

HDFC Standard Life Insurance Company Limited

Half year ended Sep 2011



**'India's Most Trusted
Private Life Insurance Brand'**

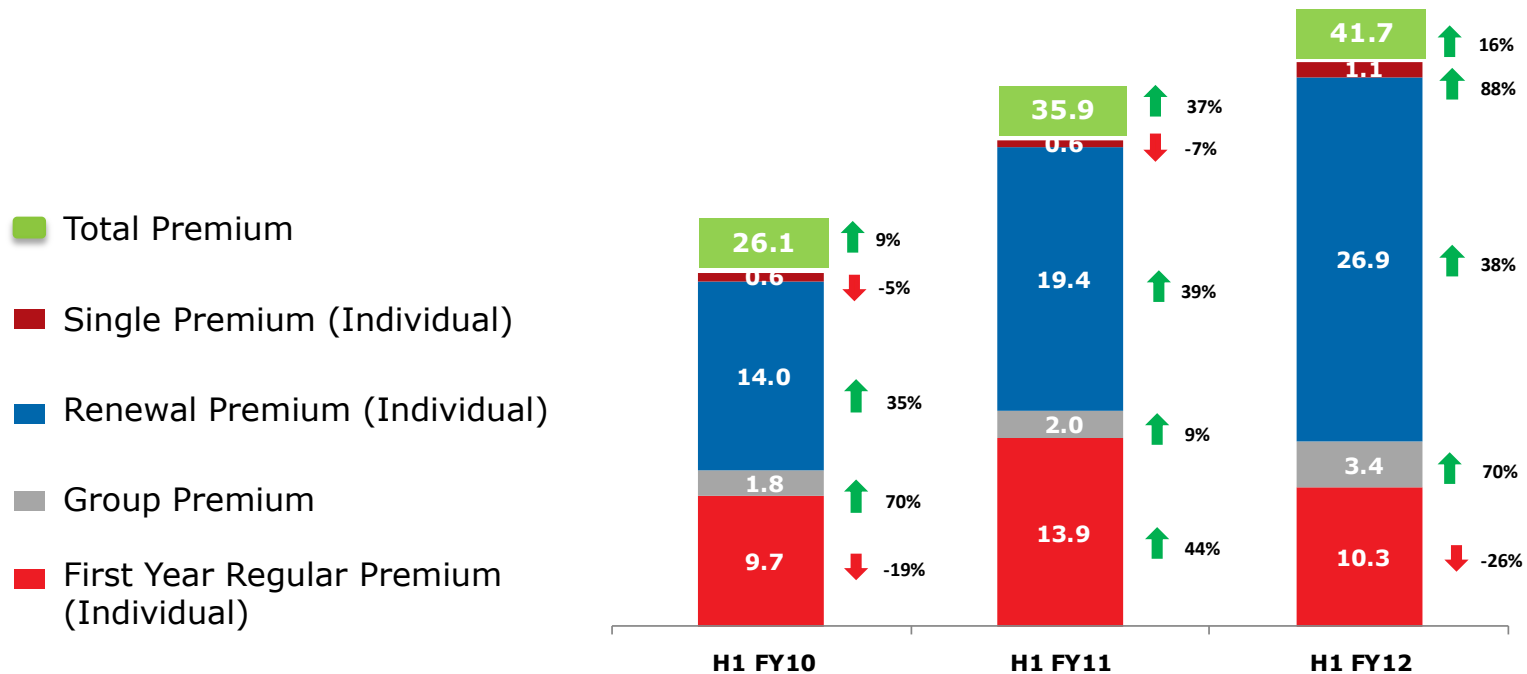
as per the 'Most Trusted Brand' Survey 2010,
conducted by Economic Times - Brand Equity.



Premium Income

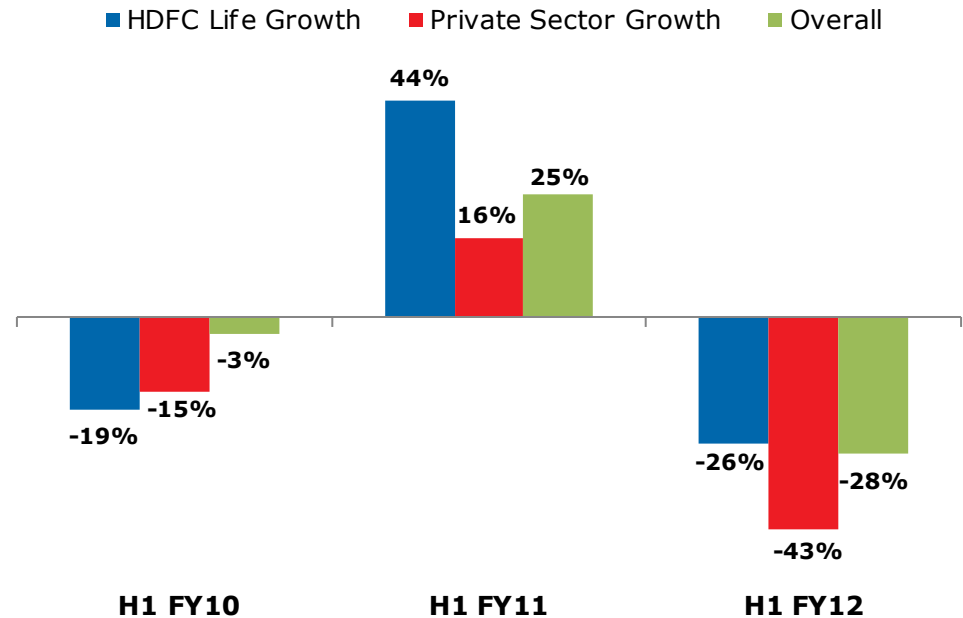
₹ Bn

- A growth of 16% in total premium at ₹ 41.7 billion in H1 FY12 led by single & renewal premium
- Focus on persistency led to a 38% increase in renewal premium
- Group business has grown by 70% to ₹ 3.4 billion in H1 FY12, contributing 8.1% of total premium
- De-growth of 26% in individual new business (regular premium) due to high base in H1 FY 11 (pre new ULIP guidelines). However positive YoY growth seen in Sept. '11



Growth

- **New ULIP regulations continue to impact growth in H1 FY12**
- **Since last 2 years grown faster than private industry and have outperformed the overall market (individual business) in the last 2 years.**

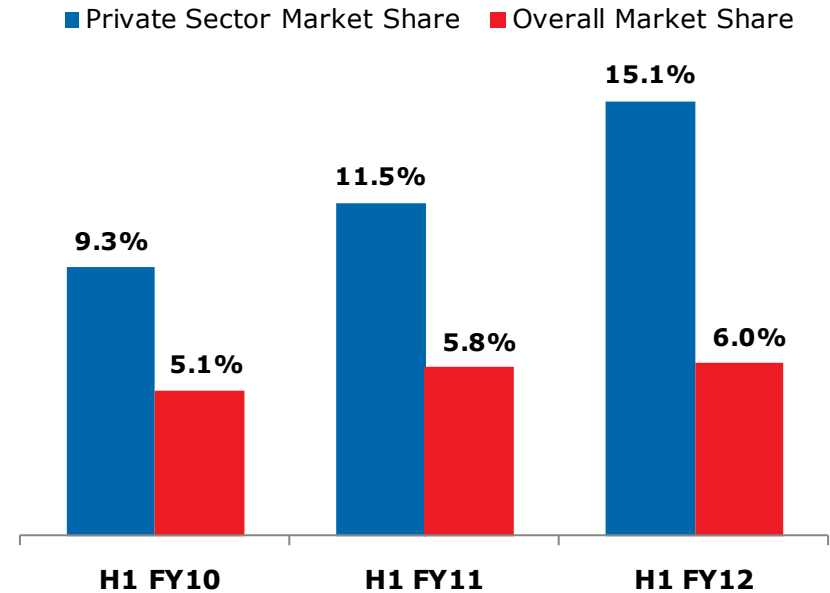


All references of growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

Market Share

- **Sustained increase in private sector market share**
- **Market share gain of 360 bps in private space in H1 FY12 over same period LY and 580 bps since H1 FY 10**
- **Ranked # 1 in H1 FY 12 amongst private insurance companies (Individual business)**
- **Adapting well to post September 1, 2010 regulatory regime (Recorded the highest WRP in last 12 months among private sector)**



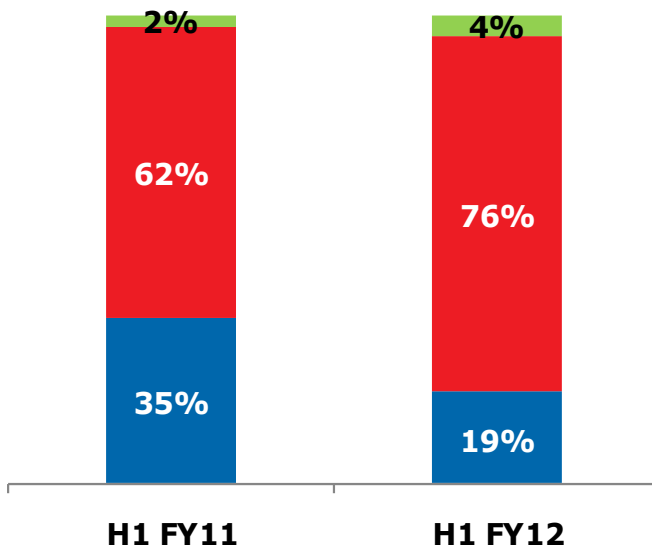
All references of market share, ranking and growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

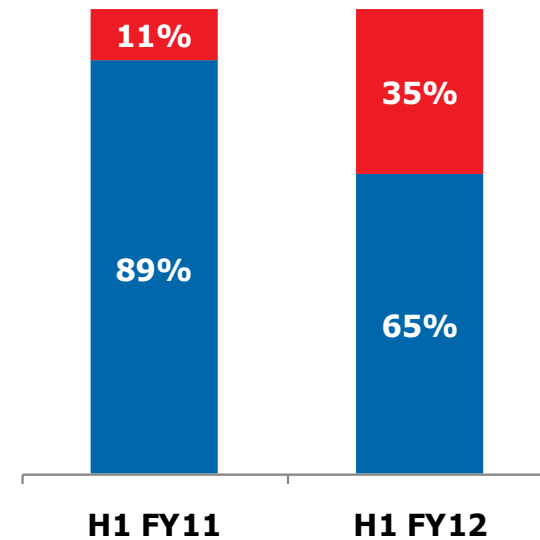
Distribution & Product Mix

- Bancassurance contribution has increased in H1 FY12 by 14%. Impact of new ULIP guideline has been significantly negative for the agency channel across the industry
- Renewed focus on Direct distribution channel has led to growth of 44% in the channel's EPI
- Par contribution in line with management strategy to keep it below 40%

■ Tied Agency ■ Bancassurance ■ Direct



■ ULIP ■ Conventional



Commission Ratio

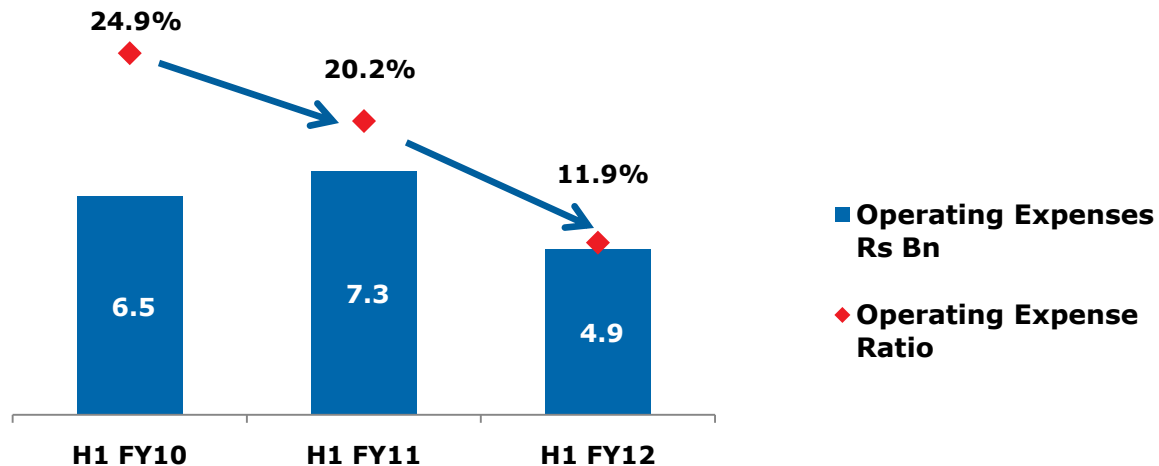
Commission % on	H1 FY10	H1 FY11	H1 FY12
- First year premiums	16.0%	11.7%	15.3%
- Renewal premiums	2.9%	2.0%	1.7%
- Single premiums	0.4%	0.6%	0.7%
Total premiums	8.6%	6.2%	5.4%

- **Reduction in overall commission as a proportion of total premium continues**
- **Increase in First Year commission due to increase in share of conventional products**

Commission % is equal to respective commission over respective premium

Operating Expenses

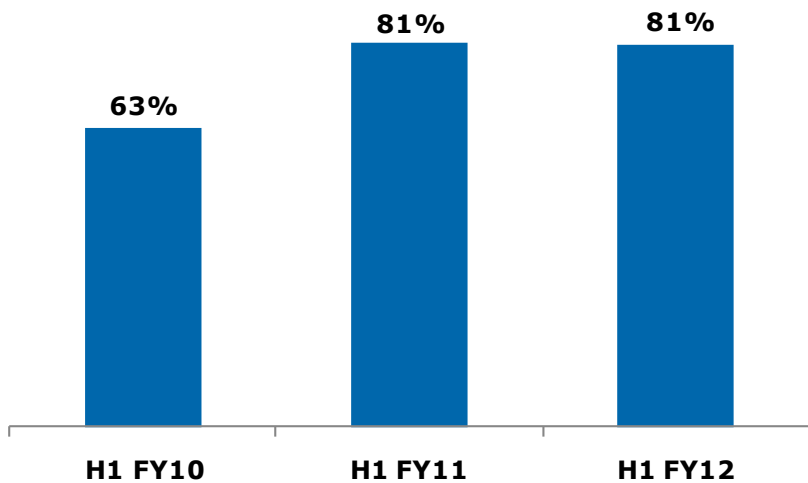
- Continuous monitoring, focused efforts on controlling cost put in last year have helped reduce the operating expense ratio
- In H1 FY12, Operating expenses ratio has decreased by 830 basis points over the previous year
- Operating expenses have reduced by 32% in rupee terms Vs last year



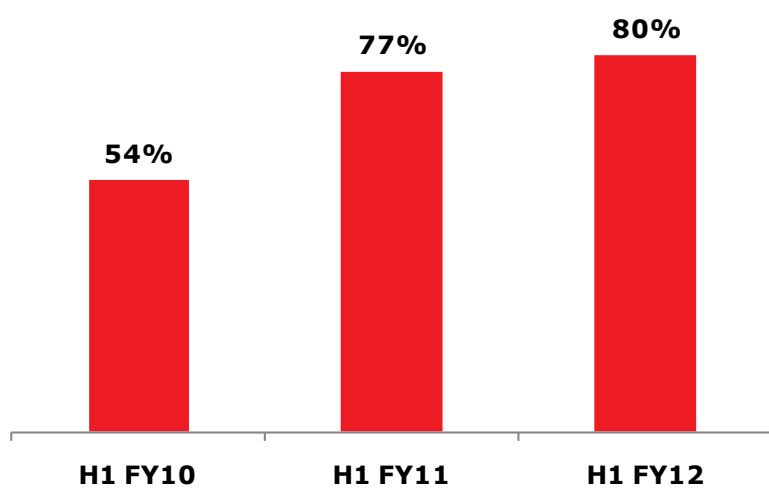
Operating expenses exclude service tax

Conservation Ratio

Conservation Ratio (Individual Business)



13th month Persistency Ratio

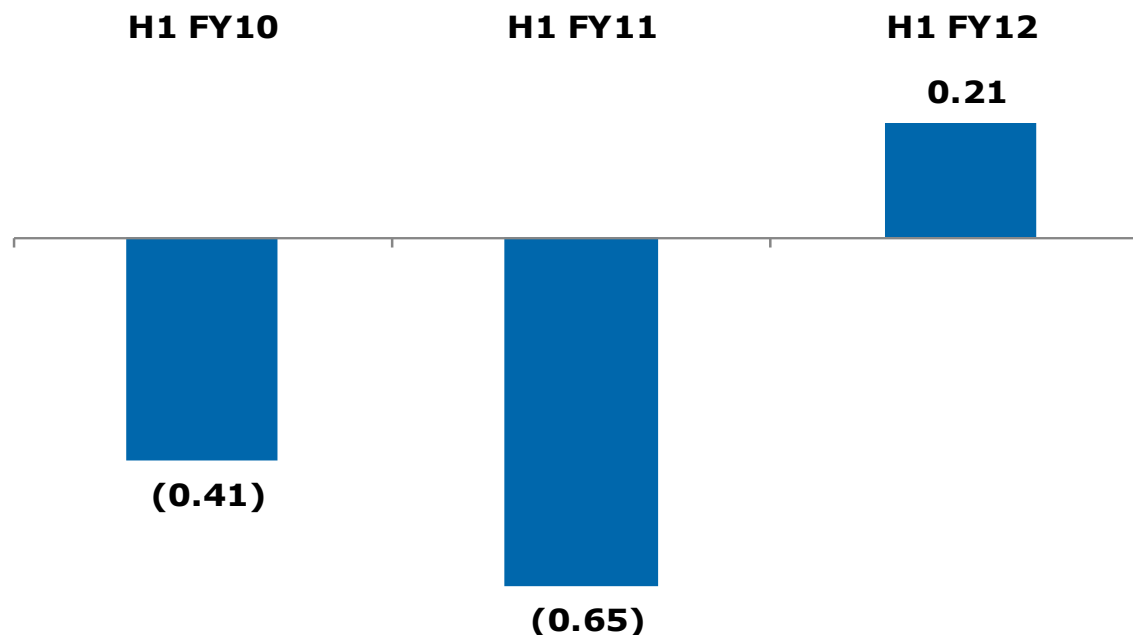


• Management strategy on persistency have helped maintain 80% plus conservation ratio

The 13th month persistency ratio for H1 FY12 have been calculated based on data as on 31st Aug

Indian GAAP Results

₹ Bn

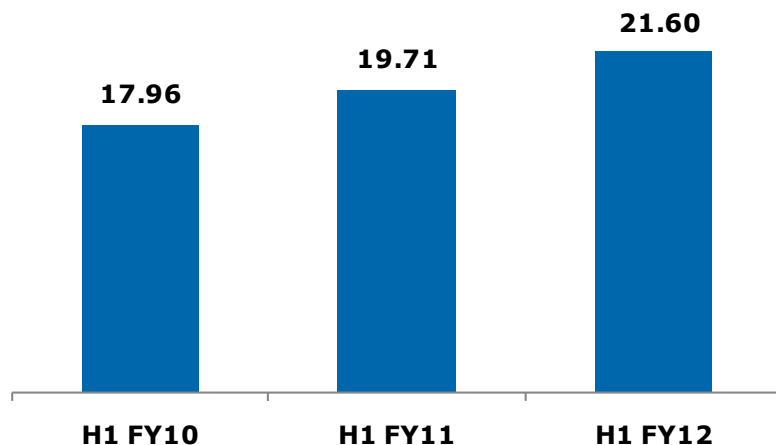


- Positive trend profits continues in Q2 FY12 with ₹ 0.21 billion recorded in H1 FY12
- The back book has started generating sufficient profits to offset the new business strain incurred on writing of new policies and this has resulted in improving the Indian GAAP results

Total Capital

₹ Bn

Closing Capital



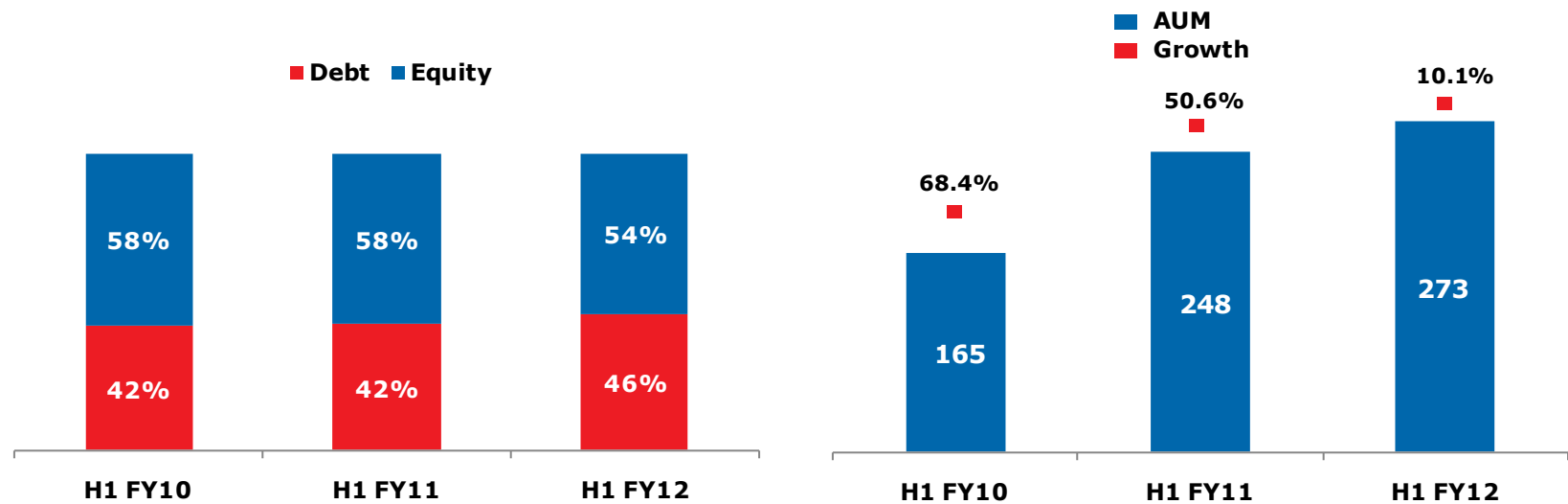
- Capital infusion has scaled down over the last 3 financial years with no additions in the current fiscal
- Generation of surplus on existing policies has reduced the need for capital draw-downs
- Solvency Ratio as at 30th Sep 2011 was 183% as against a regulatory requirement of 150%

Shareholding Pattern as at 30th Sept 2011 : HDFC 72.4%; Standard Life 26.0%; Individuals / ESOP Trust 1.6%

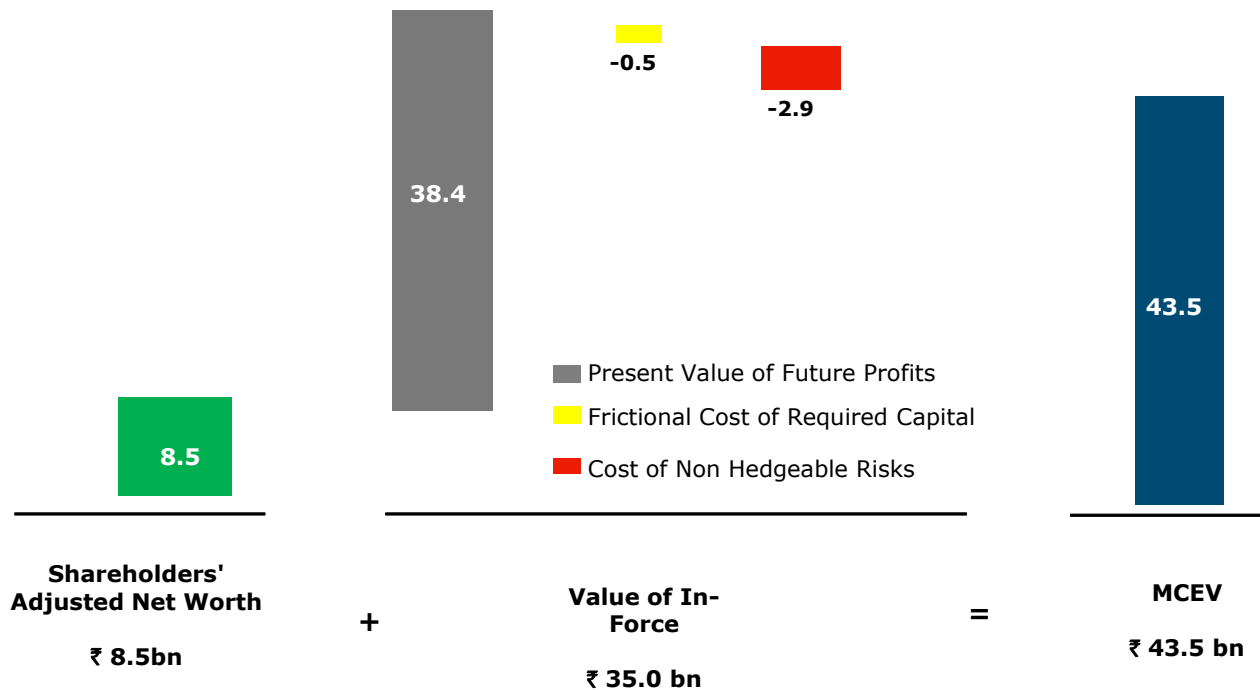
Assets Under Management

₹ Bn

- **10.1% growth** in assets under management



MCEV as at 30th Sept 2011



Market Consistent Embedded Value (MCEV) results are unaudited. Movement in MCEV from previous balance sheet date is a combination of EVOP items and investment variances

New Business Profits

	₹ Bn
New business profits for H1 FY12 ¹	1.7
New business EPI for H1 FY12 ²	10.6

New business margin for H1 FY12 ^{1,2}	15.6%
--	-------

¹ Based on loaded acquisition expenses

² Margins and EPI are shown for individual business only

Management Outlook

- **Business environment post the new regulatory regime (effective Sep 1, 2010) continued to impact the industry growth in Q2'12 given the baseline achievement in the similar period**
 - For Private players, individual business premium in WRP terms declined by 43% in H1'12 – HDFC Life ranked No.1 in the half year ended Sept'11
 - HDFC Life years to 15% month on month market share amongst private players has nearly doubled over the last 1.5 years
 - Strong renewal premium growth during the quarter – YTD growth of 36%
 - Cost and Efficiency initiatives put in place in FY'11 leading to better expense management
 - Contribution of traditional plans to the business mix has increased; reversal of some of the guidelines on Pension products would be a positive
- **Bancassurance channel will increase its contribution to the new business written.**
 - Competitive action to gain Bank distribution through offering equity stake or strategic tie-ups seen through deals between banks and insurers
 - HDFC Life is preparing for the likely multi-tie scenario through a 3 pronged approach of fortifying existing relationships, diversifying distribution mix and being a partner of choice. A cross-functional programme is underway to address these challenges
- **The channel transformation program roll out across the tied agency channel is complete and the benefits expected to accrue in H2'12**
- **Processes introduced to improve customer service metrics and persistency**

Awards and Accolades

Best Companies to Work for in India in 2011

Adjudged as one of the Best Companies to Work for in India in 2011, for the second consecutive year. The company ranked first in the insurance category. The study has shown that HDFC Life does a great job in its rewards and recognition programs with numerous events and celebrations to recognize employee contribution. HDFC Life also provides various self developmental and professional growth opportunities for all employees. More than 470 companies participated in the study, making it the largest such study in India.



Indian Insurance Awards 2011

Won the 'Best Product Innovation Award 2011 - Life Insurance' for the product 'HDFC SL Crest' at the Indian Insurance Awards 2011. HDFC SL Crest has been a trendsetting innovation in the market, which has made HDFC Life the winner of the award.



CISO 100 Awards 2011

Awarded the Top 100 CISO Awards 2011, for demonstrating outstanding performance in information security and technology practices. HDFC Life's Chief Information Security Officer (CISO) - Sharad Sadadekar, was recognized amongst the Top 100 CISOs, for implementing one of the best Information Security practices amongst Indian companies. The 'Top 100 CISO Awards' recognizes executives who have demonstrated outstanding initiatives in using information security practices and technology to secure their business and mission critical information in the most effective manner and deliver business value.



Awards and Accolades

CIO 100 2011 Award

Selected as an honoree for CIO magazine's 24th annual CIO 100 Awards. Chosen as one of 100 innovative organizations that uses IT effectively to create business value by creating competitive advantage, optimizing business processes, enabling growth and improving relationships with customers.



Asia Best Employer Brand Awards 2011

Received 5 awards across diverse categories in Asia's Best Employer Brand Awards in the CMO Asia Awards for Excellence in Branding and Marketing. The award categories that HDFC Life has won are: Young HR Professional of the Year, Talent Management, Best HR Strategy in Line with Business, Innovation in Recruitment and Brand Leadership Award For Excellence in Branding and Marketing.



Yuva Hero Award

Received Yuva Hero Award from the NGO – Yuva Unstoppable – for contribution towards upliftment of lesser privileged children. Yuva Unstoppable is a premier volunteer movement with a force of 60,000 young people across 30 cities of India helping more than 100,000 kids in municipal schools / slums through organizational partnerships with schools, colleges and corporate companies.



Awards and Accolades

Best Marketing Strategy - Asian Leadership Awards

The Asian Leadership Awards is about Achievers, Super Achievers and Future Business Leaders. It recognizes and rewards their ability to steer their businesses through turbulent times, applying the best of business modules to manage and keep their missions afloat.

Innovation in CRM award

Conferred the prestigious Innovation in CRM award by IDC Financial Insights at its inaugural Financial Insights Innovation Awards (FIIA) – Insurance or FIIA (Insurance) held at the Asian Insurance Congress (AFS) in Singapore. HDFC Life's initiative was among the 68 high-quality entries submitted for this award by leading insurers across the Asia Pacific (excluding Japan). HDFC Life won this award for its Customer renewal & Retention System MINT.

India's Most Trusted Service Brand 2011

Ranked India's Most Trusted Private Life Insurance Brand in 2011 in a survey conducted by Economic Times-Brand Equity and the Nielsen Company.

Golden Peacock HR Excellence Award

Received the Golden Peacock HR Excellence Award for the year 2011 in the 'Banking Financial & Insurance Sector.' This award acknowledges HDFC Life's efforts towards innovative people management processes and talent engagement and development initiatives in the highly dynamic Indian life insurance industry.



Appendix & Glossary

Appendix 1 : MCEV methodology and approach

MCEV methodology

The calculations of embedded value and new business profits have been performed using a market consistent embedded value ("MCEV") approach. This approach differs from a traditional EV approach primarily in respect of the way in which allowance for risk is made.

Within the traditional EV approach allowance is made for risk through an increase in the risk discount rate used to value future shareholder cash flows, whilst within the MCEV calculation explicit separate allowances are made for risk.

Components of MCEV

There are two components to the MCEV:

1. Shareholders' adjusted net worth –this component represents the market value of assets attributable to shareholders. This amount is derived from the Indian GAAP balance sheet adjusted to allow for assets on a market value basis, elimination of intangible assets and to allow for shareholder attributable assets or liabilities residing within the unit-linked and non par policyholder funds.

2. Value of in-force –this component represents the discounted value of after tax shareholder attributable cashflows expected on the business as at the valuation date. No allowance is made for future new business. This amount has been adjusted to deduct allowances for non hedgeable risk, frictional costs of required capital and the time value associated with financial options and guarantees

Appendix 2 : Components of value of in force ("VIF")

Present value of future profits ("PVFP")

This component has been calculated by discounting the projected future after tax shareholder attributable cashflows expected to arise on in-force business at the valuation date. The cashflows have been projected on a deterministic basis using the company's best estimate view of future persistency, mortality and expenses. Future investment returns and the risk discount rate have been set equal to the returns from the risk free yield curve at the closing balance sheet date.

Time Value of Financial Options and Guarantees ("TVFOG")

During FY2010-11, the company carried out an extensive analysis of the profile of guarantees in its Par funds to identify the level of guaranteed benefits occurring at future time periods. The investment strategy of the Par funds was re-set to enable, where possible, hedging of these guaranteed benefits through cashflow matching of the guarantees with fixed interest assets. As a result, the company is of the view that there is no residual TVFOG associated with the Par funds.

During FY2010-11, the company launched a number of unit-linked funds incorporating various forms of investment guarantees. The cost associated with these investment guarantees has been allowed for in the MCEV calculations by modelling a cost equal to the additional guarantee charge levied on these funds. This allowance has been factored into the PVFP.

Frictional Costs of Required Capital ("FCRC")

The VIF allows for a deduction in respect of the frictional costs of holding required capital ("FCRC"). Required capital has been set equal to the amount of shareholder attributable assets required to back local regulatory

solvency requirements. The FCRC has been calculated as the discounted value of investment costs and taxes on shareholder attributable assets backing the required capital over the lifetime of the in-force business.

Cost of non-hedgeable risk ("CNHR")

The VIF incorporates an explicit deduction to allow for non hedgeable and non economic risks. The CNHR has been derived using a cost of capital approach and is calculated as the discounted value of an annual charge applied to projected risk bearing capital.

- The initial risk bearing capital has been calculated based on 99.5th percentile stress events for non economic assumptions over a 1-year time horizon. This initial risk bearing capital has been updated to be based on the portfolio of business as at 31st March 2011.
- Projected risk bearing capital has been determined by running-off the initial risk bearing capital in line with the expected movement in the regulatory solvency margin requirement.
- 99.5th Percentile stress events have been taken from the EU Solvency II, QIS 5 framework (previously QIS 4 framework). In order to allow for the greater risks associated with emerging markets, the risk bearing capital has been uplifted by 50%.
- The annual charge applied to the projected risk bearing capital is 4% p.a.

The stress events, uplifts to NHR, run-off pattern for projected risk bearing capital and annual charge, are reviewed and modified if necessary on an annual basis.

Appendix 3 : Key assumptions underlying MCEV

Expenses

- Maintenance expenses have been based on expense levels incurred during FY 2009-10, inflated at 7.5%. These assumptions incorporate no allowance for future productivity improvements.
- Given the substantial changes in regulations the Company has reviewed its cost structure as a result of which the long-term acquisition expense levels have been calibrated at a level lower than that used earlier. These new long-term acquisition expense levels, as approved by the Board in May 2011, have been incorporated into the pre-overrun margins disclosed for H1 FY 12.

Economic assumptions

- The closing MCEV is calculated assuming projected earned and risk discount rates are both set equal to the risk free (government bond) yield curve at the closing balance sheet date.
- The new business profitability is calculated with similar assumptions, except that the yield curve at the opening balance sheet date is used.
- No allowance for any illiquidity premia is made within the earned rates, except for group credit spread products.

Mortality and morbidity

- Mortality and morbidity assumptions are set by product line and are based on past experience.

Persistency

- Persistency assumptions are set by product line, payment mode and duration in-force, based on past experience and expectations of future experience. Separate decrements are modeled for lapses, surrenders, paid-ups and partial withdrawals.

- Due to the age of the industry, minimal experience exists on long-term persistency assumptions and therefore these assumptions are reviewed on an active basis and updated when experience suggests a significant difference from the assumptions used.
- The results presented incorporate a strengthening of persistency assumptions and explicit modelling of partial withdrawals.

Tax assumptions

- Tax assumptions are based on interpretation of existing tax legislation, where appropriate supported by legal opinion.
- Profits attributable to shareholders are assumed to be taxed at 13.52% for Life business and 0% for Pensions business.
- Allowance is made within the tax computation for dividend offsets permitted under Section 2A of the Income Tax Act and for losses incurred within the Shareholder Fund.
- No allowance is made for future changes to taxation such as the Direct Tax Code. These changes will be incorporated only once materially enacted. It is expected that implementation of DTC in its current form will result in a material negative impact to the MCEV and new business profitability.

Glossary

Commission ratio – Ratio of total commissions paid out on first year, single and renewal premiums to total premiums.

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 e.g. for a monthly mode policy sold in March 2011, the first installment would fall into first year premiums for 2010-11 and the remaining 11 installments in the first year would be first year premiums in 2011-12.

New business received premium – The sum of first year premium and single premium.

Operating expense – All expenses of management excluding service tax. It does not include commission.

Operating expense ratio – Ratio of operating expenses (excluding service tax) to total premiums.

Renewal premiums – Regular recurring premiums received after the first year.

Solvency ratio – Ratio of available solvency margin to required solvency margin.

Total premiums – Total received premiums during the year including first year, single and renewal premiums for individual and group business.

Weighted received premium – The sum of first year premium and 10% weighted single premiums and single premium top-ups.

Disclaimer

This release is a compilation of unaudited financial and other information and is not a statutory release. This may also contain statements that are forward looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ from our expectations and assumptions. We do not undertake any responsibility to update any forward looking statements nor should this be constituted as a guidance of future performance. This release is a *privilege copy* intended for reference of selected group

These disclosures are subject to the prevailing regulatory and policy framework as on September 30, 2011 and do not reflect any subsequent changes



In partnership with Standard Life plc