HDFC Standard Life Insurance Company Limited

Quarter ended June 2011

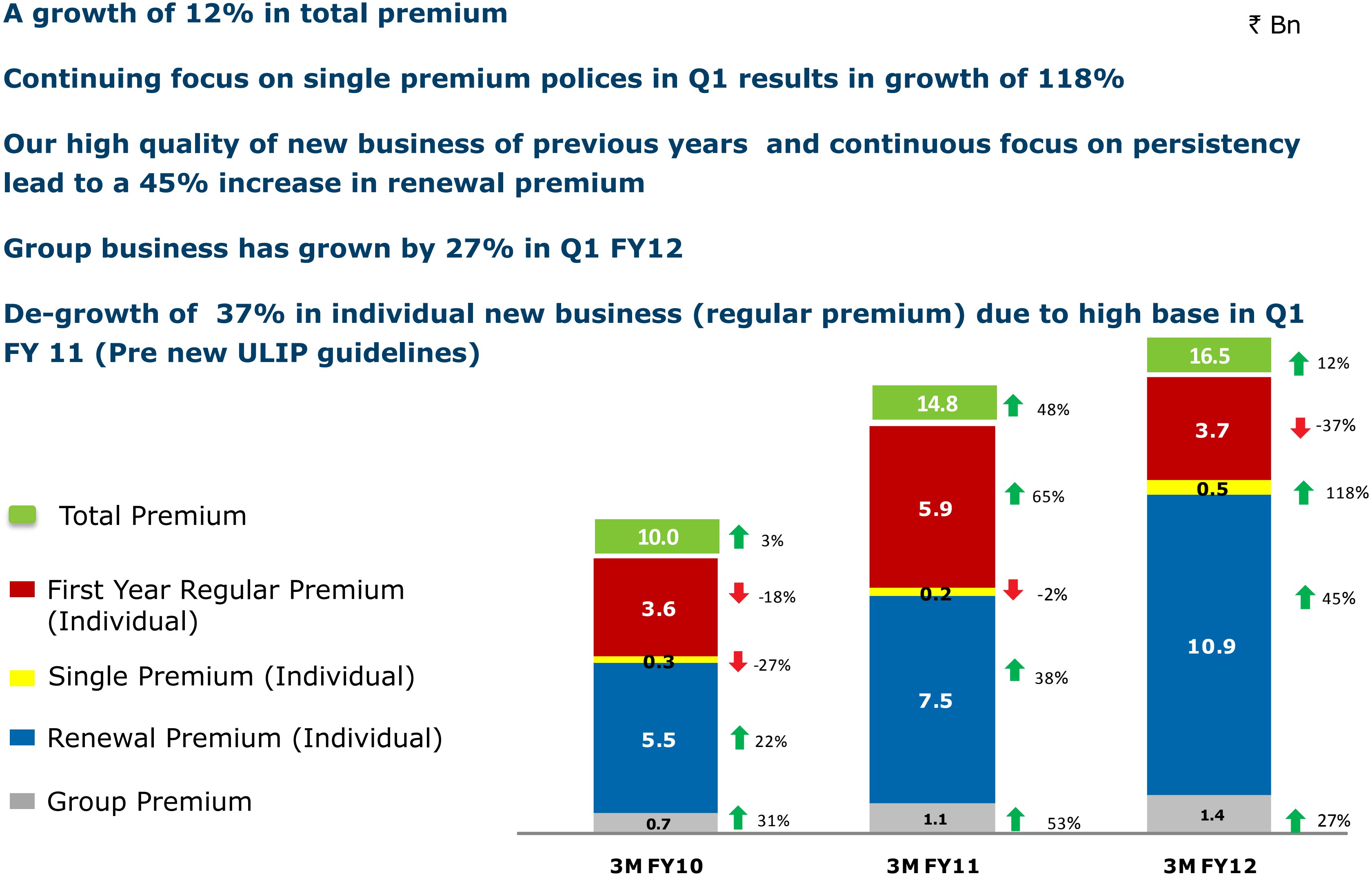
2011-12

'India's Most Trusted Private Life Insurance Brand'

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

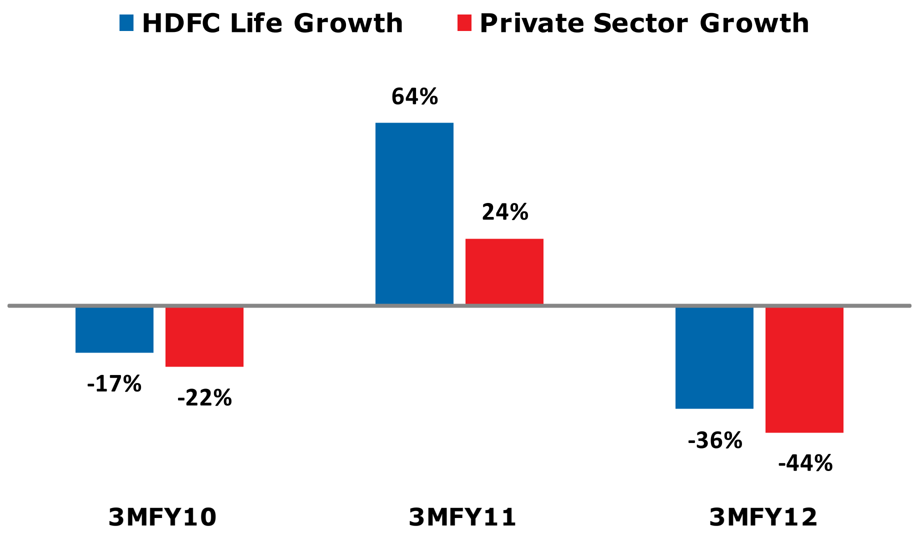
Premium Income

- **A growth of 12% in total premium**
- **Continuing focus on single premium polices in Q1 results in growth of 118%**
- **Our high quality of new business of previous years and continuous focus on persistency lead to a 45% increase in renewal premium**
- **Group business has grown by 27% in Q1 FY12**
- **De-growth of 37% in individual new business (regular premium) due to high base in Q1 FY 11 (Pre new ULIP guidelines)**



Growth

- **New ULIP regulations continue to impact growth in Q1 FY12**
- **Absence of a regular premium Unit Linked pension offering has affected new business**
- **Since last 3 years grown more than private industry**
- **We have outperformed the market in the last 3 years.**

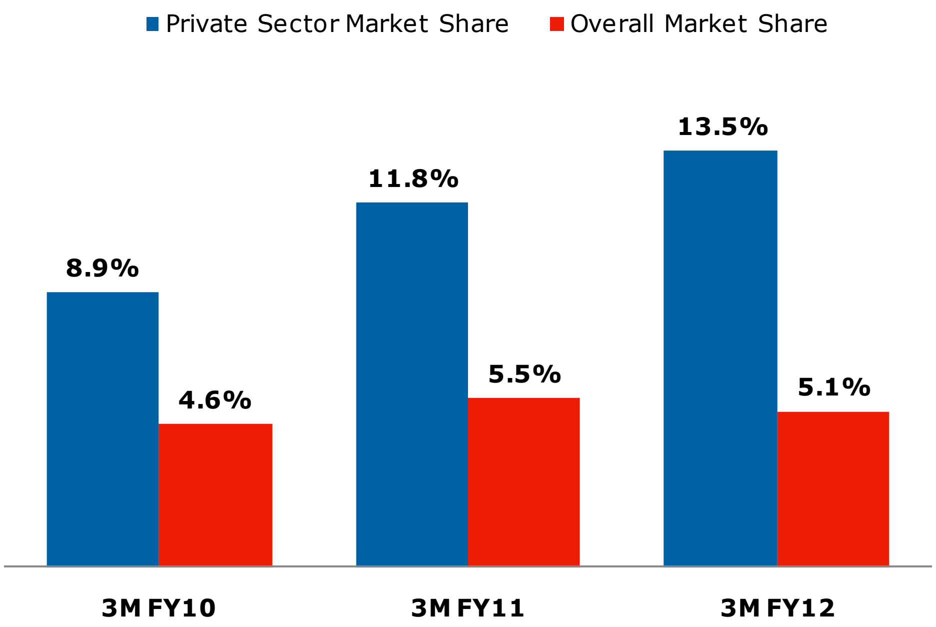


All references of growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

Market Share

- **Sustained increase in private sector market share**
- **Adapting well to post September 1, 2010 regulatory regime**
- **Ranked # 2 in Q1 FY 12 amongst private insurance companies**
- **Ranked #1 in individual business in 2 out of 3 months in Q1 FY12**
- **Market share gain of 170 bps in private space in Q1 FY12 over same period LY and 460 bps since Q1 FY 10**

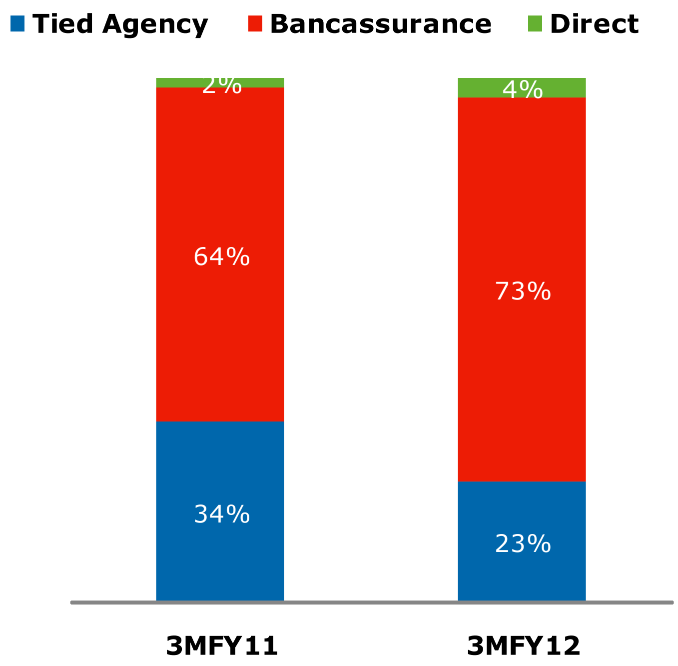


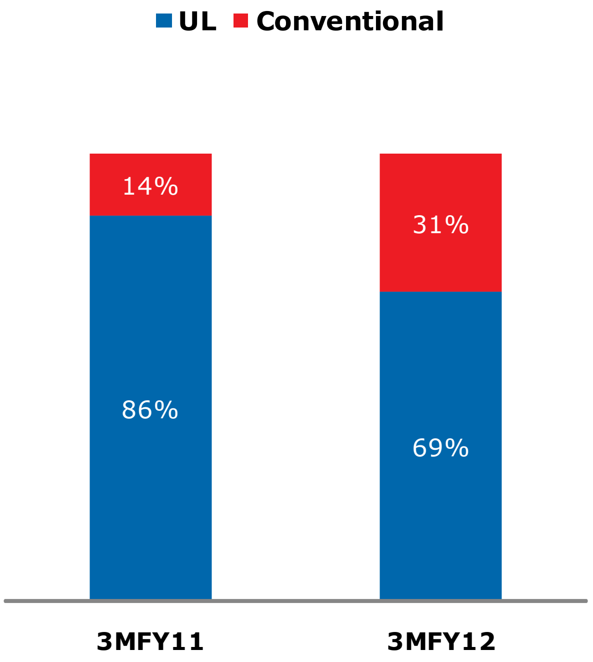
All references of market share, ranking and growth are in terms of Weighted Received Premia (WRP) of Individual Business

Source :IRDA

Distribution & Product Mix

- **Bancassuarance distribution continues to contribute a large share in Q1 FY12**
- **Renewed focus on Direct distribution has lead to growth of 31% in EPI**
- **Post new ULIP regime share of participating policies is on the increase**





Commission Ratio

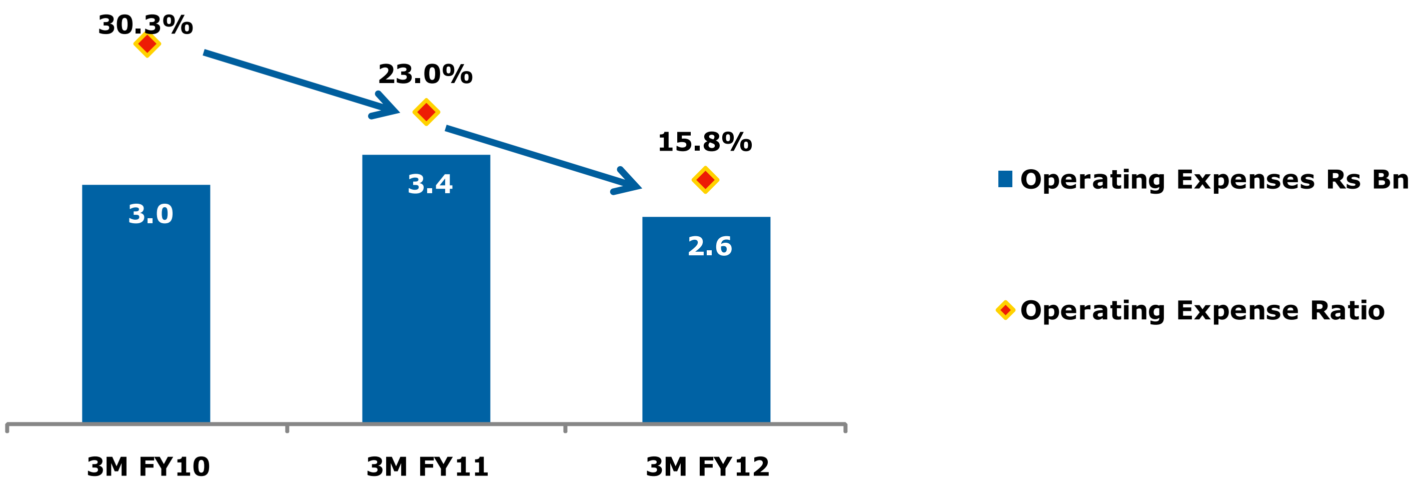
Commission (% Premium Income)	Q1 FY10	Q1 FY11	Q1 FY12
- First year premiums	15.9%	12.2%	10.1%
- Renewal premiums	2.7%	2.1%	1.9%
- Single premiums	0.4%	1.1%	0.8%
Commission % to Total premiums	**8.2%**	**6.8%**	**3.9%**

- **Post September 1, 2010, first year commissions have reduced on ULIP products**
- **Total commission rates (new business plus renewal) are also reducing as a proportion of total premium**

Commission % is equal to respective commission over respective premium

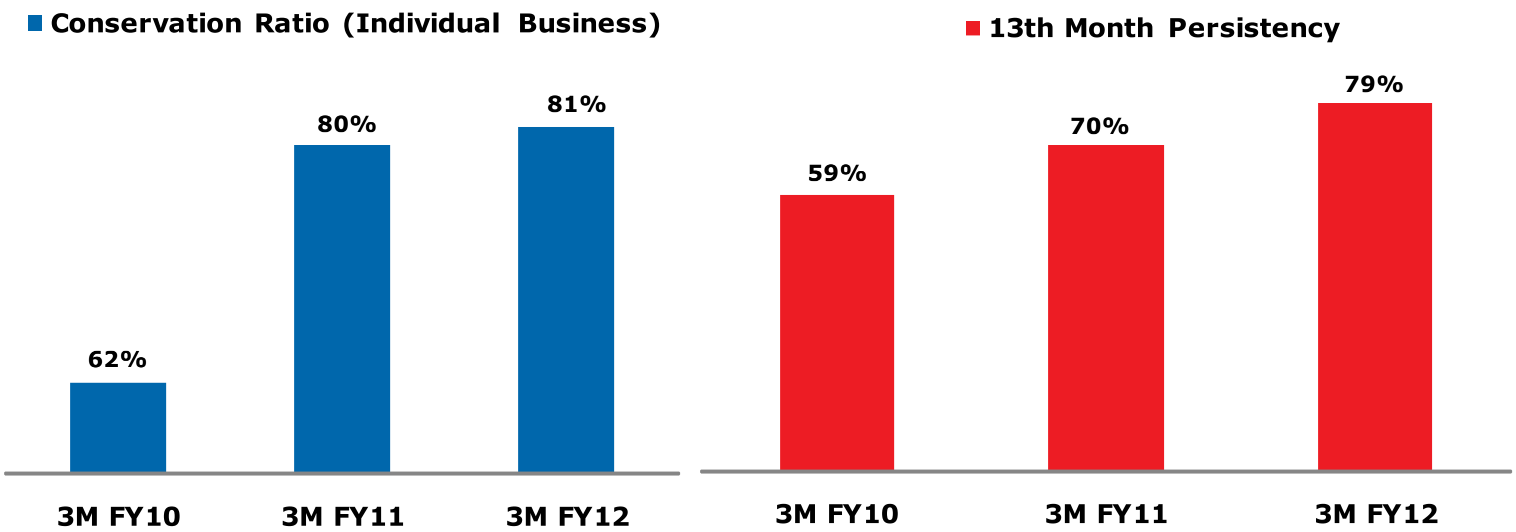
Operating Expenses

- **Management actions on cost containment and productivity enhancement programmes started last year have yielded savings in operating expenses**
- **Operating expenses ratio has decreased by 720 bps**
- **Operating expenses have reduced by 23% in rupee terms**



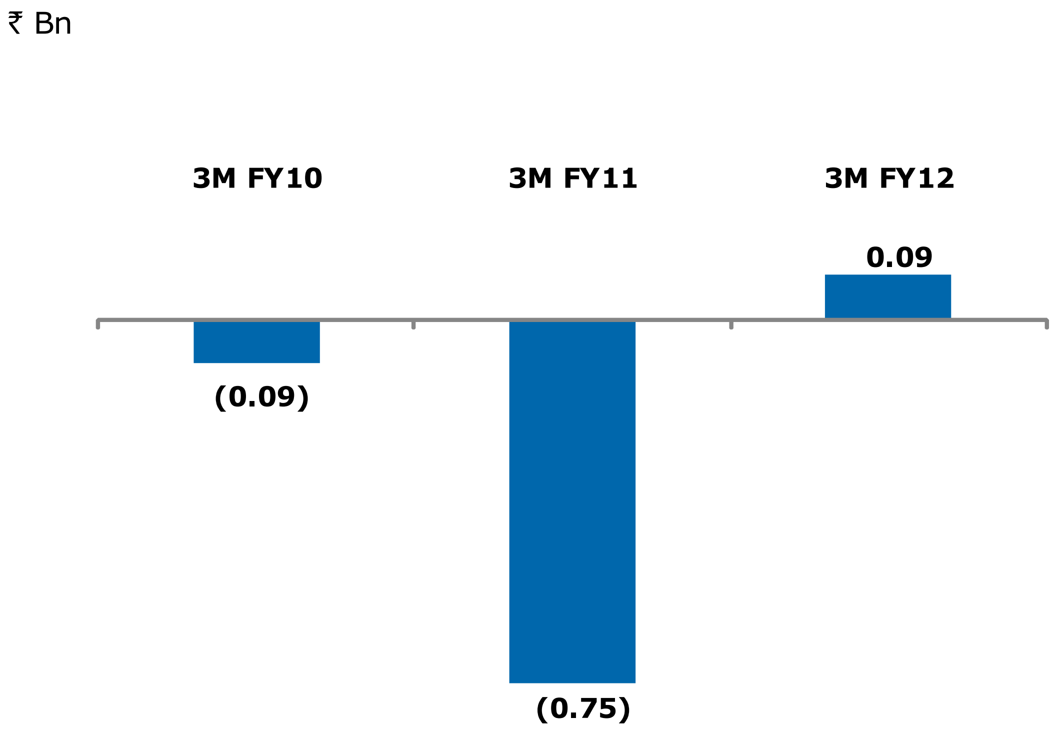
Operating expenses exclude service tax

Conservation Ratio



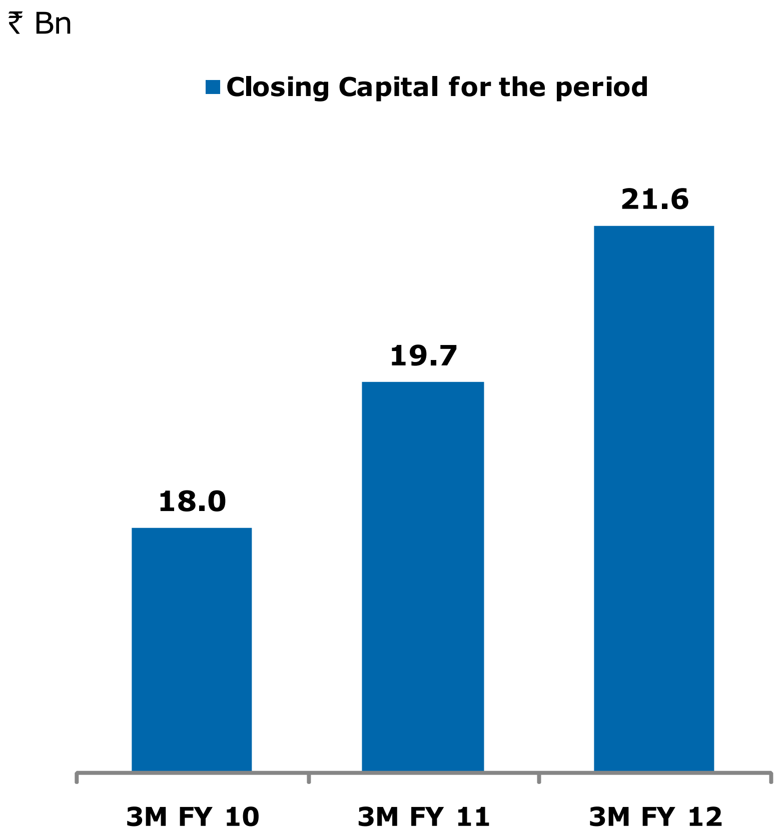
Focus continues on maintaining high conservation and persistency levels

Indian GAAP Results



- **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

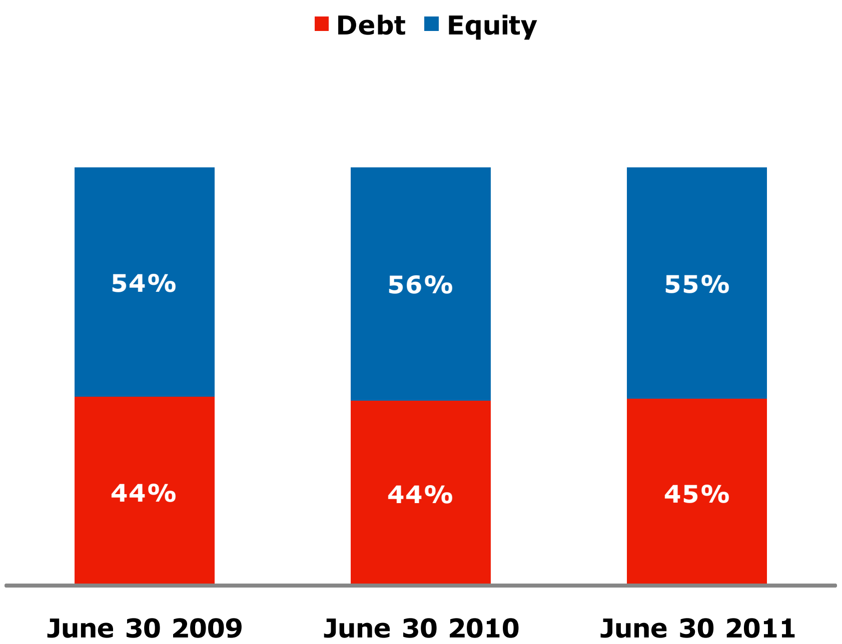


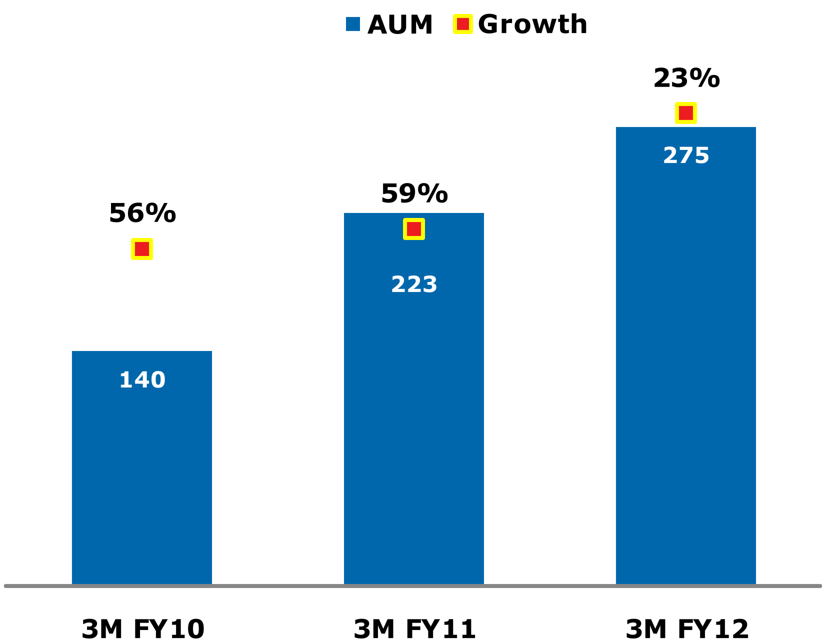
- **Capital infusion has scaled down over the last 3 financial years**
- **No Capital infusion was required during the first quarter of the FY12.**
- **Generation of surplus on back book has reduced the need for capital draw-down**
- **Solvency Ratio as at 30th June 2011 was 185% as against a regulatory requirement of 150%**

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

Assets Under Management

- **23% growth in assets under management over June 30, 2010**
- **Strong renewal premium growth and persistency have lead to increase in AUM**





Management Outlook

- **Business environment post the new regulatory regime (effective Sep 1, 2010) continues to impact the industry growth given the baseline achievement in the similar period**
  - For Private players , individual business premium in WRP terms declined by 44% in Q1'12 – HDFC Life ranked No.2 in the quarter and enjoyed No.1 status in May and June'11
  - HDFC Life month on month market share amongst private players has nearly doubled over the last 1.5 years to 14%
  - Strong renewal growth during the quarter and the continued strong persistency performance
  - Strong cost controls continue to be in place across the industry
  - 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.**
  - IRDA committee recommendations that allow banks to have an option of 2 insurance partners is a positive move, especially for large insurers with strong brands
  - 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
- **HDFC Life has rolled out channel transformation programs across its tied agency channel and the benefits expected in the next few quarters**
- **Processes introduced to improve customer service metrics and persistency**

Strategy & Way forward

The five strategic themes identified continue to be of relevance. Significant progress has been made on the identified strategic initiatives

Position as a leader in providing long term life insurance solutions	MID launched as part of Need Based Selling, Innovation, Delivering on Brand Promise and Technology Integration
Diversify distribution channel mix in New Business	Tied Agency Transformation rollout completed across the country . Fortifying Existing Relationships, 10% EPI targeted from New Distribution Channels
Own identified customer segments / product categories	Customer Lifecycle Segmentation –products, distribution channels; 3 segments identified to be worked on and new products in the pipeline for launch during FY’12
Deliver a unique customer experience	Unified Customer-led view, 1^{st} of its kind Financial Planning Tool to be launched in Q2, Pioneering Service Initiatives, End-to-End TATs improved through technology leverage
Aim for cost leadership through the entire delivery chain	Persistency cells created, Branch Profitability and ownership being created. Low cost delivery models being evaluated

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.

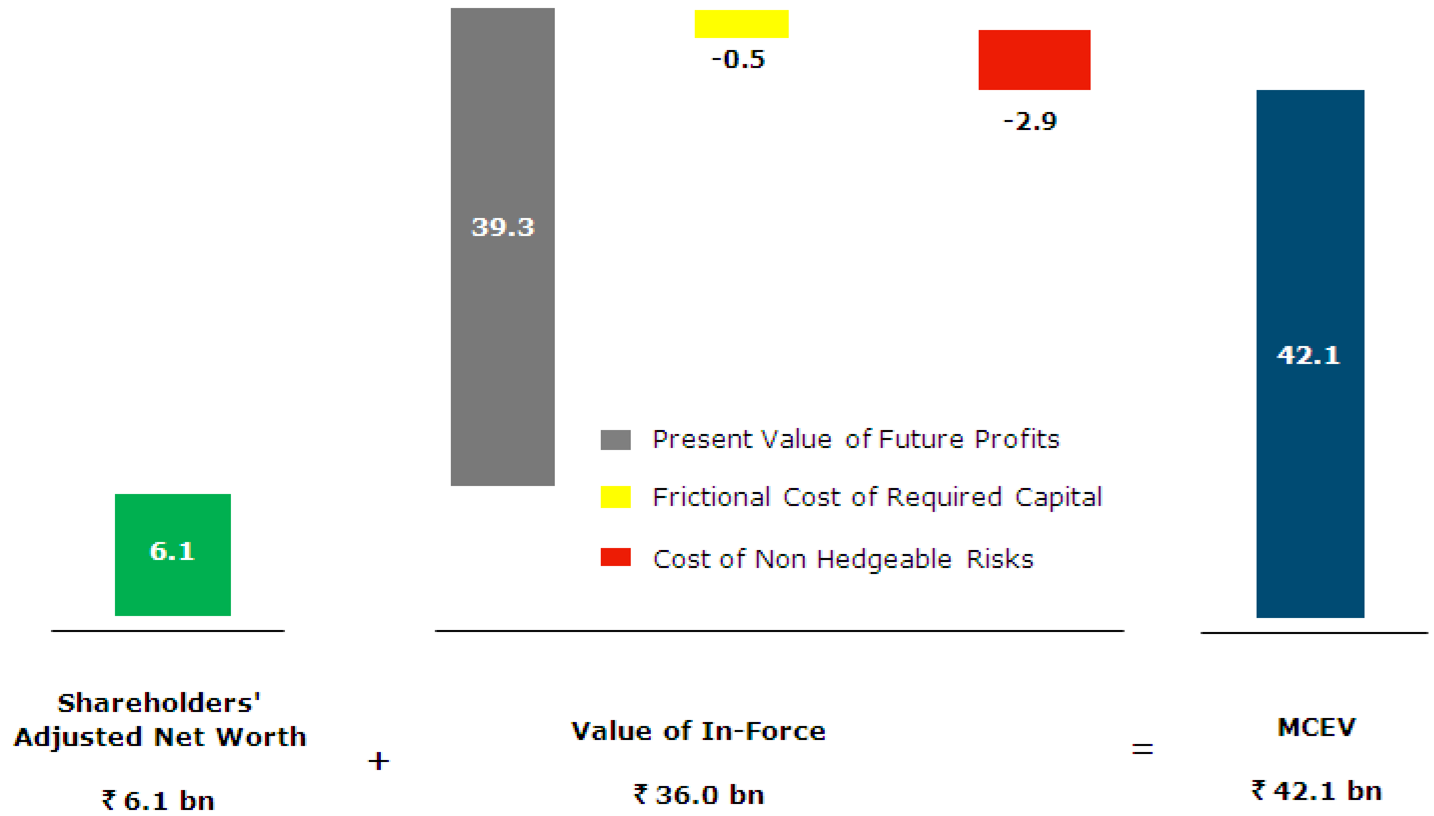
Awards and Accolades

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.

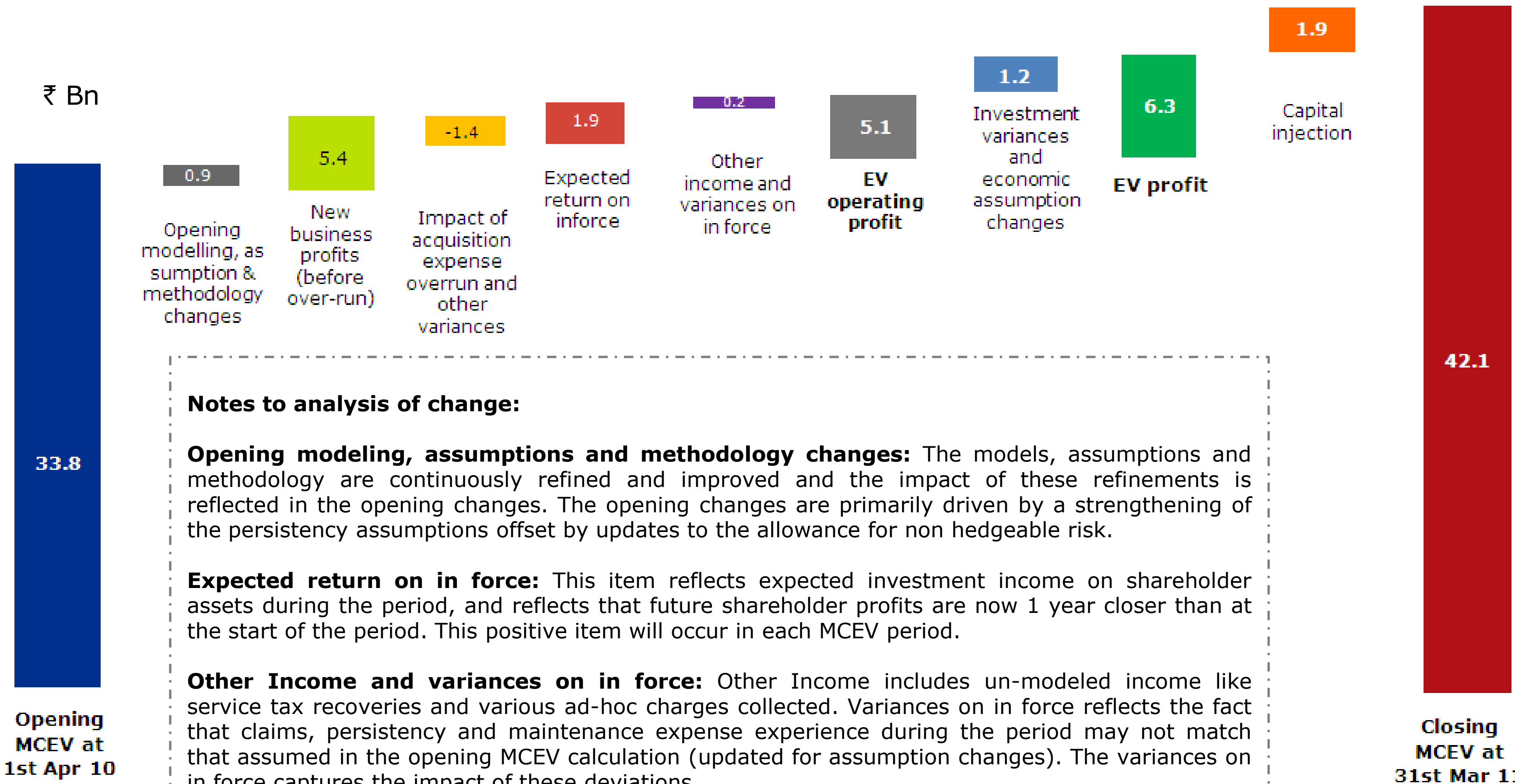
Yuva Hero Award
Received Yuva Hero Award from the NGO – Yuva Unstoppable – for contribution towards upliftment of lesser privileged children. Yuva Unstoppable is a premier volunteer movement with a force of 60,000 young people across 30 cities of India helping more than 100,000 kids in municipal schools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

MCEV as at 31st March 2011



Market Consistent Embedded Value (MCEV) results are unaudited

Analysis of change in MCEV from Mar 10-Mar11



Notes to analysis of change:

Opening modeling, assumptions and methodology changes: The models, assumptions and methodology are continuously refined and improved and the impact of these refinements is reflected in the opening changes. The opening changes are primarily driven by a strengthening of the persistency assumptions offset by updates to the allowance for non hedgeable risk.

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 1 year 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 various ad-hoc charges collected. 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 (updated for assumption changes). The variances on in force captures the impact of these deviations .

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

Market Consistent Embedded Value (MCEV) results are unaudited

New Business Profits

	₹ Bn
New business profits for Q1 FY12 [1]	0.6
New business EPI for Q1 FY12 [2]	3.8

New business margin for Q1 FY12 [1,2]	15.9%

[1] *Based on loaded acquisition expenses*

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

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.

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 2 : 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.
- Loaded acquisition expenses, for the purposes of New Business profits in the Analysis of Change in MCEV were based on the expense levels the company expected to achieve by FY 2012-13 based on the 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 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 Q1 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 14.1625% for Life business and 0% for Pensions business.
- For the New Business profits reported for the Q1 of FY 12, the 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.

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 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 the impact of acquisition expense overruns and other in-period variances on the new business.
- As noted in the previous slide, the company has revised downwards its loaded acquisition expense assumptions for reporting new business profits for Q1 of FY 2011-12, based on the revised estimates of long-term achievable expense levels which have been approved by the Board on in May 2011. For the Analysis of Change in MCEV the New Business profits (before over-run) are based on the earlier loaded acquisition expenses.

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 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 June 30, 2011 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

HDFC Life

In partnership with Standard Life plc