

INVESTMENT OBJECTIVES AND VISION

(A) Investment Objectives:

The investment objectives of the Company are to maximize the risk adjusted returns and ensure reasonable liquidity at all times. Management of the investment portfolio is a crucial function as investment risk and returns, inter alia, determine the ability of the Company to competitively price its products, ensure solvency at all times and earn the expected profitability. The investment policy outlined in this document seeks to set the direction and philosophy for the Company's investment operations. The Policy outlined below conforms to the IRDA Investment Regulations and the Insurance Act. The Policy covers investment parameters, exposure norms and other relevant factors that will assist in taking prudent investment decisions. The Policy framework also takes into account asset liability management, market risks, portfolio duration, liquidity considerations, and credit risk. To summarize the investment policy aims to achieve the following Investment Objectives:

- a) To acquire and maintain quality assets that will meet the liabilities accepted by the Company;
- b) To be able to meet the reasonable expectations of the policyholders taking into account the safety of their funds with optimum Return;
- c) To adhere to all Regulatory provisions;
- d) To conduct all the related activities in a cost effective and efficient manner; and
- e) To achieve performance in line with benchmarks identified for the different investment portfolios.

The Company has also defined the Investment Objectives for each Fund separately, on the basis of aforesaid broader Investment objectives.

(B) Investment Vision:

"To invest the funds on the prudent principles of Safety, Liquidity & Returns, with an overall vision of meeting reasonable expectations of policy holders".

Source: SBI Life Investment Policy

Major Economic Indicators



















Economic Indicators

Particulars	31-Jul-14	30-Jun-14	Change (%)	31-Mar-14	Change (%)
₹/\$	60.56	60.19	🚩 -0.61%	59.91	🚩 -1.08%
Forex Res.(Bn- 1 Wk Lag)	\$ 320.56	\$ 287.96	🟢 11.32%	\$ 298.64	🟢 7.34%
Oil Price (\$/Barrel)	\$ 106.22	\$ 112.40	🚩 -5.50%	\$ 108.01	🚩 -1.66%
Gold(₹ /10gm)	27,835	28,095	🚩 -0.93%	28,470	🚩 -2.23%
FII inflows (Net) - Crs (₹)					
Equity (monthly)	13,121	10,732	🟢 22.26%	21,752	🚩 -39.68%
Debt (monthly)	22,299	18,558	🟢 20.16%	9,884	🟢 125.61%

Indices











Particulars	31-Jul-14	30-Jun-14	Change (%)	31-Mar-14	Change (%)
BSE Sensex	25,894.97	25,413.78	🟢 1.89%	22,386.27	🟢 15.67%
S&P CNX Nifty	7,721.30	7,611.35	🟢 1.44%	6,704.20	🟢 15.17%
Dow Jones Industrial Avg	16,563.30	16,826.60	🚩 -1.56%	16,457.66	🟢 0.64%
FTSE 100	6,730.11	6,743.94	🚩 -0.21%	6,598.40	🟢 2.00%
Hang Seng Index	24,756.85	23,190.72	🟢 6.75%	22,151.06	🟢 11.76%
Nikkei 225	15,620.77	15,162.10	🟢 3.03%	14,827.83	🟢 5.35%
B S E Healthcare Index	12,341.28	11,462.23	🟢 7.67%	10,083.63	🟢 22.39%
B S E FMCG Index	7,169.75	6,676.19	🟢 7.39%	6,971.02	🟢 2.85%
B S E Information Technology Index	9,742.34	9,346.10	🟢 4.24%	8,789.38	🟢 10.84%
B S E Auto Index	15,490.71	15,249.29	🟢 1.58%	13,280.27	🟢 16.64%
B S E Bankex	17,485.61	17,475.08	🟢 0.06%	14,572.46	🟢 19.99%
B S E Metal Index	13,064.27	13,099.95	🚩 -0.27%	10,059.10	🟢 29.88%
B S E Oil & Gas Index	10,749.83	11,150.89	🚩 -3.60%	9,458.72	🟢 13.65%
B S E Power Index	2,133.55	2,318.72	🚩 -7.99%	1,724.50	🟢 23.72%
B S E Realty Index	1,893.03	2,077.13	🚩 -8.86%	1,468.40	🟢 28.92%
B S E Capital Goods Index	14,651.63	16,200.21	🚩 -9.56%	12,011.23	🟢 21.98%




Primary Key Rates

Particulars	31-Jul-14	30-Jun-14	Change (%)	31-Mar-14	Change (%)
Repo Rate*	8.00%	8.00%	 0.00%	8.00%	 0.00%
Reverse Repo Rate*	7.00%	7.00%	 0.00%	7.00%	 0.00%
CRR#	4.00%	4.00%	 0.00%	4.00%	 0.00%
SLR	22.50%	22.50%	 0.00%	23.00%	 -2.17%
Call money rate	8.15%	8.00%	 1.88%	8.95%	 -8.94%
Current Inflation Rate (WPI)	5.40%	6.02%	 -10.30%	4.68%	 15.38%
Current Inflation Rate (CPI)	7.30%	8.28%	 -11.84%	8.11%	 -9.99%
IIP (WPI) % y-o-y (April)	4.70%	3.40%	 38.24%	0.10%	 4600.00%
AAA spread (bps)	30.00	22.00	 36.36%	60.00	 -50.00%

	2011-12	2012-13	2013-14	Q4 FY14
Real GDP %	6.70%	4.50%	4.70%	4.60%

Interest Rates (FIMMDA)

Particulars	31-Jul-14	30-Jun-14	Change (%)	31-Mar-14	Change (%)
90 days T - Bill	8.60%	8.55%	 0.48%	8.55%	 0.57%
364 days T - Bill	8.68%	8.66%	 0.25%	8.70%	 -0.30%
5 Years G - Sec (Annualized)	8.63%	8.81%	 -2.02%	9.06%	 -4.68%
10 Years G - Sec (Annualized)	8.91%	8.93%	 -0.29%	9.00%	 -0.99%
30 Years G - Sec (Annualized)	8.92%	8.97%	 -0.61%	9.26%	 -3.76%

-  No change
-  Negative change
-  Positive change

* w e f Jan 28, 2014

w e f Feb 09, 2013

CPI – Consumer Price Index

WPI – Wholesale Price Index

IIP – Index of Industrial Production

Data Sources

NSE

BSE

RBI

FIMMDA

Bloomberg & Reuters

DEBT MARKET REVIEW AND OUTLOOK

Market Review

Budgeting the Yields

The rain Gods heeds our request as deficiency of June is made good in July. Mr. Arun Jaitley presented his maiden budget speech, first by a non congress Finance Minister in a decade. The big bang of the month was the entry of a new 10 year Gsec at 8.40% even while the existing 10 year yields remained at close to 8.70%. The budget, put forth on 10th of July, presents a daunting task for the Finance Minister as it maintains contour of revenue and expenditures like the interim budget while changing the finer details to some extent. The headline fiscal deficit number remains the same as interim budget, at 4.1% of GDP (Gross Domestic Product). The revenue and total expenditures both go up at 18.5% and 13% respectively vs the last years' revised estimates (RE). The gross borrowing is at INR 6 trillion and the net borrowing is limited to the INR 4,59,000 crores against the previous year net borrowing of INR 4,67,000 crores. The crude oil has shown a steady correction from the start of month at \$113 to \$107 as we end July. The rupee has remained under pressure despite the increase in FII Gsec limits by USD 5 billion. This increased limits is under the overall Gsec cap of USD 30 billion and is switched out of SWF (Sovereign Wealth Funds, which typically are long term funds) limits to be added to the FII Limits. The markets remain cautious and the new 10 year Gsec traded 10 bps higher as they factor in the daunting task of meeting the budget targets, the implications of reducing QE (Quantitative Easing) and probability of US yields moving up as growth returns.

RBI announced the bi-monthly policy on 5th August and kept the repo rate unchanged at 8%, reverse repo at 7% and CRR (Cash Reserve Ratio) at 4% while reducing the SLR (Statutory Liquidity Ratio) and HTM (Held To Maturity) by 50 bps to 22% and 24% respectively. The Governor indicated that the upside risk to the 8% inflation target in the year end are more neutral than in June review. He also added that the focus now should be on achieving the 6% CPI target in FY16. The reduction in SLR in the consecutive 2 policy announcements has made the market feel that this might continue even going ahead. The new 10 year yield has risen to 8.60%.

Instrument	Mar '14	June '14	July '14	M-O-M Change	Change (YTD)
10 Yr Gsec	8.80%	8.74%	8.72%	-0.02%	-0.08%
30 Yr Gsec	9.10%	8.75%	8.73%	-0.02%	-0.37%
3 Yr AAA Bond	9.40%	9.10%	9.20%	0.10%	-0.20%
5 Yr AAA Bond	9.52%	9.20%	9.27%	0.07%	-0.25%
10 Yr AAA Bond	9.57%	9.15%	9.25%	0.10%	-0.32%
364 Days T-bill	8.70%	8.65%	8.65%	0.00%	-0.05%
91 Days T-bill	8.85%	8.60%	8.60%	0.00%	-0.25%
1Yr Certificate of Deposit	9.20%	8.90%	9.00%	0.10%	-0.20%
Credit spreads bps	57	22	34	12	-23
Crude \$/barrel	108	113	106	-7	-2

Key Budget Highlights

- Personal Income-tax exemption limit raised by INR 50,000 that is, from INR 2 lakh to INR.2.5 lakh in the case of individual taxpayers, below the age of 60 years.
- The 80C exemption limit increased to 1.5 lakh and so is the investment limit in PPF
- Increased FDI in Insurance and Defense sector was announced.
- GST to be implemented in FY16
- Fiscal deficit to be at 4.1% of GDP for FY15

Budget Summary

₹ in Crs.

Particulars	Revised Estimates	Vote on Account	Final Budget
	2013-2014 (RE)	2014-2015	2014-2015
Revenues	1,029,252	1,167,131	1,189,258
% over prev year	17.28	13.4	15.55
Tax Revenue	836,026	986,417	977,258
% over prev year	12.94	17.99	16.89
Non Tax Revenue	193,226	180,714	212,000
% over prev year	40.67	-6.48	9.72
Non Debt Capital Receipts	36,643	67,452	73,950
% over prev year	-13.08	84.08	101.81
Total Receipts	1,065,895	1,234,583	1,263,208
% over prev year	15.89	15.83	18.51
Non Plan Expenditure	1,114,902	1,207,892	1,219,892
% over prev year	11.85	8.34	9.42
On revenue account	1,027,688	1,107,781	1,114,609
% over prev year	12.4	7.79	8.46
Of which Interest Payment	380,066	427,011	427,011
On Capital Account	87,214	100,111	105,283
% over prev year	5.79	14.79	20.72
Plan Expenditure	475,532	555,322	575,000
% over prev year	14.97	16.78	20.92
Total Expenditure	1,590,434	1,763,214	1,794,892
% over prev year	12.77	10.86	12.86
Fiscal Deficit (Expense - Receipt)	524,539	528,631	531,684
Nominal GDP	11,300,000	12,814,200	12,814,200
Fiscal Deficit %	4.64%	4.13%	4.15%
Borrowing to meet fiscal deficit	467,385	457,266	459,907
Redemptions	90,616	140,000	140,000
Gross Borrowing	558,001	597,266	599,907

Macro Indicators:

The PMI (Purchasing Managers Index) numbers for July 14, released on Aug 1, points that the recovery seen in the previous month may not be as transient as it seemed. The overall manufacturing PMI came in at 53 against the previous number of 51.5. Of this, the output number saw inching up to 54.9 (good 2.5 points over previous month) and even better was the new orders index which jumped 3 points to 55.9 This indicates that the earlier fears of a higher number because of increase in durable goods (led by auto orders in lieu of the expiring excise benefit expiring on 30th June) may be getting quashed. The worrying part of the numbers being the narrowing of the output price and the input costs which could mean more narrowing of margins and lead indicator of coming inflation.

The June trade deficit widened to USD 11.8 billion. The exports increased by 10% and imports went up by ~ 8%. The WPI came in at 5.4% and the headline CPI came in at 7.3%. The core CPI sequential trend was also lower while the IIP came in at 4.7% for May over previous year while on a sequential basis grew by 0.2%

Around the World:

The Federal Reserve Bank (Central Bank USA) in its July review reduced the bond buying program by further USD 10 billion to USD 25 billion a month. This would mean that the QE should end by the year end. The second quarter GDP growth for USA came in at 4% (annualized) against the negative number seen in last quarter. A better growth number and an unemployment rate of 6% means that the Federal Reserve Bank could start thinking about raising the short end rates sooner than expected. The implication of a rate hike needs to be seen on the EM assets as the memories of a Federal Reserve Bank taper talks in Last July is fresh in recall. India is better poised to absorb the shock, from such rate hike in USA, then in July 2013 with stronger rupee, bigger forex reserve and the new stable Government exuding confidence for the global investor. As India gets more Equity inflows on the growth prospects vis-à-vis the other EM (Emerging Markets), the demand for the Bonds needs to be seen as the interest rate differential narrows between India and USA.

The Iraq Government covered some ground against the ISIS (Islamic State in Iraq and Syria) group to claw back the control in major city like Tikrit. The month also celebrated the auspicious Ramadan which kept the lids on the tension. The crude has thus come off its high and is now trending at \$107 per barrel.

Debt Outlook:

Our view on markets remains tilted towards bullishness with a hint of caution. RBI conducted its bi-monthly policy review on Aug 5th and kept rates unchanged also citing that the risks to achieving 8% CPI target by Jan 2015 are more at balance than at the June policy review. This portends well for debt markets for two reasons viz. 1) RBI is committed to achieving lower inflation and this always brings yields down when market witnesses a lower degradation of wealth through inflation and 2) RBI is more confident of achieving this target than ever before in the last 6 months. Lower trajectory of core inflation and the commitment of the government to bring down fiscal deficit below 4.1%, act as positive drivers for the market. Having said that if RBI continues to cut SLR requirements of banks like the way it did at the August policy from 22.5% to 22% of NDTL (Net Demand and Time Liability), then the supply overhang of Gsecs poses a threat. Faster than expected disinflation, improvement of monsoon and a potential hike in FII debt limits could all cushion markets against hardening pressure on yields. We expect interest rates to come down structurally from current levels, and our target for the 10 year G-sec benchmark is between 8.25% and 8.5% by March 2015. This has been revised upwards from our earlier estimate of 8-8.25% due to rate cut expectations being pushed further in 2015.

Equity Outlook

After giving a return of near to 40% since August, 2013, indices have now started to react. Sensex gave a return of 1.89% during the month beating returns posed by its western developed nations like the UKX (Index London) and the Dow Jones (Index New York). Markets in Asia though gave better returns. Hong Kong was up 6.75% during the month. Gold and Oil was down 3.3% and 5.6% during the month & going by the decline in Oil prices, markets should have bounced, however tension prevailing in Iraq, Gaza and Ukraine must have prevented it from moving beyond 1.9%.

Indices have also reacted after formation of new government, announcement of budget as these events are now being behind us. Markets have started to get headwinds on interest rate hike in US and shift in flows towards other economies - China.

New initiative taken by the government immediately after swearing in include starting of New Development Bank by BRIC's to be run initially by India. This bank would have an initial capital of USD 50 billion.

Budget announced by the Finance Minister addressed most the issues that market wanted the government to do. Key highlights include target fiscal deficit of 3% in 2016, more disposable income in the hands of individuals, relaxation of CRR, SLR and Priority Sector Lending for infrastructure loans above 7 years, proposal to increase FDI in insurance, attempt to put an end to GST debate, increase in taxes on distribution of



dividends on schemes floated by mutual funds in debt and increase in excise duty on cigarettes. Cabinet has approved changes in labor laws in favor of manufacturing which sends positive signals to the market.

Core growth for the month of June came as a pleasant surprise at 7.3%. For the same period HSBC PMI came up at 54.4%. IIP too was good. For the month of May, IIP was at 4.7%.

There were some negative developments too. Last month saw Government reaching 56% of its FY15 fiscal deficit target. Rainfall was 25% below average during the period referred above.

We would continue to hold a cautious view on the back of results season not throwing positive surprises and monsoon though showing signs of reviving yet falling short of requirement. This is the period of execution. New government has a daunting task ahead and markets may fall short of hearing good news on a continual basis. With developments in international side also showing some disturbing trend, markets are expected to trade sideways and may not give any big returns in the near term.

RISK MANAGEMENT PRACTICE FOR UNIT LINKED PORTFOLIOS.

Company's investment exposure to any sector is as per limits prescribed by IRDA under Investment Regulations and the same is monitored on a daily basis. In addition, the company also follows stringent asset allocation metrics as per policy features communicated to the policy holder and the same is adhered to while making investment decisions. In case of guaranteed products, investments are made in suitable asset classes taking into account market and credit risk, and liquidity of the investment to ensure fulfillment of guarantee promised. There is an efficient stop loss policy in place, which is triggered every time the stock price breaches a specific threshold level. This warrants review of investment decision and establishes the rationale for continuance or discontinuance of the specific investment thus preventing sharp fall in value of our holdings and prolonged underperformance of the portfolio. Significant importance is given to asset liability management and accordingly, portfolios are reviewed on a monthly basis to ensure adherence

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