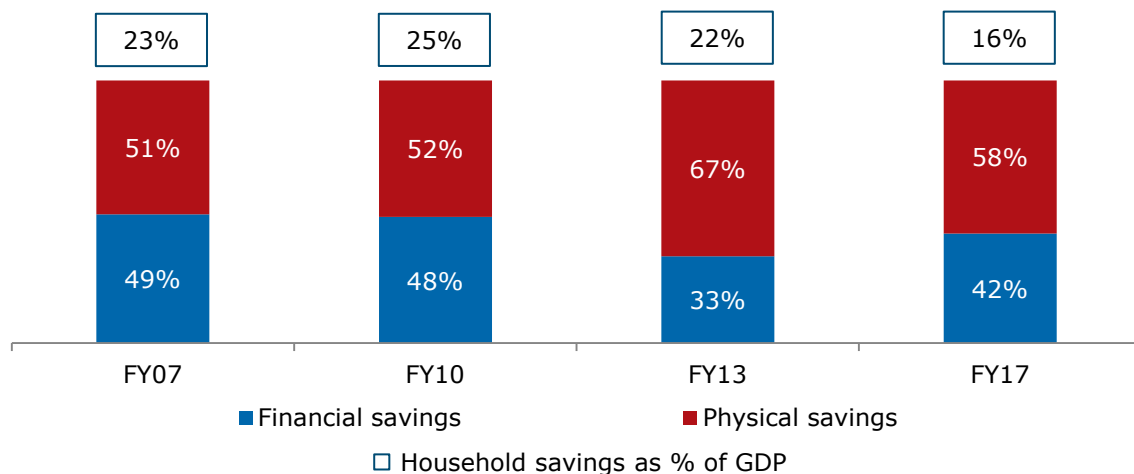
- India's insurable population is anticipated to touch 750 million by 2020
- India is currently one of the world's youngest nation, offering great opportunity for long term savings and investment plans
- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India's elderly population expected to increase by almost 100% by 2035 (as compared to 2015)
- Emergence of nuclear families and increasing life expectancy to facilitate need for pension and protection based products

Source:

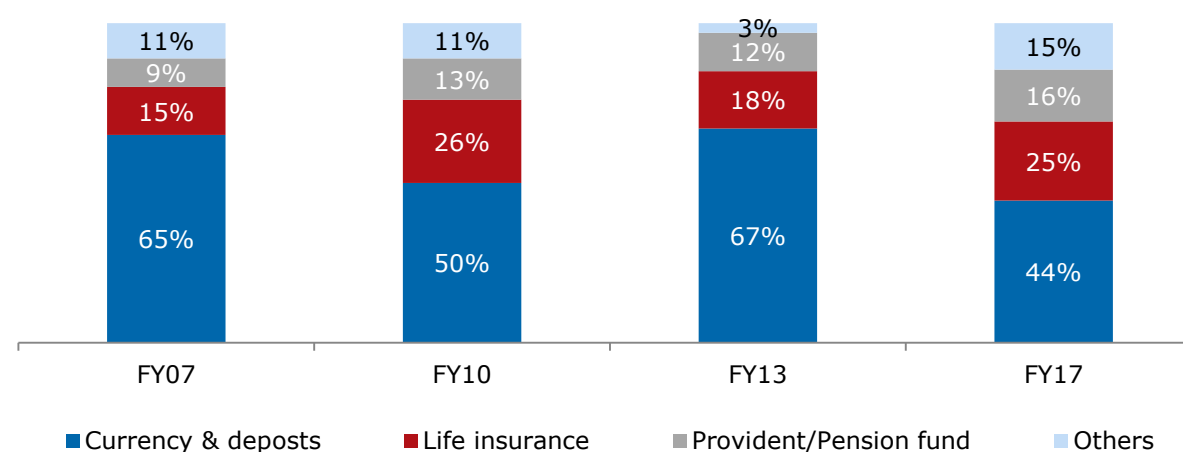
1. United Nations World Populations Prospects Report (2017)

Life insurance: A preferred savings instrument

Household savings composition

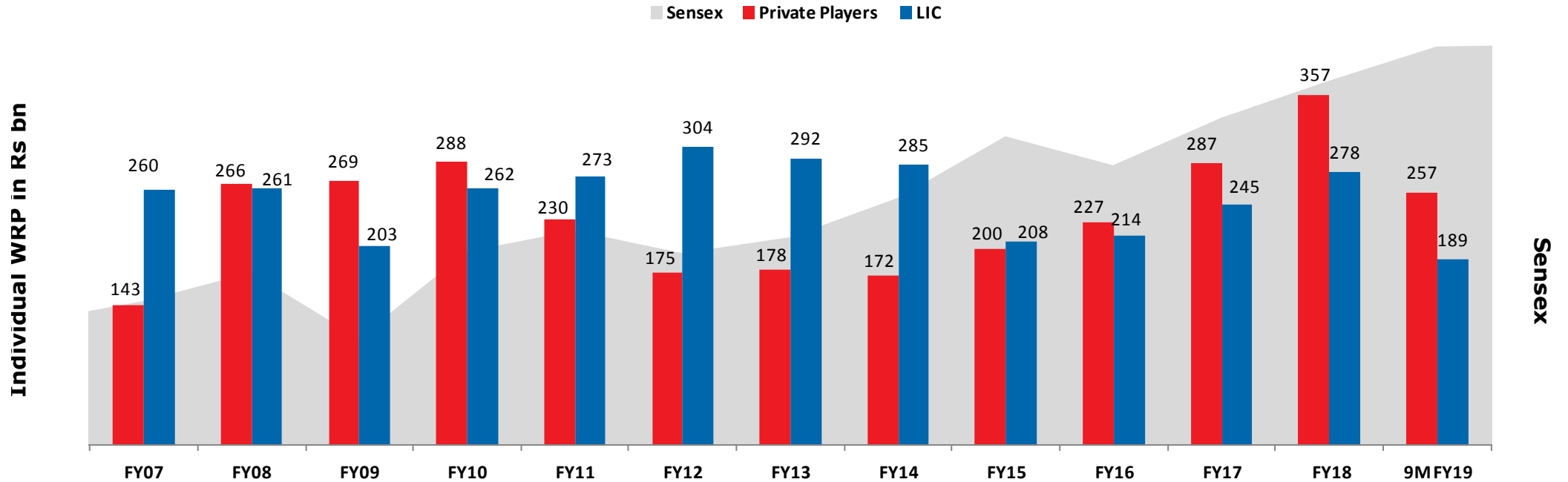


Financial savings mix



- Increasing preference towards financial savings with buoyant equity market returns, along with impact of demonetisation on physical assets return profile
- Increasing share of life insurance within financial assets, as it caters to long-term saving and protection needs
- Various government initiatives to promote financial inclusion:
 - Implementation of JAM trinity – around 338 mn new savings bank accounts opened till date
 - Launch of affordable PMJJBY and PMSBY social insurance schemes
 - Atal Pension Yojana promoting pension in unorganized sector
 - Set up of Small Finance Banks and Payment Banks to increase financial inclusion

Industry new business¹ trends



Private players market share

Growth %

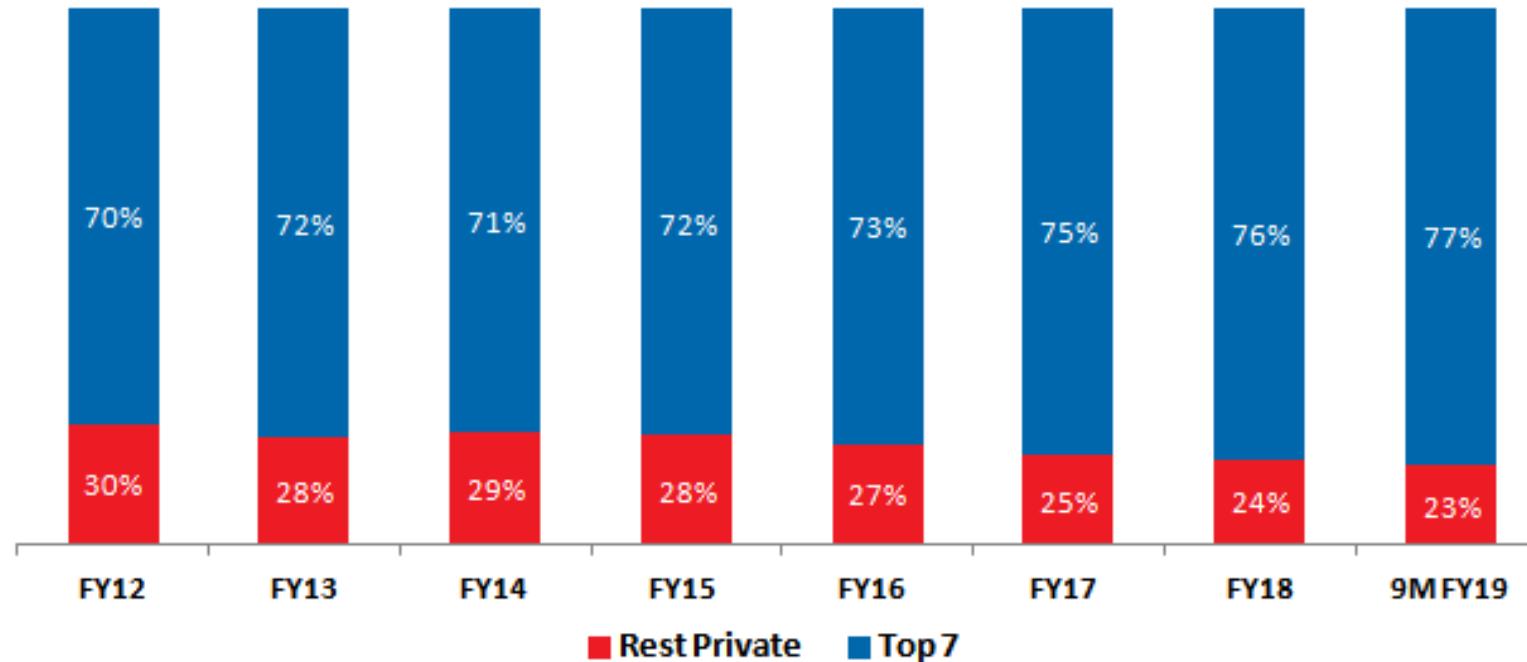
Private
LIC
Overall

	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	9MFY19
Private players market share	35%	50%	57%	52%	46%	37%	38%	38%	49%	52%	54%	56%	58%
Private	99%	86%	1%	7%	-20%	-24%	2%	-3%	16%	14%	26%	24%	11%
LIC	88%	0%	-22%	29%	4%	11%	-4%	-2%	-27%	3%	15%	13%	5%
Overall	92%	31%	-10%	17%	-9%	-5%	-2%	-3%	-11%	8%	21%	19%	8%

- Private sector gained higher market share than LIC for the first time in FY16, post FY11 regulatory changes
- Based on individual WRP private sector has outpaced LIC in last 3 years (FY16-18)

Private industry: Market share trends

Top 7 private players vs other players



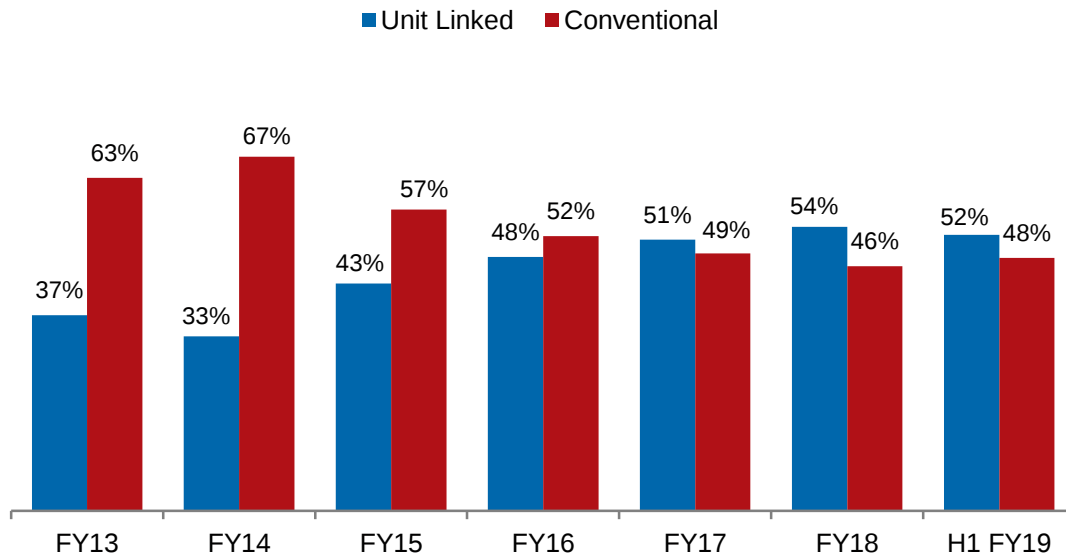
- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

Notes:

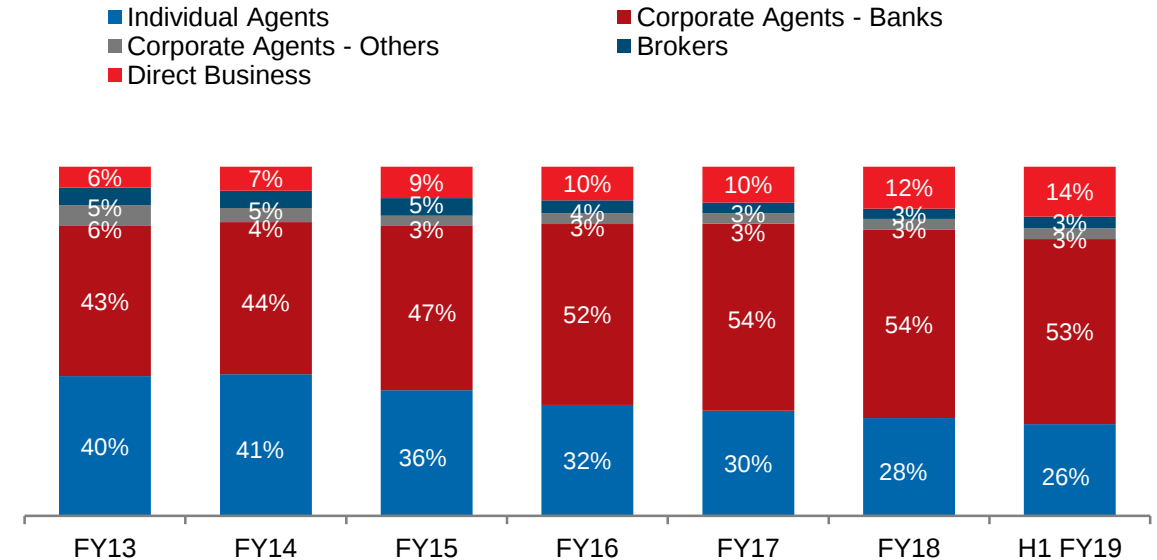
1. Basis Individual Weighted Received Premium (WRP) as disclosed by IRDAI, Life Insurance Council
2. Top 7 players based on 9M FY19 business numbers, comprising of ICICI Pru, SBI Life, HDFC Life, Max Life, Tata AIA, Bajaj Allianz and Birla Sun Life

Private industry: Product and distribution mix

Product mix¹



Distribution mix²



- Reduced distributors' payout and high expense structure led many players to move to traditional products over last few years, however the focus is changing towards linked products with improved equity market performance and increase in share of Banca
- Increasing thrust on protection business to help improve the new business margins
- Banca sourced business has consistently increased on the back of increasing reach of banks while share of Agency has declined post regulatory changes in FY11

Notes:

1. Basis Overall WRP (Individual and Group);

2. Basis Individual New business premia

Source: IRDAI and Life Insurance Council

Appendix

Revenue and Profit & Loss A/c

Particulars	FY17	FY18	9M FY18	9M FY19
Gross Premium Income	194.4	235.6	146.1	188.6
Reinsurance (net)	(1.7)	(1.9)	(1.4)	(1.8)
Net Premium Income (A)	192.7	233.7	144.7	186.8
Income from Investments				
Policyholders	111.4	86.0	95.3	52.7
Shareholders	2.3	2.8	1.8	2.4
Total Income from Investments (B)	113.7	88.8	97.1	55.1
Other Income (C)	1.0	1.2	1.1	1.1
Total Income (D=A+B+C)	307.4	323.7	242.9	243.0
Expenses and Outflow				
Commission	7.9	10.8	6.7	7.2
Operating expenses	24.5	31.7	20.7	26.0
GST / Service tax on UL charges	2.2	3.0	2.1	2.5
Benefits Paid ¹	100.0	131.1	87.0	93.0
Provision for diminution in value of investments	0.0	(0.0)	(0.2)	0.8
Change in Valuation Reserves (net)	160.5	133.2	117.5	103.3
Change in funds for future appropriations	1.6	0.9	0.9	0.2
Provision for tax	1.7	1.9	0.6	0.7
Total Expenses and Outflow (E)	298.5	312.6	235.3	233.8
Profit after tax (D-E)	8.9	11.1	7.6	9.1

Rs bn

Balance Sheet

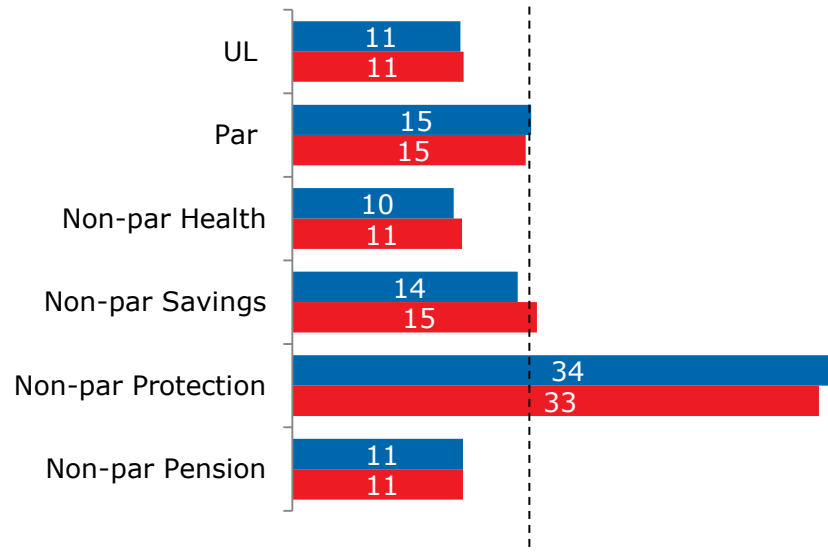
Rs bn

Particulars	31st Mar 2017	31st Mar 2018	31st Dec 2018
SOURCES OF FUNDS			
Capital invested (Share capital + Premium)	21.9	23.3	23.8
Reserves and Surplus	16.2	23.9	33.1
Credit / (Debit) Fair Value Change Account	0.3	0.3	0.0
Sub-Total	38.4	47.5	56.9
Policy Liabilities	323.8	423.2	501.3
Provision for Linked Liabilities	508.1	546.0	568.0
Funds for discontinued policies	29.9	25.9	29.1
Funds for Future Appropriations	8.7	9.6	9.8
Change in fair value account	4.0	6.2	8.4
Current Liabilities & Provisions	38.2	46.4	39.9
Total Liabilities	951.1	1,104.8	1,213.4
APPLICATION OF FUNDS			
Investments			
Shareholders	32.5	40.7	48.0
Policyholders' assets	346.9	453.5	531.9
Assets held to cover linked liabilities	538.0	571.8	597.0
Loans	0.5	0.2	0.5
Fixed Assets	3.5	3.4	3.4
Cash & Bank Balances	8.0	11.1	5.2
Advances & Other Assets	21.7	24.1	27.4
Debit Balance in Profit and Loss Account	-	-	-
Total Assets	951.1	1,104.8	1,213.4

Segment wise average term and age¹

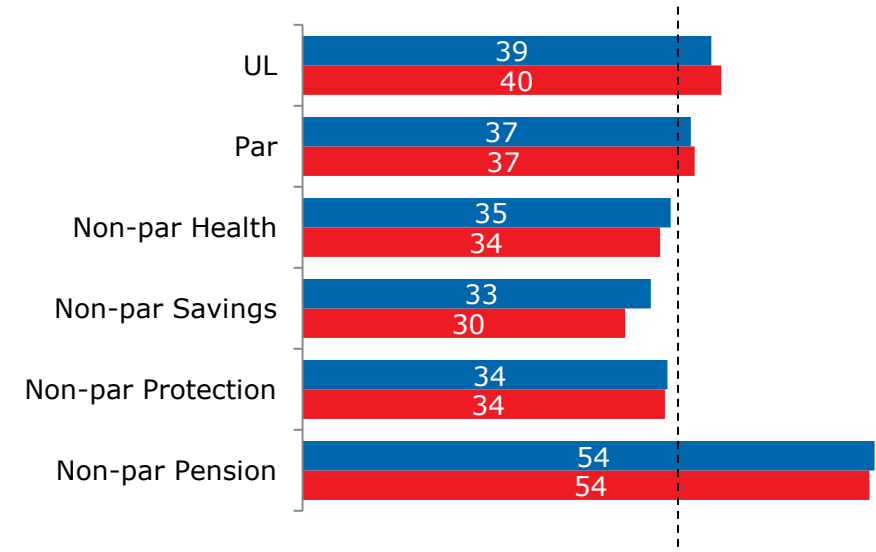
Average Policy Term (Yrs)

9M FY19: 15.0 (9M FY18: 14.4)



Average Customer Age (Yrs)

9M FY19: 36.7 (9M FY18: 37.2)



- 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

Indian Embedded value: Methodology and Approach (1/2)

Overview

Indian Embedded Value (IEV) 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.

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 assumptions¹

Years	Forward rates %		Spot rates %	
	As at Dec 31, 2018	As at Dec 31, 2017	As at Dec 31, 2018	As at Dec 31, 2017
1	7.00	6.55	6.77	6.34
2	7.39	7.12	6.95	6.61
3	7.65	7.55	7.09	6.83
4	7.82	7.85	7.20	7.01
5	7.93	8.07	7.28	7.16
10	8.02	8.42	7.50	7.59
15	7.95	8.38	7.56	7.75
20	7.94	8.32	7.58	7.82
25	7.98	8.30	7.60	7.85
30+	8.04	8.29	7.62	7.87

- **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 2019, the first instalment would fall into first year premiums for 2018-19 and the remaining 11 instalments in the first year would be first year premiums in 2019-20
- **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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