MAX FINANCIAL SERVICES

MAX LIFE INSURANCE

Max Financial Performance Update

Investor Release H1 FY21

September 30, 2020

99.22%^ Bharose Ka Number

Claims Paid Ratio

Best Companies To Work For

Great Place To Work® INDIA 2020

THE ECONOMIC TIMES

A Max Financial Services and MS Joint Venture

SECTION I

- Max Financial Services : H1FY21 Key Highlights

Max Financial Services : H1 FY'21 Key Highlights

1 **Axis transaction update:**
- **RBI** has advised Axis Bank to be guided by Para 5(b) of Master Direction – RBI (Financial Services provided by Banks) Directions, 2016, accordingly Axis Bank proposes to acquire **upto 9%** stake directly, **upto 3%** stake through its subsidiaries, with the right to acquire additional **upto 7%** stake in one or more tranches in Max Life
- **IRDAI** application under progress
- **MSI transaction update: Shareholders, CCI** & **Stock exchanges** approval received; **DEA** & **IRDAI** under progress

2 Consolidated Revenue* at **Rs 12,537 Cr,** grows **45%.** Consolidated PAT* at **Rs 263** Cr, Up **121%**, growth in profits was aided by higher investment income, lower claims and tax refunds

3 **MCEV** as at 30th Sep 2020 **at Rs. 11,047 Cr;** Operating RoEV at **17.5%,** including non-operating variances RoEV is **22.6%**

4 **NBMs** (post cost overrun) at **24.2%,** 320 bps improvement y-o-y, primarily driven by increase in non-par business

5 **Max Life** recorded the highest H1 market share of **11%** in last 10 years … grew **4% against Private Players** de-growth of **11%** driven by **E-commerce** and **Bancassurance** sales growth of **49%** and **8%** respectively

6 **Individual Protection** sales grew **78% y-o-y**, Individual protection mix improved from**7%** in PY to **12%** in **H1FY21**

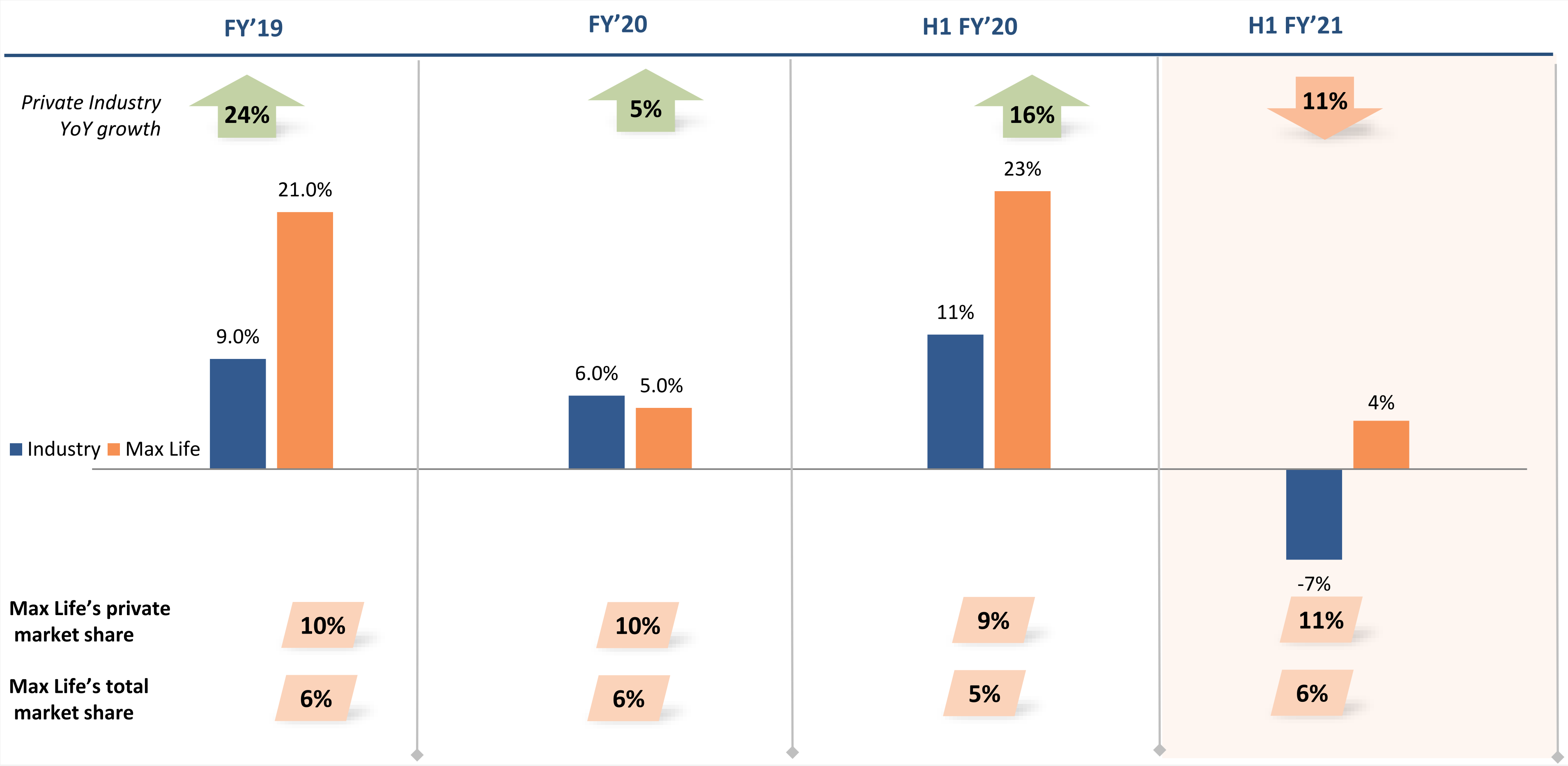
* Consolidated numbers are reported on IND-AS basis

SECTION II

- Max Life Insurance – Business Overview

Industry Landscape (H1 FY'21): Despite COVID-19 challenges, Max Life continues to perform better than industry and recorded the highest H1 market share of 11% in last 10 years

YoY Growth basis Individual Adjusted FYP



- Max Life outperformed the private industry as well as top 3 private players in H1 FY21. Max Life grew 4%, while top 10 private players de-grew 10%
- Max Life's market share improved in Q2 to 11.1% (YoY: 118 bps) as well as in H1 to 11.0% (YoY: 162 bps)
- New business sum assured written by Max Life is among the highest in industry with growth of 40%

Source: Life Insurance Council | IRDAI

Financial Performance Summary H1FY'21

Metric	Current [Previous year]	Change
Pvt Market Share	11% [9%]	162 bps ↑
Individual APE	Rs 1804 Cr [Rs 1717 Cr]	5% ↑
Gross Written Premium	Rs 7,283 Cr [Rs 6,432 Cr]	13% ↑
AUM	Rs 77,764 Cr [Rs 65,425 Cr]	19% ↑
Profit after tax	Rs 197 Cr [Rs 154 Cr]	28% ↑
Net Worth	Rs 2,770 Cr [Rs 2,563 Cr]	8% ↑
Policyholder Cost to GWP Ratio	21.6% [23.0%]	140 bps ↓
Policyholder Expense to GWP Ratio	15.4% [16.7%]	122 bps ↓
New Business Margins (actual cost)	24.2% [21.0%]	320 bps ↑
RoEV	17.5% [18.3%]	80 bps ↓
Embedded Value	11,047 [9,831]	17.5% ↑
Solvency	207% [224%]	-17% ↓
VNB (actual cost)	438 [364]	20% ↑
Policies Sold ('000)	284 [265]	7% ↑
Individual New business Sum Assured	110,305 [78,657]	40% ↑

Protection Mix**

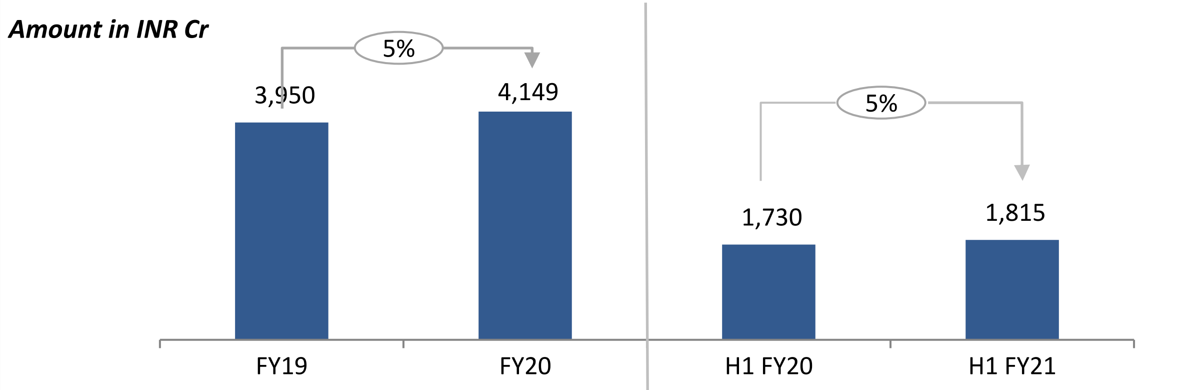
Individual	Group	Total	Change
12% [7%]	8% [7%]	20% [14%]	600 bps ↑

Figures in [brackets] are for previous year numbers.

Growth on Embedded value is operating RoEV, **Group protection (incl. Group credit life adjusted for 10% for single premium and term business);

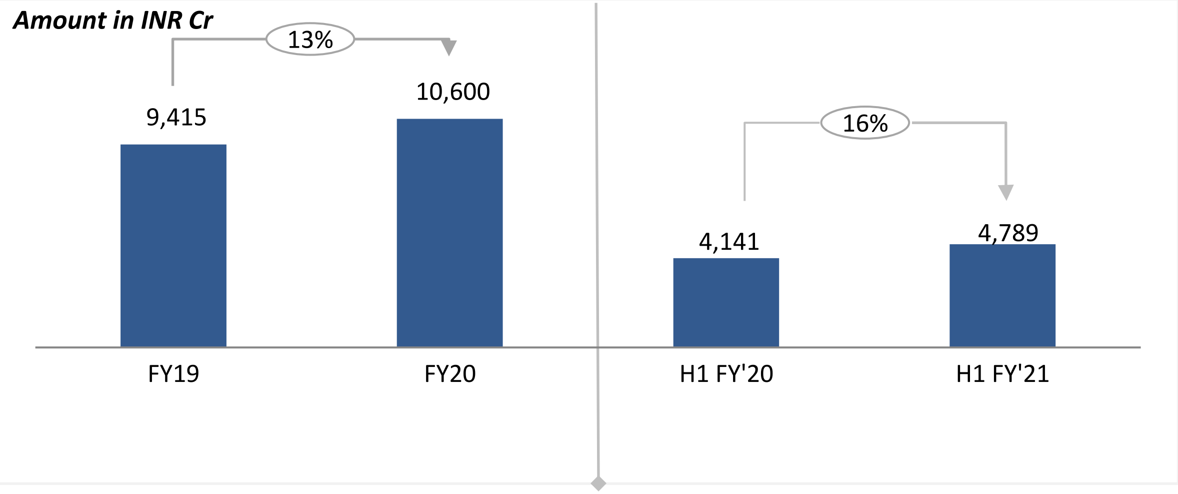
Max Life has delivered strong performance on new business ; Maintained 4th rank in the private industry and increased market share by 162 bps. Q2 sales grew by 10%; Sum assured grew by 40%

New Business Premiums (on APE basis)- Q2 sales grew by 10%

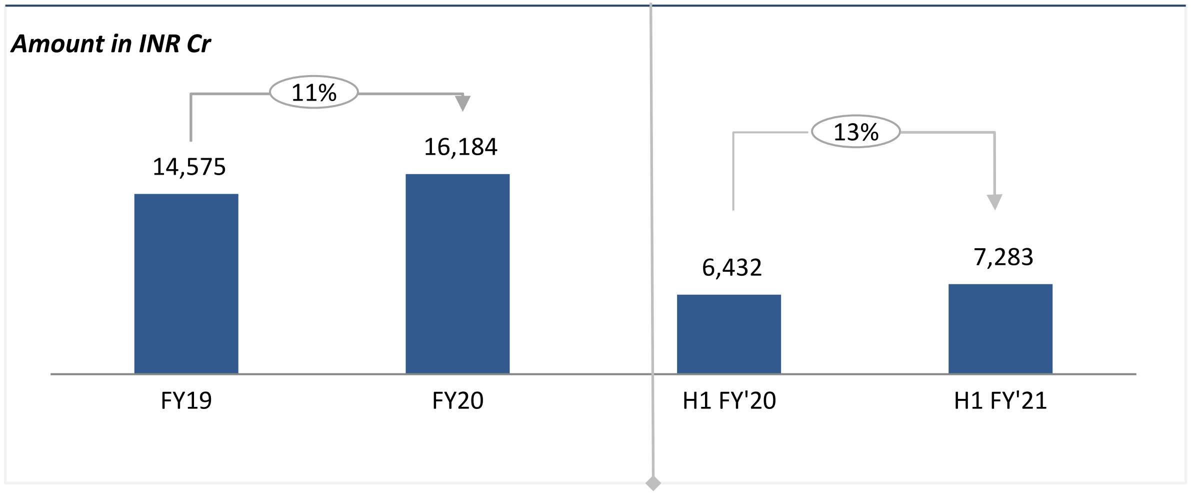


	FY19	FY20	H1 FY20	H1 FY21
Mkt Share#	**9.7%**	**9.7%**	**9.3%**	**11.0%**
Pvt Ind Rank	**4**	**4**	**4**	**4**

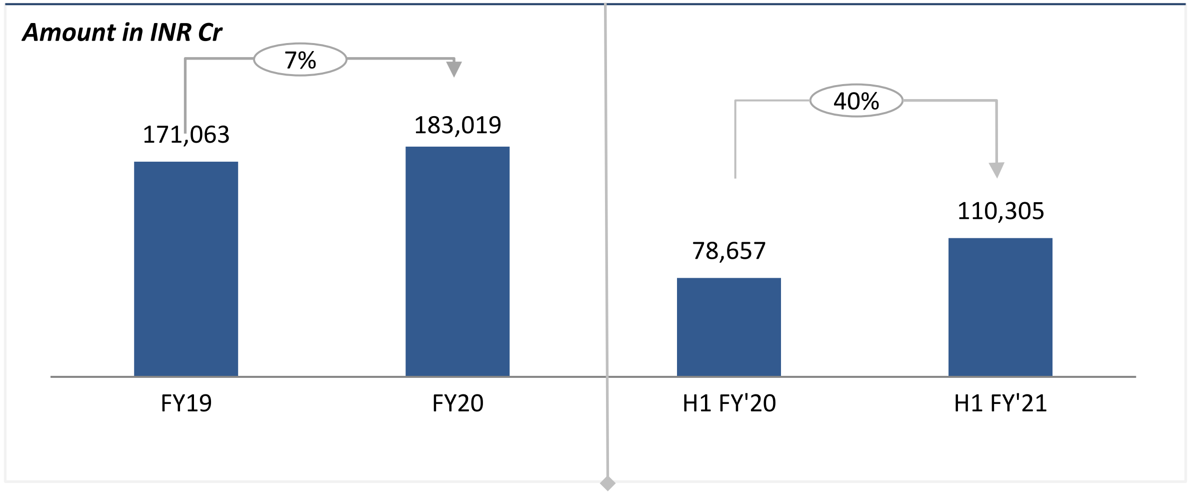
Renewal Income



Gross Written Premium



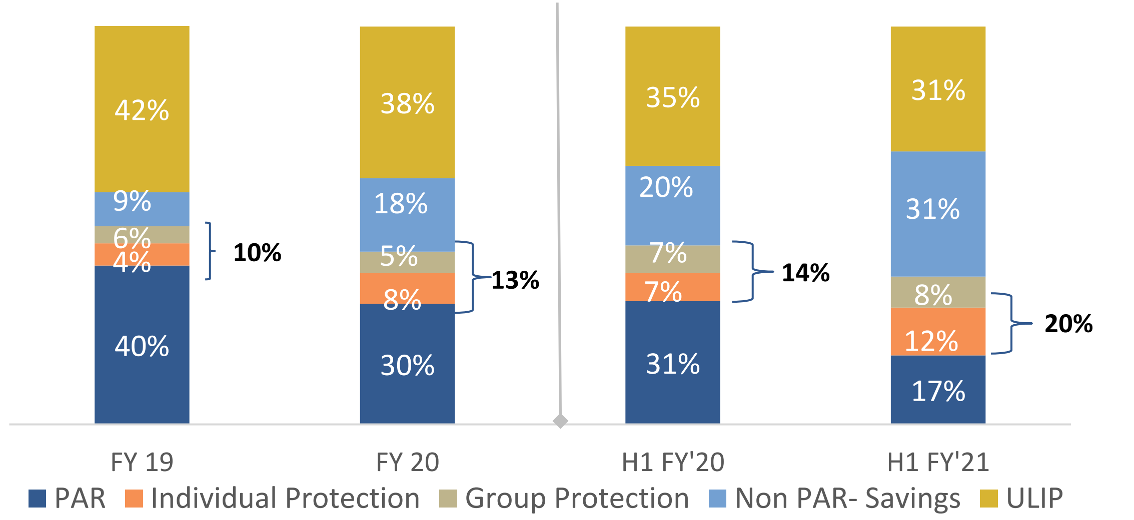
Individual Sum Assured of New business- 40% growth in H1FY21 due to strong growth in protection business



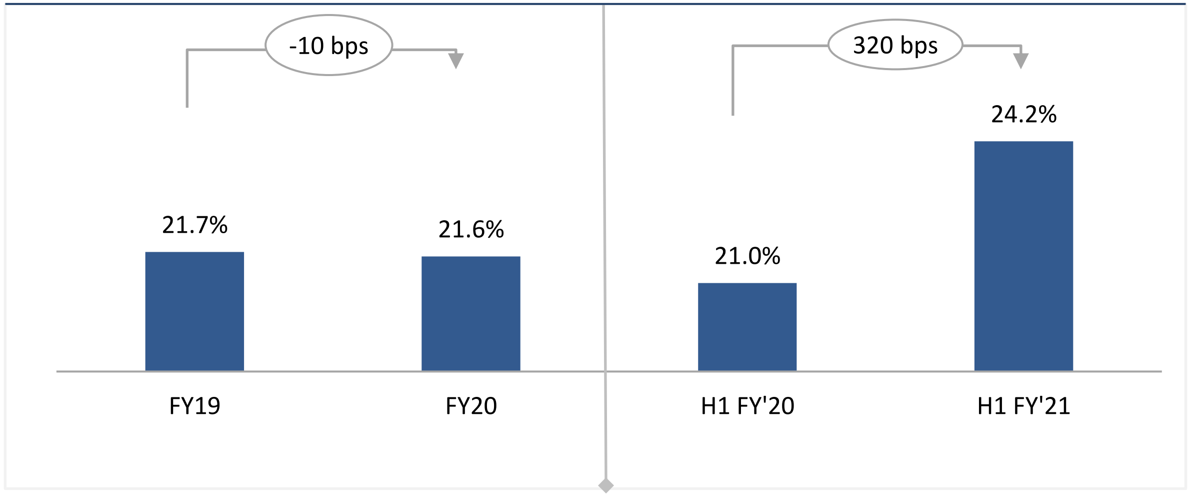
Total APE includes Individual and Group Credit Life APE. It excludes Group term Loan # on Adj FYP basis

Individual protection penetration increased significantly; NBM expanded by more than 3 percent

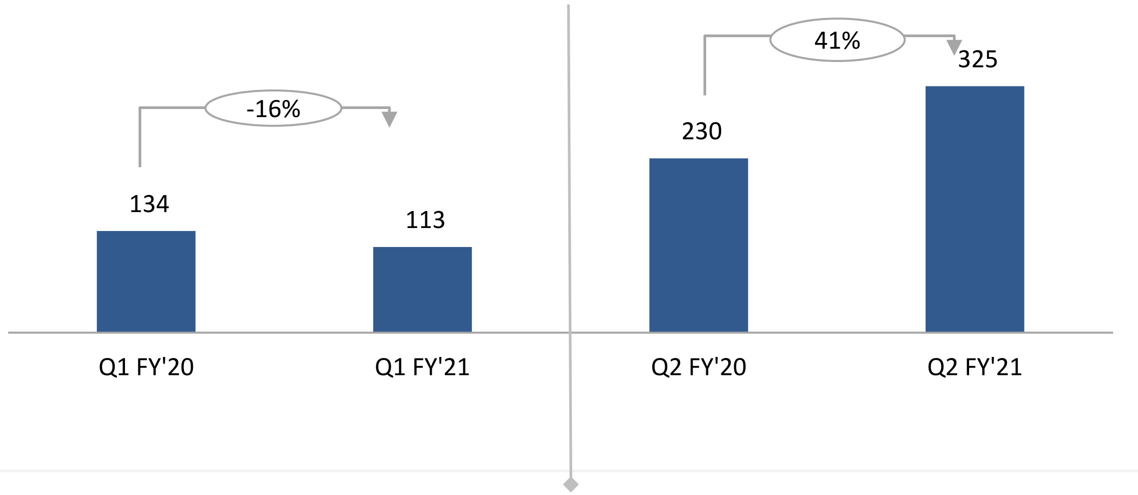
Product Mix – Increase in NPAR savings owing to launch of new non par product



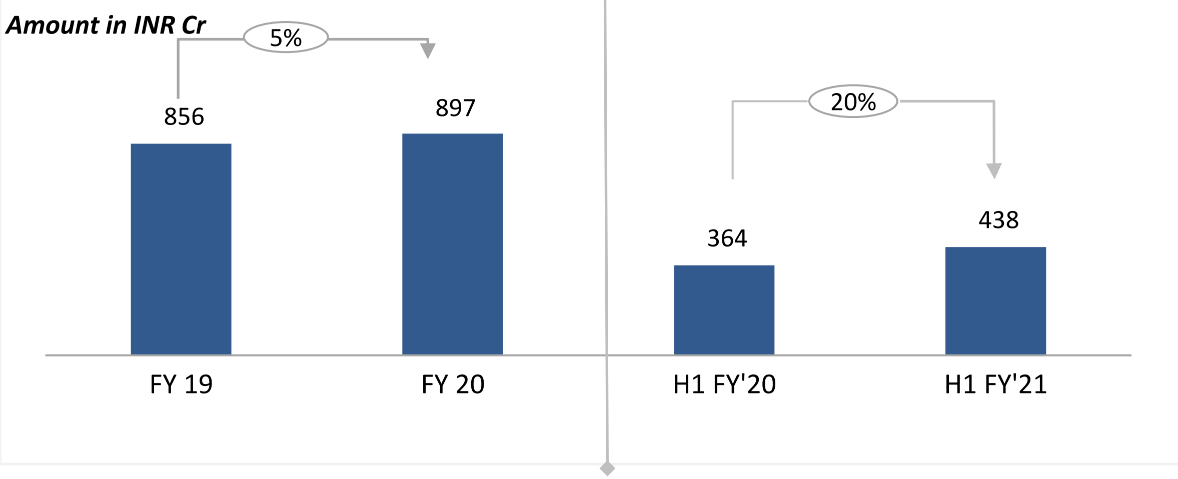
Margins



VNB Q1 & Q2

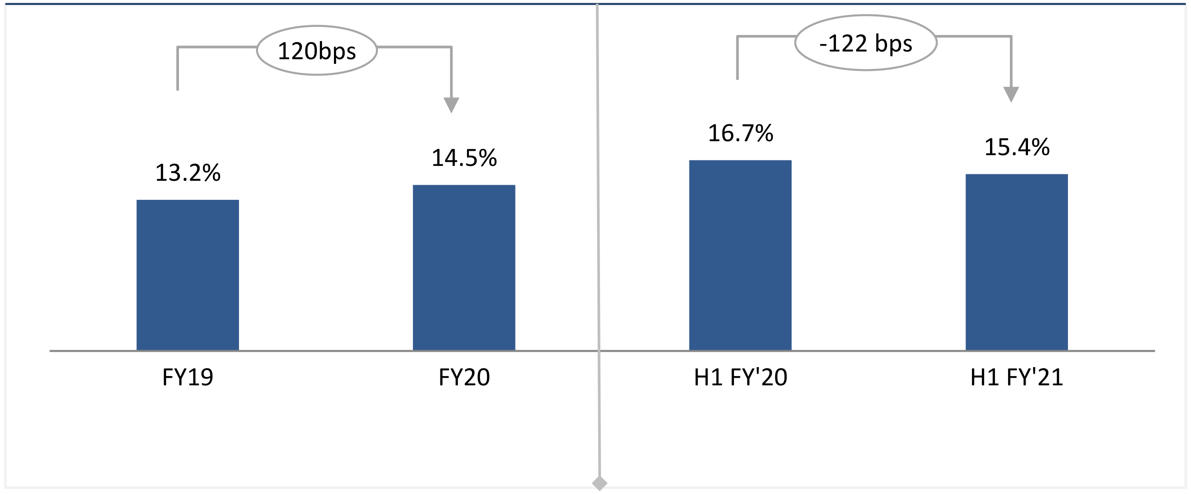


VNB

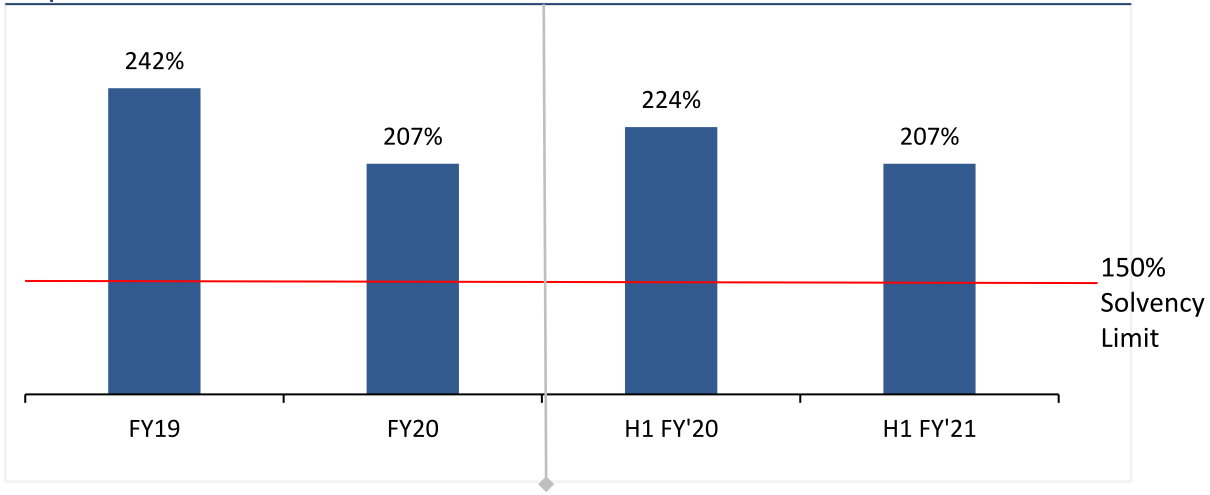


Efficient capital management with consistent RoE of 20%+… best in class among financial services

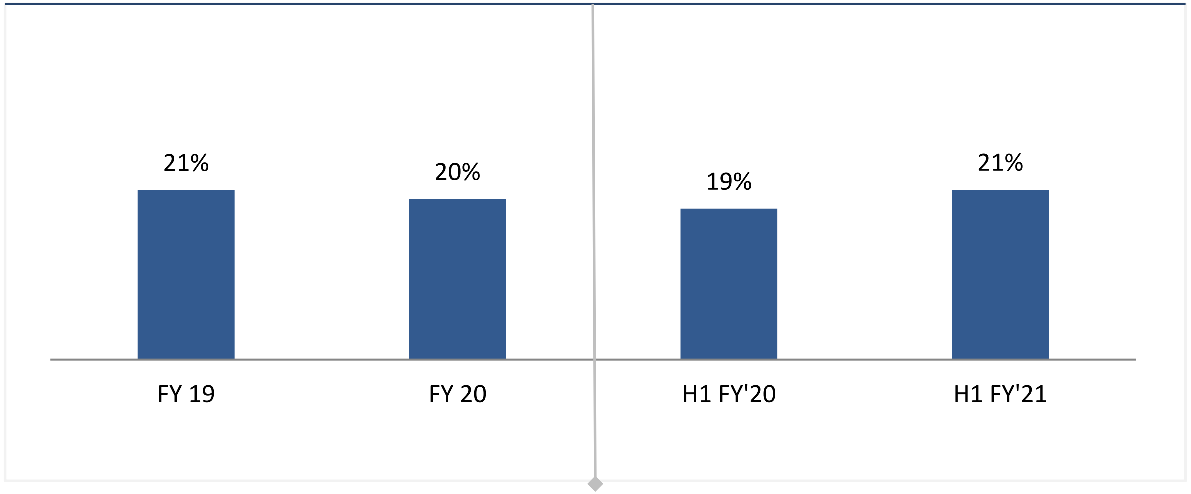
Opex to GWP*- Cost management actions improved Opex to GWP by ~120 bps



Solvency Ratio (pre dividend) - maintained well above the regulatory requirement

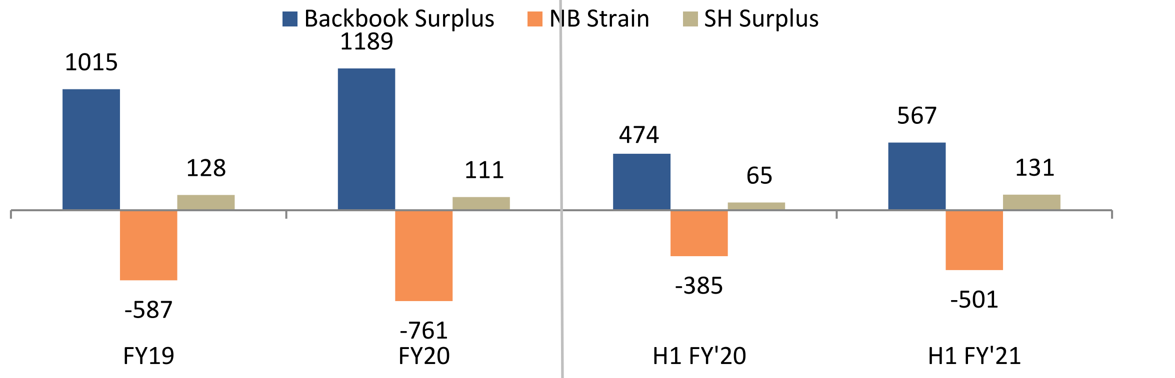


Return on Equity (RoE)# - maintained at consistently more than 20%



Underwriting Profits- Higher NB strain in H1 largely due to increase in NPAR contribution

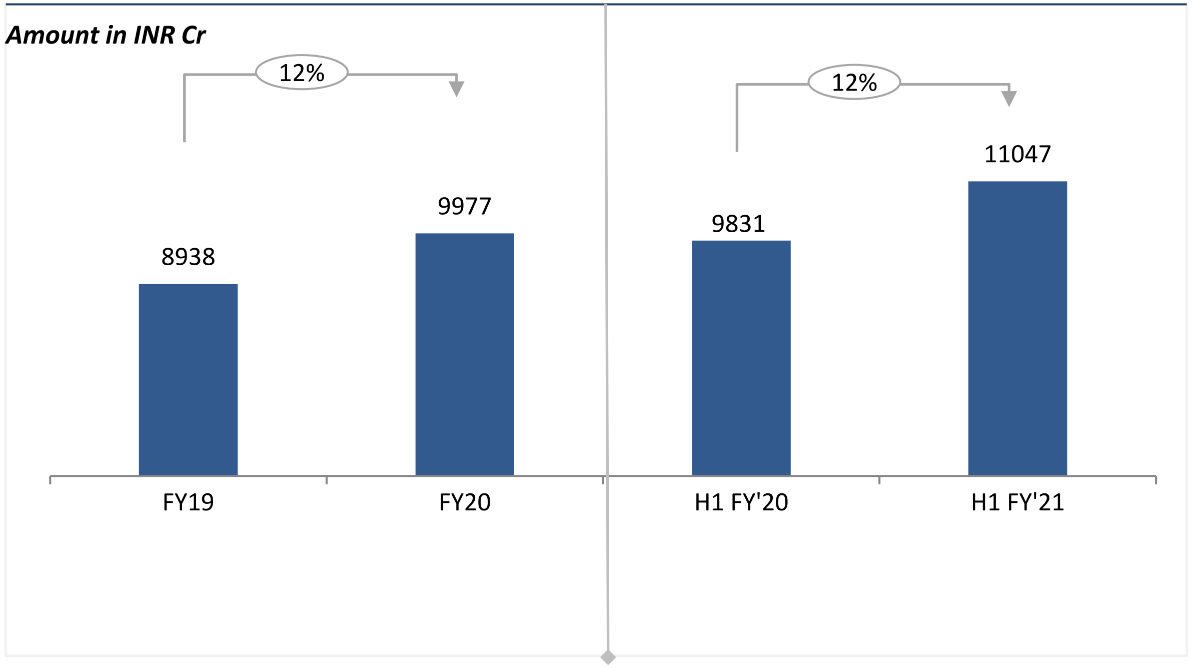
Amount in INR Cr



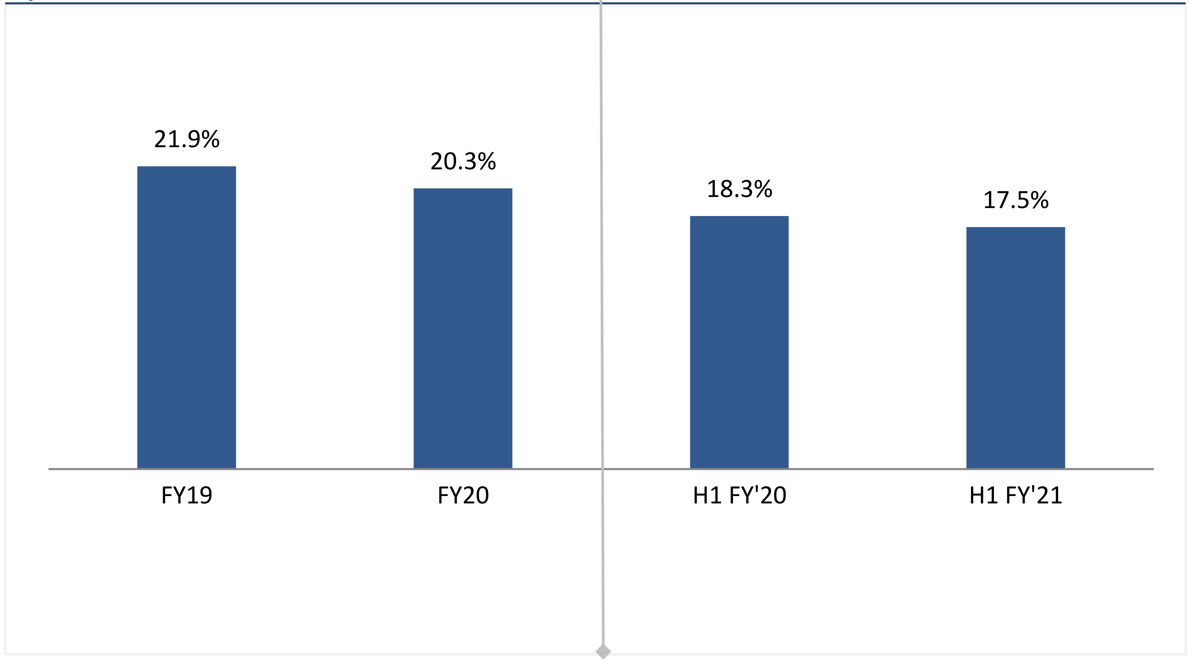
** Refers to the policyholder expense to GWP ratio; # ROE is PAT as a ratio of average Net worth during the year*

Operating RoEV for H1FY21 at 17.5%

Embedded Value (EV) - EV has grown at 12% driven by growth in value of new business and quality of inforce business



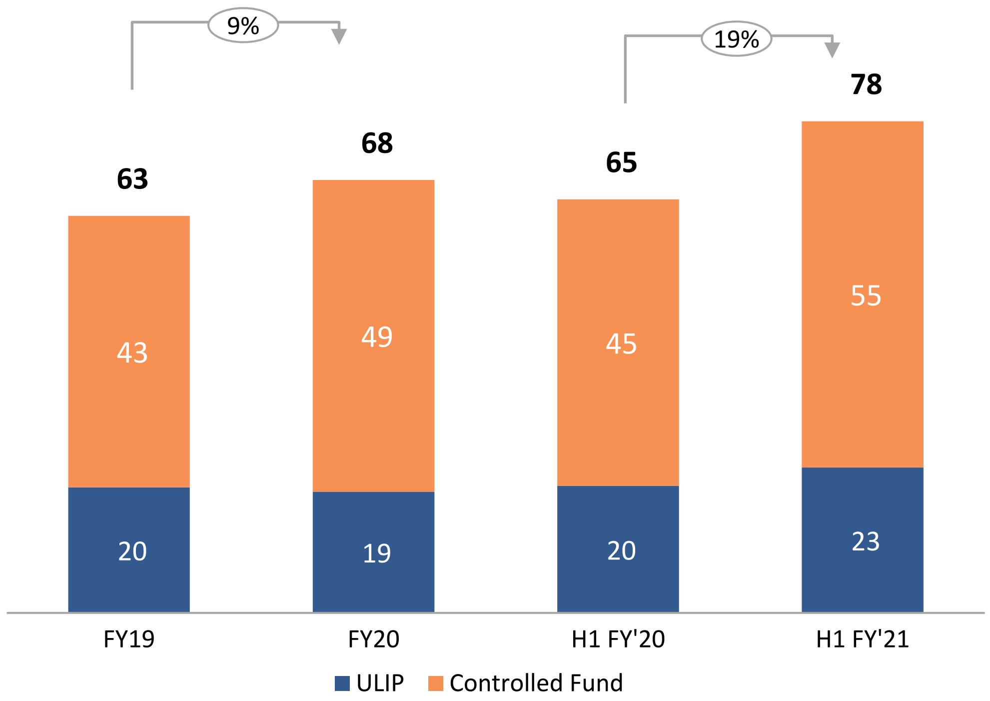
Operating Return on Embedded Value – RoEV at 17.5%, lower compared to last year primarily due to management expectations of lower unwind driven by fall in interest rates



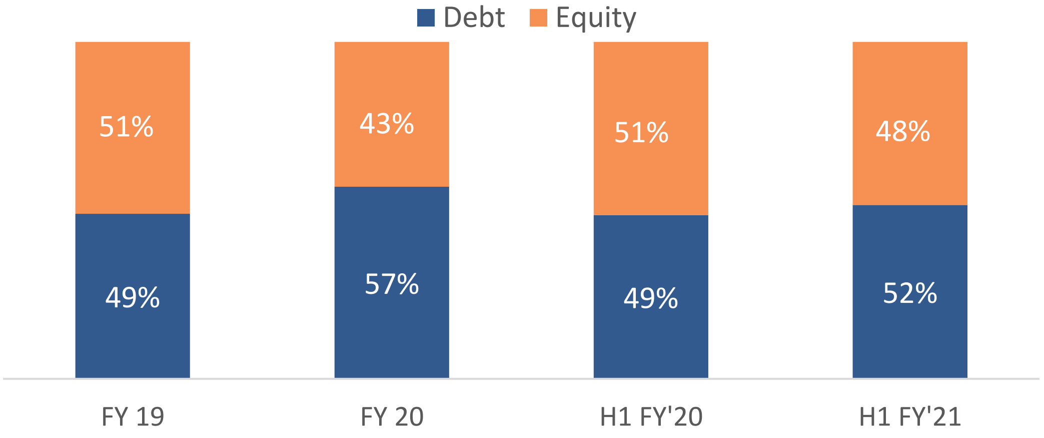
Max Life has consistently grown its Asset Under Management

Assets Under Management - MLI is the 4th largest manager of private LI AUMs, Par fund size ~42K

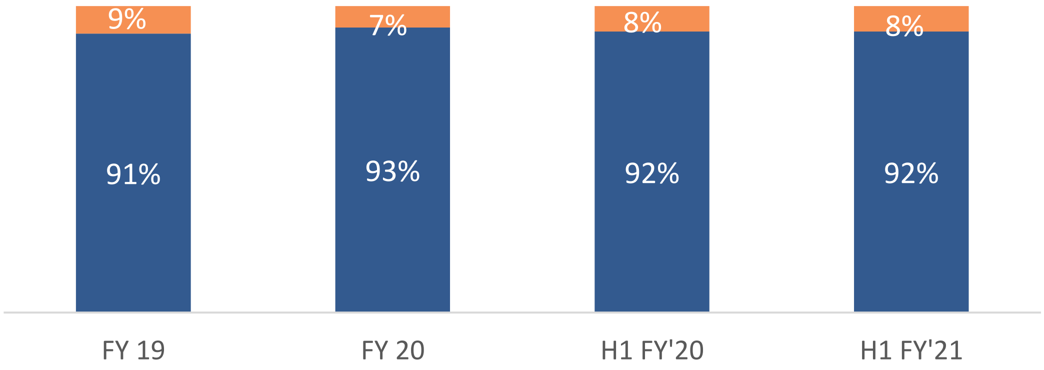
Amount in INR '000 Cr



ULIP: Healthy mix of Debt and Equity



Controlled: Healthy mix of Debt and Equity



More than 95% of debt investments is in sovereign papers and AAA rated securities

Max Life has been recognised by a number of Indian and foreign business bodies for its excellence in business, customer service and focus on people

Business Excellence

- Winner of CII Industry Innovation Award
- Outlook Money Award- Best Life Insurer
- Most Admired Brand By White Paper International
- BFSI Smart Tech Awards 2019 - IPQ won the Best Use of Data and Analytics
- Golden Peacock award for Corporate Governance
- 3 Gold and 6 silver awards at the ACEF 9th Global Customer Engagement Awards 2020
- Best Use Innovation In Loyalty Marketing - Virtual Reality at Customer Fest Show 2020
- Smart Term Plan as Product of the Year award under the Term Life Insurance category, Nielsen Survey 2020
- Won 3 awards with our agency partners at DigiXX 2020 Awards
- Won 'Excellence in Digital Sales - Life Category' at FICCI Insurance Industry Awards 2020

Leaders in Quality

- No. 1 in Customer Loyalty survey by IMRB
- Gold at ASQ World Conference
- Winner of IMC Ramkrishna Bajaj National Quality Award
- Winner of CII Industry Innovation Award
- Asia Pacific Quality Organization (APQO) award for global performance excellence
- Silver Award in ASQ ITEA 2019 for Sell Right for Customer Delight at Axis Bank
- Silver Award in the 12th QCI-DL Shah Quality Awards for Enhancing S2R Conversion% Select 60 offices in Agency.
- At CMO Asia Awards , won Best Term Plan Company of the Year

Focus on People

- **Ranked 24th – India's Best Companies to work for in 2020. Best in Insurance industry**
- Top 25 BFSI companies to work for by Great Place to Work Institute, India in 2020
- India's Top 75 Workplaces for Women by Great Place to Work Institute
- Employee Engagement Leadership Award for "Best use of the Employee Award"
- Employee Engagement Leadership Award for "Best Social Responsibility"

SECTION III

- Max Life Insurance – Strategy

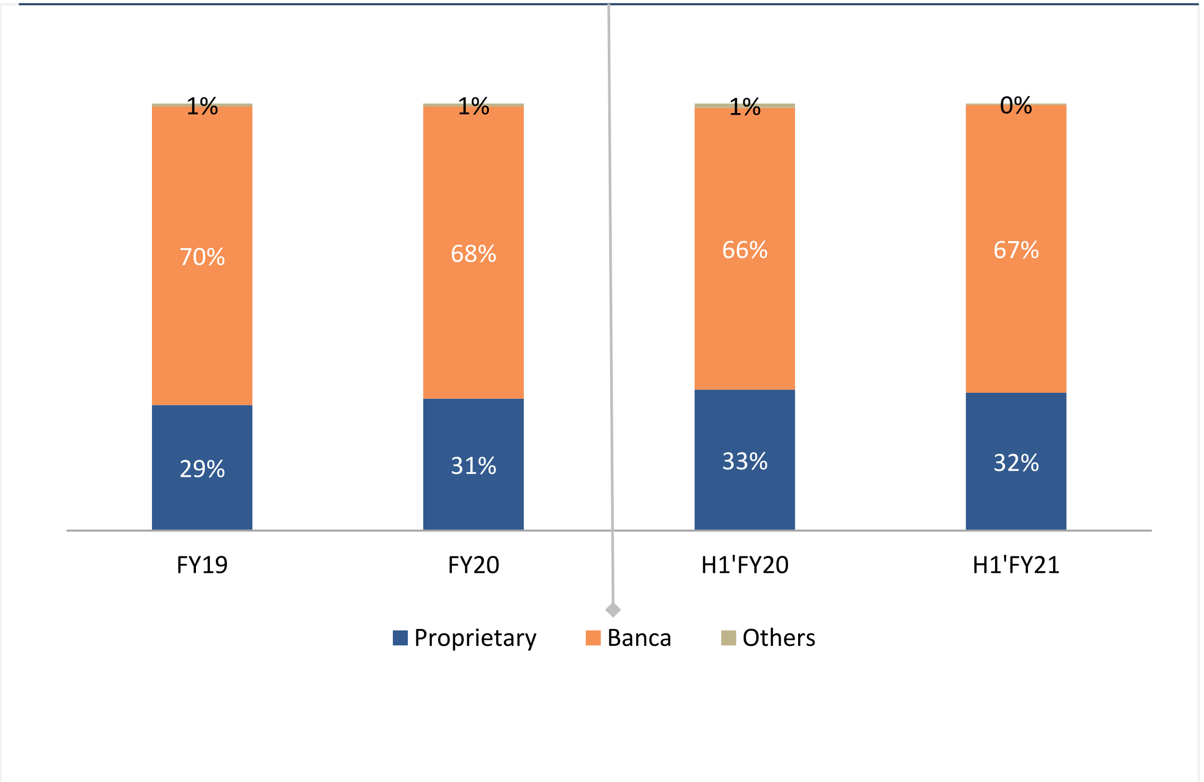
Significant progress made across key strategic priorities

	A. Predictable & Sustainable growth	B. Product innovation to drive margins	C. Customer centricity across the value chain	D. Digitization for efficiency and intelligence
INITIATIVES	▪ Deepen Bancassurance partnerships ▪ On-board new distribution partners ▪ Scale up existing proprietary channels ▪ Opportunistic play for inorganic growth	▪ Increase protection penetration ▪ Drive Non PAR saving ▪ Tap into new growth opportunities like health and retirements ▪ Enhanced investment and mortality risk management	▪ Improve position in 13M and 61M persistency ranking ▪ Highest Relationship Net Promoter Score (NPS) in the industry	▪ Continue with digitization agenda across the organisation ▪ Build intelligence (AI) in all digital assets ▪ Minimize back-office costs
Progress achieved	▪ Entered into definitive agreements with Axis Bank* - Approached regulators for approval, deal on track ▪ Extended corporate agency agreement with **Yes Bank** for 5 years ▪ Positive trajectory in ecommerce and other proprietary channels ▪ Working with about 40 partners – Key Partnership: PayTM for retail, L&T Finance, Satin Creditcare, Taraashna, Freecharge Xiomi and Mjunction for Group	▪ Retail protection business grew by 78% in H1. Product mix well balanced. Focus remains on driving Protection ▪ Launched Smart Wealth Plan (Non-Par Savings plan), Flexi invest (ULIP) ▪ Product innovation agenda furthered with launch of a unique Covid-19 rider providing diagnosis benefits to customers in addition to a death cover ▪ Executed FRA contracts to augment non-par appetite	▪ Claim paid ratio at 99.22% at the end of FY20, among the best in the industry ▪ Persistency for H1 due to lower collection owing to COVID related lock down and extension of grace period of high contributing March and April due policies. Initiatives implemented to improve persistency during the year ▪ Improved brand consideration score to 58 as of Sep'20 (11 points improvement over same period last year)	▪ 100% of all policies digitally sourced - Achieved 71%+ Insta-issuance ▪ 100% recruitment enabled through digital ▪ 71% requests enabled through digital self service means ▪ Max Life Innovations Lab – Concluded PoC with 7 startups ▪ Progressing well on AI and modernizing IT journey

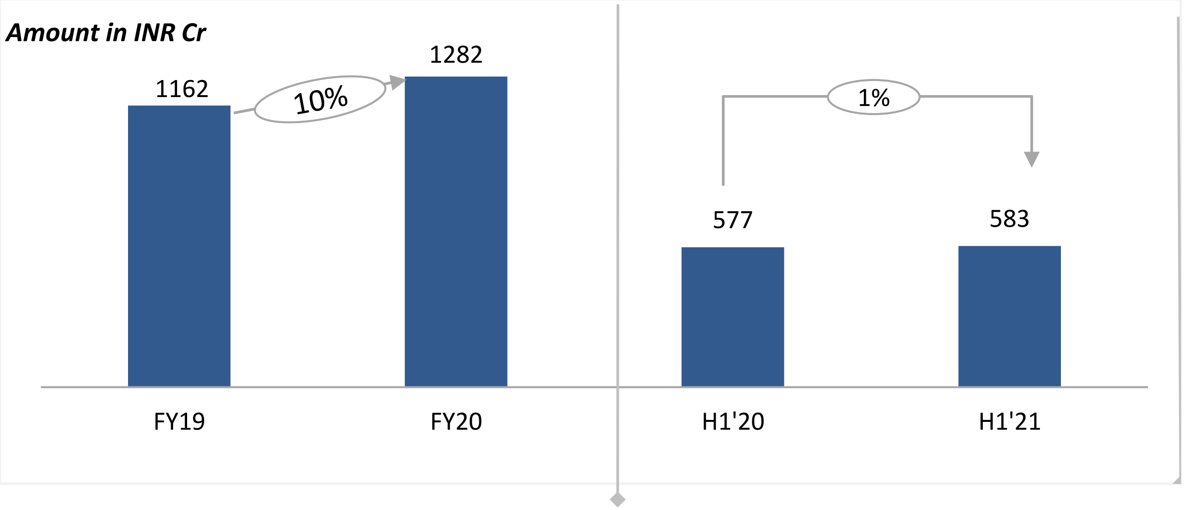
*subject to regulatory approvals

Max Life has focused on ensuring growth in both its Proprietary and Bancassurance channels

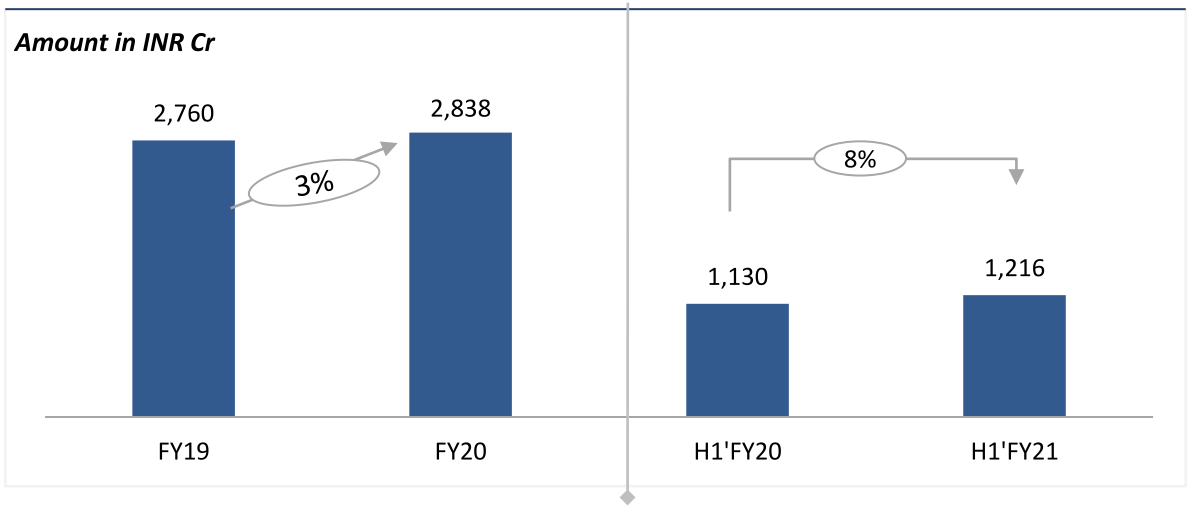
Channel Mix - Max Life has focused on maintaining a balanced distribution mix



Proprietary Channels New Business (APE) -

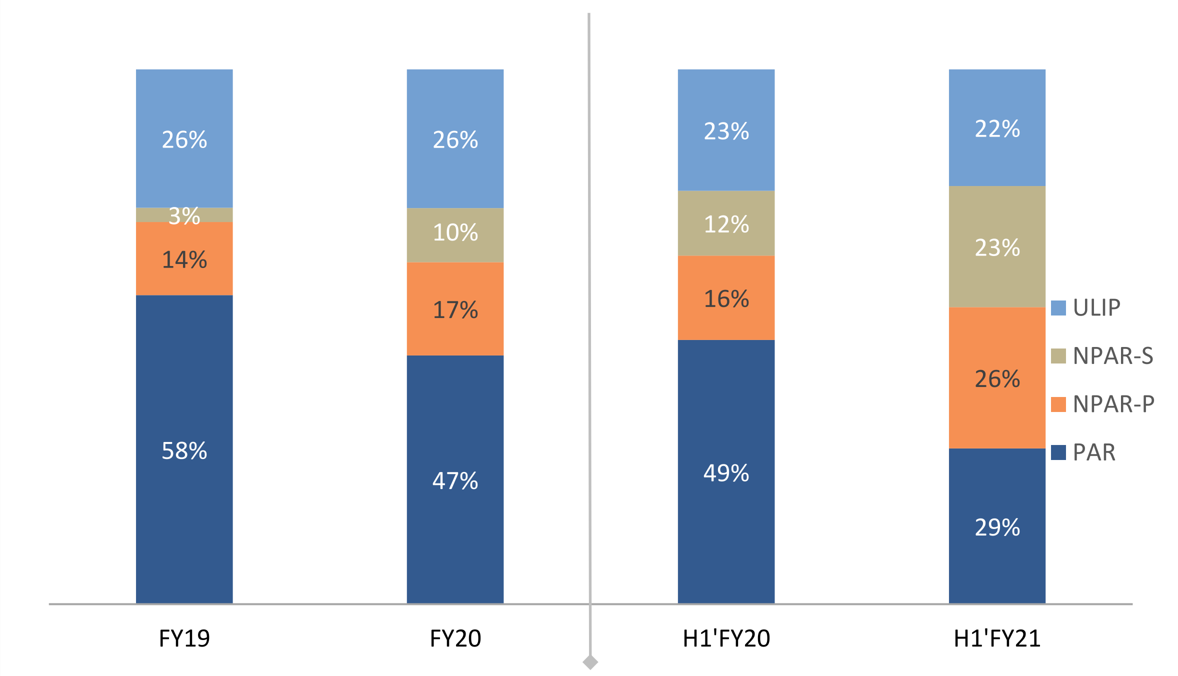


Bancassurance Channel (APE)

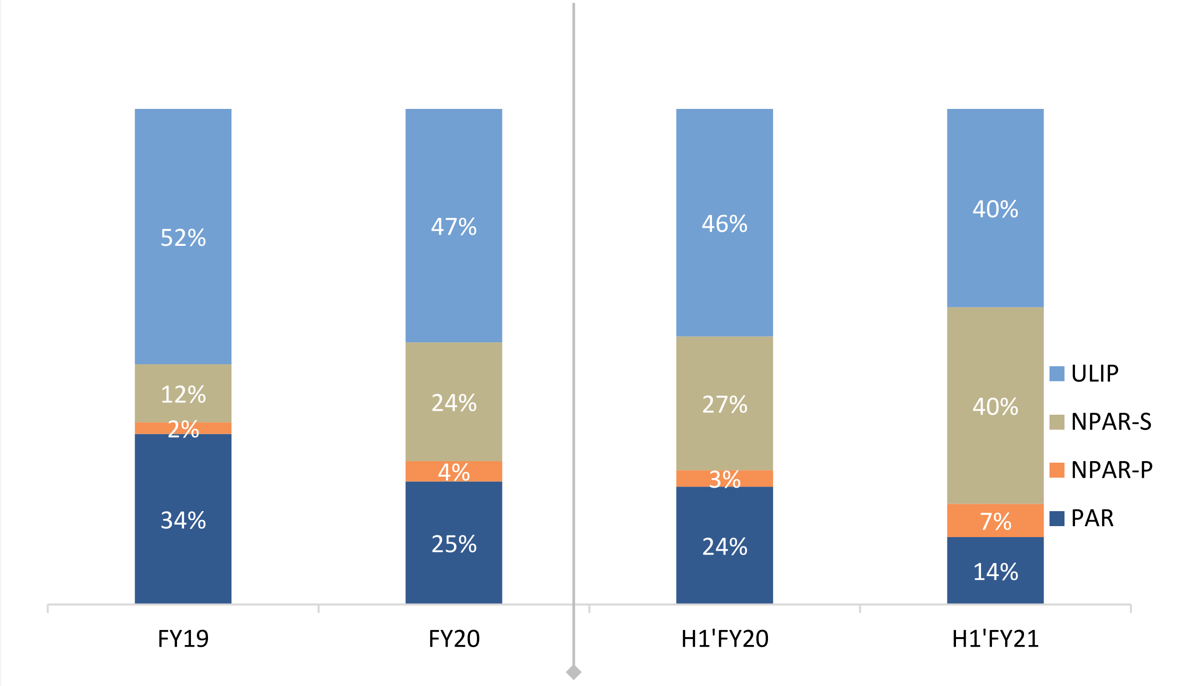


A Product mix in proprietary and Bancassurance channels aligned to customer needs; Protection driven across all channels

Proprietary Channels Product mix - biased towards traditional products and protection for driving margins



Bancassurance Product Mix - has been biased towards ULIPs to cater to target customer segments

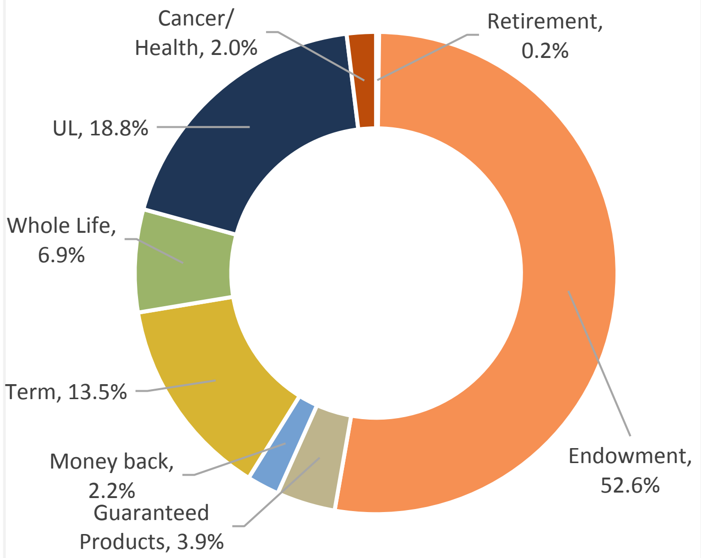


Max Life has a complete suite of products and focus is on selling longer term products along with improving penetration of pure protection offerings

Max Life has products across all categories

- **4** Protection plans
- **4** Income plans
- **4** Endowment plans
- **4** ULIP plans
- **2** Child plans
- **1** Health plan
- **1** Annuity plan
- **1** Retirement ULIP
- **1** Whole life
- **4** Riders

Current portfolio[1] biased towards traditional products

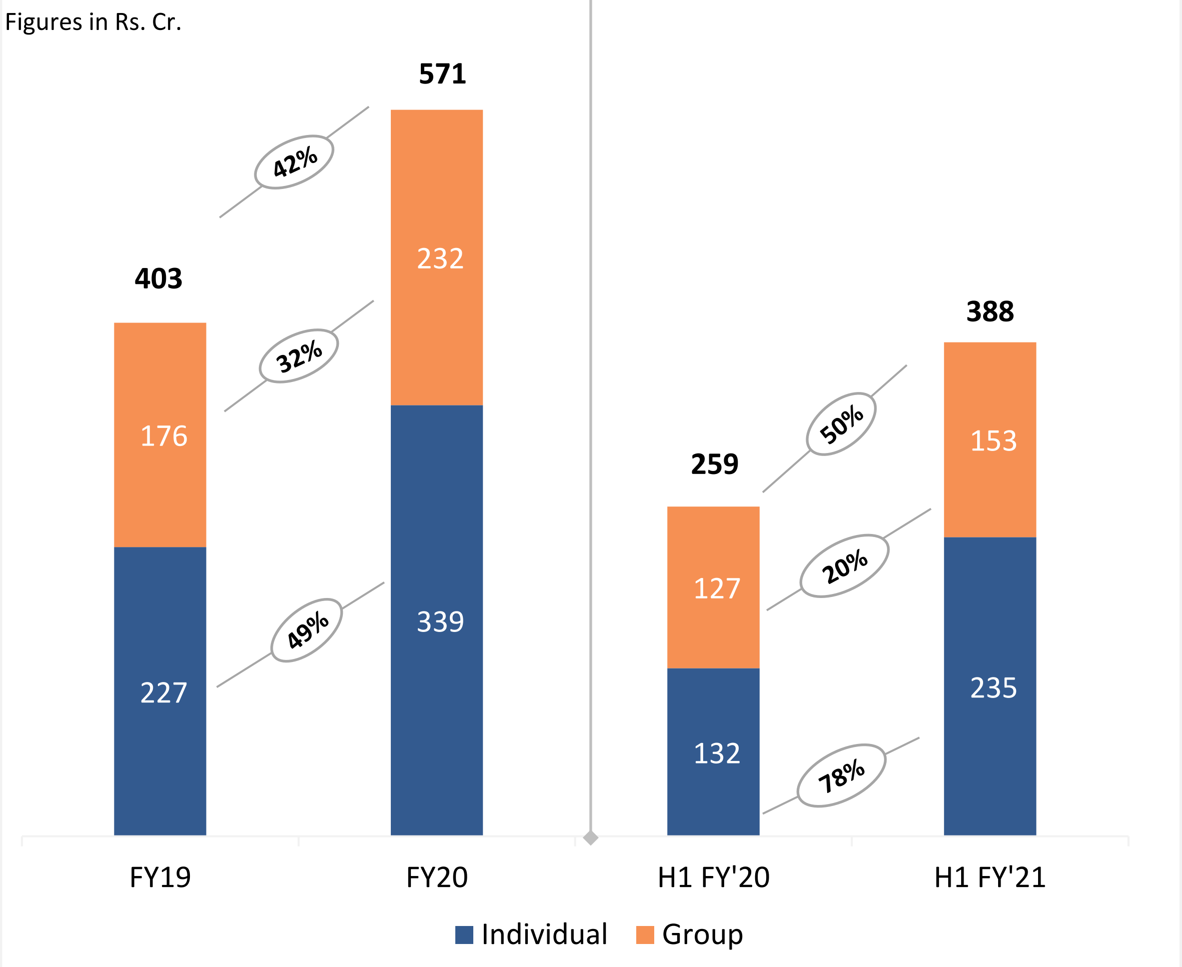


Product Type	*Average Policyholder Age (Years)*	*Average Policy Term (Years)*	*Average PPT (Years)*
Endowment	35	22	10
ULIP	38	14	10
Whole Life	36	64	51
Money back	28	17	16
Pure Term	35	36	33
Guaranteed products	43	19	9
Health	39	19	19
Cancer Insurance	37	29	29
Pension	33	23	23
Annuity	62	58	1
As on 30th Sep 2020	36 Average	25 Average	17 Average

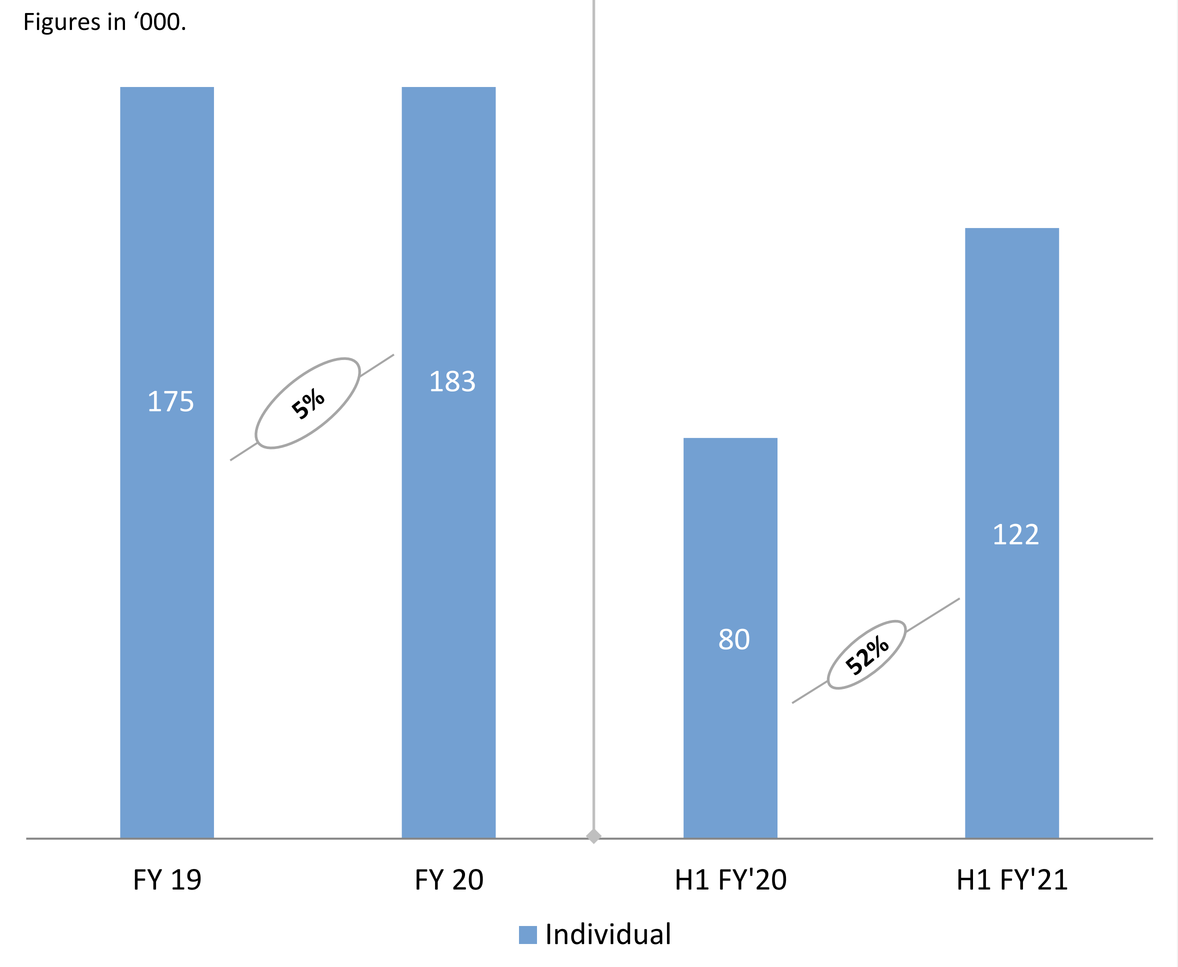
(1) Based on all policies sold till date

Focus on Protection: ~78% growth in retail protection and 52% increase in policies

Total APE (Individual + Group)



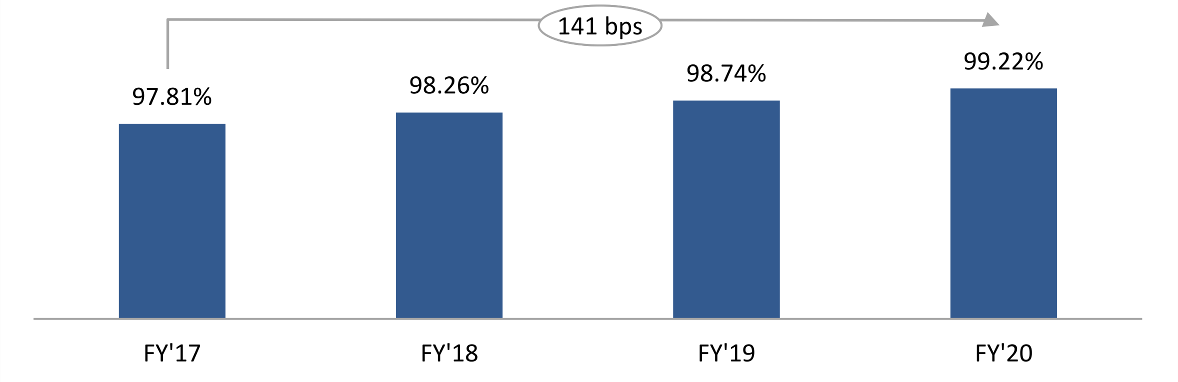
No of Protection Policies (Individual)



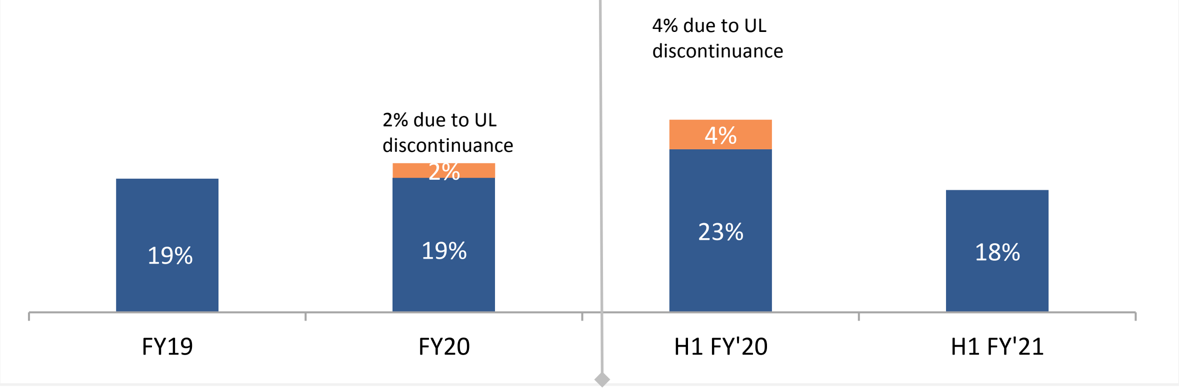
Total APE (incl. Group credit life adjusted for 10% for single premium and term business)

Strong focus towards customer measures has helped deliver superior performance across health parameters and will continue to remain an important priority

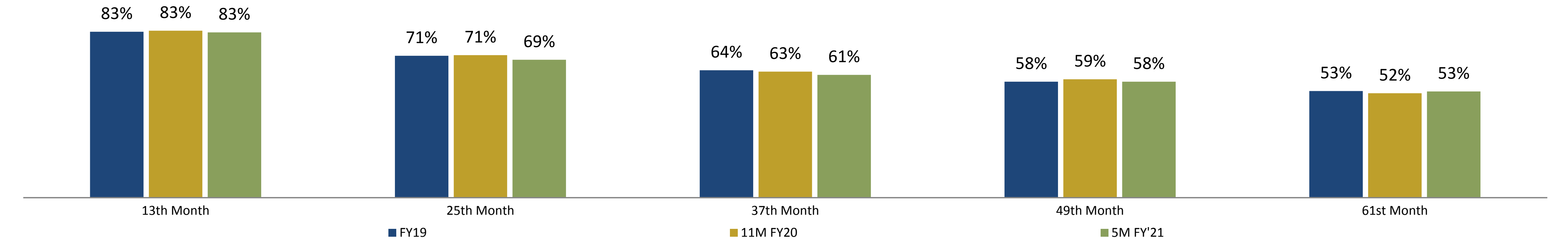
Claims Paid Ratio- One of the best claims paid ratio in the industry



Surrender to GWP



Persistency*- Improving and expected to be back on track soon



XX *Change in persistency (in bps) *FY 20 persistency is reported for 11M as full year reporting accounts for grace period extension which may not be appropriate for comparison from last year*
Full year persistency disclosure as follows: 13th month- 87%, 25th month- 73%, 37th month- 64%, 49th month- 60%, 61st month- 53%

D Significant progress in driving adoption of digital assets & embedding intelligence across insurance value chain aiding in effectiveness and efficiency (1/2)

	Recruitment	Prospecting	Fulfilment
Digital Assets	MREC: End-to-end agent recruitment platform facilitating faster agent prospecting and onboarding	mQuote: Products illustration generation tool; CSG/one CRM – Sales CRM tool for lead management; MPOWER: Cross sell and up sell tool	mPRO: Form filling, document collection and post sales verification in a seamless manner; Integration with Bank partners for customer data
Embedded intelligence	Psychometric based scoring and selection	Predictive sales propensity models; AI based pre-approved sum assured engines to generate customized offers for customers	OCR for document parsing to enable real time identification and verification of documents to reduce discrepancies; Upfront persistency risk model- integration with various Bureaus & external databases to identify risk of lapsation; Fraud checks on customer photographs
Impact	**100%** recruitment digitally	**100%** need analysis digitally	**100%** Policies issued digitally; **69%** FTR; **71%** Insta issuance (1 day)

D Significant progress in driving adoption of digital assets & embedding intelligence across insurance value chain aiding in effectiveness and efficiency (2/2)

	Underwriting	Renewal	Servicing
Digital Assets	Dolphin Rule-based underwriting engine for policy issuance	CRM system for One view of customer Multiple digital payment options Easy revival options on website Click to call and Robo call functionality Scheduled customer reminders	Customer Servicing tool (MPOWER) Milli – chatbot for query resolution Self service options on website Whatsapp for customer query and servicing
Embedded intelligence	Model to identify early mortality risk - highlights risky policies and reduces overall issuance time Integration with fraud database to identify and flag risky customers	Propensity to lapse model using Deep Learning Early warning system to enable upfront persistency check	Email Bot for customer queries Linguistic speech analyzer to extract meaningful information from customer calls Smart Conversational IVR
Impact	Automated Underwriting: **61%** clear cases	**70%** digital payments	**78%** Digital self-service adoption **>30 Lac** Self-service transactions **24x7** Query resolution using chat-bot

SECTION IV

- Max Life Insurance – ESG

ESG Framework: Setting benchmarks for inclusivity and sustainability

Environmental

Replace
- End to end digital solutions
- Live plants to improve air quality; 2,600 live plants placed in Head Office
- Replacement of plastic bottles by water jugs

Reduce
- Energy reduction by using energy efficient cooling and lighting across branches
- 60% water conserved through sensor based taps and urinals; 100% water gets recycled in Head Office
- >1 lac water saving nozzles distributed
- Managed print services and stationery
- Food wastage awareness drive in Head Office; food wastage reduced to half

Reuse & Recycle
- Dry and wet waste segregation
- E-waste disposal through certified vendors
- Saved 3 lacs paper cups and saved 60 trees by using ceramic cups

Social

Community Service
- Plantation Drive: >35,000 trees planted in FY20 across offices
- Joy of Giving: Provided sanitizers and masks to police officials during Covid -19, provided soaps and ration to underprivileged families, health checkup camps
- Financial Literacy: >5,400 employee volunteers; ~3 lac people connected

Customers
- Industry leader in individual claims settlement ratio of 99.22% in FY20
- COVID-19: Un-interrupted service & claims

Employees
- Diversity & Inclusion: 22% women employees, 31% women employees in non-distribution roles, 42% women agents
- Employee health and wellbeing - flexi working hours, paid paternity leave, paid maternity leave, 100% Work from home

Governance

Supervisory Board
- Diverse Board composition
- ~60% and ~30% Independent Directors in MFS and Max Life respectively
- Average board experience > 30 years

Risk Management
- Risk Management evolved to ERM 2.0 to better manage risks
- Strategic tie-up with Risk Management Society (RIMS), US, to promote risk management in India
- Periodic stress testing & sensitivity analysis

Compliance
- Information security and cyber security compliant with ISO guidelines

Governing Policies
- Policies on AML, Whistleblower, POSH, Anti-bribery & Corruption, Conflict of interest, Business code of conduct, Data privacy

SECTION V

- Max Life Insurance – MCEV Disclosures: H1 FY’21

Key Results

The Embedded Value[1] (EV) as at 30th September 2020 is **Rs 11,047 Cr.**

The Operating Return on EV (RoEV) over H1 FY21 is **17.5%**. Including non-operating variances, the total RoEV is **22.6%** [2].

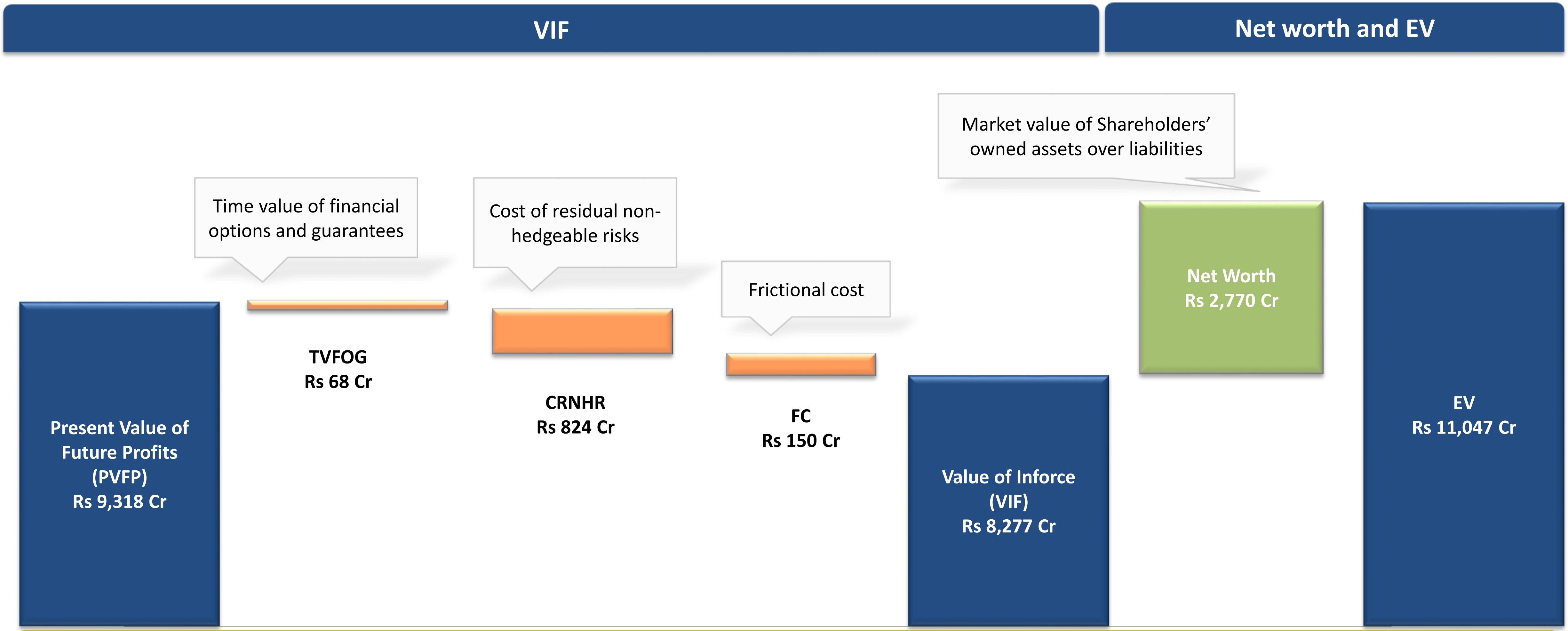
The New Business Margin (NBM) at actual cost for H1 FY21 is **24.2%**, with Value of New Business (VNB) written over the period being **Rs 438 Cr**.

Notes:

[1] Max Life's Embedded Value (EV) is based on a market consistent methodology. However, they are not intended to be compliant with the MCEV Principles issued by the Stitching CFO Forum Foundation (CFO Forum) or the Actuarial Practice Standard 10 (APS10) as issued by the Institute of Actuaries of India.

[2] The return on EV over H1 FY21 is calculated as 10.7% (growth in EV) annualized to 22.6%.

Overview of the components of the EV as at 30th September 2020



1. The deductions for risks to arrive at the VIF represent a reduction of ~11% in the PVFP. The largest deduction is in respect of CRNHR.
2. Within CRNHR, persistency risk constitutes the largest risk component.

Note: Figures in Rs Cr. And may not add up due to rounding

Value of New Business and New Business Margins as at 30th September 2020

Description	H1 FY20	H1 FY21	Y-o-Y growth
APE [1]	1,730	1,815	5%
New Business Margin (NBM) (actual costs)	21.0%	24.2%	+320 bps
Value of New Business (VNB) (actual costs)	364	438	20%

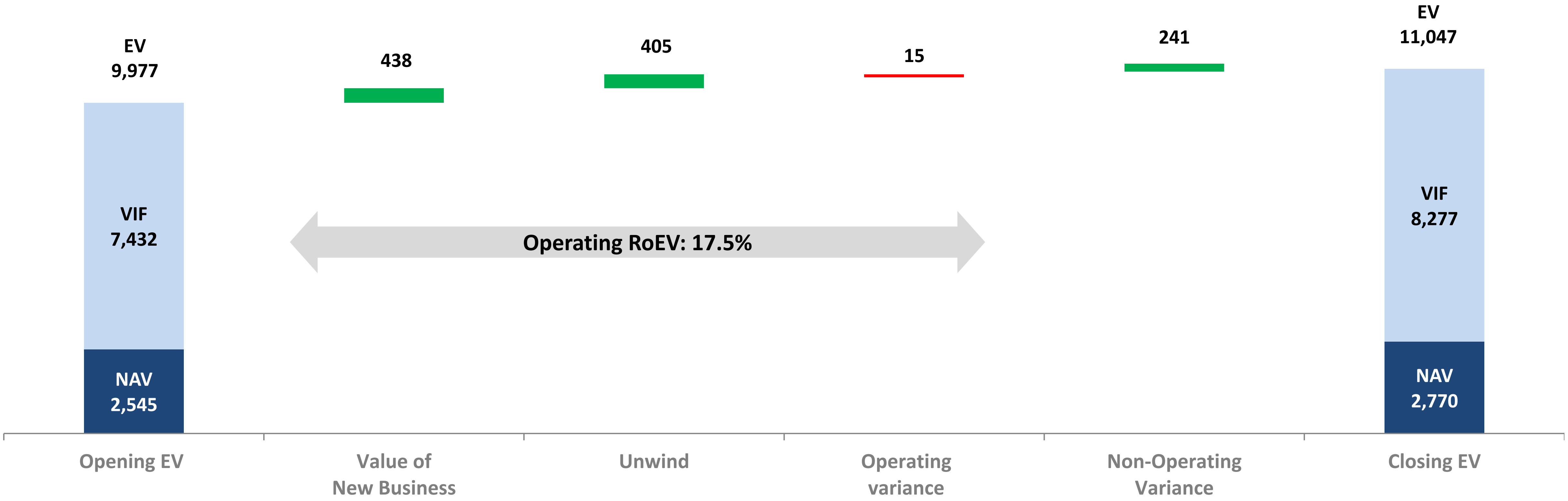
- The New Business Margin (NBM) has increased by circa 320 bps to 24.2% for H1 FY21 as compared to 21.0% for H1 FY20.
- The increase in margins is primarily driven by increase in proportion of non-par business.

[1] Annual Premium Equivalent (APE) is calculated as 100% of regular premium + 10% of single premium.
[2] The VNB is accumulated from the point of sale to the end of the reporting period (i.e. 30th September 2020), using the beginning of quarters' risk free yield curve.

Note: Figures in Rs Cr.

EV movement analysis: March 2020 to September 2020

Figures in Rs Cr.



- Operating return on EV of 17.5% is mainly driven by new business growth and unwind.
- Non-operating variances are mainly driven by positive economic variance during the year.

Sensitivity analysis as at 30th September 2020

Figures in Rs Cr.

Sensitivity	EV		New business	
	Value (Rs Cr)	% change	VNB (Rs Cr) | NBM	% change
Base Case	**11,047**	**-**	**438 | 24.2%**	-
Lapse/Surrender - 10% increase	10,926	(1%)	434 | 23.9%	(1%)
Lapse/Surrender - 10% decrease	11,170	1%	441 | 24.3%	1%
Mortality - 10% increase	10,861	(2%)	419 | 23.9%	(4%)
Mortality - 10% decrease	11,234	2%	458 | 25.2%	4%
Expenses - 10% increase	10,944	(1%)	402 | 22.2%	(8%)
Expenses - 10% decrease	11,150	1%	474 | 26.1%	8%
Risk free rates - 1% increase	10,843	(2%)	453 | 24.9%	3%
Risk free rates - 1% reduction	11,103	1%	411 |22.7%	(6%)
Equity values - 10% immediate rise	11,134	1%	438 | 24.2%	Negligible
Equity values - 10% immediate fall	10,959	(1%)	438 | 24.2%	Negligible
Corporate tax Rate - 2% increase	11,254	(2%)	424 | 23.4%	(3%)
Corporate tax Rate - 2% decrease	10,840	2%	453 | 25.0%	3%
Corporate tax rate increased to 25%	9,680	(12%)	344 | 19.0%	(22%)

1. Reduction in interest rate curve leads to an increase in the value of assets which offsets the loss in the value of future profits.
2. Risk free rate sensitivities under new business allow for the change in the value of assets as at the date of valuation.

ANNEXURES

Delivering consistent growth in top line and renewals coupled with driving cost efficiencies

Financial Performance

	FY19		FY20	H1 FY'20		H1 FY'21
Individual APE	3,917	5%	4,116	1717	5%	1804
Renewal Premium	9,415	13%	10,600	4141	16%	4789
Gross Premium	14,575	11%	16,184	6432	13%	7283
Policyholder expense to GWP Ratio	13.2%	126 bps	14.5%	16.7%	122 bps	15.4%
Policyholder Cost to GWP Ratio	20.0%	80 bps	20.8%	23.0%	142 bps	21.6%
Expense to average AUM (Policyholder)	3.6%	21 bps	3.8%	3.8%	25 bps	3.5%

Note: Figures in Rs Cr.

Healthy and consistent profitability creating value to all the stakeholders while maintaining solvency above required levels

Financial Performance

	FY19		FY20	H1 FY'20		H1 FY'21
Profit(after Tax)	556	3%	539	154	28%	197
AUM	62,798	9%	68,471	65,425	19%	77,764
New Business Margin (Post Overrun)	21.7%	10 bps	21.6%	21.0%	320 bps	24.2%
MCEV (pre dividend)^	9,257	20%	10,433	9,831	17.5%	11,047
Operating RoEV	21.9%	160 bps	20.3%	18.3%	80 bps	17.5%
Solvency Ratio	242%	35%	207%	224%	17%	207%

Figures in Rs. Cr.

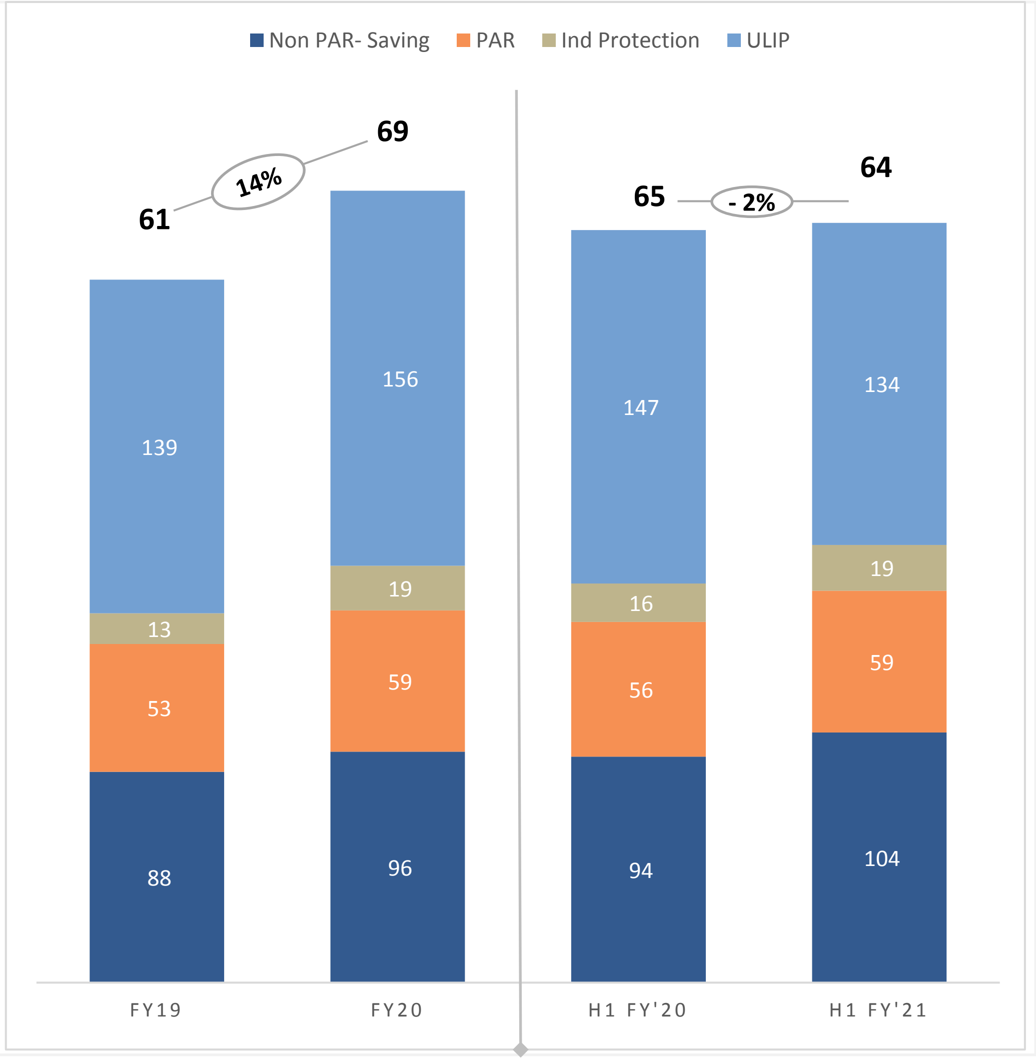
^Arrow represents growth in Operating RoEV

Performance update- H1’FY21

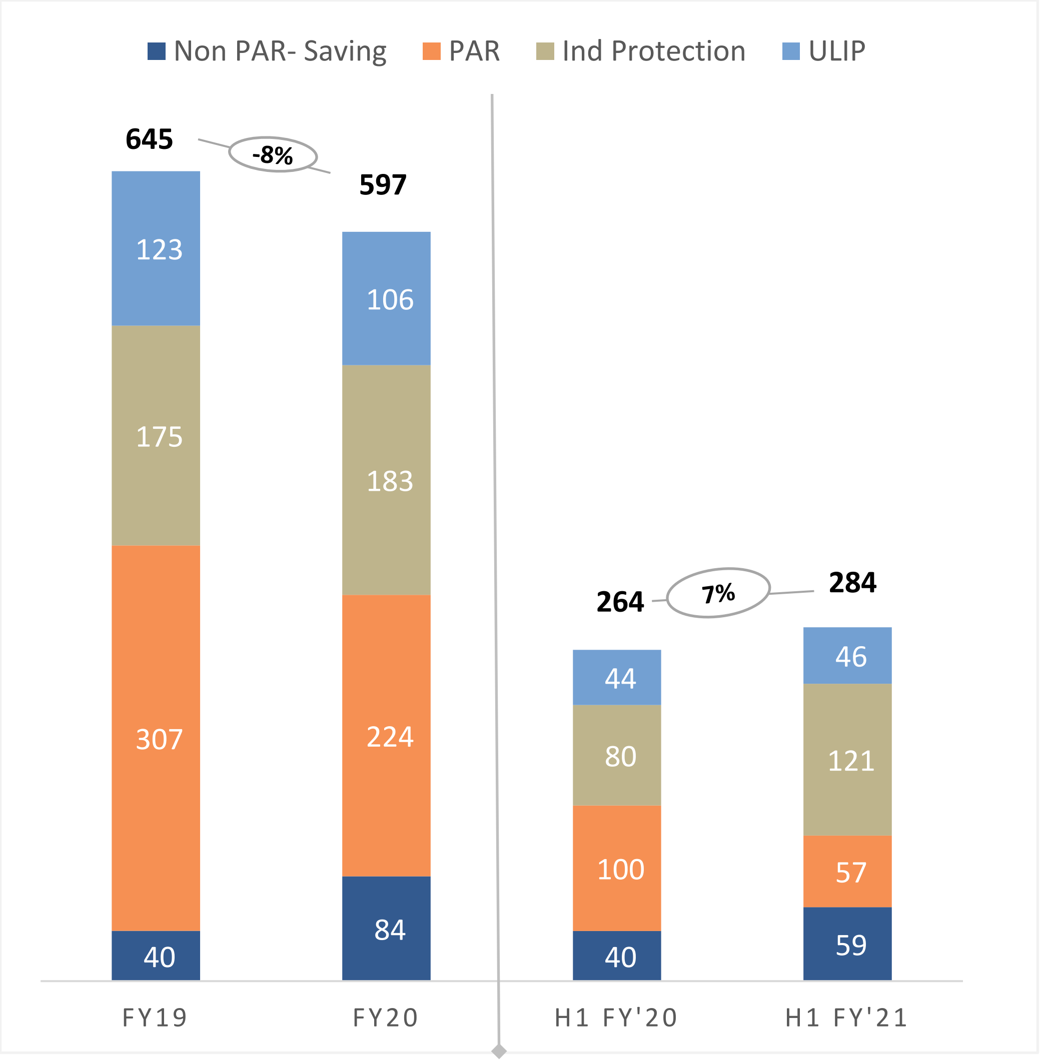
Key Business Drivers	Unit	Quarter Ended		Q-o-Q Growth	Period Ended		Y-o-Y Growth
		Sep’19	Sep’20		Sep’19	Sep’20	
a) Individual APE	Rs. Crore	1,038	1,144	10%	1,717	1,804	5%
b) Gross written premium income	Rs. Crore	**3,781**	**4,532**	20%	**6,432**	**7,283**	13%
First year premium	Rs. Crore	1,053	1,127	7%	1,699	1,749	3%
Renewal premium	Rs. Crore	2,401	2,937	22%	4,141	4,789	16%
Single premium	Rs. Crore	328	468	43%	592	746	26%
c) Shareholder Profit (Post Tax)	Rs. Crore	86	26	-70%	154	197	28%
d) Policy Holder Expense to Gross Premium	%	15.2%	14.9%	29 bps	16.7%	15.4%	122 bps
e) Share Capital	Rs. Crore				1,919	1,919	0%
f) Individual Policies in force	No. Lacs				43.04	44.55	4%
g) Sum insured in force	Rs. Crore				825,875	1,098,156	33%
h) Grievance Ratio	Per Ten thousand				65	31	-52%

Protection – Expansion in both case size and number of policies sold

Case Size (INR'000)



NoPs (INR'000)



Definitions of the EV and VNB

Market consistent methodology

- The EV and VNB have been determined using a market consistent methodology which differs from the traditional EV approach in respect of the way in which allowance for the risks in the business is made.
- For the market consistent methodology, an explicit allowance for the risks is made through the estimation of the Time Value of Financial Options and Guarantees (TVFOG), Cost of Residual Non-Hedgeable Risks (CRNHR) and Frictional Cost (FC) whereas for the traditional EV approach, the allowance for the risk is made through the Risk Discount Rate (RDR).

Components of EV

The EV is calculated to be the sum of:

- Net Asset value (NAV) or Net Worth: It represents the market value of assets attributable to shareholders and is calculated as the adjusted net worth of the company (being the net shareholders' funds as shown in the audited financial statements adjusted to allow for all shareholder assets on a market value basis, net of tax).
- Value of In-force (VIF): This component represents the Present Value of Future expected post-tax Profits (PVFP) attributable to shareholders from the in-force business as at the valuation date, after deducting allowances for TVFOG, CRNHR and FC. Thus, VIF = PVFP – TVFOG – CRNHR – FC.

Covered Business

- All business of Max Life is covered in the assessment except one-year renewable group term business and group fund business which are excluded due to their immateriality to the overall EV.

Components of VIF (1/2)

Present Value of Future Profits (PVFP)

- Best estimate cash flows are projected and discounted at risk free investment returns.
- PVFP for all lines of business except participating business is derived as the present value of post-tax shareholder profits from the in-force covered business.
- PVFP for participating business is derived as the present value of shareholder transfers arising from the policyholder bonuses *plus* one-tenth of the present value of future transfers to the participating fund estate and one-tenth of the participating fund estate as at the valuation date.
- Appropriate allowance for mark-to-market adjustments to policyholders' assets (net of tax) have been made in PVFP calculations to ensure that the market value of assets is taken into account.
- PVFP is also adjusted for the cost of derivative arrangements in place as at the valuation date.

Cost of Residual Non-Hedgeable Risks (CRNHR)

- The CRNHR is calculated based on a cost of capital approach as the discounted value of an annual charge applied to the projected risk bearing capital for all non-hedgeable risks.
- The risk bearing capital has been calculated based on 99.5 percentile stress events for all non-hedgeable risks over a one-year time horizon. The cost of capital charge applied is 4% per annum. The approach adopted is approximate.
- The stress factors applied in calculating the projected risk capital in the future are based on the latest EU Solvency II directives recalibrated for Indian and Company specific conditions.

Components of VIF (2/2)

Time Value Of Options and Guarantees (TVFOG)

- The TVFOG for participating business is calculated using stochastic simulations which are based on 5,000 stochastic scenarios.
- Given that the shareholder payout is likely to be symmetrical for guaranteed non-participating products in both positive and negative scenarios, the TVFOG for these products is taken as zero.
- The cost associated with investment guarantees in the interest sensitive life non-participating products are allowed for in the PVFP calculation and hence an explicit TVFOG allowance has not been calculated.
- For all unit-linked products with investment guarantees, extra statutory reserves have been kept for which no release has been taken in PVFP and hence an explicit TVFOG allowance has not been calculated.

Frictional Cost (FC)

- The FC is calculated as the discounted value of tax on investment returns and dealing costs on assets backing the required capital over the lifetime of the in-force business. Required capital has been set at 170% of the Required Solvency Margin (RSM) which is the internal target level of capital, which is higher than the regulatory minimum requirement of 150%.
- While calculating the FC, the required capital for non-participating products is funded from the shareholders' fund and is not lowered by other sources of funding available such as the excess capital in the participating business (i.e. participating fund estate).

Key Assumptions for the EV and VNB (1/2)

Economic Assumptions

- The EV is calculated using risk free (government bond) spot rate yield curve taken from FBIL[1] as at 30th September 2020. The VNB is calculated using the beginning of respective quarter's risk free yield curve (i.e. 31st March 2020, 30th June 2020 respectively).
- No allowance has been made for liquidity premium because of lack of credible information on liquidity spreads in the Indian market.
- Samples from 30th September 2020 and 31st March 2020 spot rate yield curves used are:

Year	1	2	3	4	5	10	15	20	25	30	40
Sep-20	3.84%	4.35%	4.90%	5.22%	5.61%	6.14%	6.71%	6.99%	6.94%	7.09%	6.94%
Mar-20	4.82%	5.16%	5.40%	5.72%	6.24%	6.95%	6.97%	6.81%	6.95%	6.68%	6.93%
Change	-0.98%	-0.81%	-0.50%	-0.51%	-0.63%	-0.81%	-0.26%	0.18%	-0.01%	0.40%	0.01%

Demographic Assumptions

The lapse and mortality assumptions are approved by Board committee and are set by product line and distribution channel on a best estimate basis, based on the following principles:

- Assumptions are based on last one year experience and expectations of future experience given the likely impact of current and proposed management actions on such assumptions.
- Aims to avoid arbitrary changes, discontinuities and volatility where it can be justified.
- Aims to exclude the impacts of non-recurring factors.

[1] Financial Benchmark India Pvt. Ltd.

Key Assumptions for the EV and VNB (2/2)

Expense and Inflation

- Maintenance expenses are based on the recent expense studies performed internally by the Company. The VIF is reduced for the value of any maintenance expense overrun in the future. The overrun represents the excess maintenance expenses expected to be incurred by the Company over the expense loadings assumed in the calculation of PVFP.
- Future CSR related expenses have been taken to be 2% of post tax (risk adjusted) profits emerging each year.
- Expenses denominated in fixed rupee terms are inflated at 6.0% per annum.
- The commission rates are based on the actual commission payable, if any.

Tax

- The Corporate tax rate is the effective tax rate, post allowing for exemption available on dividend income. Tax rate is nil for pension business.
- For participating business, the transfers to shareholders resulting from surplus distribution are not taxed as tax is assumed to be deducted before surplus is distributed to policyholders and shareholders.
- Goods and Service tax is assumed to be 18%.
- The mark to market adjustments are also adjusted for tax.