Embedded Value – FY 16

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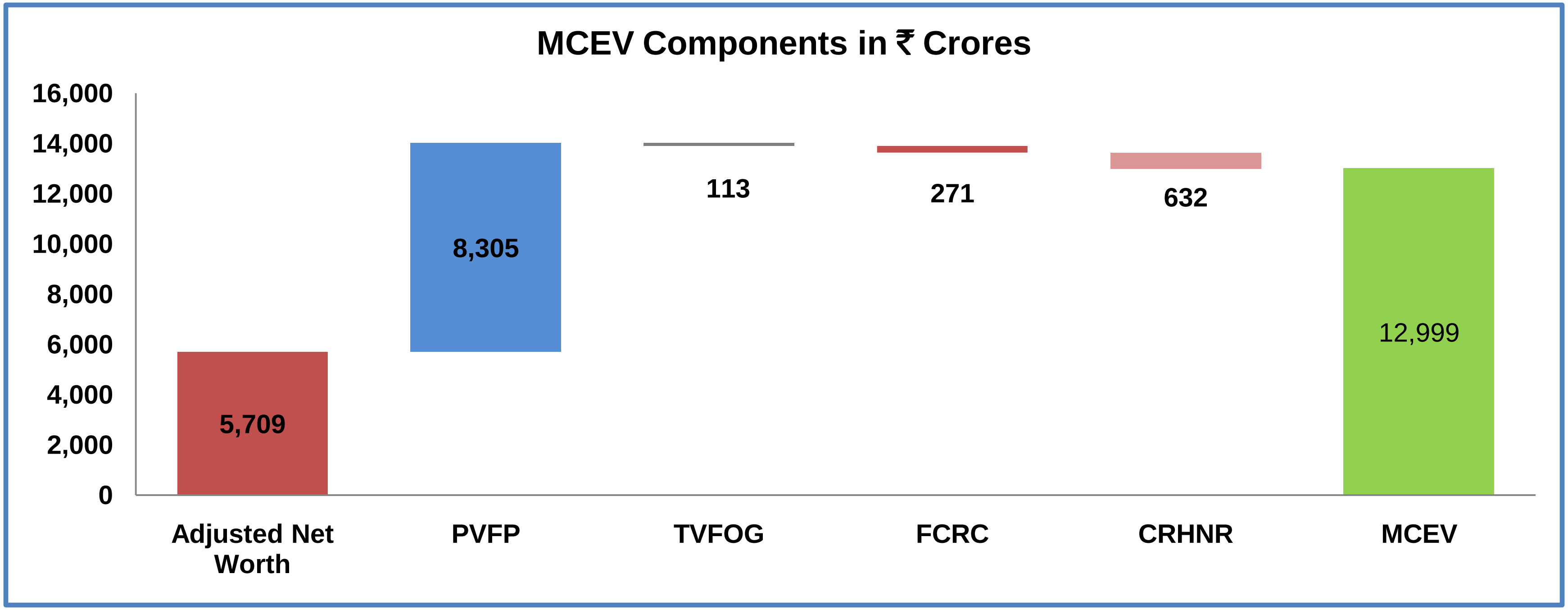
Market Consistent Embedded Value – FY 16



Notes:

1. The results stated above are not audited nor have they been subjected to any external review. They are based on the assumptions and estimates of the internal management of the company

2. PVFP – Present Value of Future Profits; TVFOG - Time Value of Financial Options and Guarantees; FC – Frictional Cost; CNHR – Cost of Non Hedgeable Risk; VIF – Value of InForce business

3. Detailed explanation of components provided in the Appendix

New Business Value – FY 16

₹ Crores

Particulars	As on 31st March 2016
Annualized Premium Equivalent (APE) for the Year	4,939
New Business Value based on medium term acquisition expense assumption	792
New Business margin on the above basis	16%
New Business Value based on current level of acquisition expenses	699
New Business margin on the above basis	14.2%

Notes:
1. APE and Margins are estimated taking into account all business of the company, individual and group
2. Maintenance expense assumptions used in the calculations are derived from the latest experience of the company based on the most recent annual expense analysis. No allowance has been made for any future productivity improvement
3. Acquisition expense assumption used for the purpose of New Business value have been taken at two levels; (a) at the current level based on the most recent annual analysis of expenses (b) at a level projected to be achieved in 4 to 5 years from now (called the medium term basis)
4. The New Business Value (NBV) and the New Business Margins are estimated reflecting each of the above two situations
5. Detailed explanation of components provided in the Appendix

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Appendix 1 : MCEV methodology and approach

The Embedded Value in the Life Insurance context is a realistic measure of the Shareholders' interest in the covered business of the company. The calculation of Embedded Value of all existing business and the New Business Value of the New Business has been carried out using a Market Consistent Embedded Value (MCEV) approach.

This approach differs from the traditional approach in the manner in which allowance is made for the risks in the covered business. In the MCEV approach, explicit allowance is made for each risk / business while in the traditional approach such allowance is made through an increase in the Risk Discount Rate

Components of MCEV are

1. **Adjusted Net Worth**: This is the market value of the assets attributable to the shareholders in excess of liabilities

2. **Value of in-force (VIF):** This is the present value of distributable future profits after tax arising from the covered the business, attributable to the shareholders. In MCEV, the future profits are projected using best estimate, entity specific non-economic assumptions and market consistent economic assumptions (PVFP). No allowance is made for future New Business. The PVFP amount is adjusted for non-hedgeable risk, frictional cost of required capital and the time value of options and guarantees

Value of in-force – It is derived as

Present value of future profits ("PVFP") less
Time Value of Financial Options and Guarantees ("TVFOG") less
Frictional Costs of Required Capital ("FCRC") less
Cost of non hedgeable risk ("CNHR")

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

Present Value of distributable future Profits arising from the in force covered business (PVFP): Cash flows from the in force business is projected on the company's best estimate view of persistency, mortality/morbidity and expense. Future investment return and the discount rates are made equal to the risk free rate (Govt. Bond yield curve) as at the valuation date.

Time Value of Financial Options and Guarantees (TVFOG): The PVFP calculation is based on a single (Base) economic scenario which represents the intrinsic value and does not effectively estimate the asymmetry in the cash flows which financial options and guarantees in the products entail. Stochastic techniques are employed in order to estimate the time value of the options and guarantees.

For SBI Life, large part of this cost is associated with guarantees in the Group Savings products and to a certain extent in some ULIP products.

Frictional Cost of Required Capital (FCRC): This is the additional taxation and investment management cost incurred by the shareholders, for holding assets backing the required capital within the company rather than directly in the market. This cost is explicitly deducted from the PVFP.

The Required Capital is set equal to the amount of the shareholders' attributable assets required to back the Indian Regulatory Solvency requirements.

Cost of Residual Non-Hedgeable Risk (CRNHR): An explicit deduction is made from the PVFP to allow for the non-hedgeable risks of the business not already allowed for in the TVFOG or PVFP.

A 'cost of capital' approach has been adopted to derive the CRNHR. An annual charge is applied to the projected risk bearing capital for all the non-hedgeable risk, which is then discounted. A single average capital charge is calculated across all non-hedgeable risks in a business segment.

The underlying risk capital has been calculated consistent with a 99.5 percentile stress events over a 1 year time horizon. The necessary stress events are broadly aligned to the EU Solvency II framework with a few adjustments necessitated by the variation in local conditions.

The initial risk capital so determined is projected using an appropriate risk driver.

Appendix 3 : Key assumptions underlying MCEV and NBP

Economic Assumptions:
Projected investment return and discount rates are set equal to the risk free rate (Govt. Bond yield curve) at the valuation date.
No allowance has been taken for illiquidity premium.
Rate for Cost of Capital charge: 5.5%, estimated by an approximate CAPM methodology.

Expense:
Expense assumptions are based on analysis done internally, including the allocation and apportionment of expenses to various business segments etc. Expenses are assumed to inflate at the rate of 5.5% p.a.

Persistency:
These are based on recent internal investigation and expectations of future experience. They are set by product lines and duration. Lapse, surrenders, paid ups are analysed separately.

Mortality / Morbidity:
Assumptions are derived from internal investigation, set by product lines and based on past experience and expected future experience.

Tax:
Current company taxation rates are taken in the computation. No allowance is however made for future change in taxation.

Disclaimer

The Embedded Value and Value of New Business margin has been prepared internally by the Company, has not been reviewed or audited by an independent actuary, has not been subjected to any audit procedures and may not conform to the review standards as set out in Actuarial Standards in India. The assumptions, estimates and judgments used in the calculation are evaluated internally and represent the best estimates based on the Company's experience and knowledge of the relevant facts and circumstances. While the management believes such assumptions, estimates and judgments to be reasonable, actual results reflected inter alia in the audited embedded value statements of the Company could differ from those contained herein.

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