

HDFC Life Insurance

Investor presentation – FY18



A

Performance Snapshot

Additional Information

CSR Activities and Awards

India Life Insurance

Company overview

Financial snapshot

Total premium	Total NB	VNB ¹	IEV ¹	AUM	Net-worth	13M Persistency
Growth %	Growth %	NB margin (Post overrun) ¹	EVOP %	Growth %	ROE	61M Persistency
Rs 235.6 bn	Rs 113.5 bn	Rs 12.8 bn	Rs 152.2 bn	Rs 1,066.0 bn	Rs 47.2 bn	87%
21%	32%	23.2%	21.5%	16%	26.0%	51%

Operational snapshot



33.2 mn

Individual / group
lives insured



Rs 4,734 bn

New business
sum assured



17,609

Full-time
employees



149

Bancassurance
partners



22

Non-traditional
distribution
partners



414

Branches



11,200+

Partner
branches²

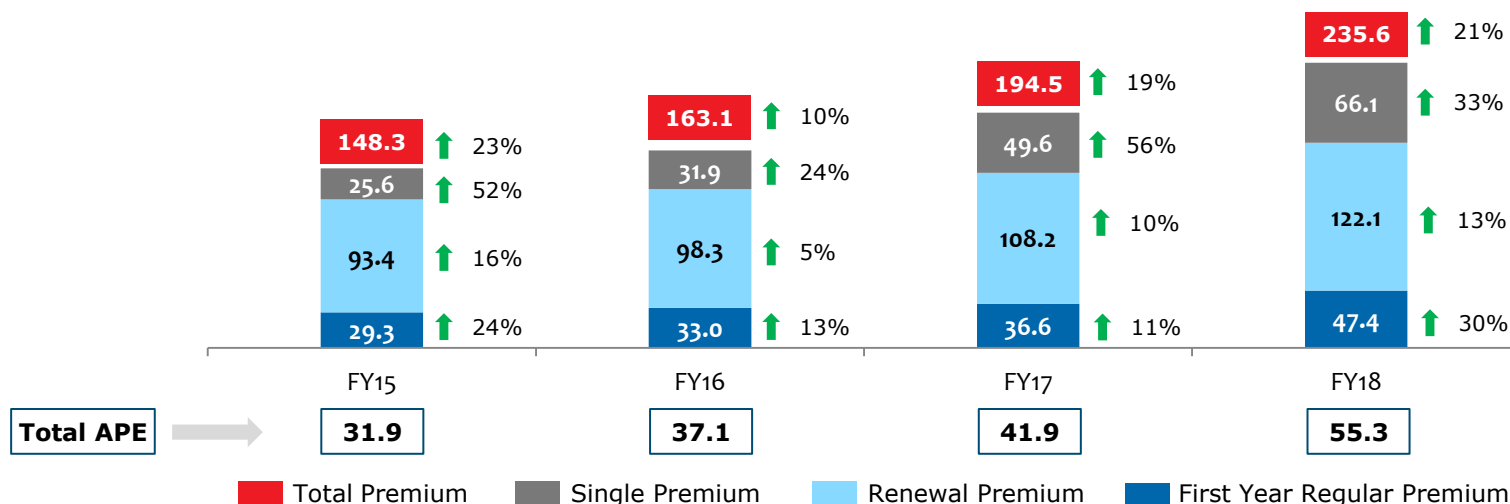
Notes: Financials based on standalone financial results of the Company

¹ Please refer to the report from Milliman; ² For top 15 bancassurance partners

Strong premium growth and market positioning

Consistent growth across premium categories¹

(Rs bn)



Private market share / Ranking

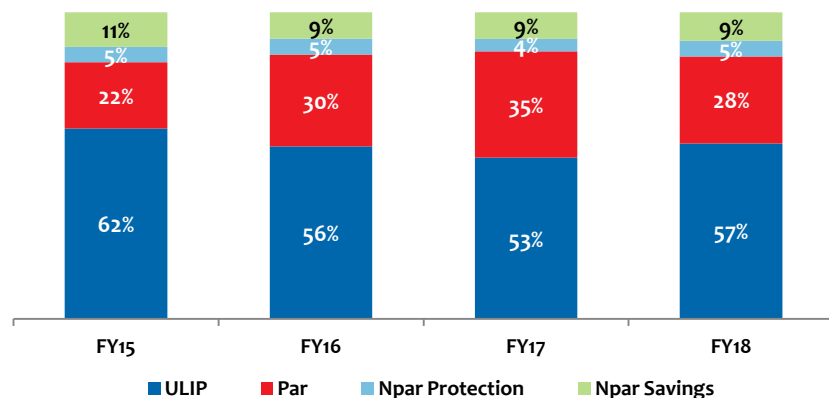
	FY15	FY16	FY17	11M FY18
Individual WRP	14.8% / 3	14.7% / 3	12.7% / 3	13.2% / 3
Group premium	17.8% / 1	18.3% / 1	24.3% / 1	29.5% / 1
Total new business received premium	15.8% / 2	15.8% / 3	17.2% / 2	19.0% / 1

Note:

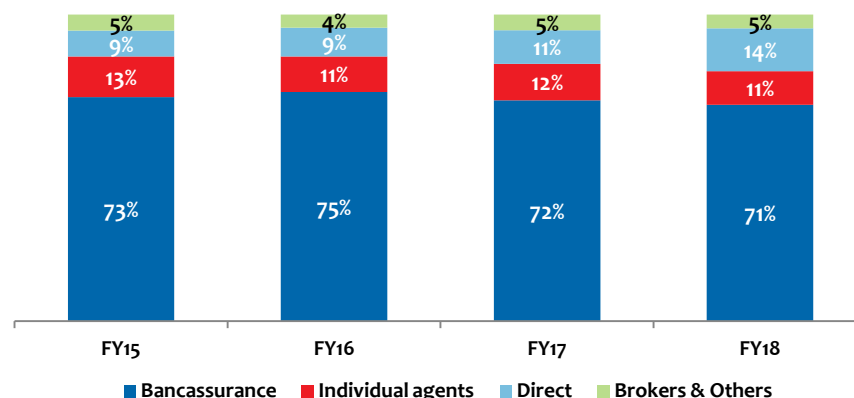
1. Group premium numbers for FY17 have been re-classified, based on IRDA guidelines issued during the year

Driving balance in product and distribution

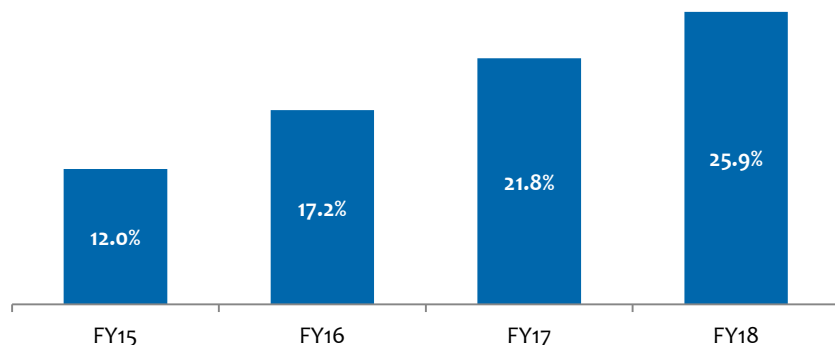
Balanced product mix (based on Individual APE)



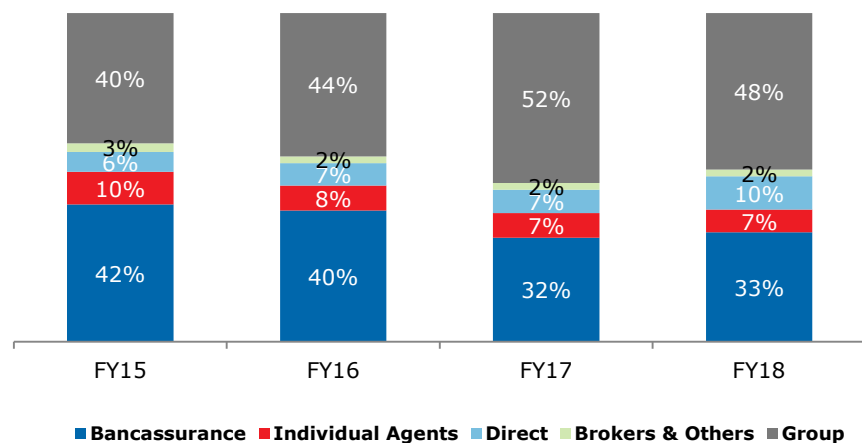
Stable distribution mix (based on Individual APE)



Increasing share of protection products (as % of total NBP)



Stable distribution mix¹ (based on total NBP)



Note:

1. Group premium numbers for FY17 have been re-classified, based on IRDA guidelines issued during the year

Diversified distribution platform driving growth across cycles

Bancassurance and non traditional ecosystem partners

- 149 bancassurance partners (10 partners added in Q4 FY18)
- Top 15 bancassurance partners have over 11,200 branches
- 22 partners across non traditional ecosystem partners
- HDFC group entities sourced 13% of total group business and 38% of total new business in FY18

Individual agents

- 77,048 individual agents
- Increase in average agent productivity by 24% to Rs 81,036

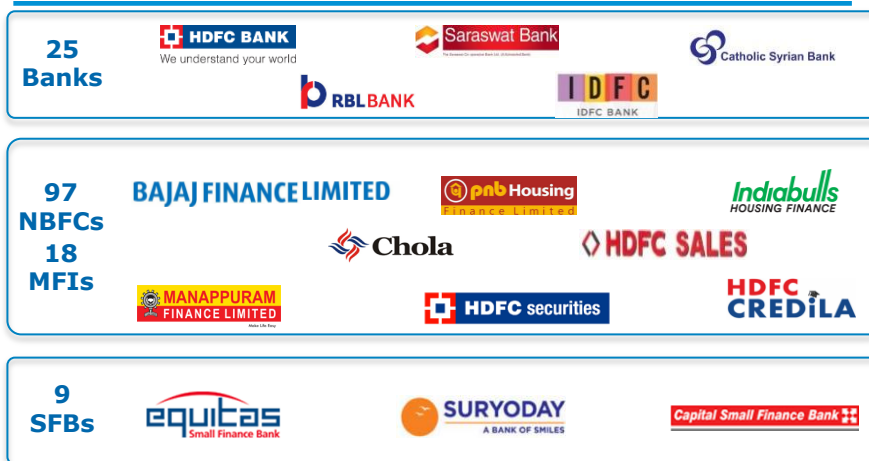
Direct sales

- 1,200+ frontline sales staff across direct sales channels, including group sales, online, digital sub-channels and web aggregators

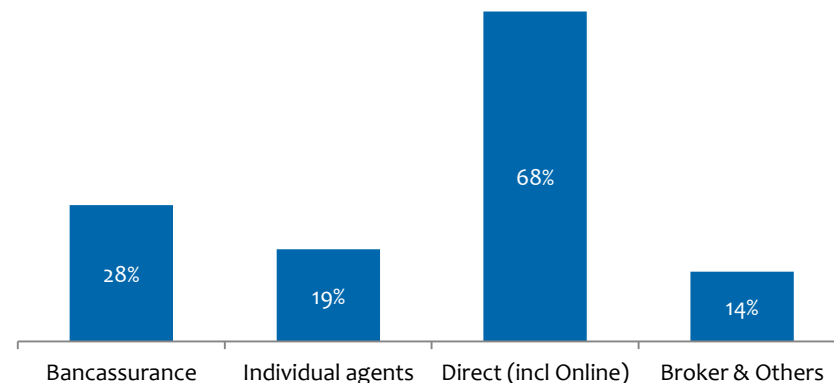
Broker and other tie-ups

- Over 45 tie-ups including 21 significant insurance brokers and over 29 insurance marketing firms

Select bancassurance partners



Growth in channels in FY18 (based on Individual APE)



Continued innovation across products and distribution

Pension guaranteed product

New

- Offers attractive guarantee immediately, on annuity income that starts from a chosen retirement date in the future

Cardiac care product

- Launched unique health product, providing for cardiac treatment covering multiple incidences of same illness. It also offers the option of income benefit on occurrence of a major cardiac illness.

Group health product

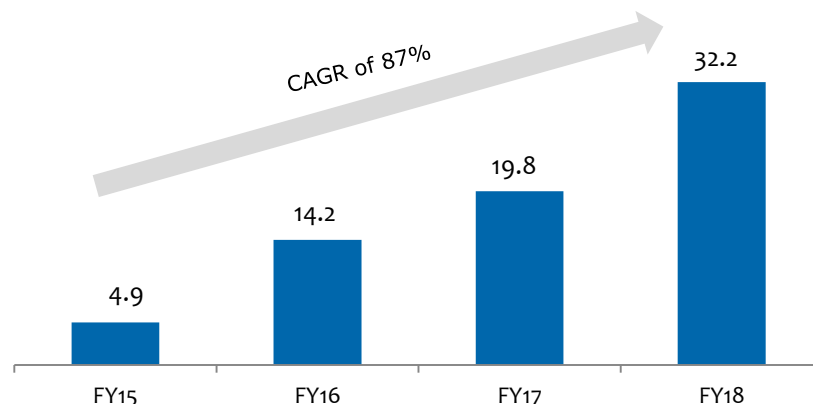
- Niche offering to leverage our distribution partnerships and offer health opportunities for the customers

Joint product partnership with Apollo Munich

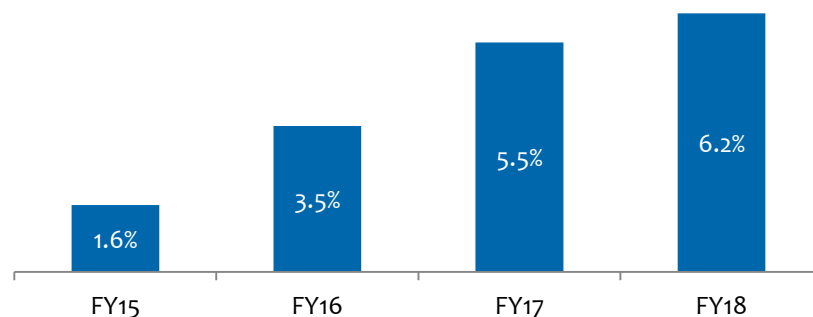
- Click2Protect Health product launched in August 2017, in partnership with Apollo Munich

Fast growing number of lives insured on group platform

(In mm)



Increasing customer base provides unique opportunity to cross-sell¹



Financial and operational snapshot (1/2)

	FY16	FY17	FY18	CAGR
Key Metrics (Rs bn)				
<i>New Business Premium (Indl+Group)</i>	64.9	86.2	113.5	32%
<i>Renewal Premium (Indl+Group)</i>	98.3	108.2	122.1	11%
Total Premium	163.1	194.5	235.6	20%
Individual APE	34.3	37.4	48.9	19%
Group Premium (NB)	28.3	44.2	54.1	38%
Premium Less Benefit Payouts ⁽¹⁾	80.6	94.8	104.7	14%
Profit after Tax	8.2	8.9	11.1	16%
- Policyholder Surplus	6.8	7.5	8.5	11%
- Shareholder Surplus	1.4	1.4	2.6	38%
Dividend Paid ⁽²⁾	2.2	2.6	3.3	23%
Assets Under Management	742.5	917.4	1,066.0	20%
Embedded Value ⁽³⁾	102.3	124.7	152.2	22%
Net Worth ⁽⁴⁾	31.5	38.1	47.2	22%
New Business Sum Assured ⁽⁵⁾	2,714.9	3,887.6	4,734.5	32%
No. of Individual Policies (NB) sold (In 000s) ⁽⁶⁾	1,150.3	1,082.3	1,049.6	-4%

Notes:

1. Gross of reinsurance for both individual and group business
2. Including dividend distribution tax (DDT)
3. Based on IEV methodology as mentioned in the Milliman report
4. Comprises Share capital, share premium and accumulated profits/(losses)
5. Comprises individual and group business
6. Including rural policies. NOPs excluding rural policies have grown at a CAGR of 11%

Financial and operational snapshot (2/2)

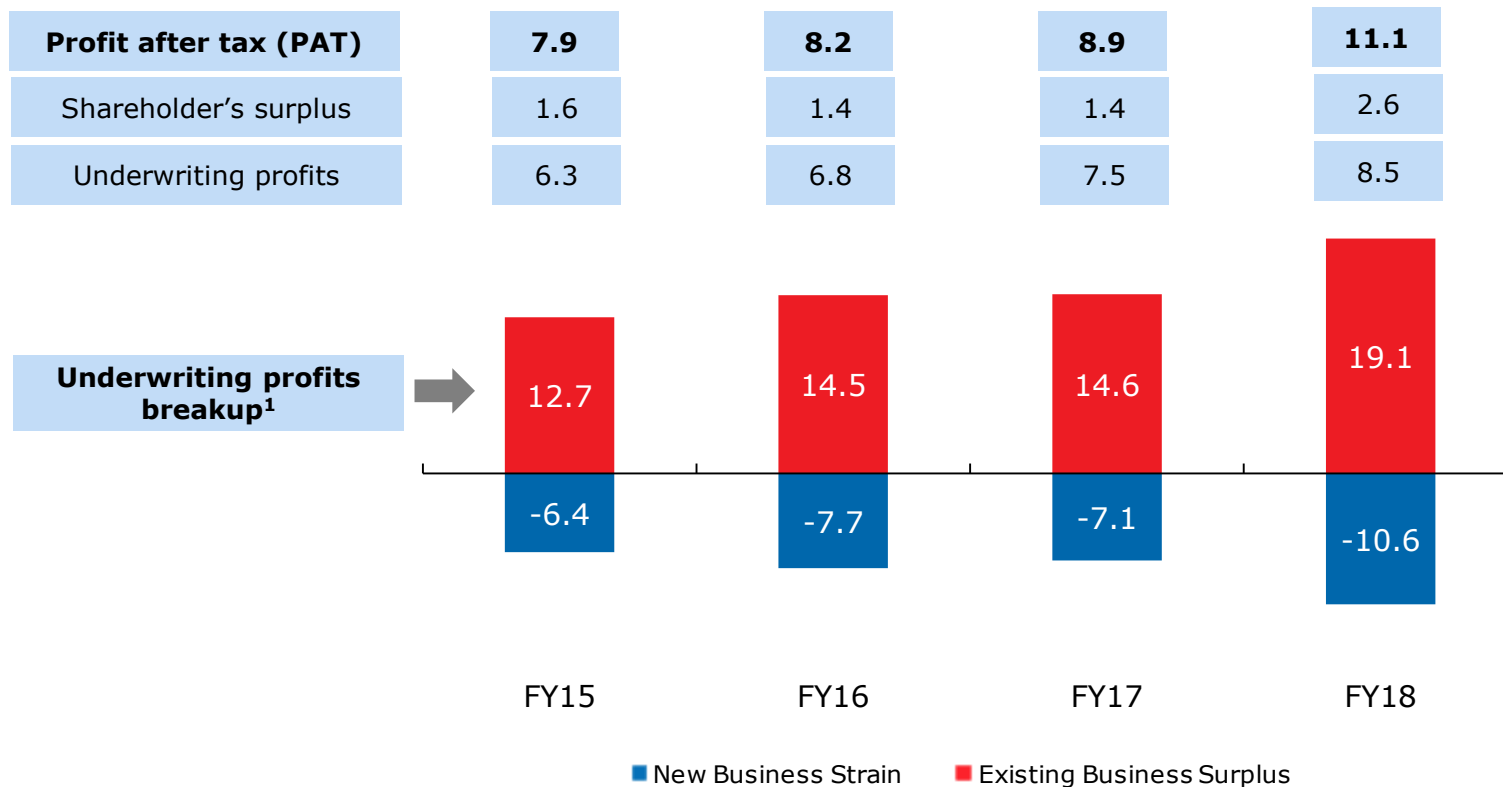
		FY16	FY17	FY18
Key Ratios				
Overall New Business Margins (post overrun)		19.9%	22.0%	23.2%
Operating Return on EV	(1)	20.7%	21.7%	21.5%
Operating Expenses / Total Premium		11.6%	12.6%	13.5%
Total Commissions / Total Premium		4.3%	4.1%	4.6%
Return on Invested Capital	(2)	37.9%	41.0%	49.1%
Return on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

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

Profits breakup

Rs bn

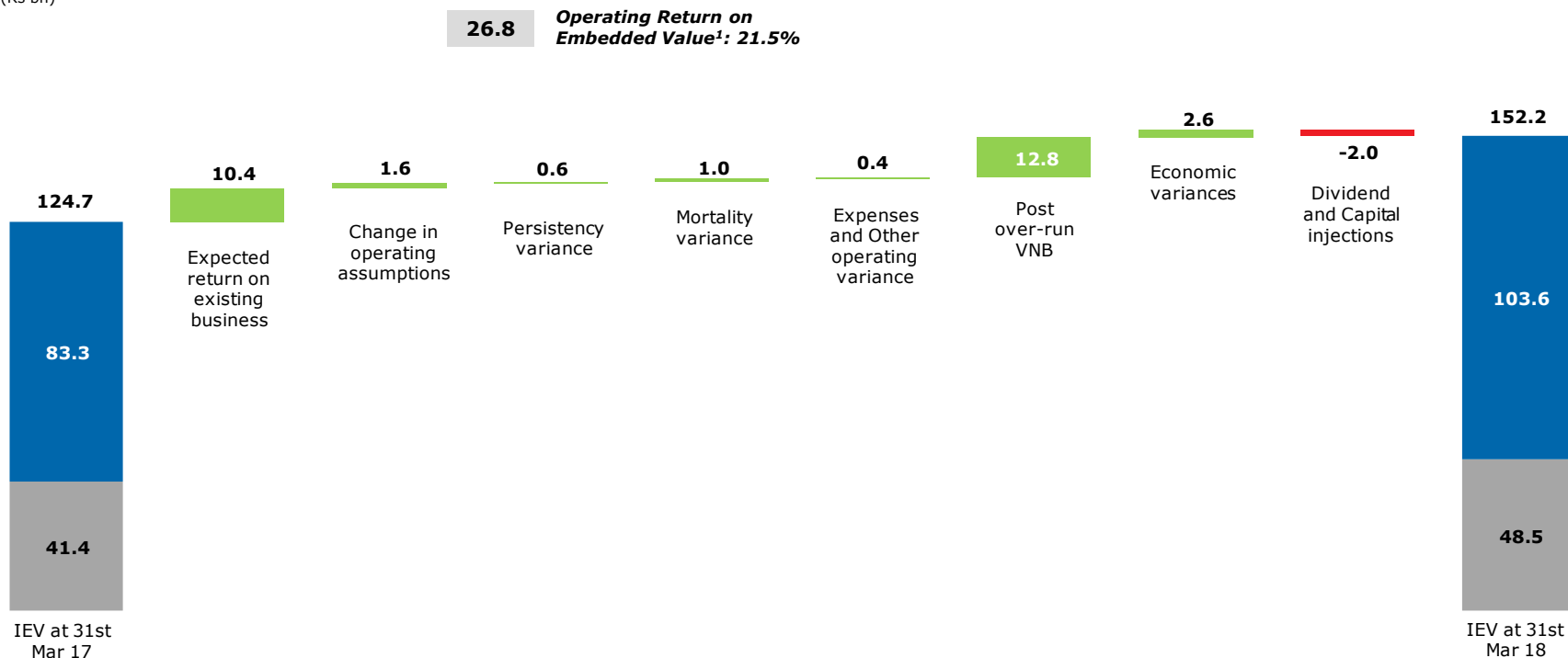


- Steady increase in underwriting profits backed by healthy existing business surplus, neutralising impact of new business strain caused by growth in business

Analysis of change in IEV

Analysis of change in EV – FY18

(Rs bn)

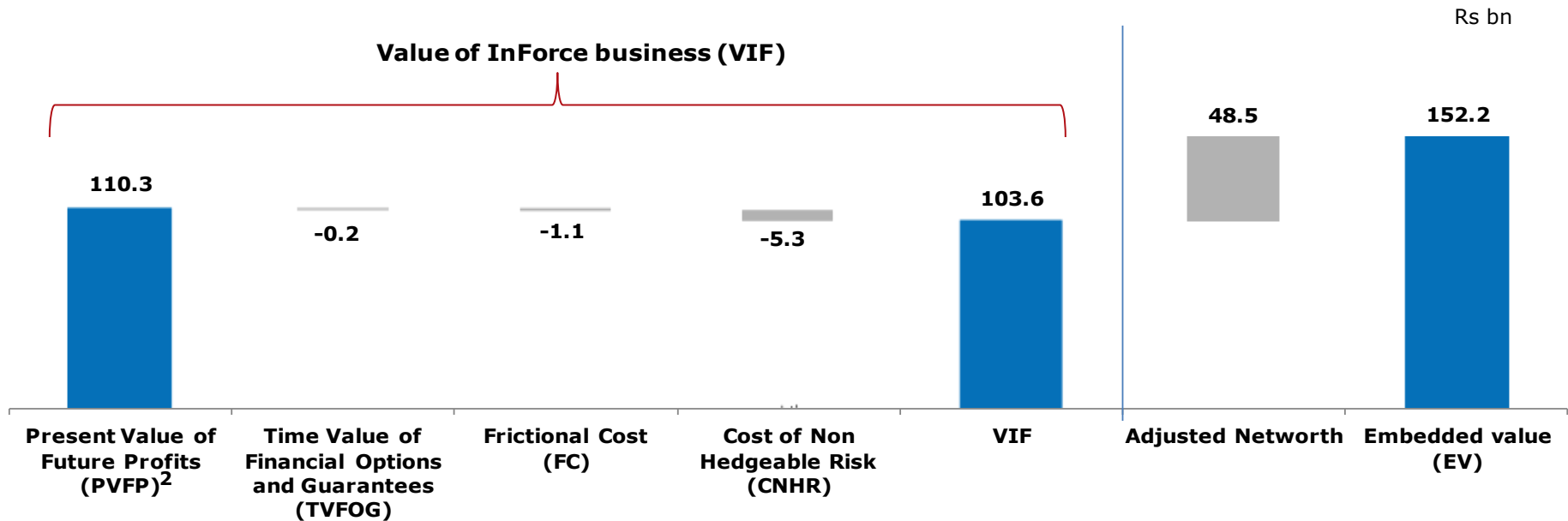


- Healthy operating return on EV delivered over a period of time
- Positive persistency, mortality and operating variances, reflecting favourable experience compared to actuarial assumptions

Note:

11 1. Calculated as EVOP (Embedded Value Operating Profit) to Opening EV

Indian Embedded Value (IEV)¹



- Higher proportion of VIF at 68% of the total Embedded value
- TVFOG includes cost of guarantees for conventional participating products

Notes:

1. Please refer to the report from Milliman, detailed explanation of components provided in the Appendix to the presentation
2. PVFP pertains to Overall (Individual + Group) business

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 movement²	Decrease by 10%	-1.24%	-0.29%	-1.84%
Persistency (Lapse rates)	Increase by 10%	-5.63%	-1.31%	-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 rate³	Increased to 25%	-14.38%	-3.35%	-7.55%

- The NBM impact⁴ of the Product Committee recommendations (for increase in surrender value on non linked products) has been broadly assessed, assuming no other changes in product features or distribution costs. Overall NBM impact is expected to be <1% based on FY18 business. The actual impact would depend on the final regulatory changes

Notes:

1. Please refer to the report from Milliman

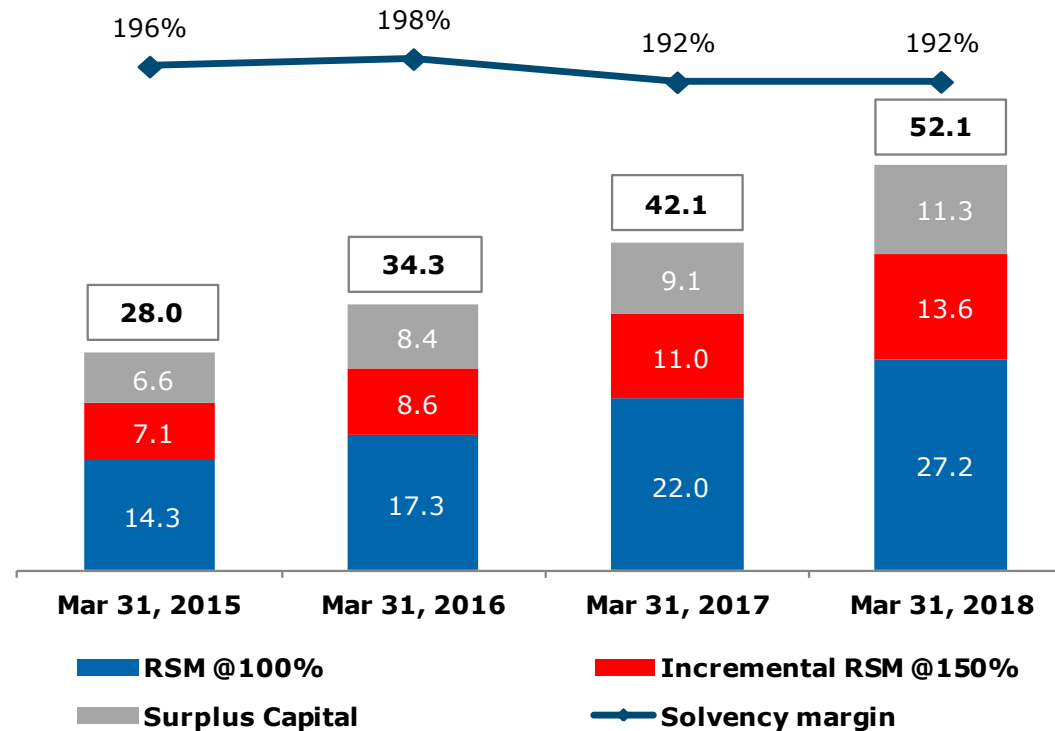
2. Post overrun total VNB for Individual and Group business

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.

4. Based on internal company analysis

Capital position

Rs bn



- Stable solvency ratio, despite consistent growth in underlying business – RSM¹ increased @ CAGR of 24% between FY15-18

Delivering superior customer service

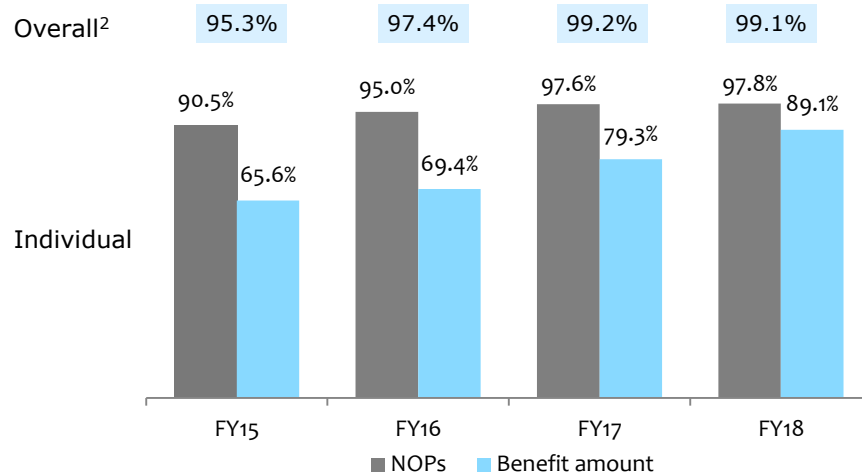
Enhancing customer service

- Digital touch-points - "My Account" online portal, "HDFC Life" mobile app and email service; Traditional touch-points - call center support, IVRS¹ and branches
- Automation in servicing for consistent experience

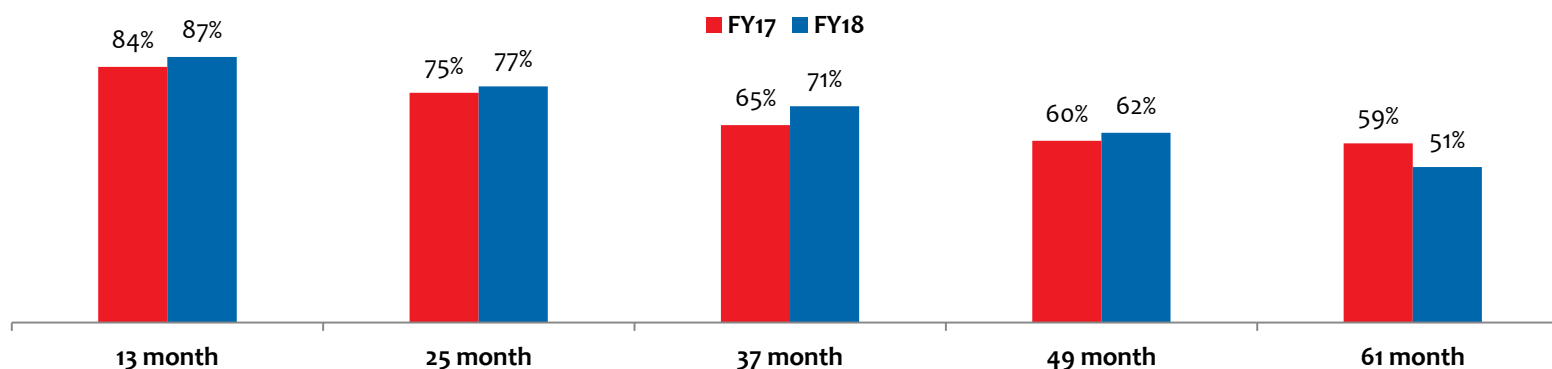
Efficient claims settlement

- Rule engines and predictive technology for claims processing
- Average turnaround time of 3 days for claim settlement, upon receipt of all supporting documentation

High claims settlement ratio



Consistent improvement in persistency ratio



Notes:

1. IVRS - Interactive Voice Response System
2. Including individual and group claims based on number of claims that are settled as a percentage of the number of claims received

Update on key focus areas (1/2)

Improving efficiency

- **Employee productivity** increased by 10% to Rs 2.8 mn
- **Average ticket size** per policy has increased to Rs 46,796
- Leveraging **usage of mobility tools** for productivity improvement

Long term orientation

- Total number of **bancassurance relationships** increased to 149 (FY17: 117)
- **Active customer base** rose by 63% to 84.8 mn
- **Average individual new business policy term** of 14.4 yrs (FY17: 14.0 yrs)

Rising protection

- **Share of protection** based on new business received premium (Indl+Group) has increased to 25.9% of the total new business (FY17: 21.8%)
- **Total new business sum assured**¹ has increased by 22% to Rs 4.7 trillion

Customer satisfaction

- 99%+ **Claims settlement ratio** (Indl+Group)
- **Average customer complaints** (per '000 policies sold) reduced by 14%
- **New business policy issuance TATs**² at 4 days

Notes: All growth numbers are with respect to FY18 over FY17;

Update on key focus areas (2/2)

Enhancing use of technology

- ~99.9% **policy applications submitted** via digital medium
- ~74% of **Renewal payment** through online modes
- ~96% of front line **sales force active on digital platforms**
- 54% of post sales verification calls completed through **InstaVerify** (video based authentication mobile app)
- Leveraging **automation and robotics**: 88 internal processes automated
- 44,000+ queries and transactions processed through policy servicing mobile app **InstaServ**

Social Media Footprint¹



~6.9 mn
Facebook fans



~449K
Twitter
followers



92,596
LinkedIn
followers



9,986
Instagram
Followers

Key differentiators of HDFC Life

- 1** **Balanced business mix with a focus on customer centricity enabling growth across business cycles**
- 2** **Reimagining Life Insurance: innovation and digital enablement in distribution, product design and customer service**
- 3** **Strong financial performance across business cycles: Consistent focus on profitable growth**
- 4** **Comprehensive Risk Management Framework**
- 5** **Independent and experienced leadership team and reputed board**

Performance Snapshot

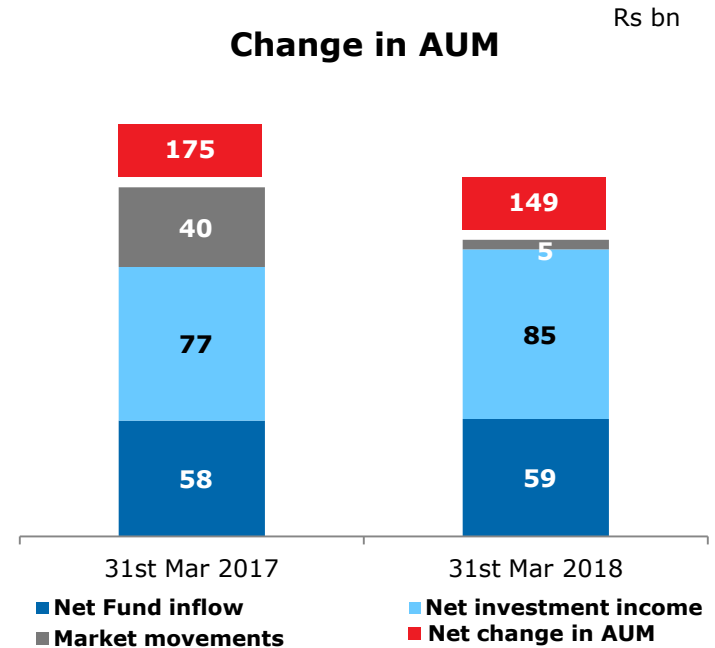
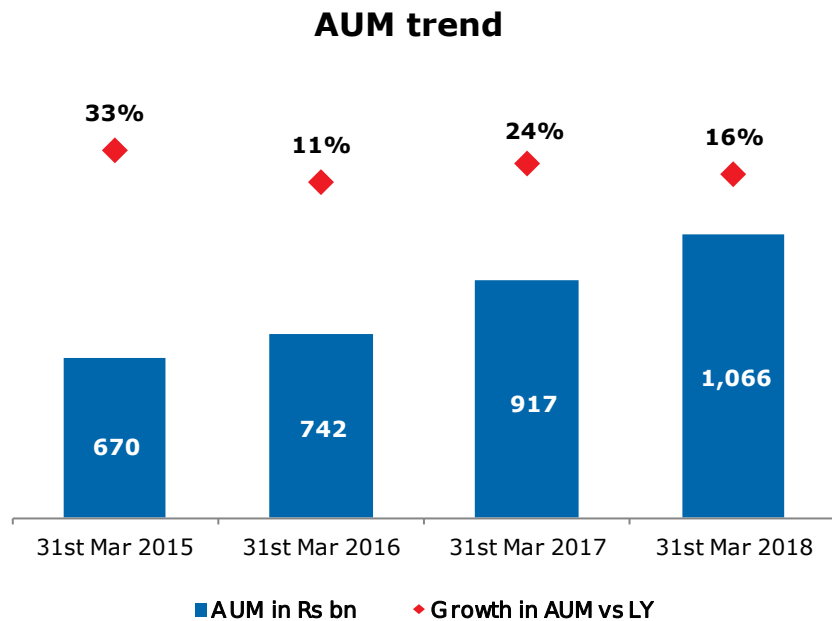
B

Additional Information

CSR Activities and Awards

India Life Insurance

Assets under management



- 3 year AUM CAGR of CAGR of 17% from FY15-18
- Continued to rank¹ amongst top 3 private players, in terms of assets under management
- Debt:Equity mix of 61:39 as on Mar 31, 2018
- More than 97% of debt investments in AAA rated and government bonds as on Mar 31, 2018
- As on March 31, 2018, 78% of our unit-linked funds² performed better than their respective benchmarks over a five-year period

Note: 1. Based on Asset under Management as on Dec 31, 2017

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
Banca²	Par	10%	24%	30%	26%
	Non par protection	2%	2%	1%	1%
	Non par others	12%	9%	8%	9%
	UL	75%	66%	61%	64%
Agency	Par	55%	56%	57%	48%
	Non par protection	12%	13%	11%	11%
	Non par others	9%	6%	7%	8%
	UL	24%	25%	26%	33%
Direct and Broker	Par	50%	42%	41%	28%
	Non par protection	13%	17%	12%	16%
	Non par others	10%	9%	11%	11%
	UL	27%	32%	36%	45%
Total	Par	22%	30%	35%	28%
	Non par protection	5%	5%	4%	5%
	Non par others	11%	9%	9%	9%
	UL	62%	56%	52%	57%
Protection mix (Basis Indl + Group APE)		6%	7%	8%	11%
Protection mix (Basis Indl + Group NBP)		12%	17%	22%	26%

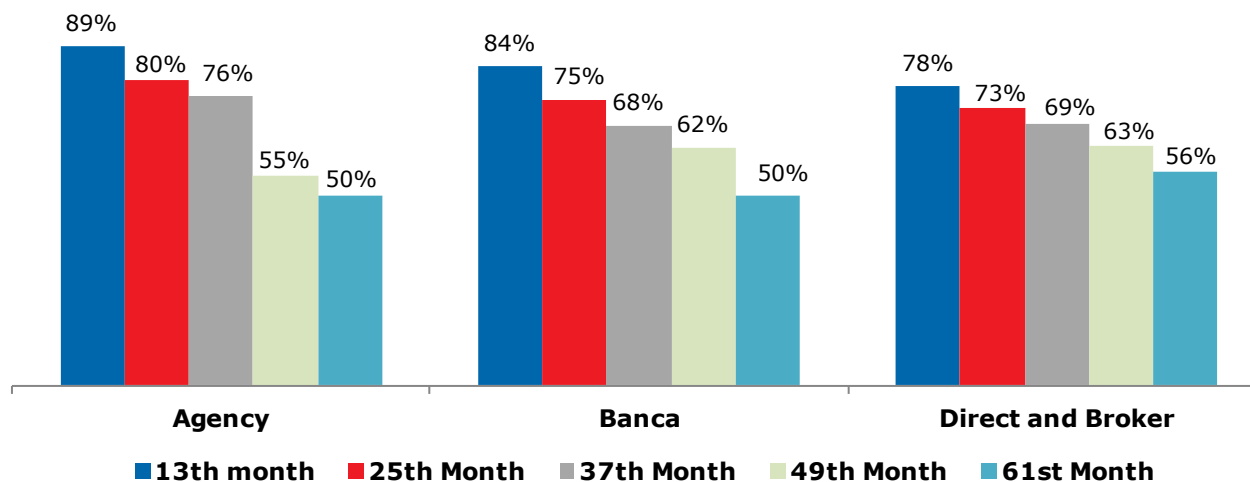
Notes:

1. Basis Individual APE excluding tax

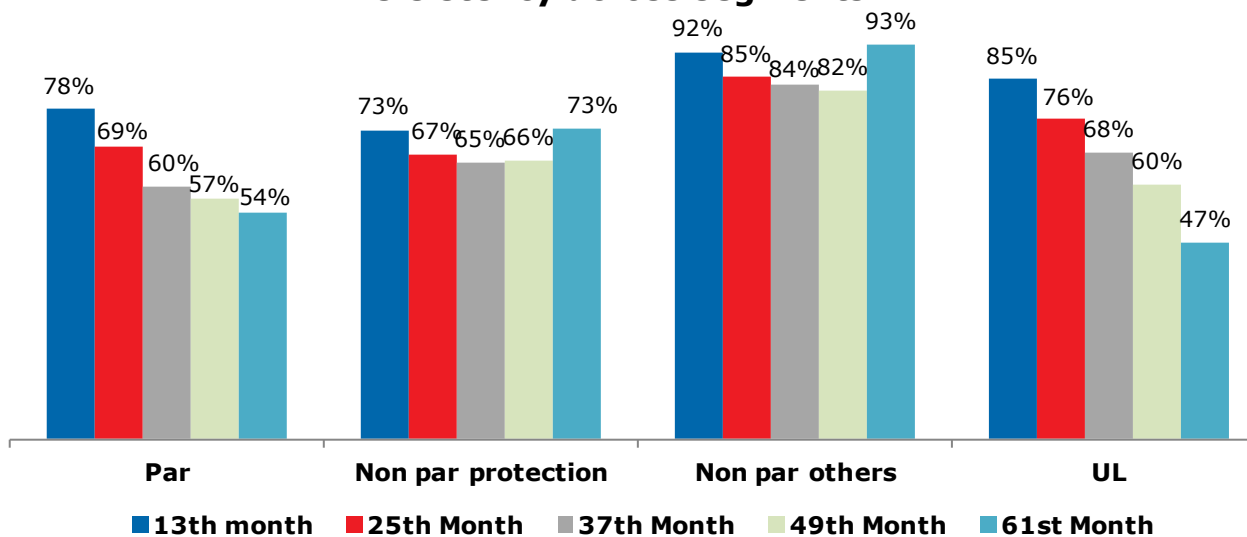
2. Includes banks and other corporate agents

Persistence¹ at channel and segment level – FY18

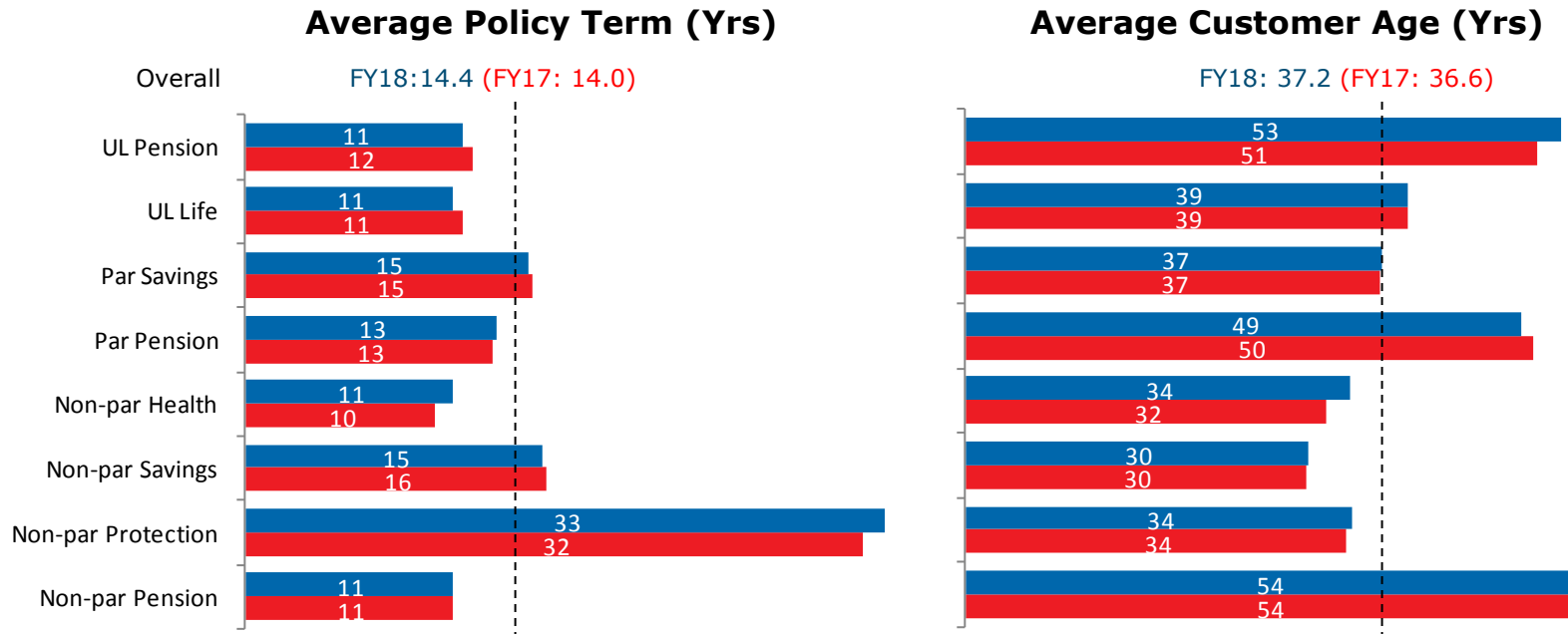
Persistence across channels



Persistence across segments



Segment wise average term and age¹



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

Performance Snapshot

Additional Information

C

CSR Activities and Awards

India Life Insurance

Swabhimaan – Our CSR Initiative (1/2)

Focus on 4 key areas of intervention, while widening the scope of including other themes under CSR initiative. Spent Rs 96 mm in FY18 across below initiatives:

Education	Health	Livelihood	Environmental Sustainability	Others
Promoting education, including special education and employment enhancing vocational skills	Promoting health care and sanitation and making safe drinking water available	Skill training for employment	Contributing towards environmental sustainability	Any other areas that are covered within Schedule VII of the Act
				

CSR Philosophy

- Maximize employee involvement to create socially responsible corporate citizens
- Though open to all beneficiaries, special focus on marginalized and weaker sections
- Focus on collaborative projects with other corporate organisations and business partners
- Focus on long term sustainability and impact

Swabhimaan – Our CSR Initiative (2/2)

- Our **CSR framework** covers; Education, Health, Livelihood and Environmental Sustainability as areas of focus.
- Over **1 Lakh** beneficiaries being impacted through **15 plus projects** this year.
- Active involvement by employees in various **Swabhimaan initiatives** such as Blood donation drives, festivals, collection drives and so on, driven by Champions across branches.



Education

9 projects
9,200 lives impacted
Rs 62.7 mm

Promoting better quality of education and bridging educational inequality



Employee Participation

65 activities
3,000 employees participated

Providing opportunities to employees for social causes



Health

4 projects
117,000 lives impacted
Rs 23.6 mm

Promoting preventive healthcare and ensure awareness for improved healthcare



Environmental Sustainability

1 project
4,500 trees planted

Combating the impact of increasing population and urbanization



Others

2 projects
1,000 lives impacted
Rs 9.5 mm

Any other areas that are covered within Schedule VII of the Act



Awards and accolades – FY18 (1/2)



Excellence in Financial Reporting for Annual Report FY 2016-17 by ICAI



Got award for Best ULIP policy of the year "Click2Invest" by Money Today



Won the Gold award at the LACP Vision Awards 2016/17 for the third consecutive year



Indian Digital Media Awards for Best use of WAPP/HTML and other sites of mobile



'Best Insurance Legal Team of the Year' at the 7th Indian Legal Era Awards



Mobexx Award 2017 for Mobile Advertising Excellence in Rich Media Campaign



RED HAT Innovation Award



World Marketing Congress Award for best native advertising



Drivers of Digital Award 2017



2017 Working Mother & AVTAR 100 Best Company for Women in India



Asia - Pacific Customer Engagement award



DMAsia ECHO Awards



IndIAA Awards 2017 for best campaign in the Insurance category



Awards and accolades – FY18 (2/2)



Celent 2017 award



Technology Initiative of the Year



Quality Circle Competition - Indian Society for Quality (ISQ)



Digital Crest Award 2017



Data Center Summit



Infosec Maestros award for Excellence in Cyber Security



The Economic Times' Great Place to Work



CISO 100 awards



Frost & Sullivan - Project Evaluation and Recognition Program



Confederation of Indian Industry

BPM Asia Star Championship 2017



BFSI IT Leadership Awards



Insights Awards

IDC Insights Award



Viewers' Choice award for Click 2 Insure at the Advys'17



Mega Corporate Film Festival and Awards 2017

Performance Snapshot

Additional Information

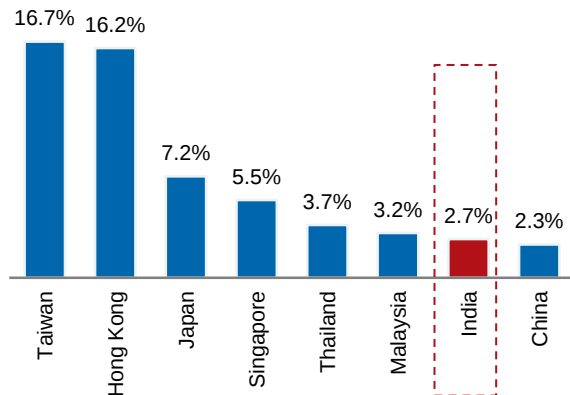
CSR Activities and Awards

D

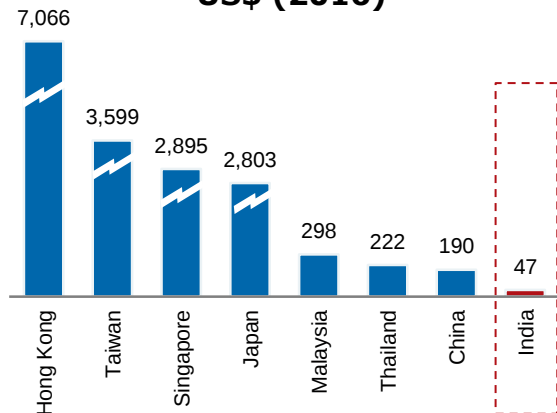
India Life Insurance

Growth opportunity – Under-penetration vs global benchmarks

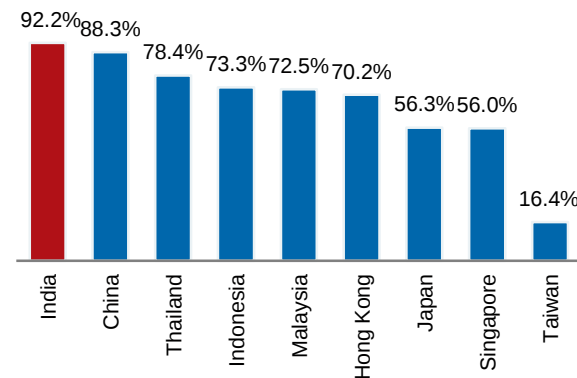
Life insurance penetration (2016)



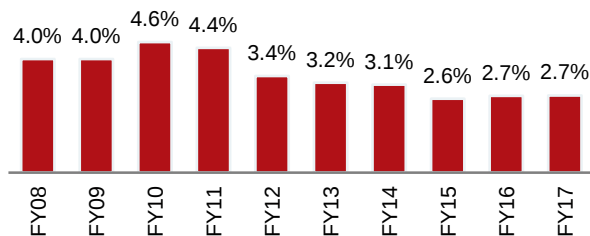
Life insurance density US\$ (2016)



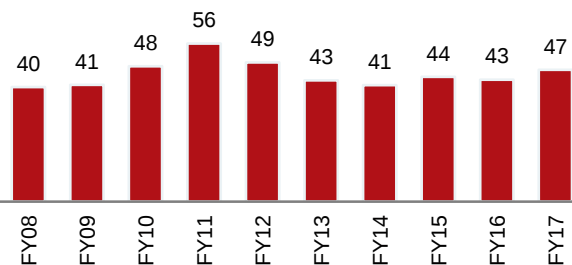
Protection gap (2014)



India life insurance penetration (FY08-17)



India life insurance density US\$ (FY08-17)



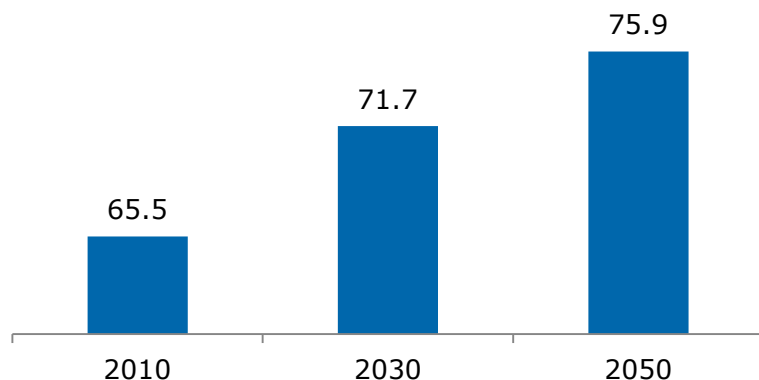
- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap has increased over 4x in last 15 years with significantly low insurance penetration and density

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

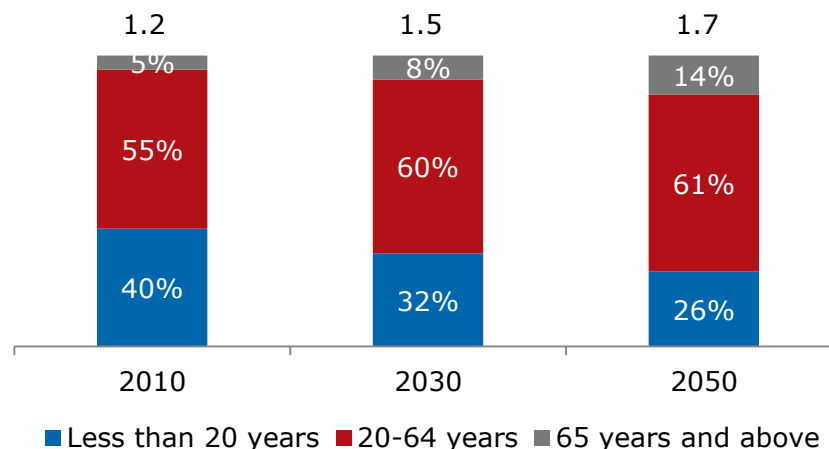
Source: Swiss Re (Based on respective financial year of the countries), MOSPI

Growth opportunity – Favourable demographics

Life expectancy (Years)¹



Population composition (bn)²



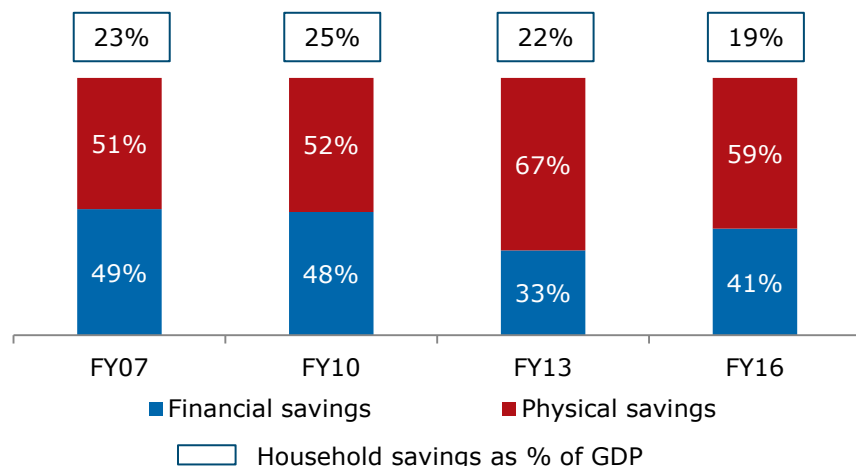
- India's insurable population is anticipated to touch 750 million in 2020
- India is currently one of the world's youngest nation, offering great opportunity for long term savings and investment plans
- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and proportion of India's elderly population expected to increase by almost 50% by 2030
- Emergence of nuclear families and increasing life expectancy to facilitate need for pension and protection based products

Source:

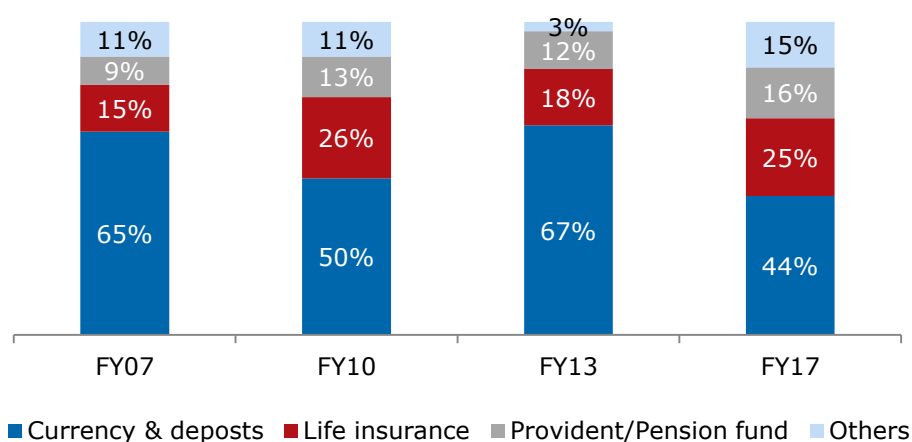
1. United Nations World Populations Prospects Report (2015)
2. World bank report on Global Saving in 2030

Life insurance – A preferred savings instrument

Household savings composition

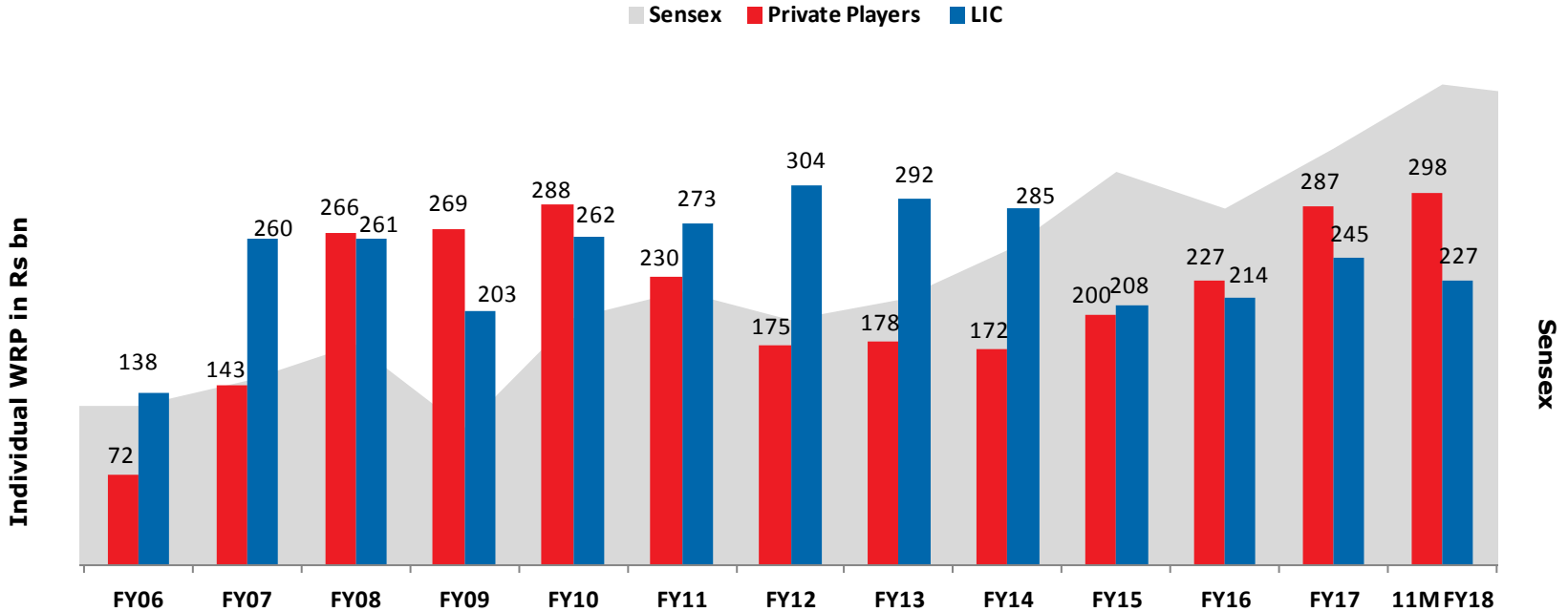


Financial savings mix



- Increasing preference towards financial savings with buoyant equity market returns, along with impact of demonitisation 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 310 mn new savings bank accounts opened in around last 3 years
 - 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

34%	35%	50%	57%	52%	46%	37%	38%	38%	49%	52%	54%	57%
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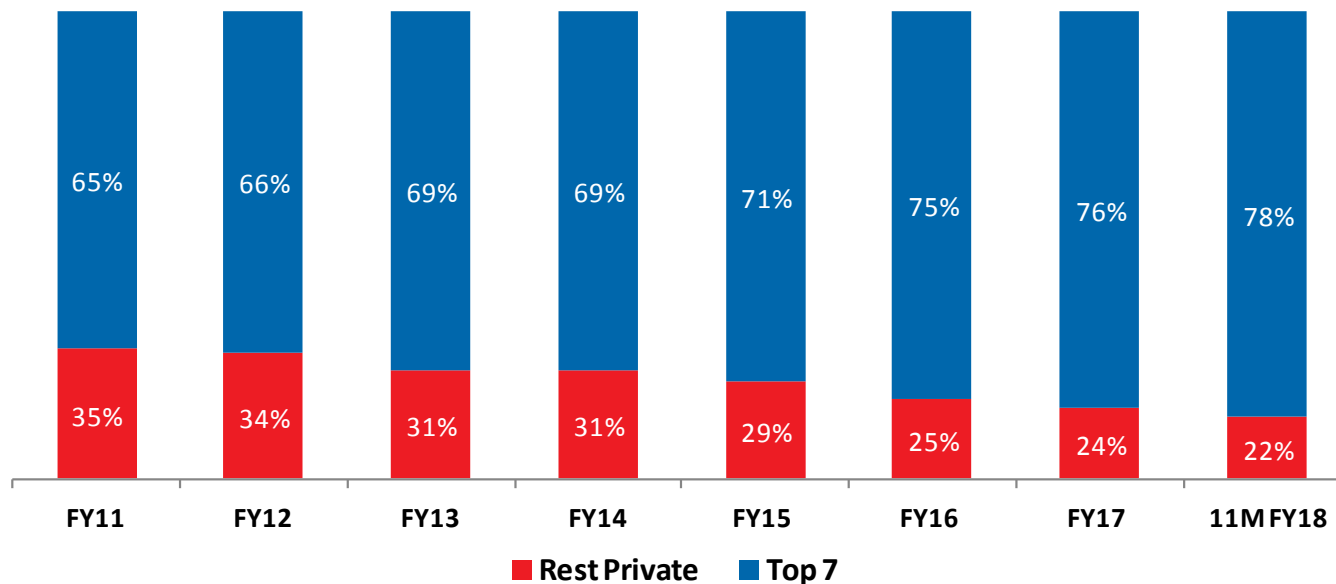
Growth %

Private	99%	86%	1%	7%	-20%	-24%	2%	-3%	16%	14%	26%	28%
LIC	88%	0%	-22%	29%	4%	11%	-4%	-2%	-27%	3%	15%	15%
Overall	92%	31%	-10%	17%	-9%	-5%	-2%	-3%	-11%	8%	21%	22%

- 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

Private industry – Market share trends

Top 7 private players vs other players



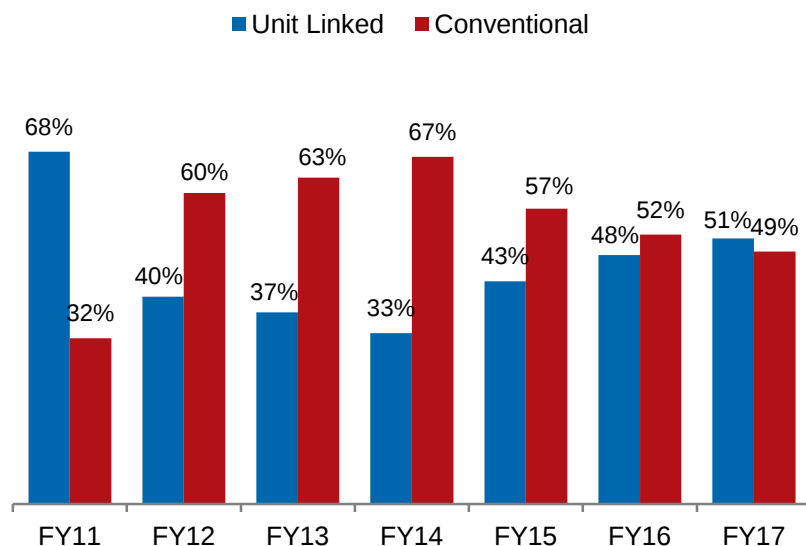
- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

Notes:

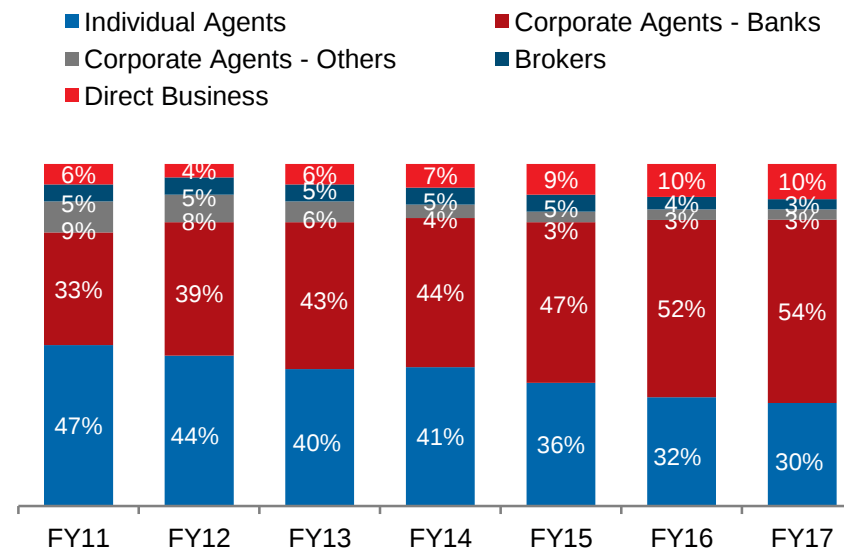
- Basis Individual Weighted Received Premium (WRP) as disclosed by IRDAI, Life Insurance Council
- Top 7 players based on FY17 business numbers, comprising of ICICI Pru, SBI Life, HDFC Life, Max Life, Kotak Life, Bajaj Allianz and Tata AIA

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
- Direct channel share has also doubled as compared to FY11 while Broker share has been similar

Notes:

1. Basis Overall WRP (Individual and Group);

2. Basis Individual New business premia

Source: IRDAI and Life Insurance Council

Annexures

Revenue and Profit & Loss A/c

Rs bn

Particulars	FY17	FY18
Gross Premium Income	194.4	235.6
Reinsurance (net)	(1.7)	(1.9)
Net Premium Income (A)	192.7	233.7
Income from Investments		
Policyholders	111.4	86.0
Shareholders	2.3	2.8
Total Income from Investments (B)	113.7	88.8
Other Income (C)	1.0	1.2
Total Income (D=A+B+C)	307.4	323.7
Expenses and Outflow		
Commission	7.9	10.8
Operating expenses	24.5	31.7
GST / Service tax on UL charges	2.2	3.0
Benefits Paid ¹	100.0	131.1
Provision for diminution in value of investments	0.0	(0.0)
Change in Valuation Reserves (net)	160.5	133.2
Change in funds for future appropriations	1.6	0.9
Provision for tax	1.7	1.9
Total Expenses and Outflow (E)	298.5	312.6
Profit after tax (D-E)	8.9	11.1

Balance Sheet

Rs bn

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

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 assumptions¹

Years	Forward rates %		Spot rates %	
	As at Mar 31, 2018	As at Mar 31, 2017	As at Mar 31, 2018	As at Mar 31, 2017
1	6.57	6.18	6.36	6.00
2	7.26	6.74	6.69	6.26
3	7.72	7.08	6.94	6.45
4	8.02	7.40	7.13	6.62
5	8.20	7.61	7.28	6.77
10	8.30	7.85	7.64	7.14
15	8.10	7.86	7.71	7.28
20	7.97	7.86	7.71	7.35
25	7.90	7.86	7.70	7.40
30+	7.87	7.86	7.68	7.42

- **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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