HDFC Standard Life Insurance Company Limited

Nine months ended December 2010

'India's Most Trusted Private Life Insurance Brand'

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

HDFC Life

Snapshot of Indian Life Insurance

- **10 years of liberalization of the Indian life insurance industry**
- **23 players of which 20 are JVs with global insurers - A high capital intensive industry ₹304 billion deployed (as on 30th September 2010)**
- **Wide reach through branch network and individual agents**

Parameters	1999-00	2007-08	2008-09	2009-10	H1 2010-11*
Number of players	1	18	22	23	23
Capital Deployed ₹ bn	0	167	250	289	304
No. of Branches	2,048	8,913	11,815	12,018	11,837
Employees (in '000)	123	254	285	270	262
Individual Agents (in '000)	714	2,520	2,937	2,978	2,760
Total Premium ₹ bn	263	2,014	2,218	2,655	1,253

** Apr-Sep 10 numbers are provisional*

Source: IRDA, Life Insurance Council

Indian life insurance growth stands out among global regions / countries

Parameters	1999-00	2007-08	2008-09	2009-10
India's share of world premium (Life)	0.5%	1.8%	2.0%	2.5%
Penetration as % of GDP	1.8%	4.0%	4.0%	4.6%

Source: IRDA, Life Insurance Council

Regions / Countries	Real Growth in Life Insurance Premium in 2009*
Industrialized Countries	-2.8%
Emerging Markets	4.2%
Asia	1.8%
India**	10.1%
World	-2%

*Source: Swiss Re, Sigma No. 3/2010. Note: * calendar year*
*** Financial Year 2009-10*

- **In 66% of the countries, insurance grew faster than GDP, which shows the robustness of the industry**
- **India has continuously outpaced global growth in life insurance premiums**
- **The 8.9% GDP growth of the Indian economy in the first half of 2010-11 suggests that the economy is operating close to its trend growth rate, powered mainly by domestic consumption factors**

HDFC Life

An ongoing growth story

India's population to increase from 1,029 mn to 1,400 mn[1] between 2001-26

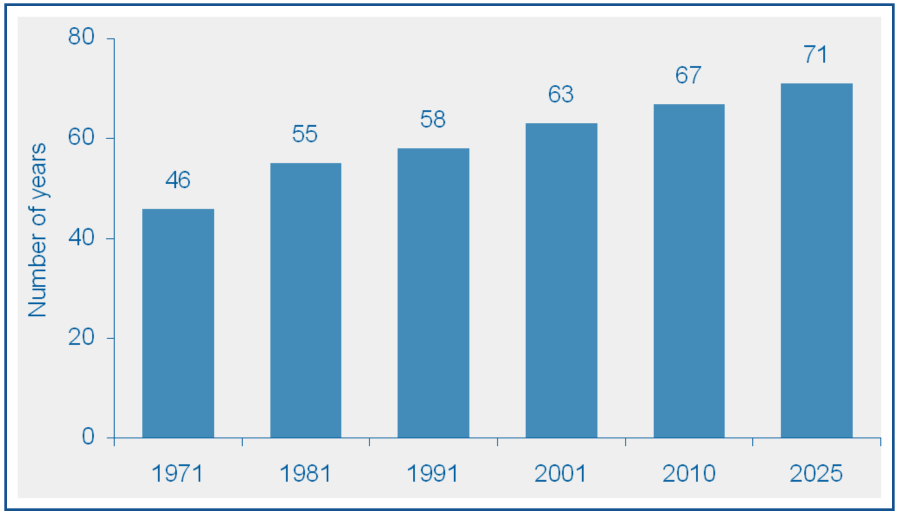
- The largest in the world

Demographic transition

- With the fall in youth dependency ratio, gross domestic savings will rise
- Participation of women in the workforce is also likely to improve, creating further wealth
- Larger population with more adults is positive for savings, investment and overall GDP

Economic growth will push household incomes higher

…while life expectancy creates opportunities in pensions, and protection against lifestyle health disorders can also increase



Note 1: Source: UN Population Division

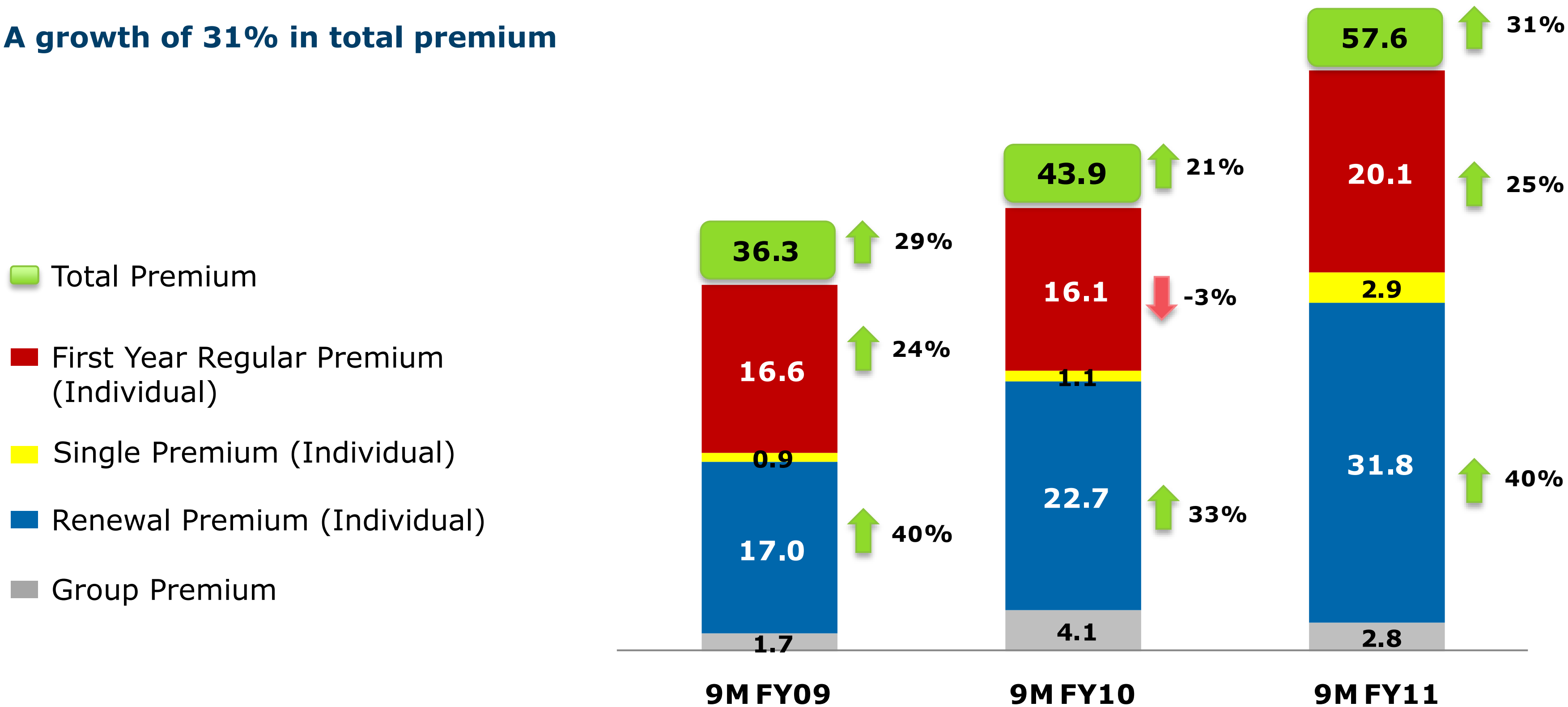
Operational & Financial Highlights

Nine months ended Dec 2010

Premium Income

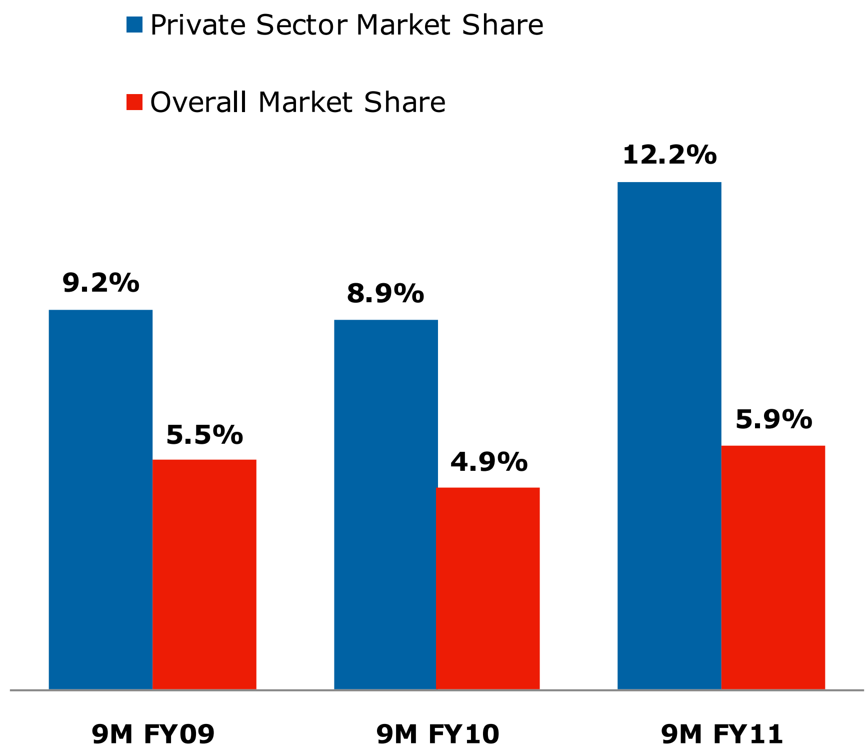
₹ Bn

- **A robust 25% growth in individual new business (regular premium)**
- **Focus on single premium polices in Q3 results in growth of 435%**
- **High quality of existing policies & continuous focus on persistency lead to 40% increase in renewal premium**
- **A growth of 31% in total premium**



Market Share

- **Ranked # 3 in private sector; # 5 during same period last year**
- **Strongest market share gain of 3.3% in private space in 9 months FY11 over same period last year**
- **Early signs of adapting well to post September 1, 2010 regime. Ranked # 1 in Q3 FY 11 in among private insurance companies**



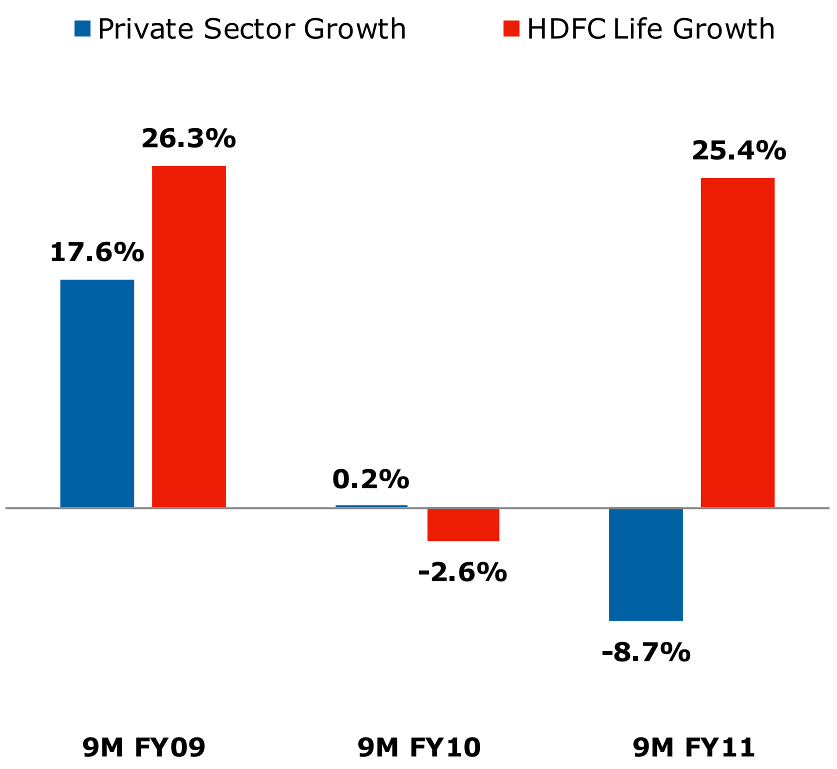
All references of market share, ranking and growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

Growth

- **New business growth in 9 months FY11**
    - **One of the very few private insurer to achieve positive growth in 9M FY11**
    - **We are fastest growing among top 10 private life insurers**

      (Top 10 players contribute 85% of WRP)
    - **New ULIP regulations have negatively impacted the growth in Q3 FY11**
    - **Similar trends exist in total WRP (including group business)**

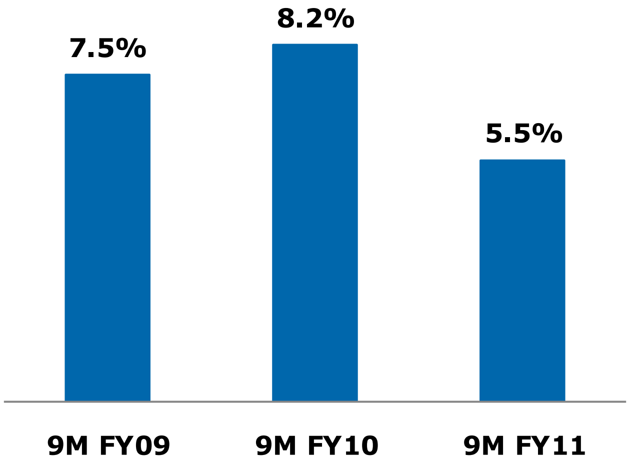


All references of growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

Commission Ratio

Commission % on	9M FY09	9M FY10	9M FY11
- First year premiums	13.5%	14.9%	11.0%
- Renewal premiums	2.4%	2.6%	2.0%
- Single premiums	0.5%	0.4%	1.6%
Total premiums	**7.5%**	**8.2%**	**5.5%**



- **Substantial reduction in first year commissions**
- **Total commission rates (new business plus renewal) are also reducing as a proportion of total premium**
- **Post September 1, 2010, first year commissions has reduced**

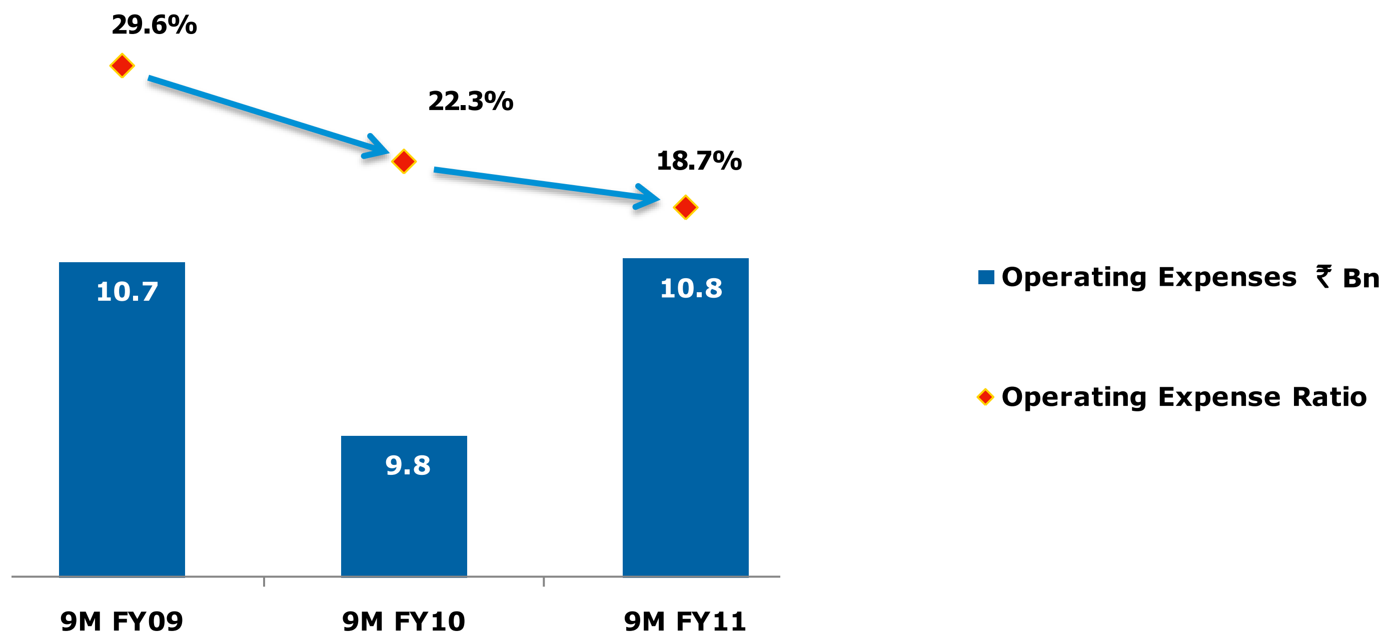
First Year Commission % on New Business [1]	
H1 FY11	11.7%
Q3 FY11	**9.6%**
9M FY11	11.0%

[1] *Regular premium only*

Commission % is equal to respective commission over respective premium

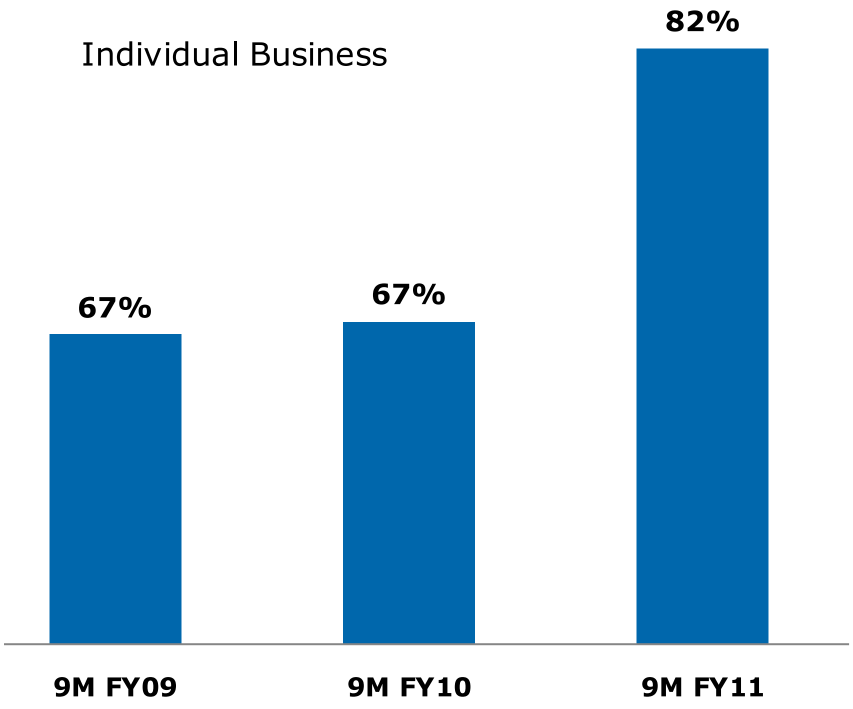
Operating Expenses

- **Management action on cost containment and productivity enhancement programmes has seen operating expense ratio reducing over the last 3 years**
- **Considering the skew in premium income in Q4, the operating expense ratio is expected to reduce further during the course of FY 11**
- **Operating expenses have increased by only 10% against a total premium growth of 31%**



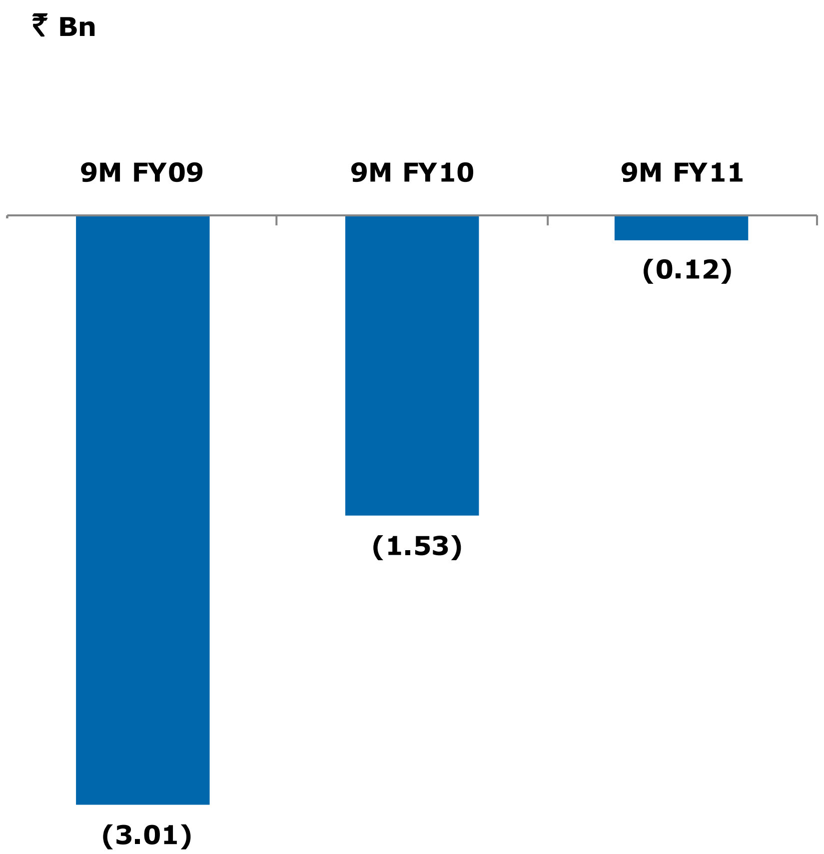
Operating expense excludes service tax

Conservation Ratio



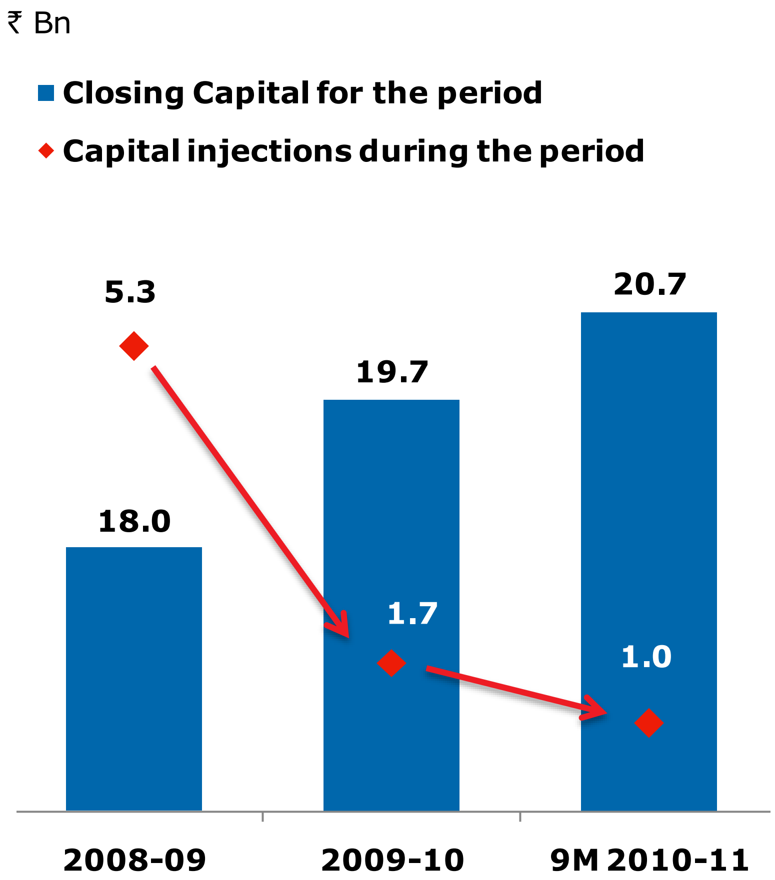
Significant improvement in conservation ratio through a dedicated 'vertical' on renewal collections

Indian GAAP Results



- **Profit of ₹ 0.52 billion in Q3**
- **Indian GAAP losses on account of strong growth in new business premium in H1 2010-11**
- **New business leads to capital strain since insurance contracts are designed with largely back-ended charges**

Total Capital

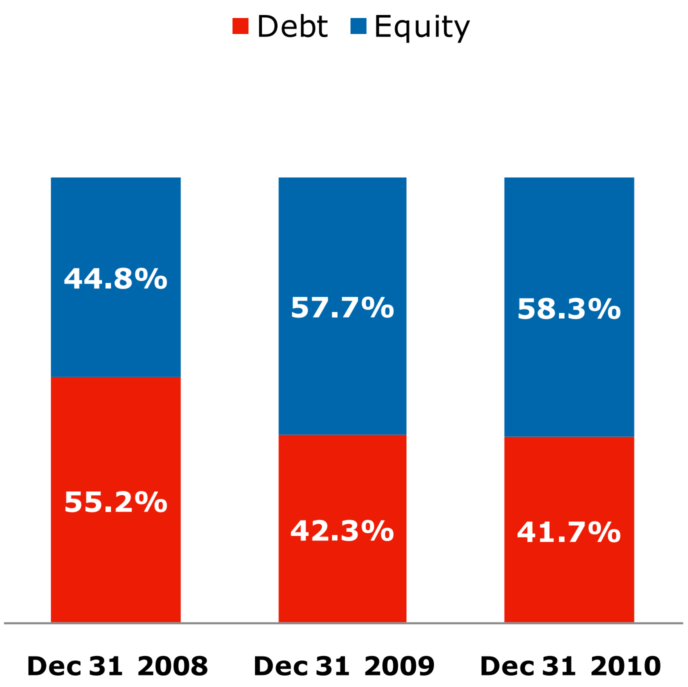


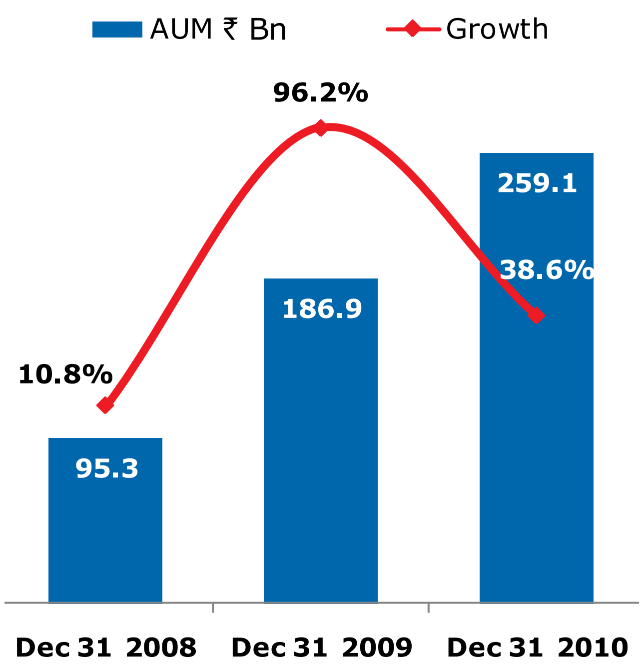
- Capital infusion has scaled down over the last 3 financial years
- Generation of surplus on existing policies have reduced the need for capital draw-downs
- No capital infusion in Q3
- Solvency Ratio as at 31st Dec 2010 was 180% as against regulatory requirement of 150%

Shareholding Pattern as at 31st Dec 2010 : HDFC 72.5%; Standard Life 26.0%; Individuals / ESOP Trust 1.5%

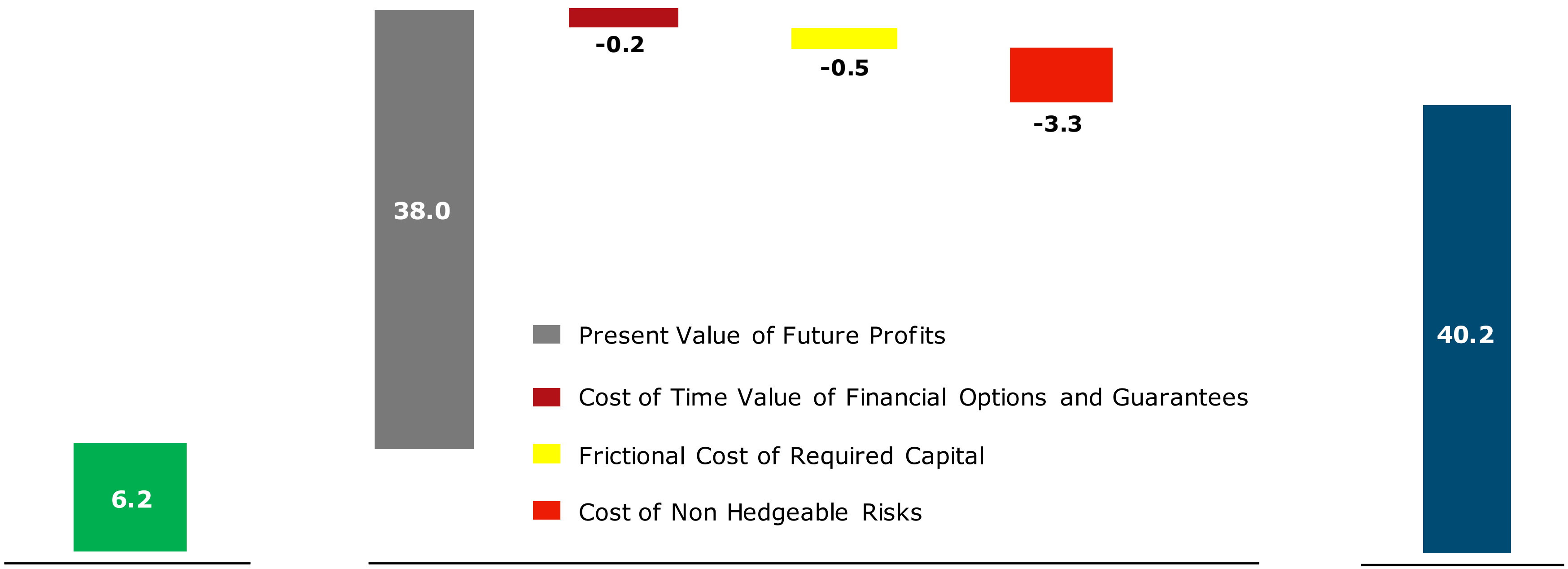
Assets Under Management

- **25% growth in assets under management over March 31, 2010**
- **Launched NAV guarantee fund in Q3 – very encouraging response**





MCEV as at 30th September 2010



Shareholders' Adjusted Net Worth

₹ 6.2 bn

+

Value of In-Force

₹ 34.0 bn

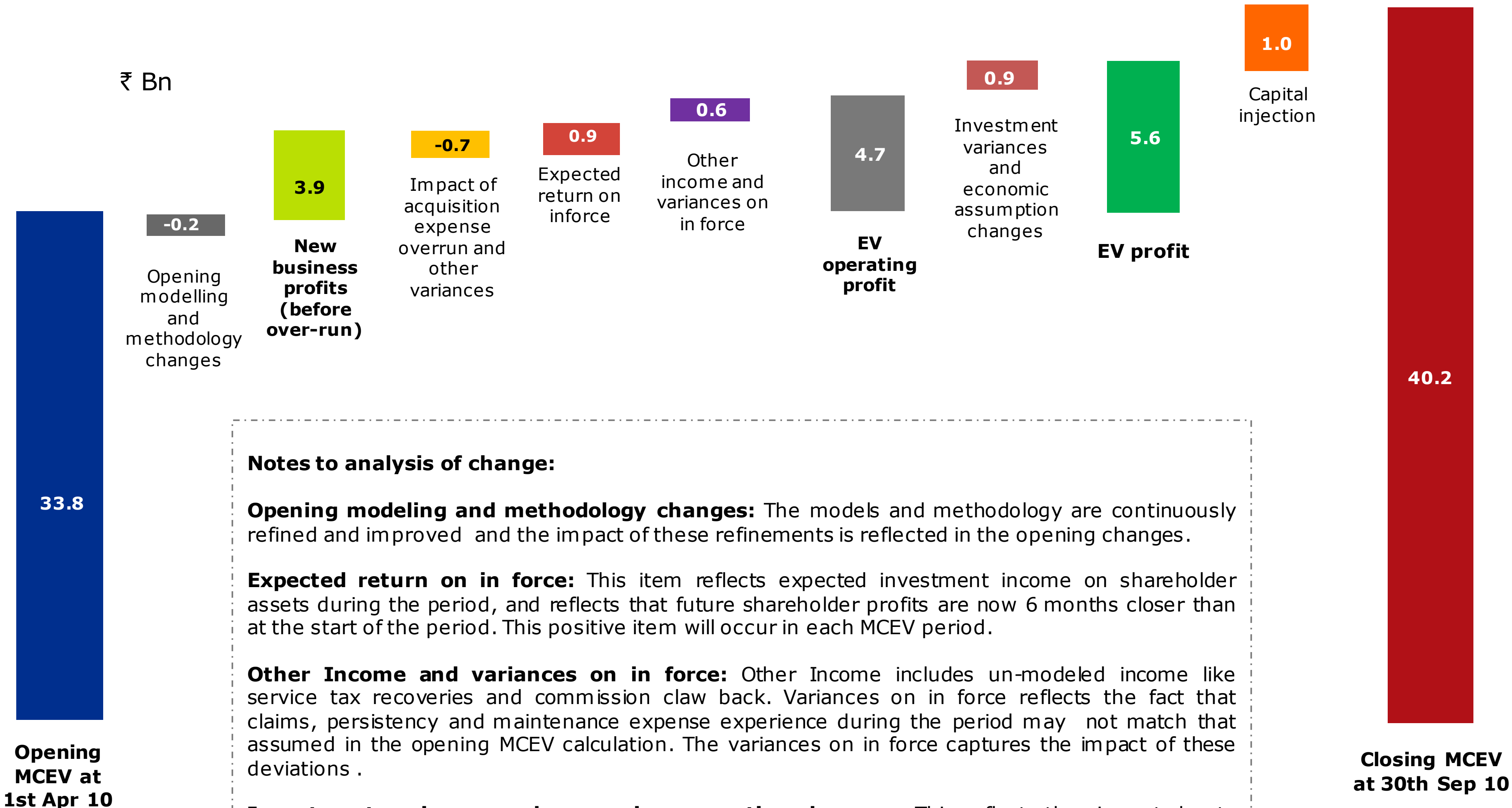
=

MCEV

₹ 40.2 bn

Market Consistent Embedded Value (MCEV) results are unaudited

Analysis of change in MCEV



Notes to analysis of change:

Opening modeling and methodology changes: The models and methodology are continuously refined and improved and the impact of these refinements is reflected in the opening changes.

Expected return on in force: This item reflects expected investment income on shareholder assets during the period, and reflects that future shareholder profits are now 6 months closer than at the start of the period. This positive item will occur in each MCEV period.

Other Income and variances on in force: Other Income includes un-modeled income like service tax recoveries and commission claw back. Variances on in force reflects the fact that claims, persistency and maintenance expense experience during the period may not match that assumed in the opening MCEV calculation. The variances on in force captures the impact of these deviations .

Investment variances and economic assumption changes: This reflects the impact due to investment return being different from the expected returns and the change in the yield curve at the end of the projected period as compared to the yield curve at the start of the projection period.

Market Consistent Embedded Value (MCEV) results are unaudited

New Business Profits

	₹ Bn
New business profits for H1 FY11 [1]	3.9
New business EPI for H1 FY11 [2]	13.7

New business margin for H1 FY11 [1,2,3]	28.3%

[1] Based on loaded acquisition expenses

[2] Margins and EPI are shown for individual business only

[3] New business margin after impact of acquisition expenses overrun 23.6%

The margins for the first six months include a relatively small contribution from the new unit-linked products launched post 1st September 2010. These new unit-linked products would have a lower level of profitability as compared to the previous products.

Given the substantial changes in regulations in the recent past, we have reviewed our cost structure. As a result of this the long-term acquisition expense levels are to be calibrated at a lower level. It is intended while preparing the new business profitability results for FY 2010-11, these lower loaded acquisition expense levels will be used in the calculation of the new business profitability (before the impact of acquisition expense overruns).

Regulatory changes effective September 1 2010 on Unit Linked Products

Parameter	Changes Incorporated
Minimum lock-in period	Raised to five years from three years
Minimum premium payment term	Raised to five years from three years excluding Single Premium Products
Premium payment options	Premiums to be uniform over premium payment term Top-ups to be treated as single premium, to carry additional risk cover
Upfront allocation charges	To be evenly distributed over the lock-in period
Risk cover	All products (barring pension/annuities) to carry minimum mortality or health cover
Pension products	All pension plans to carry minimum guaranteed return of 4.5% Guaranteed return payable on maturity No partial withdrawals allowed in accumulation phase Compulsory annuitisation of 2/3rd of accumulated fund value (in all cases including surrender) on the vesting date
Surrender charges	Surrender charges nil beyond 5th policy year; caps implemented during first five years

Cap on difference between gross and net yield applicable in step fashion post 5th policy year against door-to-door earlier

Years Premium Paid for	5	6	7	8	9	10	11-12	13-14	>=15
DGNY %	4.00	3.75	3.50	3.30	3.15	3.00	2.75	2.50	2.25

DGNY = Difference between gross yield and net yield

Net reduction for policies with term:
<10 years fixed at 3%
>10 years fixed at 2.25%

Regulatory Changes : Impact

The recent regulatory changes will have impact on the business model and volumes

Products	• Limited scope for product innovation • More benefits to policyholders • Increased transparency
Persistency	• Long term orientation • Need based selling • Need for a unique customer experience
Cost & Efficiency	• Immediate need for distribution cost rationalisation • Focus on making expenses variable • Higher channel productivity

Management Outlook

- It is difficult to fully quantify the impact of products introduced in the post Sep 1, 2010 regime. The management believes:
  - Industry sales volumes (EPI/APE measures) will be sluggish for the next 6 months as the players and distributors adapt to the changes
  - Acquisition costs will have to be rationalized by ~20% in line with the assumptions that went into the design of new products

- Bancassurance channel will increase its contribution to the new business written. HDFC Life is also preparing to leverage its Bancassurance expertise and experience in the likely multi-tie scenario

- Agency channel will need to dramatically increase revenue productivity and scale down on fixed costs. HDFC Life is working on a critical transformation initiative within its tied-agency channel

- Persistency and Customer Service will become more critical to profitability in the new regime. HDFC Life continues to invest in and improve its performance in these functions

Strategy & Way forward

We continue to build on the strong foundations of our business as we work on five strategic themes

Position as a leader in providing long term life insurance solutions	Brand Promise. Long Term oriented product. Need Based Selling
Diversify distribution channel mix in New Business	Tied Agency Productivity. New opportunities in non-agency, non-bancassurance space
Own identified customer segments / product categories	Customer Lifecycle segmentation – products, distribution channels
Deliver a unique customer experience	Customer led view, financial advisory / planning tools. Process 360
Aim for cost leadership through the entire delivery chain	Persistency, Branch Profitability. Low cost delivery models

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Appendix 1 : 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.

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. 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 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.

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.

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

The VIF incorporates a deduction for the costs relating to the TVFOG in respect of asymmetric shareholder returns associated with the Participating ("Par") Funds and for the guarantees associated with unit-linked business. For reporting at 30th September 2010, due to the low materiality of the TVFOG, the TVFOG has been maintained at the same level as calculated at 31st March 2010.

Appendix 2 : Key assumptions underlying MCEV

Expenses

- Maintenance expenses have been based on actual expense levels incurred during FY 2009-10 and considers no allowance for future productivity improvements.
- Loaded acquisition expenses, for the purposes of new business profitability reporting, have been based on levels the company expects to achieve by FY 2012-13 based on its April 2010 business plan.
- Actual acquisition expenses are currently higher than these assumptions and therefore any excess acquisition expense over the assumption is recognised in the period and the shareholder attributable component, net of tax, deducted from the value of new business for that period.
- Given the substantial recent changes to regulations the company has reviewed its cost structure as a result of which the long-term acquisition expense levels are to be calibrated at a lower level. It is intended that when preparing the new business profitability results for FY 2010-11, these lower loaded acquisition expenses will be used in the calculation of the new business profitability (before the impact of acquisition expense overruns).

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.

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 and paid-ups.
- 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.

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 14.1625% 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.

Appendix 3: New business profits and analysis of change in MCEV

The analysis of change in MCEV identifies the main drivers that have caused the MCEV to move over the financial year. The value of new business written in the year is normally the most significant driver for increases in value shown in the analysis of change. In presenting the analysis of change, the following approach has been adopted.

Impact of changes in assumptions and methodology

The impacts from updates to assumptions and methodology are allowed for as follows:

- Updates to non economic assumptions and methodology are made at the start of the period, and the subsequent analysis of change calculated using these revisions
- Updates to economic assumptions including revisions to the economic scenarios used for the TVFOG calculation are made at the end of period and incorporated as a closing adjustment.

Experience variances

- The impact on the MCEV from variations between the assumptions and actual experience are determined and recognised in the period for non economic assumptions and at the end of the period for economic assumptions.
- The impact on the variations for non economic assumptions are separately attributed to new and in-force business.

Value of new business

- New business profits are calculated as at the end of period, using the opening (i.e. 31st March 2010) yield curve and incorporate allowance for variations on non economic assumptions during the period.
- The new business profits are calculated before and after acquisition expense overruns.
- As noted in the previous slide, the company intends to revise downwards its loaded acquisition expense assumptions when reporting new business profits for the FY 2010-11, based on revised estimates of long-term achievable expense levels.

EV profits

- EV profits are calculated as the movement in EV during the period less capital injections.

EV Operating profit (“EVOP”)

- EV operating profit (“EVOP”) is calculated as the movement in EV during the period less capital injections and the impact of economic variances and economic assumption changes.
- The EVOP represents the impact on the MCEV from performance that is considered within management control

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 2010, the first installment would fall into first year premiums for 2009-10 and the remaining 11 installments in the first year would be first year premiums in 2010-11.

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 margins.

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 materially 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.

These disclosures are subject to the prevailing regulatory and policy framework as on December 31, 2010 and do not reflect any subsequent changes.

Protection Plans

Health Plans

Children's Plans

Savings Plans

Investment Plans

Youth Plans

Retirement Plans

Women's Plans

Employee Benefit Solutions

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In partnership with Standard Life plc