HDFC Life Insurance

Investor presentation – FY19

Agenda

A Performance Snapshot

Our Strategy

Annexures

India Life Insurance

Executive summary: FY19

Scale

New business premium: Rs 149.7 Bn
Growth: 32%

NB Sum Assured: Rs 6.1 Tn
Growth: 28%

Protection Share[1]

Term: 27%
Annuity: 17%

AUM: Rs 1,256 Bn
Growth: 18%

Number of lives (Mn):
CY: 51.4
PY: 33.2

Efficiency

13th month Persistency:
CY: 87%
PY: 87%

Profitability

PAT: Rs 12.8 Bn
Growth: 15%

NBM:
CY: 24.6%
PY: 23.2%

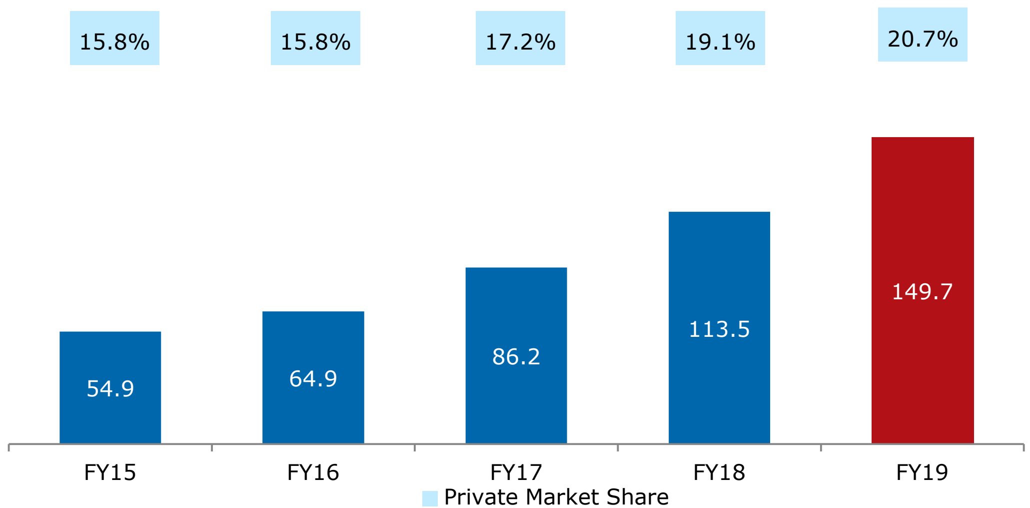
IEV: Rs 183.0 Bn
EVOP%: 20.1%

Note: 1. As a % Overall NBP
The numbers throughout the presentation are based on standalone financial results of the Company

Consistent performance across key metrics (1/2)

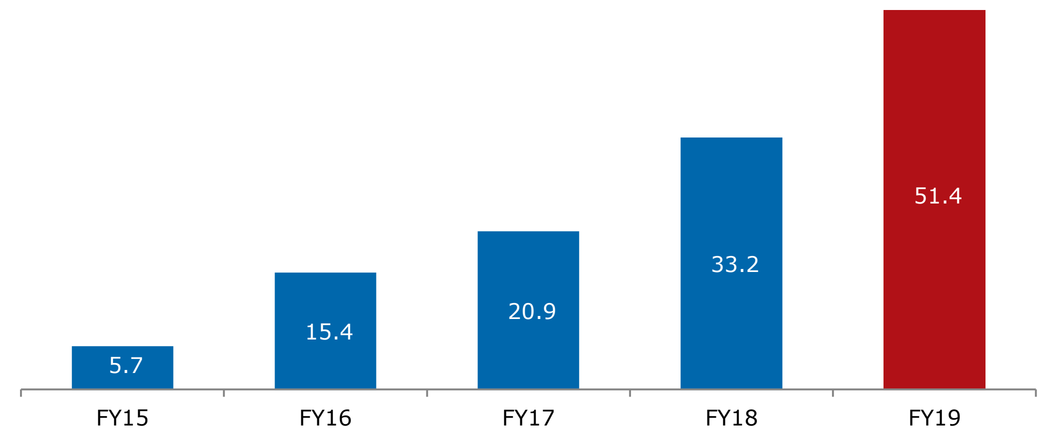
Leadership in new business premium (Rs Bn)

CAGR: 28%

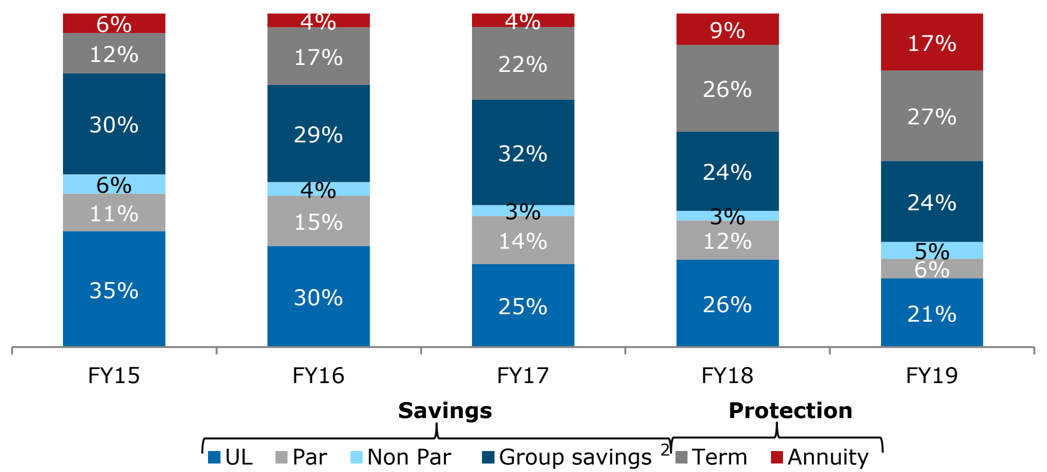


Number of lives (Mn)

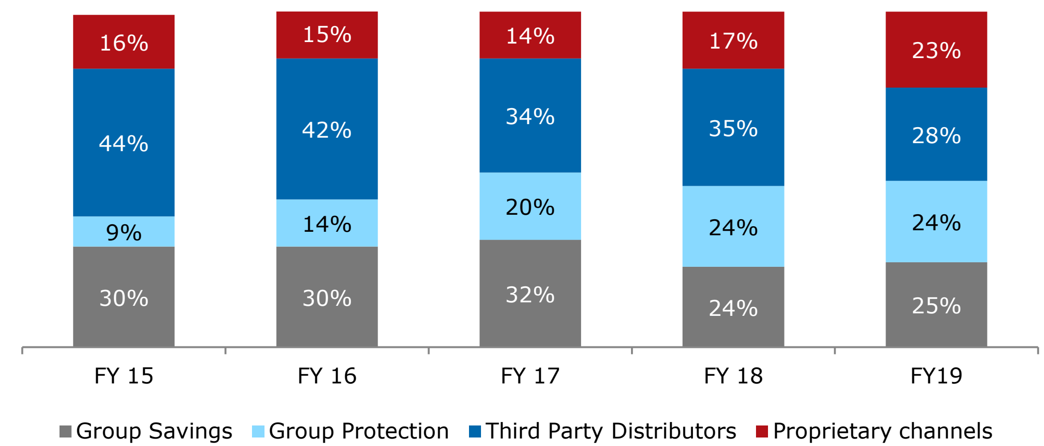
CAGR: 73%



Maintaining balanced Product Mix across cycles[1]



Focus on scaling proprietary channels[1]

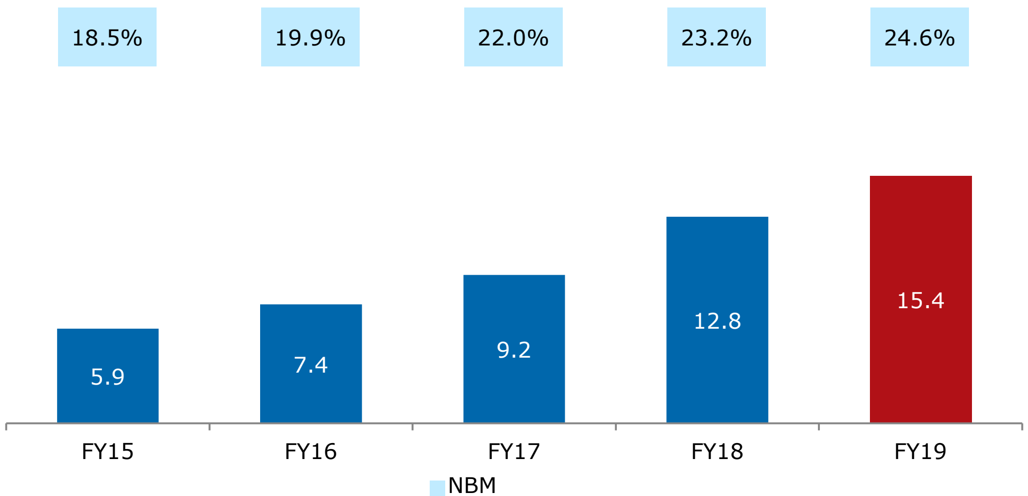


Notes: 1. As a % Overall NBP
2. Around 40% of group savings comprises management of superannuation funds

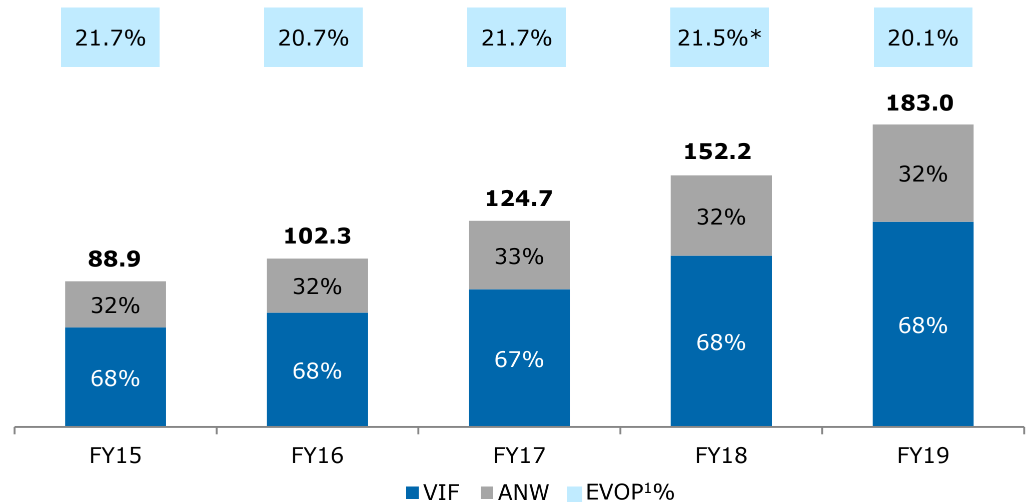
Consistent performance across key metrics (2/2)

Rs bn

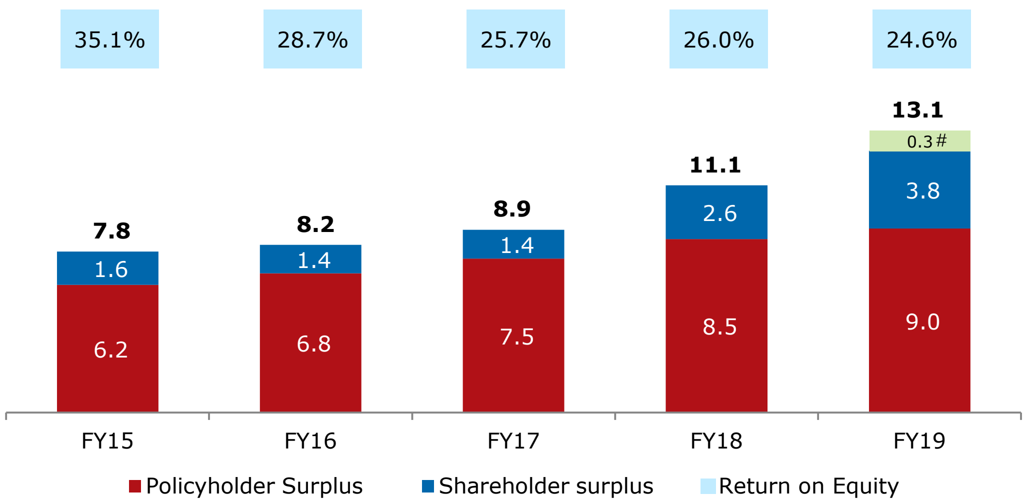
Strong growth in VNB, Industry leading VNB margins CAGR: 27%



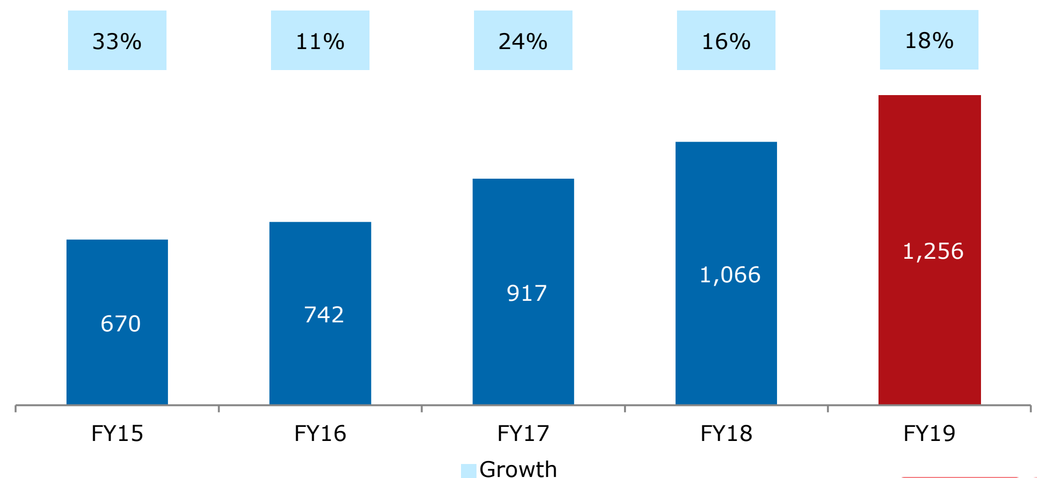
Healthy growth in Embedded Value CAGR: 20%



Consistent profitable growth (PAT) CAGR: 14%



Consistent growth in AUM CAGR: 17%



*Notes: * During 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 20.4% for FY18*

 # One-time impact of realised loss of Rs 0.3 bn on sale of NCDs. PAT post inclusion of this loss is Rs 12.8 bn implying a 5 year CAGR of 13%

Agenda

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B Our Strategy

Annexures

India Life Insurance

Key elements of our strategy

Innovation led, calibrated risk management
- The first choice for all

1 Focus on profitable growth
Capturing sustainable, profitable growth with effective risk management practices

2 Balanced distribution mix
Developing multiple channels of growth to drive need-based distribution

3 Market-leading innovation
Identifying latent customer needs to create new product / profit pools

4 Reimagining insurance
Market-leading digital capabilities that put the customer first, shaping the insurance operating model of tomorrow

5 Quality of Board and management
Seasoned leadership guided by an independent and competent Board; No secondees from group companies

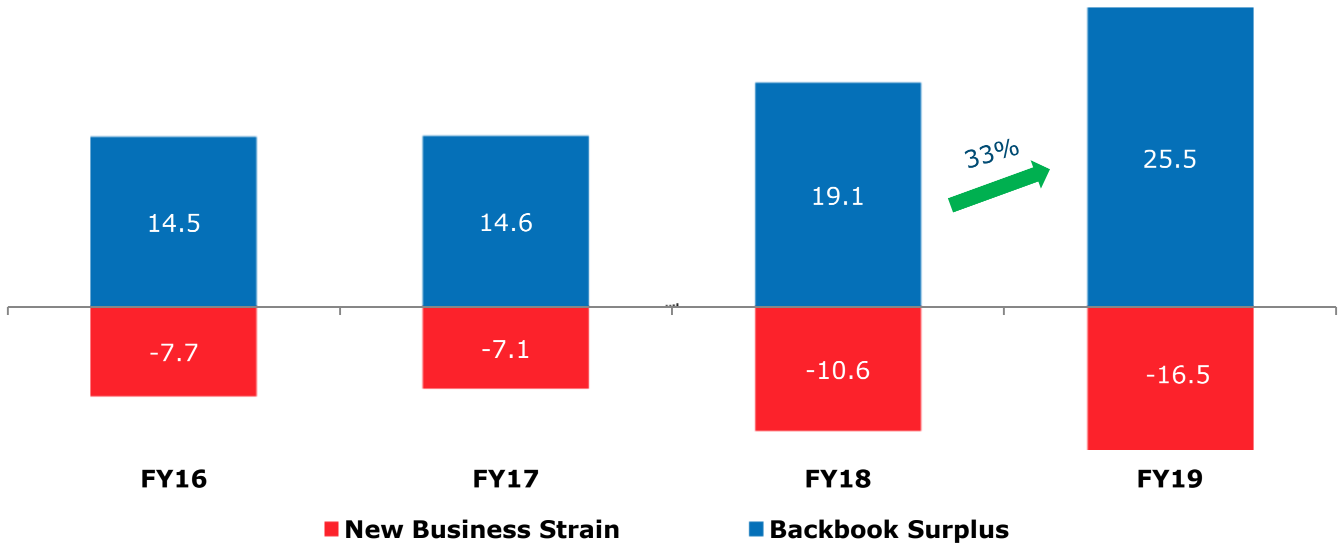
HDFC Life

Focus on profitable growth

Rs bn

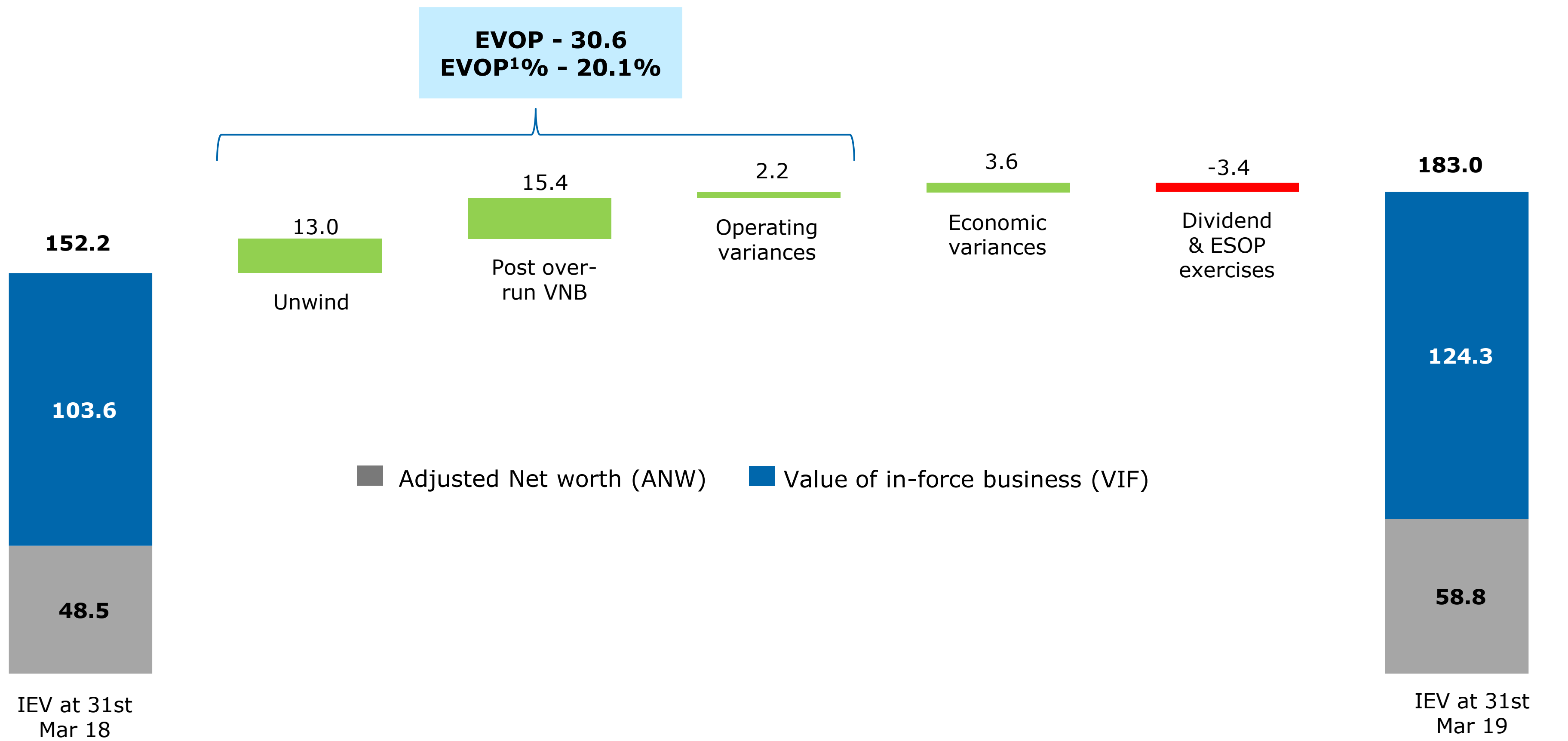
	FY16	FY17	FY18	FY19
New business margins	**19.9%**	**22.0%**	**23.2%**	**24.6%**
Value of new business	7.4	9.2	12.8	15.4
Profit after tax (PAT)	**8.2**	**8.9**	**11.1**	**12.8**
Underwriting profits	6.8	7.5	8.5	9.0
Shareholder's surplus	1.4	1.4	2.6	3.8

Underwriting profits breakup



Analysis of change in IEV

Rs bn

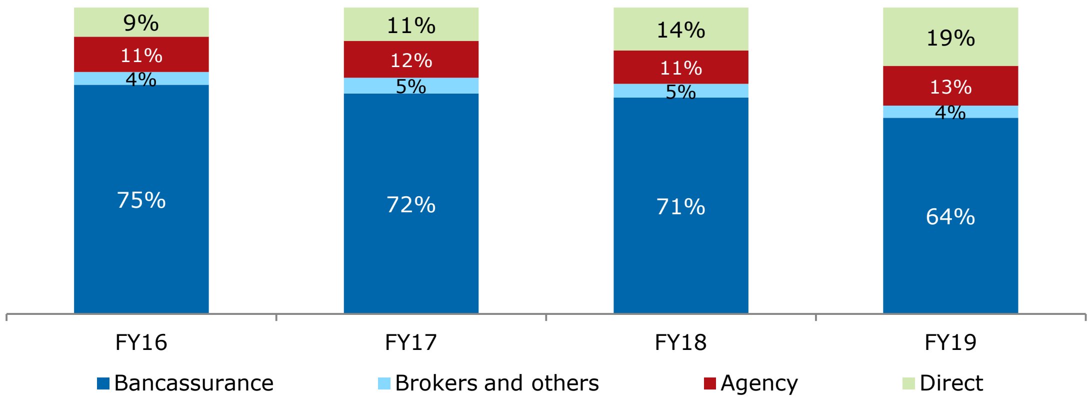


- Consistently delivered healthy operating returns on EV
- Positive operating variances in the last 10 years
- Witnessed positive experience across persistency, mortality and expenses during the year

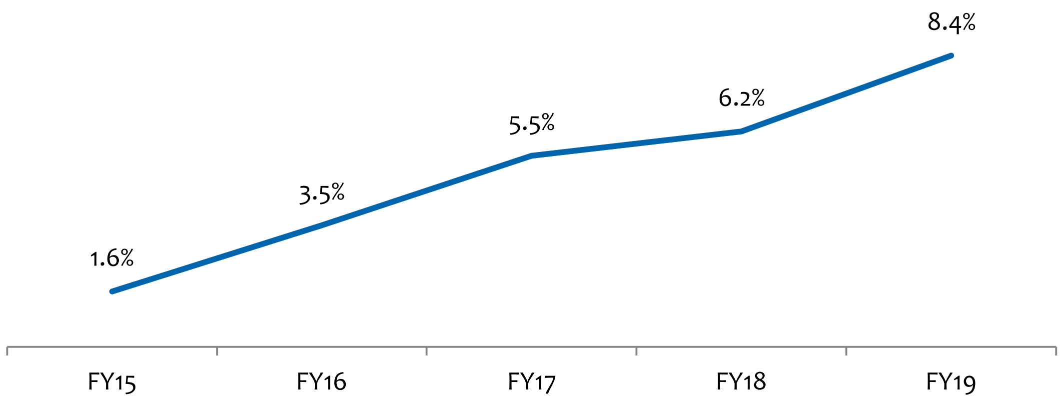
Note: 1. Operating Return on Embedded Value calculated as annualised EVOP (Embedded Value Operating Profit) to Opening EV

Balanced distribution mix

Increasing share of proprietary channels[1]



Optimizing cross-sell opportunities[2]



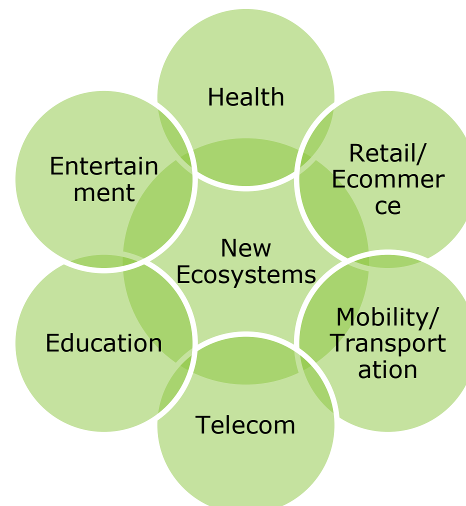
Strong diversified network of 220+ partners

54 Banks
HDFC BANK, Saraswat Bank, RBL BANK, IDFC FIRST Bank, Bandhan Bank, United Bank of India

141 NBFCs
24 MFIs
BAJAJ FINANCE LIMITED, pnb Housing Finance Limited, HDFC SALES, Indiabulls Housing Finance, TATA Motorfinance, Chola, HDFC securities, Fullerton India

8 SFBs
equitas Small Finance Bank, Ujjivan Small Finance Bank, Suryoday, Capital Small Finance Bank

Developing alternative channels of distribution: 30+ new emerging eco-systems partnerships



HEALTHSPRING, OLA, FLEXILOANS, FITPASS, Uber, Paytm, Justdial

Notes:
1. *Basis Individual APE*
2. *Calculated as Number of policies cross sold to existing group customers / Total number of individual new business policies*

Balanced distribution mix – Agency

1 Agency Life

Aims to improve engagement, skill and rigour in sales management

93%
Business covered

PRODUCTIVITY

30%
Increase in qualifying FC productivity

2 Segmented recruitment approach

Housewives | Retired / VRS | Financial Distributor

Recruit better productive profiles

Enhance FC productivity and activation

88%
increase in housewives recruitment

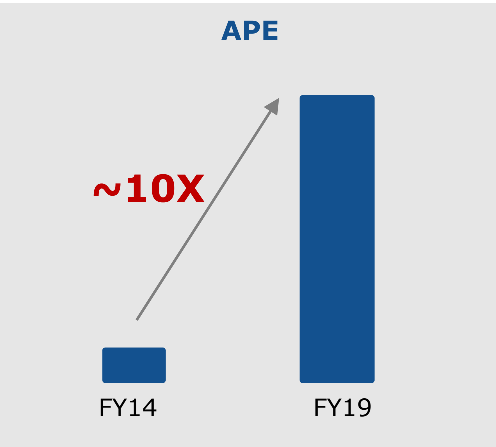
Profitability, Long term growth and Quality

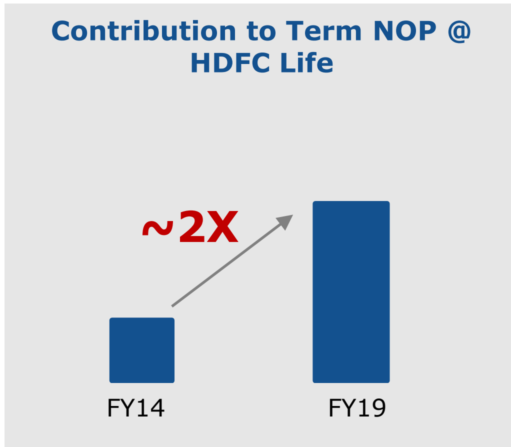
- **25% growth in APE**
- **74% growth in New Business Contribution**
- **23% increase in FLS productivity**
- **13th month persistency of 90%**
- **Protection led profitable product mix**

 Note: FC represents financial consultant (Agents) & FLS for Front line sales personnel

Balanced distribution mix – E-commerce

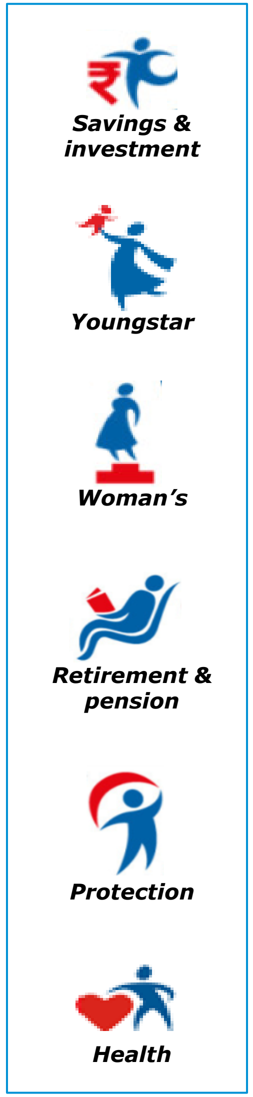
10X growth in 5 years with an increasing contribution to the company's profitable term portfolio





Longer policy terms and younger lives covered

Healthy mix of proprietary platforms and web-aggregators



"DIY" Customers

"Innovative"Click2 Series

- **First mover advantage; launched Click 2 Wealth,** improved proposition and extended to child and retirement segments

Brand Salience

- **Top Private brand#** in spontaneous awareness for consumers

Customer Value Management

- Cross-sell and up-sell digitally at **different life stages** of the customer

User Experience

- Investments in tech (AMP, PWA etc.) to drive **personalization & re-targeting campaigns** via analytics to improve user experience

#As on March 19
AMP - Accelerated Mobile Pages, PWA - Progressive Web Application

Focus on developing proprietary channels – Direct

Growth focus

Expansion

Targeting new geographies and customer segments

40%
CAGR between FY17-19

Profitability

Increase focus on Non-Par products

42%
Non-par products share in FY19

Productivity

Mobility tools for effective lead allocation and management tool

24%
CAGR in FLS productivity between FY17-19

Areas of focus for future growth of the channel

- Rapidly expand and strengthen presence in **Defence and Para-military** segments
- Enhance the capability to complete end to end **cross sell journey on call**
- Scale up cross sell on retail and group customer base using **hyper personalized incentives**
- **Customer 360** – tool that helps to improve customer experience
- **Specialty sales unit** to cater to a new segment (income bracket <5 lakhs p.a.) of existing Credit Protect customers

Expanding market through consistent product innovation

Differentiated offerings targeting specific niches

Retirement & pension

Group Credit Protect

Youngstar

Woman's

Prior to 2014

Products that created new segments

2014 – Click2Invest

2015 – Cancer Care

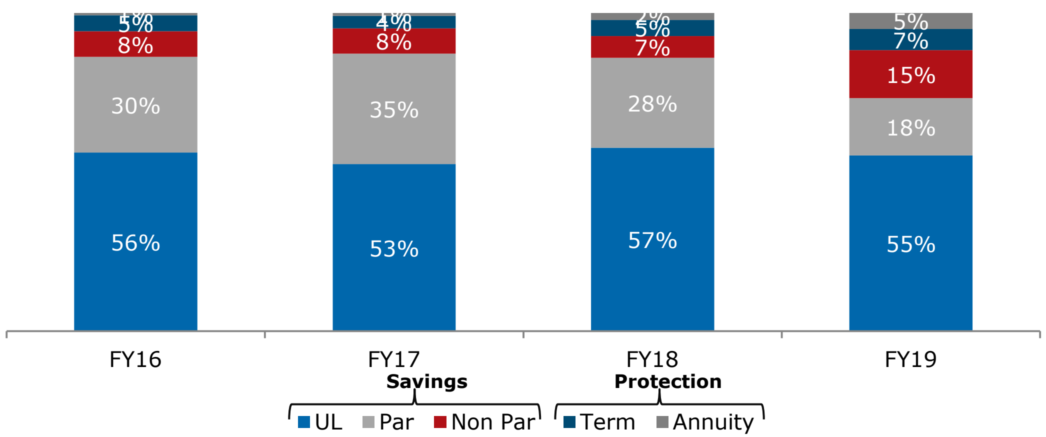
2017 – Click2Protect 3D Plus

2018 – Pension Guaranteed Plan

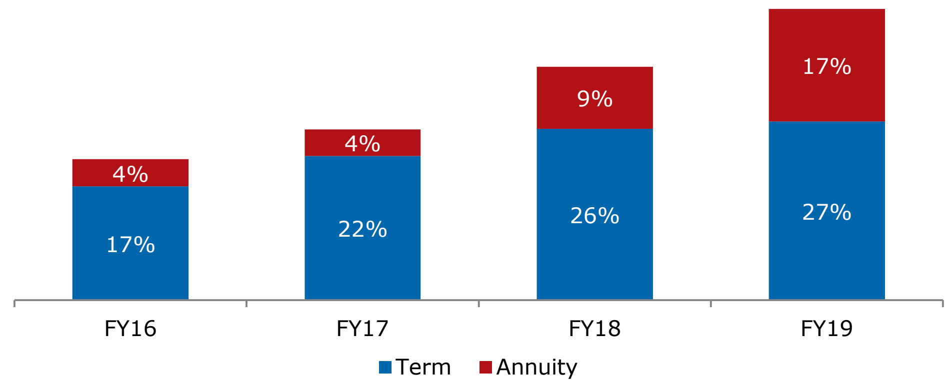
2019 – Sanchay Plus: Guaranteed returns, with option for life long income

2019 – Classic One: Joint-life single-premium ULIP with low cost structure

Maintaining Balanced product mix across business cycles[1]



Increasing share of protection[2]



Profitable growth ··· Balanced distribution mix ··· **Market leading innovation** ··· Reimagining insurance ··· Quality of Board and management

Notes:
1. *As a % of individual APE*
2. *Based on NBP*

HDFC Life

Product mix across key channels[1]

Banca[2]

Segment	FY16	FY17	FY18	FY19
UL	66%	61%	64%	67%
Par	24%	30%	26%	14%
Non par savings	9%	8%	8%	15%
Term	2%	1%	1%	2%
Annuity	0%	0%	1%	2%

Agency

Segment	FY16	FY17	FY18	FY19
UL	25%	26%	33%	26%
Par	56%	57%	48%	40%
Non par savings	4%	6%	5%	17%
Term	13%	11%	11%	12%
Annuity	2%	2%	3%	5%

Direct

UL	47%	47%	58%	50%
Par	35%	29%	17%	8%
Non par savings	6%	11%	9%	12%
Term	6%	6%	5%	6%
Annuity	6%	7%	11%	24%

Online

UL	41%	51%	47%	43%
Par	1%	3%	1%	1%
Non par savings	0%	1%	0%	15%
Term	59%	45%	52%	34%
Annuity	0%	0%	0%	6%

Company

Segment	FY16	FY17	FY18	FY19
UL	56%	53%	57%	55%
Par	30%	35%	28%	18%
Non par savings	8%	8%	7%	15%
Term	5%	4%	5%	7%
Annuity	1%	1%	2%	5%

Protection

Total APE	FY16	FY17	FY18	FY19
Term	7%	8%	11%	17%
Annuity	1%	1%	2%	4%
Total	**8%**	**9%**	**13%**	**21%**

Total NBP	FY16	FY17	FY18	FY19
Term	17%	22%	26%	27%
Annuity	4%	4%	9%	17%
Total	**21%**	**26%**	**35%**	**44%**

Profitable growth · Balanced distribution mix · Market leading innovation · Reimagining insurance · Quality of Board and management

Notes:

1. Basis Individual APE, Term includes health business

2. Includes banks and other corporate agents

HDFC Life

Reimagining Insurance

Five building blocks of our technical capabilities

A. Platforms & Ecosystems

Insurance beyond digital: Allow multiple participants to connect, create & exchange value

Life99 — Retire with pride

- One stop shop for retirement planning

B. Partner Integration

Product and services being built on API for ease of partner integration

- Easy to integrate with partners on web, chat and app
- Smaller proposal form and assisted journey
- Hassle free updates in the app

C. Journey Simplification

Customer sales journey simplified through mobility applications for sales force

InstaQuote!

- Immediate Quote generation which can be shared over WhatsApp & Email

DEDUPE

- Assists partners and HDFC Life in auto form filling, policy renewal and real time issuance

D. Service Simplification

Simplified solutions for customers across the value chain

- **Online payments & services:** ~80% of renewal via online / debit mode

Chat bot ELLE | Twitter bot NEO

- ~90% of chats are self-serve via chat-bot
- **Robotic Process Automation:** ~150 bots deployed
- **InstaServ:** Service app for employees; processed 50k+ requests successfully in less than 6 months

E. Data Enrichment & Analytics

Continuous improvement in raw data by gaining deeper insight into our customers' lives

- **Enterprise-wide Lead Lake:** For effective lead storage & enrichment
- **Data Lake:** First generation repository for entire enterprise data management
- **Customer 360:** Brings all customer data – interactions, transactions & relationship in one place, in real time
- **Pre-claim analytics:** Fraud avoidance through analytics

Quality of Board and Management

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

Experienced senior management

Seasoned senior management team with rich experience in financial services

Track record of delivering consistent results across business cycles

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

Financial risk management framework

- Protection and longevity businesses
- Unit linked and non par savings products
- Quantum of retail guaranteed products <8% of AUM

- Prudent assumptions and pricing approach
- Return of premium annuity products (>90% of annuity); Average age at entry ~59 years
- Limited deferment period in deferred annuity (<5 yrs)
- Focus on selling shorter tenure premium paying policies (5 pay) in non-par
- Regular monitoring of interest rates and business mix

- Long term government securities and partly paid bonds issued by top tier corporates
- Utilise excess asset duration from short duration liability products to support long duration liabilities

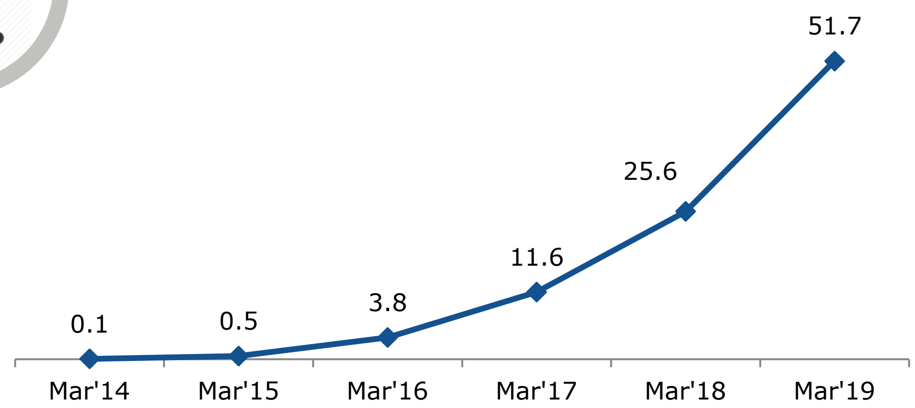
- External hedging instruments such as FRAs, IRFs, STRIPs amongst others

Conservative risk management has resulted in low VNB and EV sensitivity

Performance of wholly-owned subsidiary[1] companies

HDFC Pension

Rs bn



- Fastest growing Pension Fund Manager under the NPS architecture (YoY growth of 102% in AUM to Rs 51.7 bn as on Mar 31, 2019)
- Market share grew from 21.4% in Mar'18 to 26.7% in Mar'19 amongst all private Pension Fund Managers (PFM)
- Company ranks #1 in Corporate subscribers base, #2 amongst all PFMs in Net Fund Flow, Retail subscriber base and AUM
- Received licence to operate as POP (Point of Presence)

HDFC International Life and Re

- Registered growth of more than 100% in revenue and clocked Rs 4.3 mn
- Registered net profit for the first time in FY19
- Currently offers reinsurance capacity in UAE, Oman, Bahrain, Jordan & Egypt
- S&P Global Ratings has assigned its 'BBB' long-term insurer financial strength rating to the company

Note: 1. Investment in subsidiaries not considered in solvency margin

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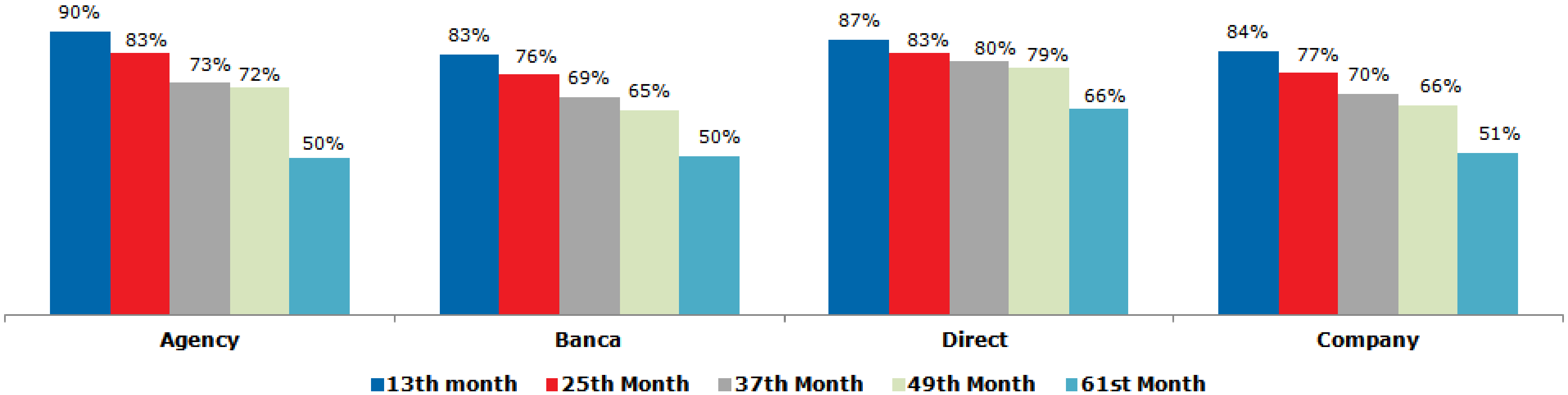
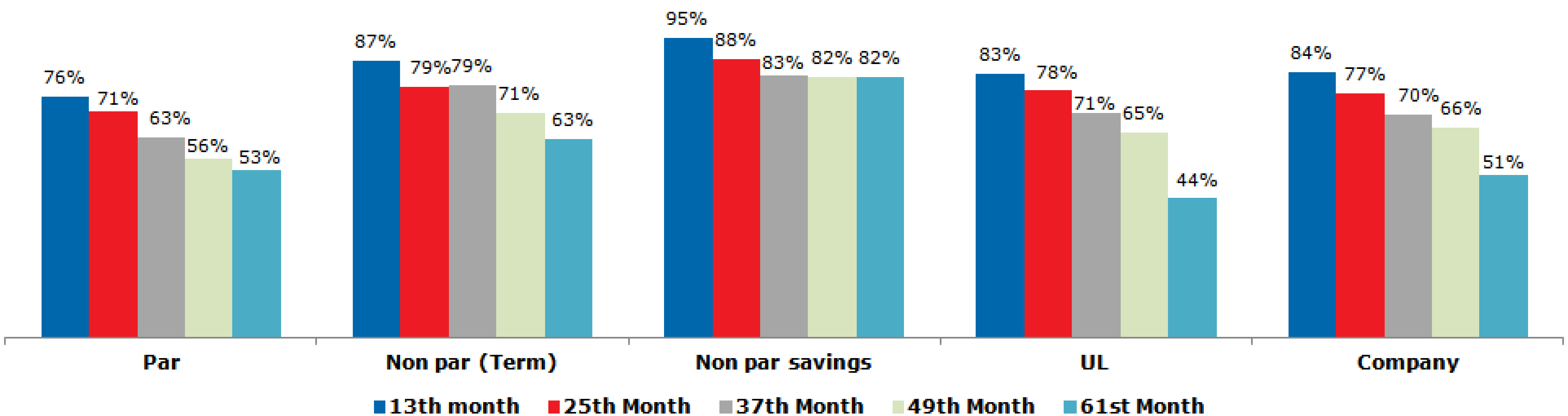
India Life Insurance

Individual persistency for key channels and segments

Across key channels

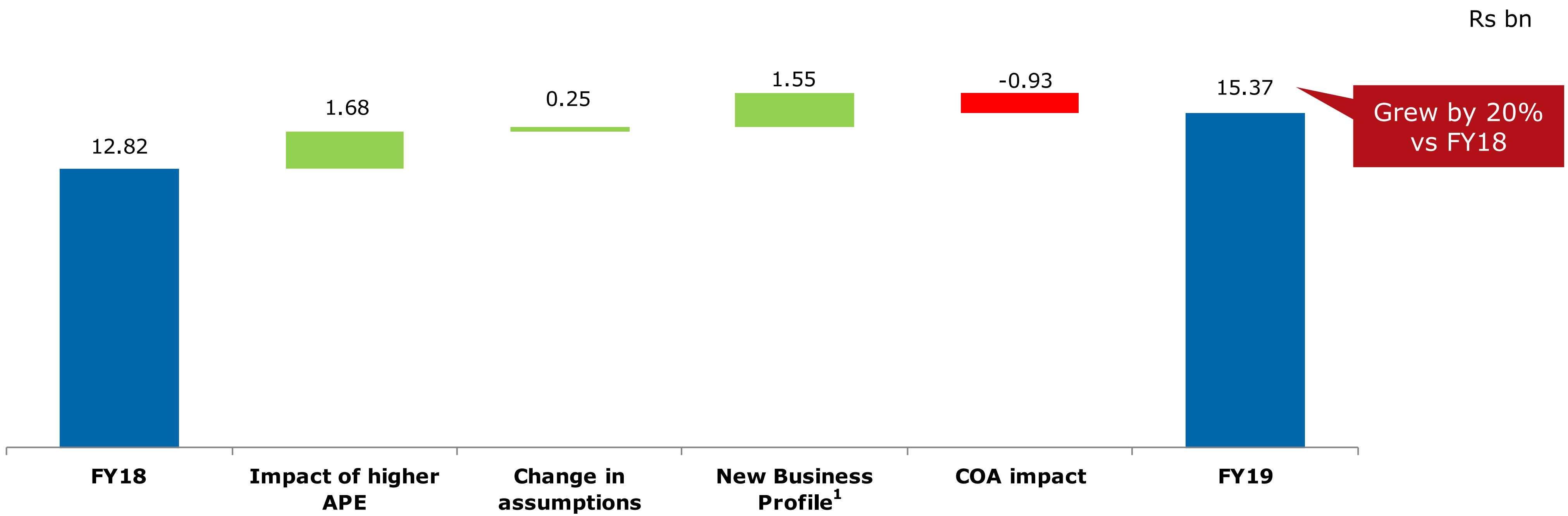


Across key segments



Note: 1. Calculated as per IRDAI circular (based on original premium) for period ended Mar 31, 2019 for individual business

Value of new business (VNB) and NBM walkthrough



	FY18	Impact of higher APE	Change in assumptions	New Business Profile[1]	COA impact	FY19
NBM	**23.2%**	**-**	**0.4%**	**2.5%**	**-1.5%**	**24.6%**

- Change in assumptions mainly due to impact of change in persistency and mortality assumptions

Note: 1. Reflects the impact of difference in mix of segment/distribution channel/tenure/age/sum assured multiple etc

Sensitivity analysis: 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%	-0.4%	-0.1%	-1.7%
	Decrease by 1%	0.2%	0.1%	1.6%
Equity market movement	Decrease by 10%	-1.4%	-0.3%	-1.7%
Persistency (Lapse rates)	Increase by 10%	-2.9%	-0.7%	-1.4%
	Decrease by 10%	3.0%	0.7%	1.5%
Maintenance expenses	Increase by 10%	-2.1%	-0.5%	-0.7%
	Decrease by 10%	2.1%	0.5%	0.7%
Acquisition Expenses	Increase by 10%	-18.1%	-4.4%	NA
	Decrease by 10%	18.1%	4.4%	NA
Mortality / Morbidity	Increase by 5%	-5.2%	-1.3%	-0.9%
	Decrease by 5%	5.1%	1.3%	0.9%
Tax rate[2]	Increased to 25%	-13.8%	-3.4%	-6.6%

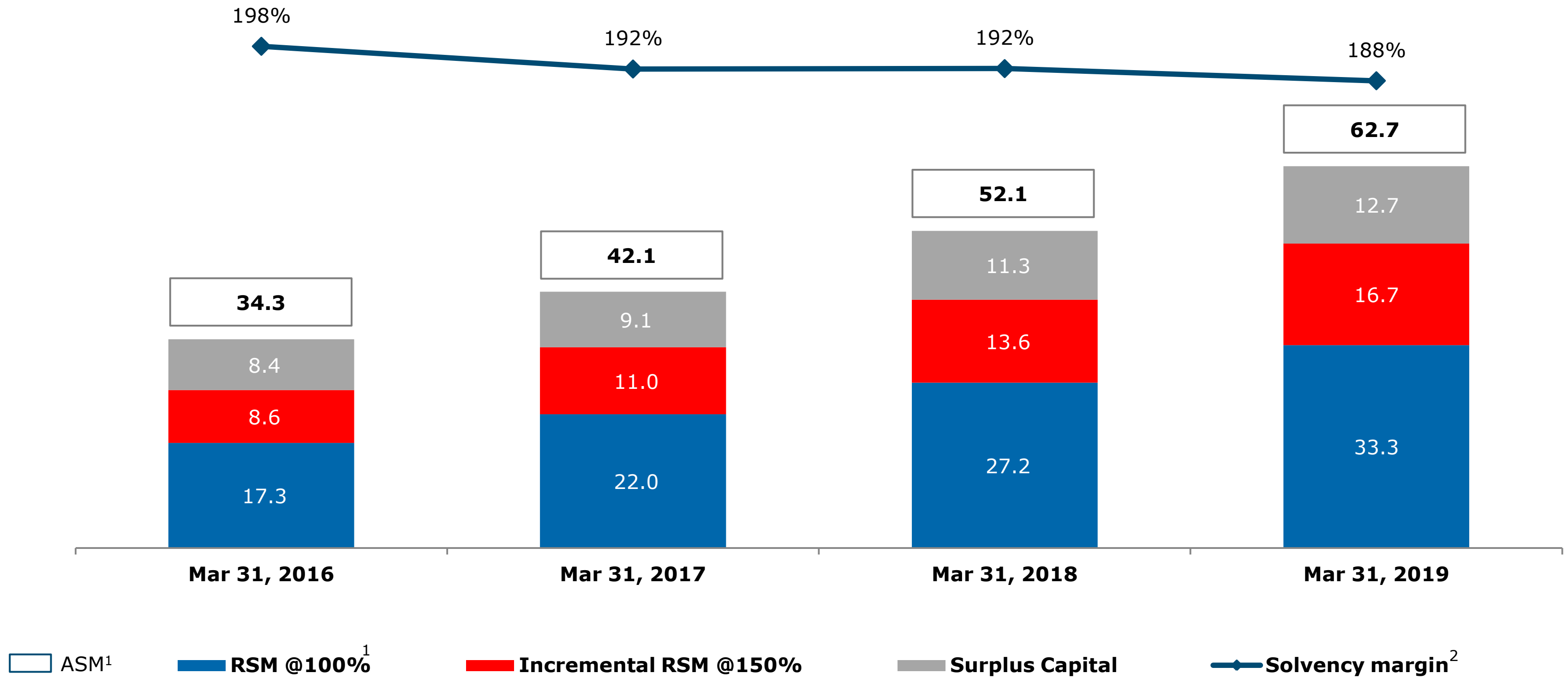
Notes:
1. *Post overrun total VNB for Individual and Group business*
2. *The tax rate is assumed to increase from 14.56% to 25% and hence all the currently taxed profits in policyholder/shareholder segments are taxed at a higher rate. It does not allow for the benefit of policyholder surplus being tax-exempt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

HDFC Life

Stable capital position

Rs bn

Dividend paid	2.2	2.6	3.3	4.0
New business growth	18%	33%	32%	32%

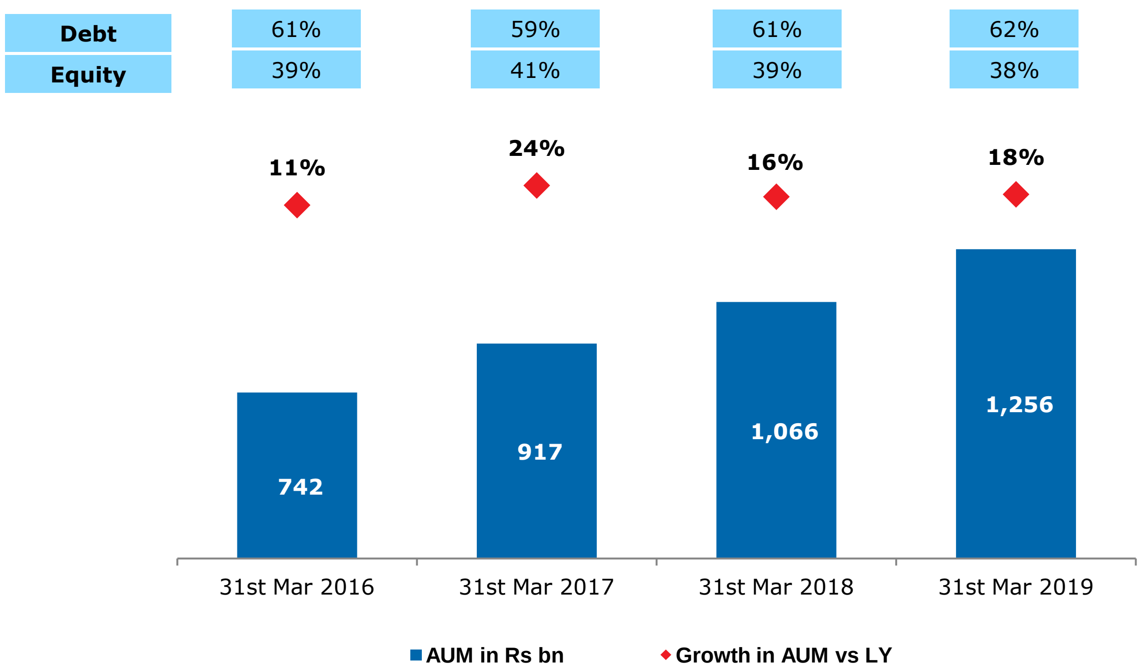


- Internal accruals have supported new business growth with no capital infused in last seven years *(except through issuance of ESOPs)*
- Without the capital infusion in Dubai subsidiary the solvency ratio would have been 192%.
- Track record of healthy dividend payouts

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

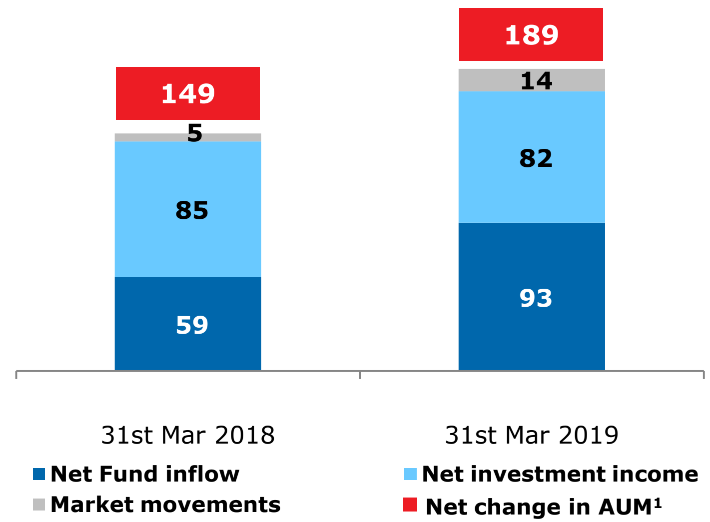
Assets under management

Assets Under Management



Change in AUM[1]

Rs bn

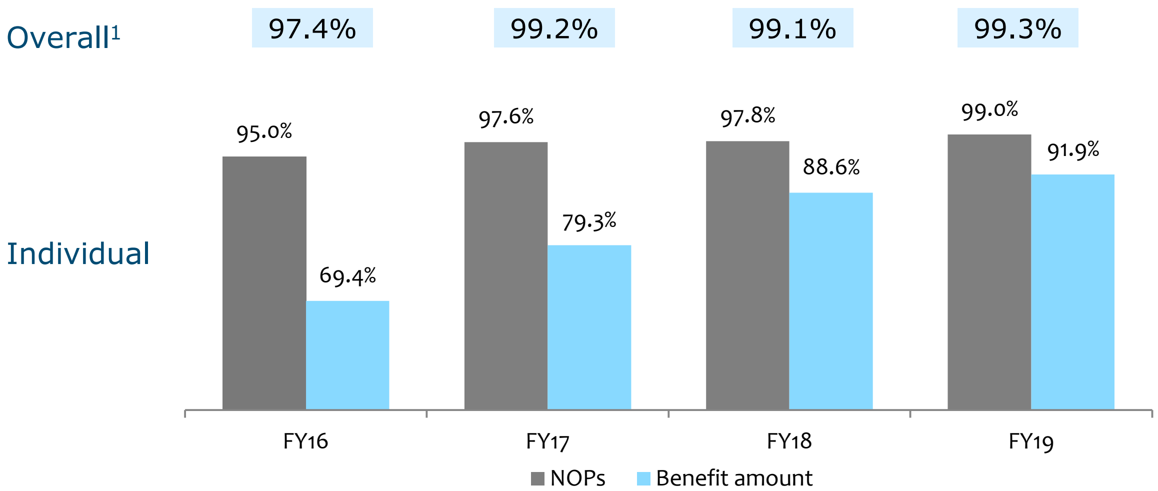


- Continue to rank amongst top 3 private players, in terms of assets under management[2]
- Almost 96% of debt investments in AAA rated and Government bonds as on Mar 31, 2019

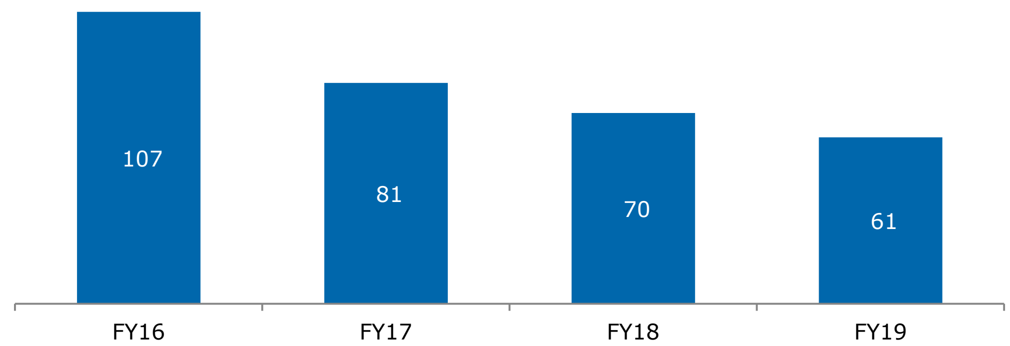
Notes:
1. *Calculated as difference from April to March*
2. *Based on Asset under Management as on Dec 31, 2018*

Delivering superior customer service

Claim settlement ratios



Customer complaints (per 10,000 policies sold)



- Company's philosophy has always been of settling all bonafide claims – claim settlement ratios greater than 99%
- Reduction in claims repudiation ratio attributed to analytics based checks at initial stage, ageing of in-force and reducing impact of adverse selection
- Protection policies are historically more prone to fraud. Higher quantum of term protection written by the company is reflected in the disparity between the claim settlement ratios as measured by NOP's and benefit amount
- Settlement ratio for non-early claims was 99.6% as against 98.3% for early claims
- Customer complaints has seen a consistent decline over a period of time – Company has suspended several distribution partners with poor persistency and higher complaints

Note: 1. Overall claim settlement ratio includes individual and group claims

Swabhimaan- CSR Initiatives by HDFC Life

- **CSR framework** covers; Education, Health, Livelihood, Environmental Sustainability and Senior Citizens as areas of focus across India
  - Over **2.8 lakh beneficiaries** have been impacted through **22 projects** till date
  - CSR Projects are carried out by our able **Swabhimaan-CSR Team** in partnership with professional implementing agencies
- **Awards & Accolades**
  - HDFC Life has been identified as **one of the 50 companies** on Inclusive Business List by Shared Value Initiative India in 2018
  - HDFC Life received an **Appreciation plaque** for HBWN–Bandhan Konnagar project by FICCI in 2019

In line with our **Integrity** and **People Engagement** values, HDFC Life has been engaged in **CSR** since **2011** much before the **2013** regulation

11 projects
194,992 lives impacted

6 projects
76,378 lives impacted

2 projects
300 lives impacted

1 project
4,239 trees planted

2 projects
3,670 lives impacted

Employee Participation

68 activities YTD
110 champions YTD
9,000+ employee participation

Some activities include blood donation, flea market, sapling plantation, collection drives, awareness on bone marrow donation, food saving pledge campaign etc

Awards and accolades – FY19

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

Recognised as the leading private life insurer by Dun & Bradstreet

Recognised as the best 50 People Capital Index companies

Named as one of the top 20 places to work for by Great Place to Work

Won gold for content marketing on LinkedIn at the IAMAI Digital Awards

Appreciation plaque by FICCI for CSR efforts

World Marketing Congress Award for best native advertising

Declared as Superbrand for the seventh consecutive year

Best Brand advocacy award at 12th edition of Customer Loyalty Fest 2019

'Most promising Debut in the Big League' award at Moneycontrol Wealth Creater Awards 2018

Business Today Award for best term plan (C2P 3D plus)

Gold award for Best Social Strategy for The Memory Project

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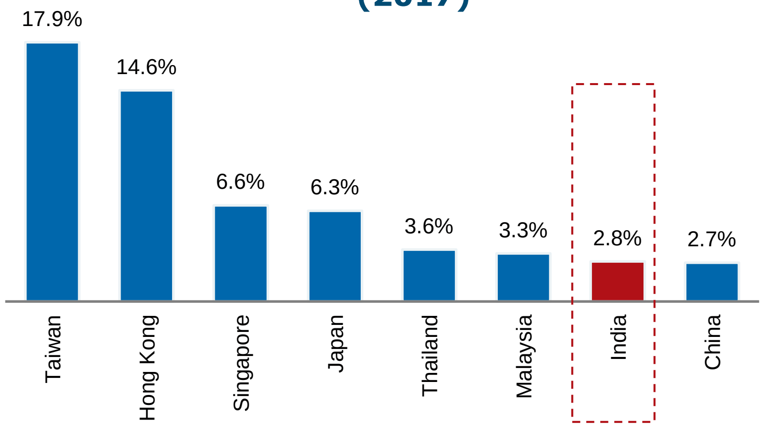
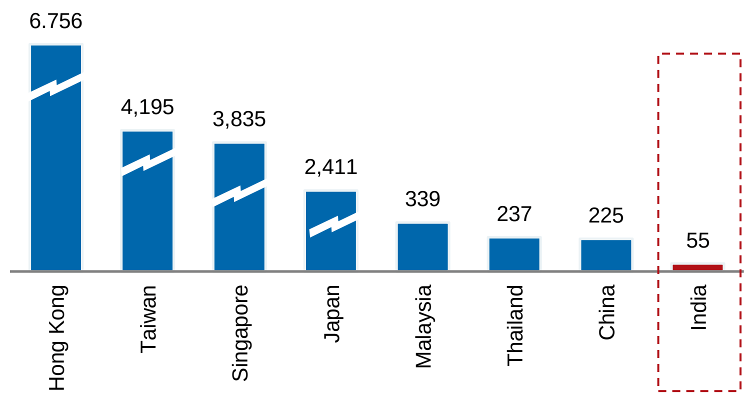
Growth opportunity: Under-penetration vs global benchmarks

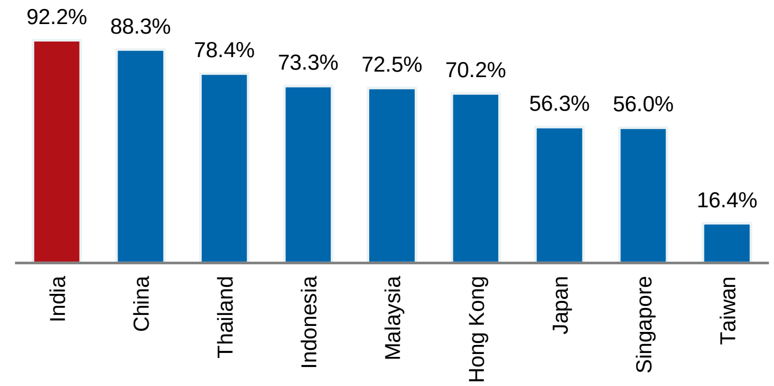
Life insurance penetration (2017)



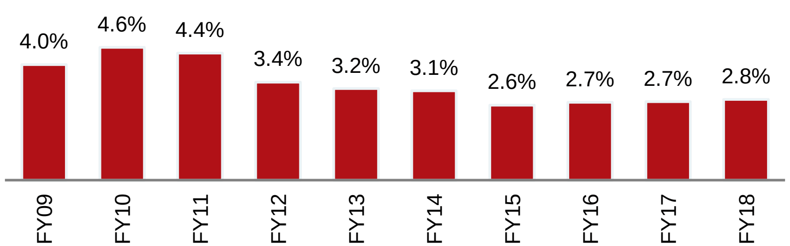
Life insurance density US$ (2017)



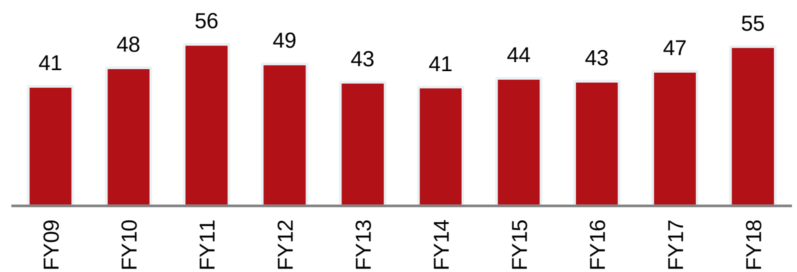
Protection gap (2014)



India life insurance penetration (FY09-18)



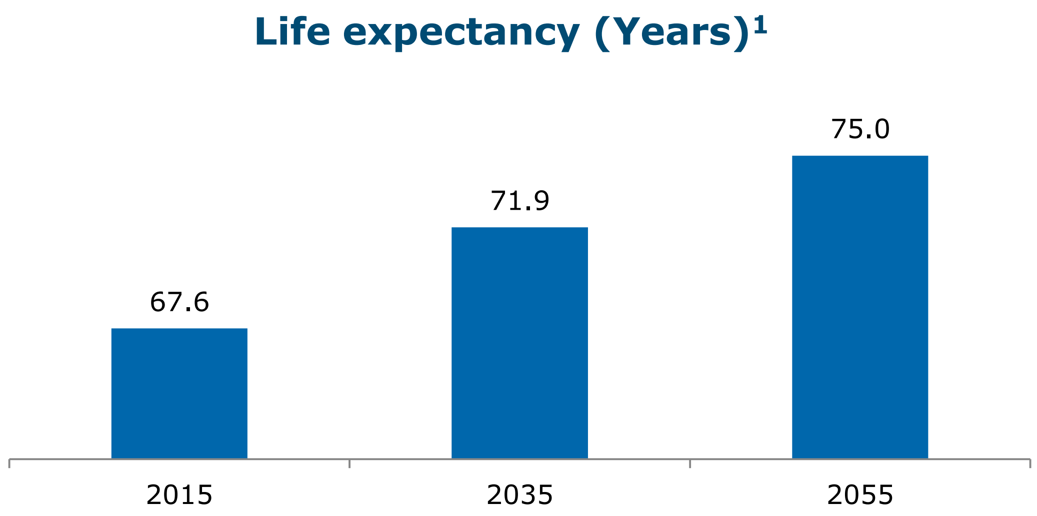
India life insurance density US$ (FY09-18)

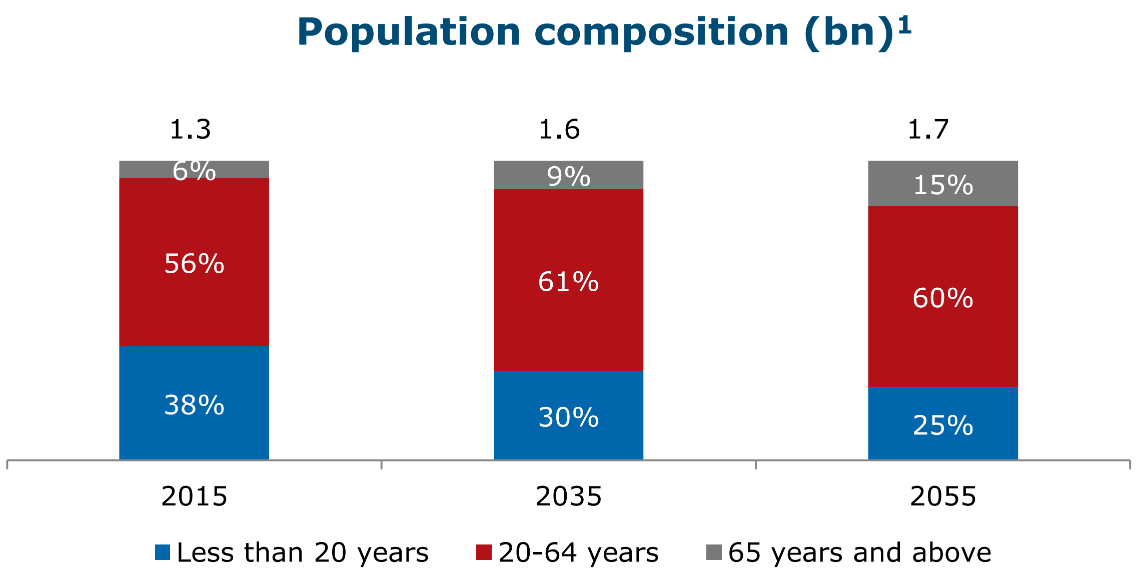


- India has the highest protection gap in the region, as growth in savings and life insurance coverage has lagged behind economic and wage growth
- Protection gap has increased over 4x in last 15 years with significantly low insurance penetration and density

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

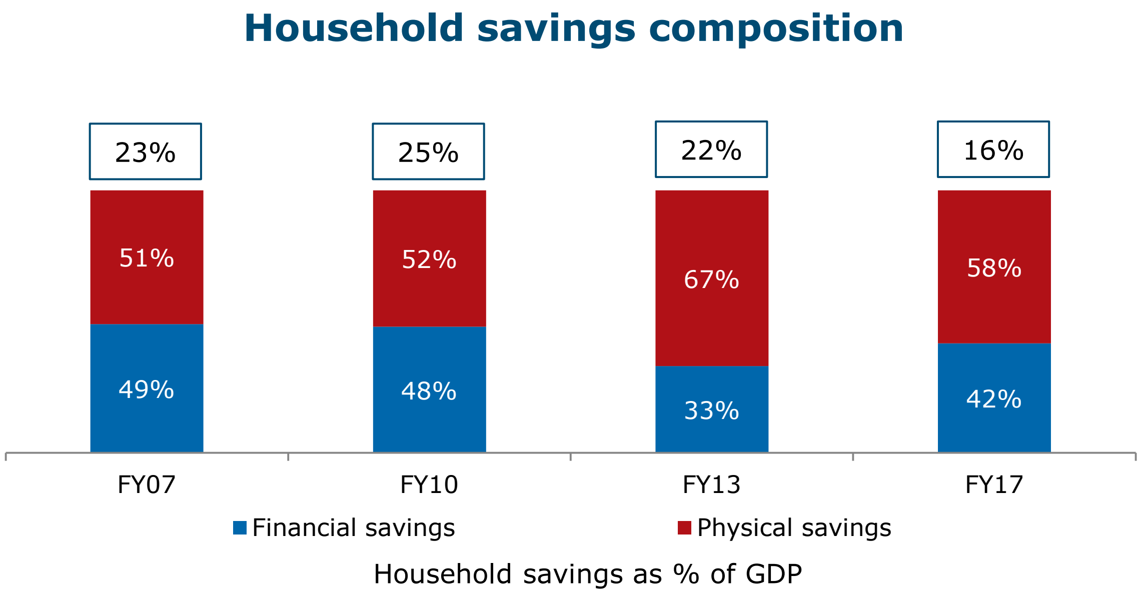


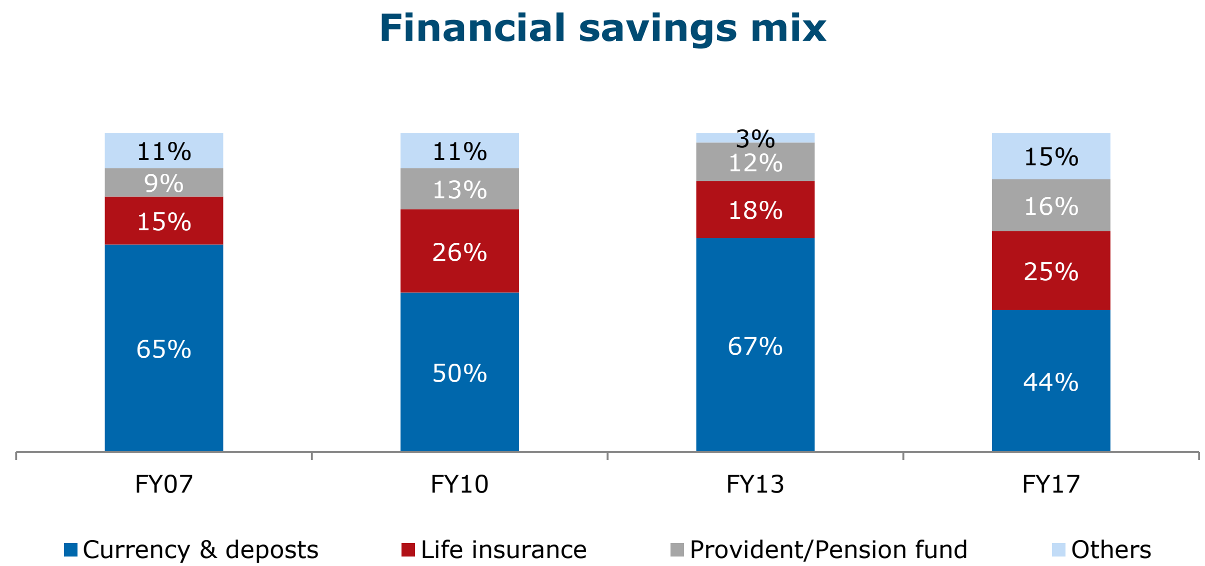


- India's insurable population is anticipated to touch 750 million by 2020
- India is currently one of the world's youngest nation, offering great opportunity for long term savings and investment plans
- Demand for retirement policies to rise with increasing life expectancy, declining birth-rates and 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

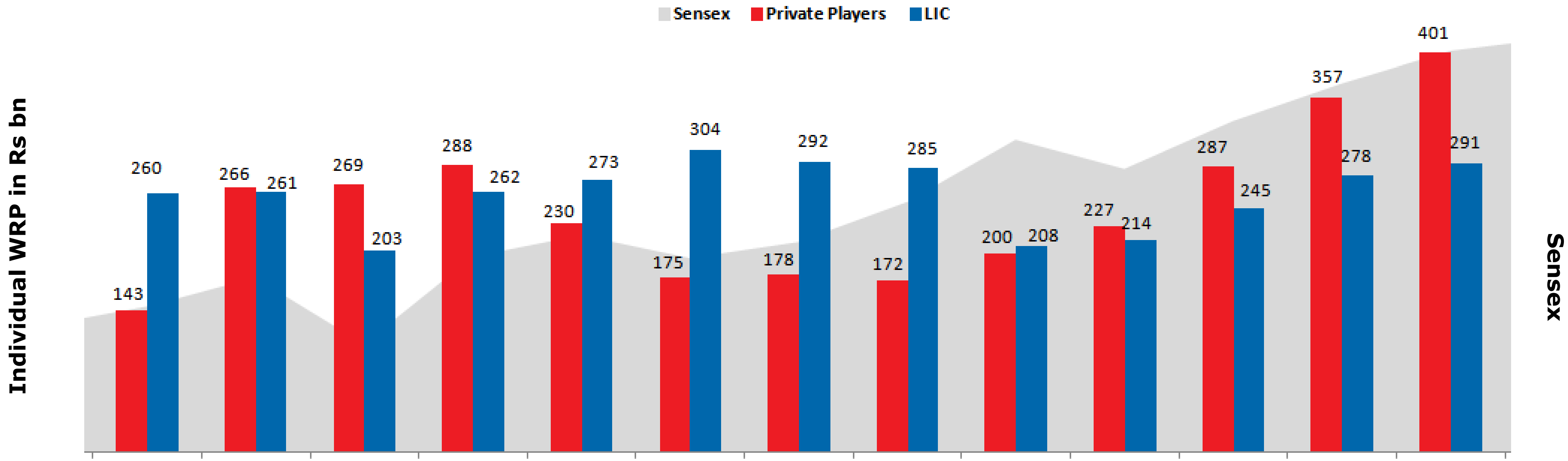




- Increasing preference towards financial savings with buoyant equity market returns, along with impact of demonetisation on physical assets return profile
- Increasing share of life insurance within financial assets, as it caters to long-term saving and protection needs
- Various government initiatives to promote financial inclusion:
  - Implementation of JAM trinity – around 354 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

Source: DBIE-RBI Statistics, RBI Annual Report, Economic Survey, CSO, www.pmjdy.gov.in

Industry new business[1] trends



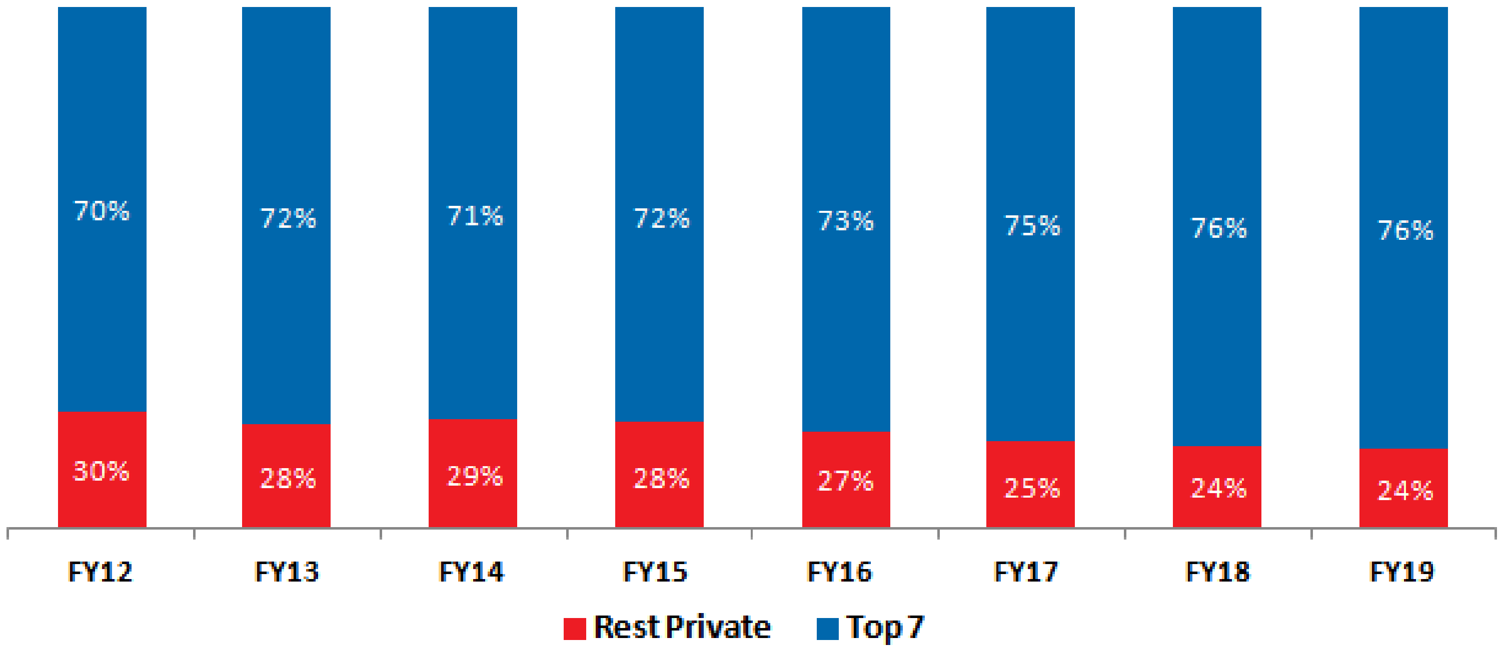
		FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Private players market share		35%	50%	57%	52%	46%	37%	38%	38%	49%	52%	54%	56%	58%
Growth %	**Private**	*99%*	*86%*	*1%*	*7%*	*-20%*	*-24%*	*2%*	*-3%*	*16%*	*14%*	*26%*	*24%*	*12%*
	LIC	*88%*	*0%*	*-22%*	*29%*	*4%*	*11%*	*-4%*	*-2%*	*-27%*	*3%*	*15%*	*13%*	*5%*
	Overall	*92%*	*31%*	*-10%*	*17%*	*-9%*	*-5%*	*-2%*	*-3%*	*-11%*	*8%*	*21%*	*19%*	*9%*

- 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 4 years (FY16-19)

Note: 1.Basis Individual Weighted Received Premium (WRP)
Source: IRDAI and Life Insurance Council

Private industry: Market share trends

Top 7 private players vs other players

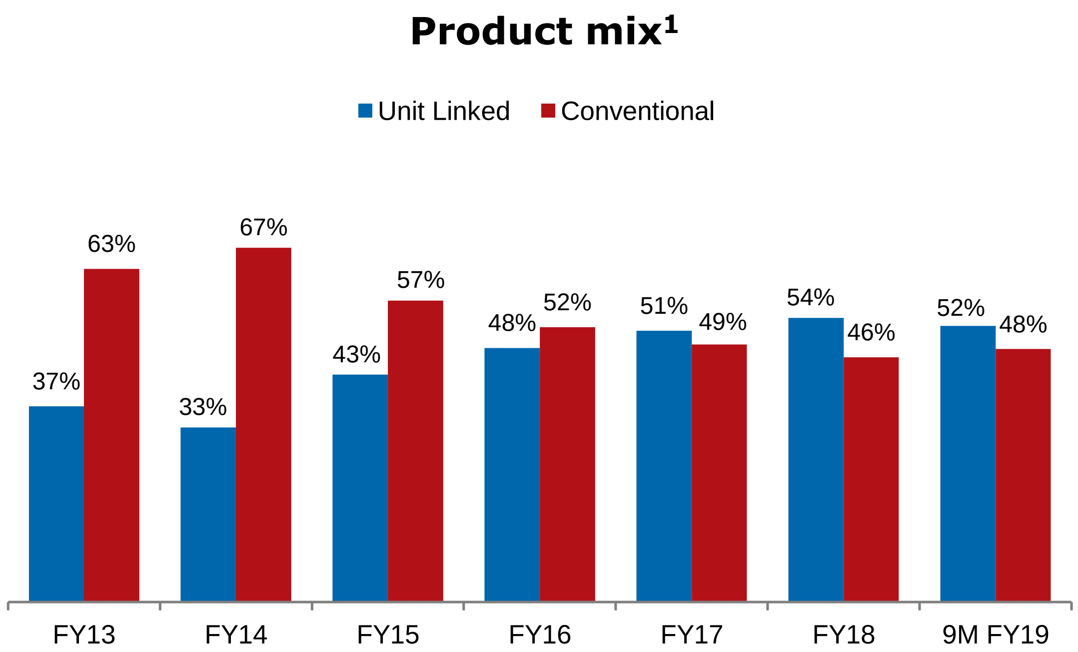


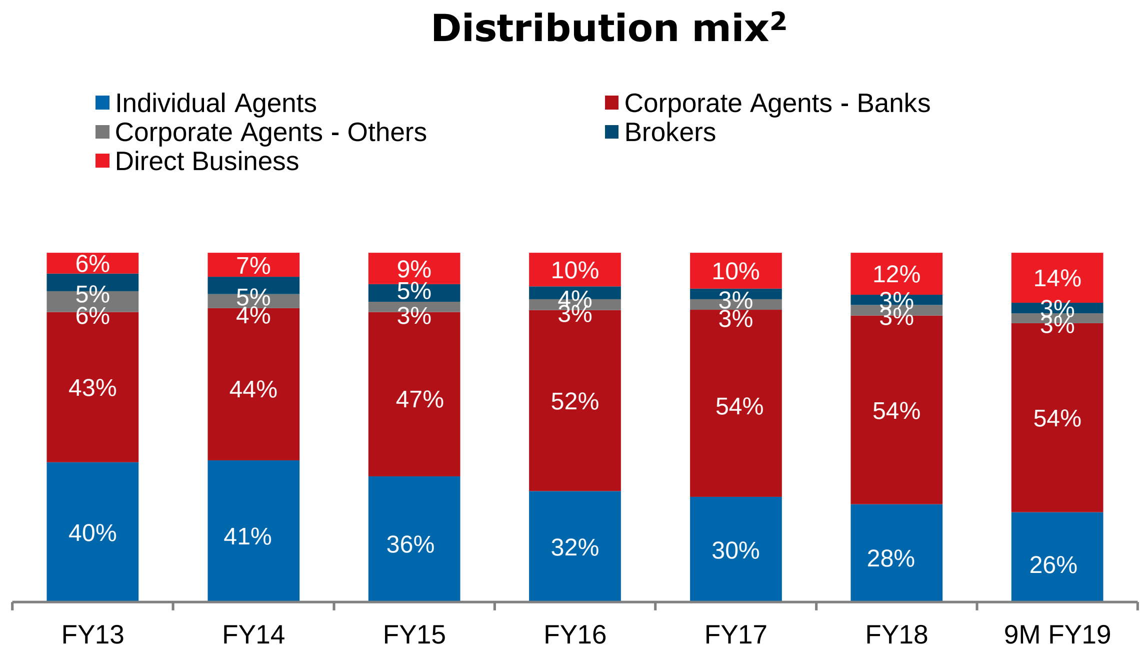
- Amongst private insurers, insurers with a strong bancassurance platform continue to dominate with increasing market share of the total private individual new business

Notes:

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

Private industry: Product and distribution mix





- 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

Financial and operational snapshot (1/2)

	FY17	FY18	FY19	CAGR
Key Metrics (Rs bn)				
New Business Premium (Indl+Group)	*86.2*	*113.5*	*149.7*	*32%*
Renewal Premium (Indl+Group)	*108.2*	*122.1*	*142.1*	*15%*
Total Premium	194.5	235.6	291.9	23%
Individual APE	37.4	48.9	52.0	18%
Overall APE	41.9	55.3	62.6	22%
Group Premium (NB)	44.2	54.1	73.3	29%
Profit after Tax	8.9	11.1	12.8	20%
- Policyholder Surplus	*7.5*	*8.5*	*9.0*	*9%*
- Shareholder Surplus	*1.4*	*2.6*	*3.8*	*64%*
Dividend Paid (1)	2.6	3.3	4.0	22%
Assets Under Management	917.4	1,066.0	1,255.5	17%
Indian Embedded Value	124.7	152.2	183.0	21%
Networth (2)	38.1	47.2	56.6	22%
NB (Individual and Group segment) lives insured (Mn)	20.9	33.2	51.4	57%
New Business Sum Assured (3)	3,887.6	4,734.5	6,058.2	25%
No. of Individual Policies (NB) sold (In 000s) (4)	1,082.3	1,049.6	995.0	-4%

Notes:

1. *Including dividend distribution tax (DDT)*
2. *Comprises share capital, share premium and accumulated profits/(losses)*
3. *Comprises individual and group business*
4. *Including rural policies. Excluding rural policies, NOPs grew by CAGR of 8%*

Financial and operational snapshot (2/2)

		FY17	FY18	FY19
Key Ratios				
Overall New Business Margins (post overrun)		22.0%	23.2%	24.6%
Operating Return on EV	(1)	21.7%	21.5%	20.1%
Operating Expenses / Total Premium		12.6%	13.5%	13.2%
Total Expenses (Opex + Commission) / Total Premium		16.7%	18.0%	17.0%
Return on Equity	(2)	25.7%	26.0%	24.6%
Solvency Ratio		192%	192%	188%
Persistency (13M / 61M)	(3)	84%/59%	87%/51%	87%/52%
Market Share (%)				
- Individual WRP		12.7%	13.3%	12.5%
- Group New Business		24.3%	28.5%	28.4%
- Total New Business		17.2%	19.1%	20.7%
Business Mix (%)				
- Product (UL/Non par savings/Non par protection/Par)	(4)	52/9/4/35	57/9/5/28	55/20/7/18
- Indl Distribution (CA/Agency/Broker/Direct)	(4)	72/12/5/11	71/11/5/14	64/13/4/19
- Total Distribution (CA/Agency/Broker/Direct/Group)	(5)	32/7/2/7/52	33/7/2/10/48	26/7/2/16/49
- Share of protection business (Basis Indl APE)		4.0%	5.1%	6.7%
- Share of protection business (Basis Overall APE)		7.8%	11.3%	16.7%
- Share of protection business (Basis NBP)		21.8%	25.9%	27.0%

Notes:

1. *During 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 20.4% for FY18*
2. *Calculated using net profit and average net worth for the period (Net worth comprises of Share capital, Share premium and Accumulated profits)*
3. *Persistency ratios (based on original premium). Group business, where persistency is measurable, has been included in the calculations.*
4. *Based on individual APE. UL: Unit Linked, Trad: Traditional, Par: Participating & CA: Corporate Agents. Percentages are rounded off*
5. *Based on total new business premium including group. Percentages are rounded off*

Revenue and Profit & Loss A/c

Rs bn

Revenue A/c

	FY19	FY18
Premium earned	291.9	235.6
Reinsurance ceded	(2.6)	(1.9)
Income from Investments	90.3	85.9
Other Income	1.2	0.7
Transfer from Shareholders' Account	3.1	1.6
Total Income	**383.8**	**321.9**
Commissions	11.2	10.7
Expenses	38.1	31.6
GST/Service tax on UL charges	3.4	3.0
Provision for taxation	2.3	1.8
Provision for diminution in value of investments	0.9	(0.0)
Benefits paid	133.6	128.5
Change in valuation reserve	175.1	133.2
Bonuses Paid	5.7	2.2
Total Outgoings	**370.3**	**311.0**
Surplus	**13.5**	**10.9**
Transfer to Shareholders' Account	12.1	10.0
Funds for future appropriation - Par	1.4	0.9
Surplus pending recommendation for allocation	-	-
Total Appropriations	**13.5**	**10.9**

Profit and Loss A/c

	FY19	FY18
Income		
- Interest and dividend income	2.9	2.2
- Net profit/(loss) on sale	1.1	0.6
Transfer from Policyholders' Account	12.1	10.0
Other Income	0.2	0.1
Total	**16.4**	**13.0**
Outgoings		
Transfer to Policyholders' Account	3.1	1.6
Expenses	0.3	0.1
Provision for diminution in value of investments	0.1	(0.0)
Provision for Taxation	0.1	0.2
Total	**3.6**	**1.9**
Profit for the year as per P&L Statement	**12.8**	**11.1**
Interim Dividend paid (including tax)	(4.0)	(3.3)
Profit carried forward to Balance Sheet	**8.8**	**7.8**

Balance Sheet

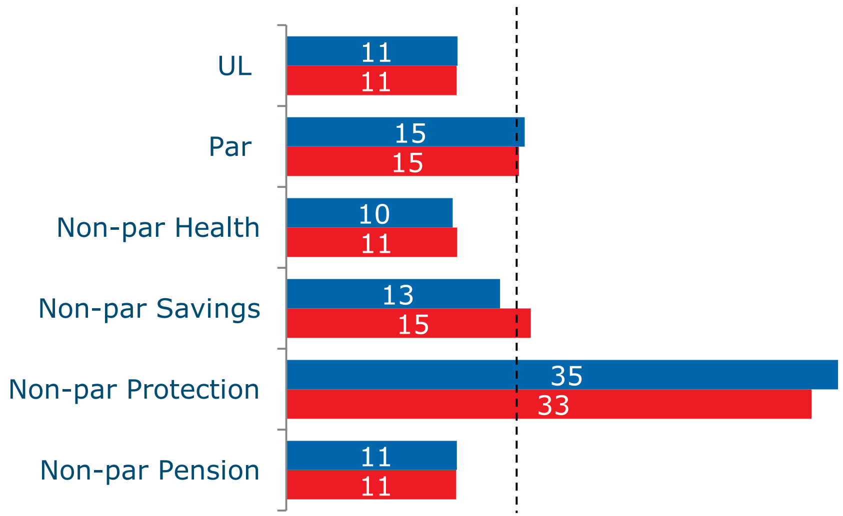
Rs bn

	Mar 31, 2019	Mar 31, 2018
Shareholders' funds		
Share capital (including Sh premium)	23.8	23.3
Accumulated profits	32.7	23.9
Fair value change	(0.0)	0.3
Sub total	**56.6**	**47.5**
Policyholders' funds		
Fair value change	11.1	6.2
Policy Liabilities	536.3	423.2
Provision for Linked Liabilities	605.2	546.0
Funds for discontinued policies	28.6	25.9
Sub total	**1,181.2**	**1,001.3**
Funds for future appropriation (Par)	11.0	9.6
Total Source of funds	**1,248.8**	**1,058.4**
Shareholders' investment	50.5	40.7
Policyholders' investments: Non-linked	571.2	453.5
Policyholders' investments: Linked	633.8	571.9
Loans	0.8	0.2
Fixed assets	3.3	3.4
Net current assets	(10.8)	(11.3)
Total Application of funds	**1,248.8**	**1,058.4**

Segment wise average term and age[1]

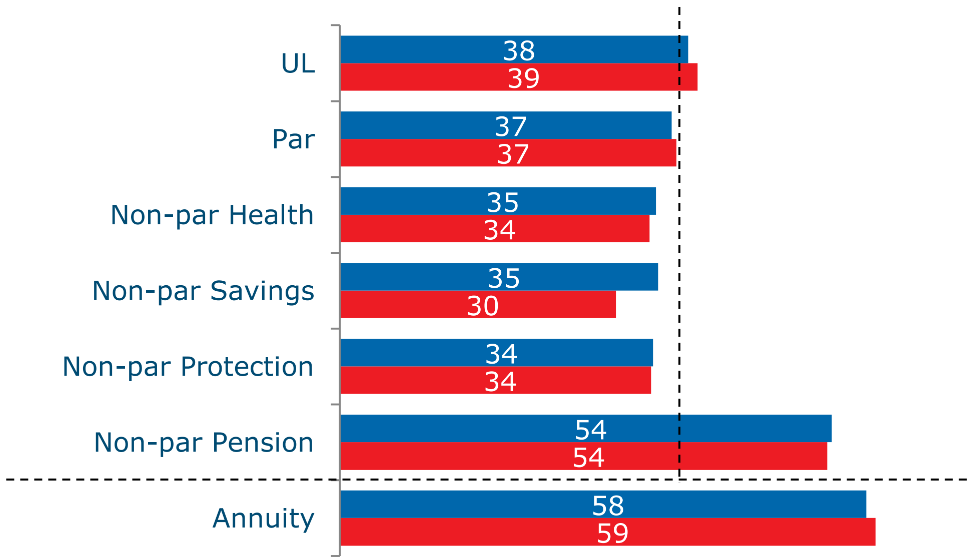
Average Policy Term excluding annuity (Yrs)

12M FY19: 14.6 (12M FY18: 14.4)



Average Customer Age excluding annuity (Yrs)

12M FY19: 37.5 (12M 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

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

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.

Embedded Value: Methodology and Approach (2/2)

Components of Value in-force covered business (VIF)

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

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

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

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

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

Embedded Value: Economic assumptions[1]

Years	Forward rates %		Spot rates %	
	As at Mar 31, 2019	As at Mar 31, 2018	As at Mar 31, 2019	As at Mar 31, 2018
1	6.63	6.57	6.42	6.36
2	6.99	7.26	6.59	6.69
3	7.31	7.72	6.74	6.94
4	7.58	8.02	6.88	7.13
5	7.80	8.20	7.01	7.28
10	8.32	8.30	7.43	7.64
15	8.31	8.10	7.62	7.71
20	8.19	7.97	7.70	7.71
25	8.08	7.90	7.72	7.70
30+	8.01	7.87	7.72	7.68

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

HDFC Life

Glossary (Part 1)

- **APE (Annualized Premium Equivalent)** - The sum of annualized first year regular premiums and 10% weighted single premiums and single premium top-ups
- **Backbook surplus –** Surplus accumulated from historical business written
- **Conservation ratio -** Ratio of current year renewal premiums to previous year's renewal premium and first year premium
- **Embedded Value Operating Profit ("EVOP")** – Measure of the increase in the EV during any given period, excluding the impact on EV due to external factors like changes in economic variables and shareholder-related actions like capital injection or dividend pay-outs.
- **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.
- **New business strain** – Strain on the business created due to revenues received in the first policy year not being able to cover for expenses incurred

Glossary (Part 2)

- **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
- **Proprietary channels** – Proprietary channels include agency and direct
- **Protection Share** - Share of protection includes annuity and health
- **Persistency** – The proportion of business retained from the business underwritten. The ratio is measured in terms of number of policies and premiums underwritten.
- **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

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