

Public disclosure requirement (June 30, 2010)

Data

Policy data is maintained on the following administration systems,

| | |
|--|---|
| | |
| Life Asia | Individual retail products including some individual annuities |
| | Group bancassurance products |
| WEGA | Group Gratuity |
| | Group Term Insurance |
| | Superannuation |
| | Employer Deposit Linked Insurance (EDLI) |
| Leave Encashment Spreadsheet | Leave Encashment – 6 group schemes |
| Compulsory Annuity Management System (CAMS) | Group annuities |
| Annuity Spreadsheet | Individual tied annuities |
| Comprehensive Reinsurance Management System (CRMS) | Administration, premium calculations for life, group and health products |
| Claims Automated Processing System (CAPS) | Health and non-par Health claims, standalone CI, crisis cover |
| Claims Management System (CMS) | Managing death claims and living benefits for individual policies (not health claims) |

The key considerations from the statutory valuation perspective are to ensure the completeness and accuracy of data.

There are a series of validation checks based on product rules built into the business systems of the four outsourced data centres for retail business. Data is then uploaded into the Life Asia system for policy issue. Besides this, the Actuarial Department carries out its own checks to be reasonably certain that the data is complete and accurate.

Treatment of Valuation Parameters

The liability valuation calculations have been carried out using actuarial software called "Prophet". The assumptions for each plan are fed into a spreadsheet. This is independently checked. After this verification, a DCS (Data Conversion System) Program is used to make a "Prophet" readable table from the spreadsheet. Uploading of assumption into "Prophet" is therefore automated. Monthly cash flows are then projected by Prophet to determine the reserves using the specific characteristics of each policy such as age at entry, sum assured, term, etc. The calculations are exact and no approximations are made.

The valuation parameters were calculated as detailed here.

- Age at Entry was taken as age nearer birthday at the commencement of date of policy. This was extracted from LifeAsia.

- Valuation Age was calculated by summing Age nearer birthday at entry with curtate duration, i.e. the age would change only on policy anniversaries.
- Premium Paying Term under the plan is extracted from Life Asia.
- Maturity Date is obtained by summing up the date of commencement and policy term extracted from LifeAsia.
- Period from Valuation date to maturity is calculated in Prophet as the difference between the maturity date and the valuation date

Treatment of Future Premiums

Incidence of premium income

The premiums are assumed to be received when due.

For linked business, premium income is recognized when the associated units are allocated. Fees on linked policies are recognized when due. For the purpose of projections in the actuarial models, future premiums are assumed to be received when due.

Premiums payable otherwise than annually

As premiums are taken to be received when due, no adjustment is required for non-annual plans.

Valuation Method – Non Linked Business

There have been no changes in the methods for the valuation as on June 30, 2010 as compared to March 31, 2010. The valuation methods are described below.

Methods adopted in the determination of mathematical reserves

The prescribed method of valuation is the Gross Premium Valuation. The reserve held represents the net present value of benefits and expenses less premiums. Following is the broad basis of the valuation.

- The cash flows are projected assuming zero lapses.
- The reserves are calculated on a per policy basis.
- Any negative reserves are zeroised, so that a policy is not treated as an asset.
- The minimum value of reserves is the Guaranteed Surrender Value if applicable or zero.

Valuation parameters are set prudently and include MAD in accordance to GN7.

The tables below summarise the specific methods used to value liabilities under each type of product.

Non Participating Business

| Contract Status | Category | Applicability | Method |
|--------------------------|-------------------------|--|--|
| In Force | Individual Products | Base Plan | Higher of the Gross Premium Reserve or Surrender Value (if applicable) or zero, with allowance for future bonus and associated tax and transfers to shareholders under participating plans |
| | Group Products- Non Par | Riders – Excluding Accident Benefit Riders Riders – Accident Benefit Riders All group risk products and riders | Higher of Gross Premium Reserve and Unearned Premium Reserve on a policy basis Unearned Premium Reserve Higher of Gross Premium Reserve or Surrender Value for Mortgage and Auto Loans dependent term assurances and Unearned Premium Reserve for others. (The single premium MRTA has a surrender value.) |
| | Group Products- Par | | Contributions plus declared bonus and Unexpired risk premium on mortality |
| Reduced Paid up | Individual Products | Base Plan | Higher of Gross Premium Reserve or Surrender Value on reduced benefit with no future premiums payable |
| Lapsed / Reduced Paid up | Individual Products | Reinstatement Reserve | Reinstatement rate is applied to the difference between the reserve assuming contract is In force and the outstanding premiums plus the paid-up reserve, subject to a floor of zero. |

Participating Business

For participating business, the methods applicable are the same as above but with allowance for future bonus and associated tax and transfers to shareholders funds.

For participating plans, the liability is set to prospective Bonus Reserve Valuation (BRV). But the BRV is equated to the Asset Share by solving for supportable bonus. The future reversionary bonuses are set so as to exhaust the asset share. Thus the reserve includes a provision for future bonuses at a rate consistent with the valuation rate of interest along with

a provision for associated tax and transfer to shareholders. These bonus rates are set keeping in mind the PRE.

Bonus rates

Details of bonuses declared in the previous financial years are given below:

| | Par Assurance | Par Pension |
|------------|---------------|-------------|
| FY 2006-07 | 3.25% | 3.25% |
| FY 2007-08 | 3.00% | 3.00% |
| FY 2008-09 | 2.25% | 2.5% |

Bonus rates for the current year

A reversionary bonus of 2.5% and a special one time reversionary bonus of 1.5% for par life products (including Mass product) and a reversionary bonus of 2.75% and a special one time reversionary bonus of 1.25% for the pension par products for the year 2009-10 has been proposed and approved by the Board of Directors.. The one time special reversionary bonus will be in excess of the Asset share and would be funded from the Funds for Future Appropriation in the respective funds.

A Terminal Bonus of 15% and 20% of the sum assured for all the contracts under the participating pension product Forever Life Regular Premium Series-I(UIN 105N001V01) and Series II (UIN 105N001V02) respectively and 25% of the sum assured for all contracts under the participating pension product Forever Life Single Premium (UIN 105N002V01) and 15% of the sum assured for the participating assurance product Save ‘n’ Protect Series I (UIN 105N004V01) has been proposed and approved by the Board of Directors.

Besides this a reversionary bonus of 8.5% and a one-time special reversionary bonus of 2.5% for the group participating product Group Superannuation Suraksha (UIN105N089V01), and 7.5% and a one-time special reversionary bonus of 3.5% for the group participating product Group Gratuity Suraksha (UIN105N090V01) has been proposed and approved by the Board of Directors.

Policyholder Reasonable Expectations (PRE)

Due consideration is given to the reasonable expectations of policyholders when making a distribution of surplus. “Reasonable” is not explicitly defined in the regulations and is left to the interpretation of the Appointed Actuary. Our interpretation of “Reasonable” refers to a well-informed, financially literate policyholder.

PRE can be formed with respect to many areas including the following.

- Nature of Bonus
- Reversionary (added each year) vs. Terminal (added only on claim)
- Type of Reversionary bonus
- Simple vs. compound vs. super compound
- Level of bonus
- Level of guarantees implicit in the declaration

The main drivers of PRE are currently our point of sale material, the level of guaranteed addition rates, the bonus rates declared last year and past communication with

policyholders. We interpret our point of sale material as having created the expectation that bonuses would be compound reversionary.

PRE ultimately needs to be set to the principle that each customer should receive a fair return on the premiums he has paid, allowing for the insurance protection and guarantees provided over the duration of his policy. The basic reference point for this, and therefore PRE, will be the asset share under the policy.

Policyholders enjoy the benefits and protection of both guarantees and smoothing for which they may be charged appropriately. However, the Company will not seek to make any systematic profit through these charges over generations of policies.

PRE will be shaped and actively managed through appropriate communication to the policyholder. The tools that will be used for this purpose are Sales Brochures, Policy Illustrations and annual communications of bonus rates.

Early duration surrender benefits will be established at a level that enables the Company to recover the cost of acquisition and capital support provided subject to the minimum surrender values written into the contracts.

Tax Rate

Tax is provided on surplus emerging under participating products. The current rate of tax is 14.1625%, which is a base rate of 12.50%, a surcharge of 10% and education cess of 3%.

Valuation Method – Linked Business

There have been no changes in the methods for the valuation as on June 30, 2010 as compared to March 31, 2010. The valuation methods are described below.

Methods adopted in the determination of mathematical reserves

For linked business, unit liabilities are fully matched. A non-unit reserve is also held which includes provision for the cost of any guarantee.

Further details are given here.

Non Participating Unit Linked Business

| Contract Status | Category | Applicability | Method |
|--|--|---|---|
| In Force | Unit Reserves | Unit Fund | The unit reserve is number of units held by the policyholder multiplied by the NAV at the valuation date. |
| | Non-unit Reserves- except for Group Linked | Life Cover, Rider Benefits and Adequacy of charges to cover expenses | For base policy and associated mortality benefit we take the higher of the unearned risk benefit charges and all the projected cash flows allowing for zeroisation under all contracts at a policy level. For riders, where charges are taken by a deduction of units a UPR, in other cases higher of UPR or GPV |
| Reduced Paid up / Lapsed / Premium Holiday | Unit Reserves | Unit Fund | Paid up / Surrender Value to the credit of the policyholders |
| | | Reinstatement reserve | A reinstatement rate is applied to the difference between the full unit value and the paid up / surrender value. Full values of units of Premier Life and Elite pension are held as reserve. |
| | Non-unit Reserves | Life Cover and Rider Benefits and adequacy of charges to cover expenses | Where benefit continues by cancellation of units, for mortality benefit the higher of the unearned risk benefit charges and the projected cash flows at a policy level. For riders, where charges are taken by a deduction of units a UPR, in other cases higher of UPR or GPV |
| | | Reinstatement reserve | Reinstatement rate is applied to the difference between the reserve assuming contract is in force and the outstanding premiums. |

| Contract Status | Category | Applicability | Method |
|---------------------|-------------------|-------------------------------------|---|
| Additional Reserves | Cost of Guarantee | Linked Plans with capital guarantee | <p>For guarantees on products other than Pinnacle, the gross cost of guarantee is computed based on principles of market consistency. The fund values are projected using risk neutral asset return scenarios and the payout on account of the guarantee is calculated for each simulation. The present value of the payouts for each simulation is calculated by discounting using the forward rates of that simulation. The average of the present value of payouts from the simulations is the gross cost of the guarantee.</p> <p>For Pinnacle there is no requirement for additional reserves on account of guarantee as the guarantee will be managed by following a Constant Proportion Portfolio Insurance strategy on the assets. The strategy dynamically allocates the investments between risky assets (equity) and risk free assets (debt), based on the performance of risky assets and yields available on risk free assets.</p> |
| Group Linked | Non Unit reserves | | No reserves are held on account of expenses as charges are currently higher than expenses- In case of mortality benefits Unexpired risk premium |

Valuation assumptions

There have been no changes in the assumptions for the valuation as on June 30, 2010 as compared to the assumptions as on March 31, 2010. Further details of the assumptions are given below.

Interest Rate

The valuation interest rates for the various lines of business along with the details of the previous valuation are set out below.

| Line of Business | Valuation rate | | Inflation rate | |
|------------------|----------------|---------------|----------------|---------------|
| | March 31, 2010 | June 30, 2010 | March 31, 2010 | June 30, 2010 |
| Par Assurance | 5.89% | No change | 4.30% | No change |
| Par Pension | 5.97% | | 4.30% | |
| Non Par | 5.84% | | 4.30% | |
| ULIP | 5.10% | | 4.30% | |
| Non Par Annuity | 6.23% | | 4.30% | |
| SP Bond | 6.78% | | 4.30% | |
| Health | 5.12% | | 4.30% | |
| Non Par Group | 6.28% | | 4.30% | |

For paid up policies in the non-par fund we use the non-par valuation discount rate.

Medical Inflation

As on March 31, 2010 the medical inflation was 14.30% and remains unchanged as on June 30, 2010.

Mortality rates for each product

The mortality assumptions for various products are given below.

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|---|---|------------------------------------|
| NonPar Assurance, Non Par Investment, Par Pension, Par Assurance except for Smart Kid | For ages less than equal to 30: 80% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females For ages greater than 30: 70% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females | No Change |
| Smart kid | For ages less than equal to 30: 100% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females For ages greater than 30: 90% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females | No Change |
| Linked Business (Assurance, Pension) | For ages less than equal to 30: 80% LIC 94-96 rated up by 1 year for | No Change |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|-----------------------|--|------------------------------------|
| other than Smart Kid | <p>males, rated down by 1 year for females</p> <p>For ages greater than 30: 70% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> | |
| Smart kid Unit Linked | <p>For ages less than equal to 30: 100% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>For ages greater than 30: 90% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> | No Change |
| Home Assure | 80%LIC 94-96 rated up by 1 year for males, rated down by 1 year for females | No Change |
| Credit Assure | <p>Base: 90% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>4 wheeler (Reducing Cover): 90% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>2 wheeler (Level Cover): 110% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>Personal Loan (Reducing and Level Cover): 135% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>Commercial Vehicle Loan (Reducing Cover): 100% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> <p>Education Loan (Level Cover): 100% of LIC 94-96 rated up by 1 year for males, rated down by 1 year for females</p> | No Change |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis | | | | | | | | | | |
|--|--|------------------------------------|------|------|-------|------|-------|------|-------|------|-------|-----------|
| Group Term | Unearned Premium | No Change | | | | | | | | | | |
| Rural products - Mitr, Suraksha (RP) and Suraksha (SP) | 330%of LIC 94-96 | No Change | | | | | | | | | | |
| Suraksha Kavach (Individual) | 330%of LIC 94-96 | No Change | | | | | | | | | | |
| Sarv Jan Suraksha | 330%of LIC 94-96 | No Change | | | | | | | | | | |
| Social Product – SurakshaKavach (Group) | Unearned Premium | No Change | | | | | | | | | | |
| Annuity | <p>Up to and including age 60: 40% LIC 96-98 for males, rated down by 4 years for females; with 2 year’s improvement applied.</p> <p>From age 61: 65% LIC 96-98 for males, rated down by 4 years for females; with 2 year’s improvement applied.</p> <p>The mortality improvement is set as</p> <table border="1"> <thead> <tr> <th>Age as on 1 April 2008</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>< 35</td> <td>4.50%</td> </tr> <tr> <td>< 55</td> <td>3.50%</td> </tr> <tr> <td>< 65</td> <td>2.00%</td> </tr> <tr> <td>≥ 65</td> <td>1.75%</td> </tr> </tbody> </table> <p>Mortality improvement factor would is applied based on annuitant’s age in 2007-08 and would include improvements since 2007-08 and would be fixed for life.</p> | Age as on 1 April 2008 | Rate | < 35 | 4.50% | < 55 | 3.50% | < 65 | 2.00% | ≥ 65 | 1.75% | No Change |
| Age as on 1 April 2008 | Rate | | | | | | | | | | | |
| < 35 | 4.50% | | | | | | | | | | | |
| < 55 | 3.50% | | | | | | | | | | | |
| < 65 | 2.00% | | | | | | | | | | | |
| ≥ 65 | 1.75% | | | | | | | | | | | |
| ADD and AD Riders | Unearned Premium Basis | No change | | | | | | | | | | |
| Level Term Rider | <p>For ages less than equal to 30: 80%LIC 94-96 rated up by 1 year for males, rated down by 1 year for females;</p> <p>For ages greater than 30: 70%LIC 94-96 rated up by 1 year for males, rated down by 1 year for females.</p> | No change | | | | | | | | | | |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|----------------------|---|------------------------------------|
| Income Benefit Rider | For ages less than equal to 30: 100% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females For ages greater than 30: 90% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females | No change |
| Crisis Cover | 80% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 70% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Cancer Care | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Cancer Care Plus (| 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Health Assure Plus | 80% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 70% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Health Assure | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Hospital Care | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and | No change |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|----------------------|--|------------------------------------|
| | down by 1 year for females | |
| Diabetes Assure | 230% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 220% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Diabetes Care | Base: LIC 94-96 rated up by 1 year for males, and down by 1 year for females up to age 30 Males 0 Class 140% Males 1 Class 175% Males 2 Class 230% Males 3 Class 285% Males 4 Class 370% Females 0 Class 150% Females 1 Class 190% Females 2 Class 245% Females 3 Class 330% Females 4 Class 415% Above form for ages above 30 but with a reduction in mortality corresponding to 10% of the LIC 94-96 table | No change |
| Diabetes Care Plus | Base: LIC 94-96 rated up by 1 year for males, and down by 1 year for females up to age 30 Males 0 Class 170% Males 1 Class 210% Males 2 Class 280% Males 3 Class 350% Males 4 Class 450% Females 0 Class 185% Females 1 Class 230% Females 2 Class 300% Females 3 Class 375% Females 4 Class 475% For ages above 30 a 10% reduction in mortality corresponding to 10% of the LIC 94-96 table | No change |
| Diabetes Care Active | 280%of LIC 94-96 rated up by 1 | |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|---|--|------------------------------------|
| | year for males and 300% of LIC 94-96 rated down by 1 year for females up to age 30 and for ages above 30 270% of LIC 94-96 rated up by 1 year for males and 290% of LIC 94-96 rated down by 1 year for females | No change |
| Death Benefit Rider | 280% of LIC 94-96 rated up by 1 year for males and 300% of LIC 94-96 rated down by 1 year for females up to age 30 and for ages above 30 270% of LIC 94-96 rated up by 1 year for males and 290% of LIC 94-96 rated down by 1 year for females | No change |
| Major Surgical Benefit rider | 80% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 70% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Critical Illness Accelerated and Standalone rider | Accelerated - Unearned Premium Standalone - 80% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 70% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| MediAssure | 80% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 70% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Health Saver (Linked product) | For ages less than equal to 30: 70% | No change |

| Plan | As at 31 March 2010 Valuation Basis | As at 30 June 2010 Valuation Basis |
|---------------------------|---|------------------------------------|
| | LIC 94-96 rated up by 1 year for males, rated down by 1 year for females. For ages greater than 30: 60% LIC 94-96 rated up by 1 year for males, rated down by 1 year for females | |
| Diabetes Rider | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Diabetes Rider (Modified) | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |
| Waiver of Premium Benefit | 70% of LIC 94-96 up to age 30 , rated up by 1 year for males, and down by 1 year for females and 60% of LIC 94-96 after age 30 , rated up by 1 year for males, and down by 1 year for females | No change |

IBNR

Late reported claims are analysed periodically and are allowed in the experience analysis for setting the valuation bases. However for one year renewable Group Term policies we hold an IBNR of 3.5 months of premium.

Expense Assumption

| Type of Expense (Rs) | March 31, 2010 | June 30, 2010 |
|---|----------------|---------------|
| Renewal Expense | | |
| Conventional Single premium, Credit Assure, Home Assure, Conventional paid up | 160 | No Change |

| Type of Expense (Rs) | March 31, 2010 | June 30, 2010 |
|--|---|---------------|
| Annuity | Annual annuity payment- 825 Semi annual payment- 825 Quarterly annuity payment- 859 Monthly annuity payment- 974 | No Change |
| Riders | 0 | No change |
| Mitr, Suraksha (SP, RP), Suraksha Kavach | 77 | No Change |
| Sarv Jan Suraksha | 52 | No Change |
| All other policies including paid up unit linked and single premium unit linked | 425 | No Change |
| Claim Expenses per Policy (Rs) | | |
| Cancer Care | 5,467 | No Change |
| Cancer Care Plus | 5,467 | No Change |
| Crisis Cover | 3,280 | No Change |
| Diabetes Care | 1,640 | No Change |
| Diabetes Care Plus | 1,640 | No Change |
| Diabetes Assure | 1,640 | No Change |
| Diabetes Care Active | 1,640 | No Change |
| Heath Assure | 3,280 | No Change |
| Heath Assure Plus | 3,280 | No Change |
| Hospital Care | 115p.a | No Change |
| Health Saver | 115p.a | No Change |
| MediAssure | 115p.a | No Change |
| Suraksha Kavach (SP) | 28 | No Change |
| Disability Claims | 104 | No Change |
| Screening Expense per policy (Rs) | | |
| Diabetes Care | 328 quarterly and 2,296 annually | No Change |
| Diabetes Care Plus | 328 quarterly and 2,296 annually | No Change |
| Diabetes Care Active | 328 quarterly and 2,296 annually | No Change |
| Cancer Care Plus | | |
| Males (20 to 50 yrs) | 364 | No Change |
| Males (above 51 yrs) | 1114 | No Change |
| Females (20 to 40 yrs) | 802 | No Change |
| Females (above 41 yrs) | 2177 | No Change |