Embedded Value Report

The Indian Embedded Value (IEV) as on March 31, 2024 have been prepared by the Company and the methodology, assumptions and the results have been reviewed by Willis Towers Watson Actuarial Advisory LLP.

1. Basis of Preparation

Embedded Value is a measure of the consolidated value of shareholders' interest in the covered life insurance business. The embedded value has been determined by following a market consistent methodology, as per the requirements and principles set forth by the IAI within the APS10.

2. Key Highlights

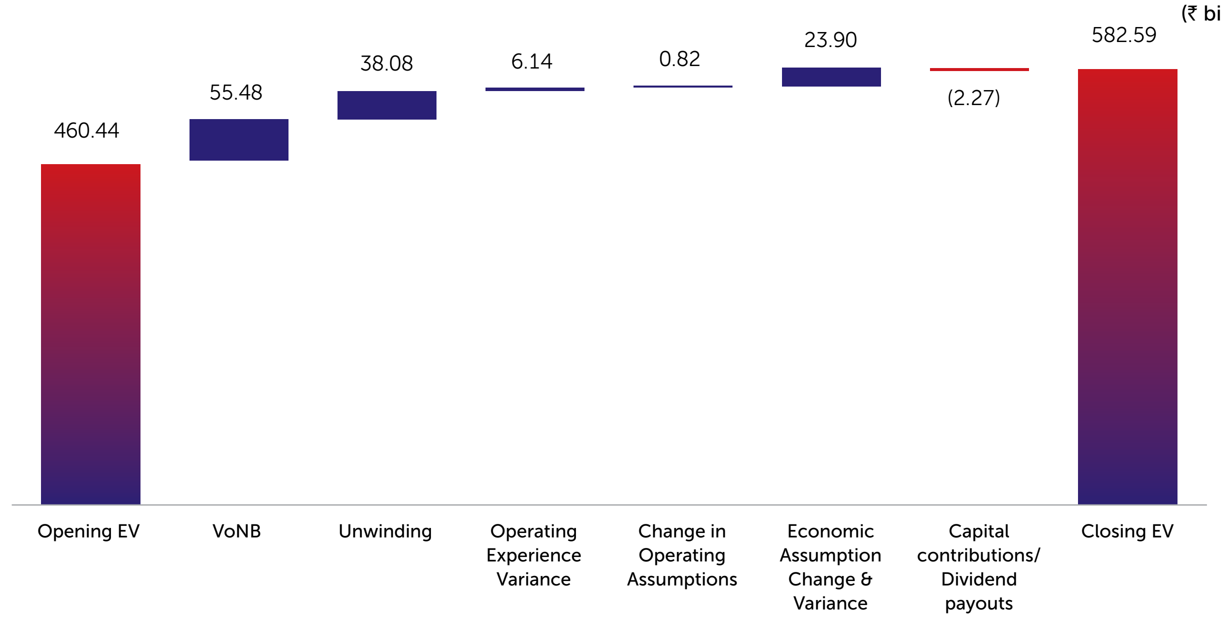
2.1 Value of New Business (VoNB)

(₹ billion)

Details	FY 2024	FY 2023	Growth / Change
Annualised Premium Equivalent (APE) for the year	197.23	168.15	17.3%
Value of New Business (VoNB)	55.48	50.67	9.5%
New Business Margin	28.1%	30.1%	-200 bps
Embedded Value	582.59	460.44	26.5%

2.2 Analysis of Movement in IEV for FY 2024

(₹ billion)



(₹ billion)

IEV movement Analysis - Components	FY 2024	FY 2023
Opening IEV	460.44	396.25
Expected return on existing business	38.08	34.09
Operating Assumptions Change	0.82	0.70
VoNB added during the period	55.48	50.67
Operating Experience Variance - Persistency	0.59	0.45
Operating Experience Variance - Expenses	0.75	1.13
Operating Experience Variance - Mortality and Morbidity	4.61	3.22
Operating Experience Variance - Others	0.19	0.25
IEV Operating Earnings (EVOP)	100.51	90.52
Economic Assumption Changes and Investment Variances	23.90	(24.18)
IEV Total Earnings	124.41	66.34
Capital Contributions / Dividend payouts	(2.27)	(2.14)
Closing IEV	582.59	460.44

2.3 Sensitivity Analysis

Scenario	Change in IEV%	Change in VoNB%
Reference Rate +100 bps	(3.7%)	(0.8%)
Reference Rate -100 bps	3.4%	0.7%
Decrease in Equity Value 10%	(1.8%)	(0.2%)
Proportionate change in lapse rate +10%	(1.0%)	(3.6%)
Proportionate change in lapse rate -10%	1.1%	3.8%
Mortality / Morbidity +10%	(1.7%)	(4.9%)
Mortality / Morbidity -10%	1.7%	4.9%
Maintenance Expense +10%	(0.6%)	(1.8%)
Maintenance Expense -10%	0.6%	1.8%
Mass Lapse for ULIPs in the year after the surrender penalty period of 25% *	(2.3%)	(6.4%)
Mass Lapse for ULIPs in the year after the surrender penalty period of 50% *	(4.9%)	(14.0%)
Tax Rate Change to 25% on Normal Tax basis	(5.2%)	(8.4%)

** Mass lapse sensitivity (of 25% or 50%) for ULIP business is applied at the end of surrender penalty period as defined by APS 10.*

3. Methodology and Approach

IEV is calculated as the sum of Adjusted Net Worth (ANW) and Value of In-Force business (VIF).

ANW comprises Free Surplus (FS) and Required Capital (RC).

VIF consists of the following components:

Present Value of Future Profits (PVFP) expected to emerge from the covered business;

Less Frictional Cost of Capital (FCoC);

Less Time Value of Financial Options and Guarantees (TVFOG);

Less Cost of Residual Non-Hedgeable Risks (CRNHR).

3.1 Components of Adjusted Net Worth (ANW):

This is the value of all assets allocated to the covered business that are not required to back the liabilities of the covered business.

Free Surplus (FS): Free Surplus represents the market value of any assets in excess of liabilities and Required Capital which is potentially distributable to shareholders immediately. Free Surplus has been calculated as the excess of ANW over the Required Capital.

Required Capital (RC): Required Capital is the amount of assets attributed to the covered business over and above that required to back liabilities for the covered business whose distribution to shareholders is restricted. Required Capital has been set at 180% of the Required Solvency Margin (RSM), based on the Company's internal capital target. RSM has been projected by applying the solvency margin factors prescribed by the IRDAI appropriate to each line of business.

3.2 Components of Value of Inforce (VIF) business:

Present Value of Future Profits (PVFP): PVFP represents the present value of future post taxation shareholder cash-flows projected to emerge from the in-force covered business and the assets backing liabilities of the in-force covered business. The PVFP incorporates an allowance for the intrinsic value of financial options and guarantees.

Frictional Cost of Capital (FCoC): FCoC reflects the impact of taxation on investment returns and investment costs on the assets backing required capital. FCoC has been estimated as the present value of:

- tax on investment earnings on assets backing the required capital; and
- investment expenses (after tax) incurred in holding such assets.

Required Capital is assumed to be maintained throughout the lifetime of the underlying liabilities, at the internal target level of 180% of the RSM, calculated based on the prescribed factors.

Time Value of Financial Options and Guarantees (TVFOG): Allowance is made for asymmetric impact on shareholder value due to any financial options and guarantees within the covered business.

Cost of Residual Non-Hedgeable Risks (CRNHR): A bottom-up assessment of risks has been undertaken to allow for the cost of residual non-hedgeable risks not already allowed for elsewhere. CRNHR has been estimated using a cost of capital approach.

3.3 Assumptions used for IEV Calculation:

The assumptions for mortality, morbidity and persistency are set based on own experience of the Company.

The expense assumptions used in the IEV (Indian Embedded Value) estimation represent the unit costs arising out of actual experience of the FY 2024 and makes no allowance for any productivity gains/ cost efficiencies beyond what is achieved up to the valuation date. Allowance has been made for future inflation on the expenses.

The rate of income tax applied to the surplus is considered at 14.56% along with allowance for dividends declared.

The zero coupon government bond yield curve published by FBIL was used as the assumed reference rates.