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# Embedded value (EV)



❖ **Embedded Value (EV) of the business is calculate as the sum of two items:**

$$EV = VIF + ANW$$

## When

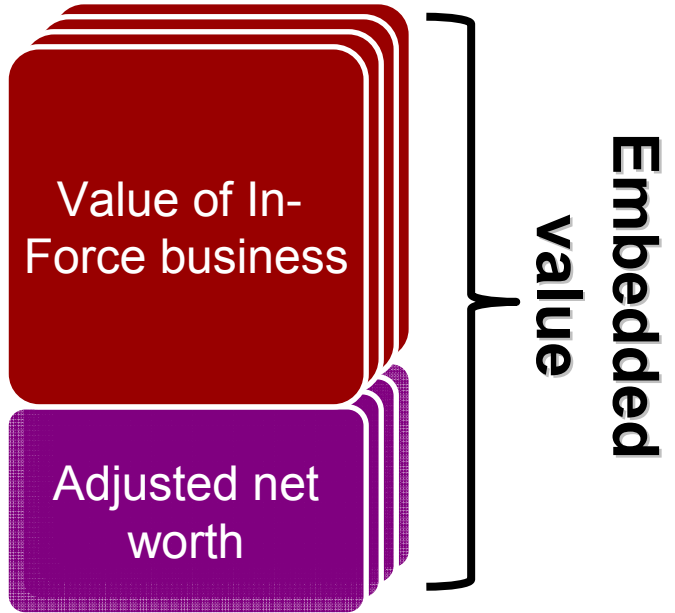
- VIF is the discounted Value of projected future distributable earnings of the business In-Force
- ANW is the Adjusted Net Worth or the excess of market value of assets over statutory liabilities.  
$$ANW = \text{Statutory assets} + \text{Market value adjustment} - \text{Statutory liabilities}$$



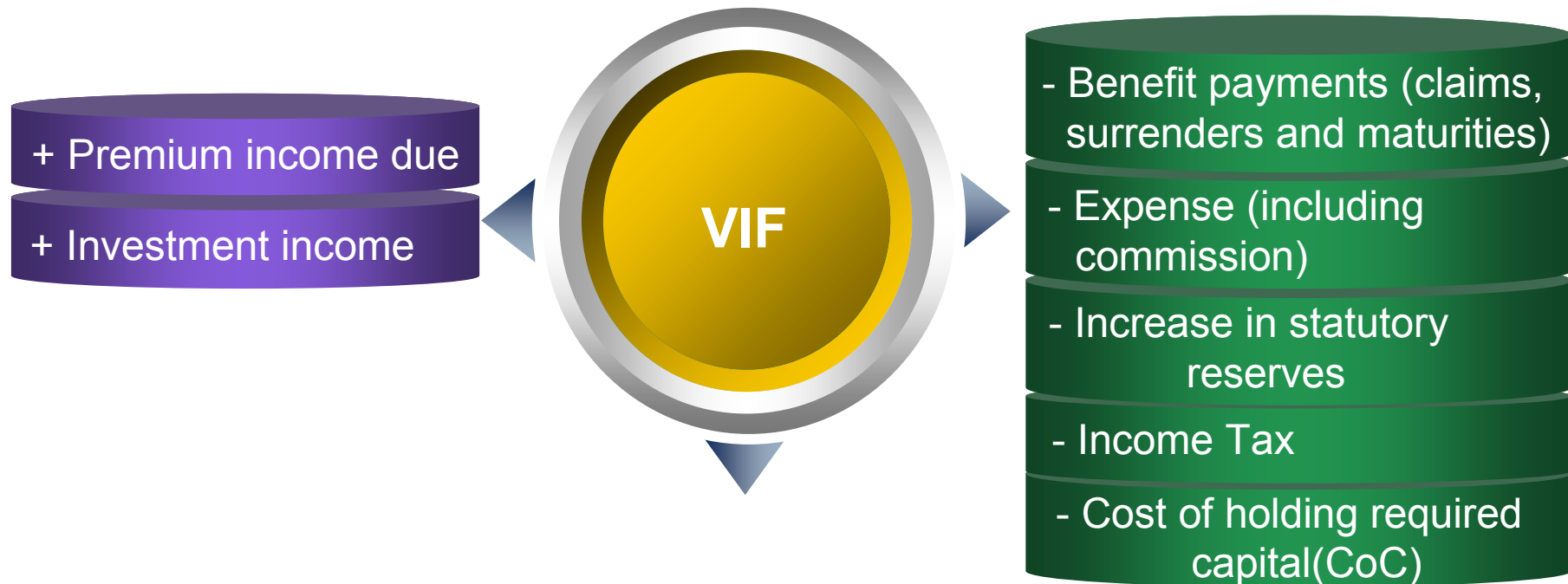
## Components of an Embedded value

Discounted Value of distributable earnings from In-Force business

Excess of market value of assets over statutory liabilities



**Embedded value = Value of In-Force business + Adjusted Net Worth**



Value of in-force covered business (VIF) is defined as the discounted value of projected future distributable earnings of the business in-force on the valuation date consists above part.



## ❖ **Cost of holding required capital**

**(CoC)** is the additional amount of capital above the statutory reserves, cannot be distributed to shareholders.



<b>Key assumptions</b>	
<b>1.</b>	<b>Risk discount rate</b> The discount rates are 9%, 10% and 11% have been assumed in each future year as the discount rate for the in-force life insurance business.
<b>2.</b>	<b>Investment returns</b> Future investment returns have been assumed to be 5% for investment fund.
<b>3.</b>	<b>Taxation</b> Income tax rate of 25% for year 2011-2012 and 30% for the following year onwards has been assumed.
<b>4.</b>	<b>Mortality</b> The experience mortality rates have been based on 30% of TMO97 table for male and female respectively for non annuitants.
<b>5.</b>	<b>Morbidity</b> Morbidity assumptions have been based on the Company's own pricing table.
<b>6.</b>	<b>Lapse Rate</b> Policy discontinuance rates have been based on the Company's recent experience studies.
<b>7.</b>	<b>Expenses</b> Expenses assumptions have been based on the Company's most recent expenses investigation.
<b>8.</b>	<b>COC 4% of Statutory Reserve</b>





### Component of Appraisal Value and Embedded Value (unit : MB)

Present Value of	December 31, 2010	December 31, 2009
Discount rate	10%	10%
Adjusted Net Worth	14,261	8,870
Present Value of future profits after tax	9,563	7,118
Cost of Capital	-1,990	-1,540
VIF after cost of capital	7,573	5,578
Embedded value of life insurance business	21,834	14,448
Value of one year's new business (VNB)		
Value of one year's new business	2,467	1,820
Cost of Capital	-345	-275
VNB after cost of capital	2,122	1,545



### Summary of Embedded Value and Value of New Business Results

Embedded Value as of 31 December 2010	Risk Discount Rate		
	9%	10%	11%
(in millions of Baht) Adjusted Net Worth("ANW")	14,261	14,261	14,261
Present Value of Future Profit ("PVFP")	12,581	12,023	11,519
Corporate Tax ("Tax")	2,568	2,460	2,363
Cost of Target Required Capital ("CoC")	1,789	1,990	2,166
Value of Inforce ("VIF")	8,224	7,573	6,990
<b>Embedded Value</b>	<b>22,486</b>	<b>21,834</b>	<b>21,251</b>

**Note:**

ANW is equal to the sum of:

- (i) Shareholder's net assets of BLA as measured on OIC statutory basis;
- (ii) Net of tax adjustment for the difference between market value of certain investment assets and the carrying value reported on an OIC statutory basis.





Value of One year New Business Sold in 2010	Risk Discount Rate		
	9%	10%	11%
(in millions of Baht)			
Present Value of Future Profit ("PVFP")	3,416	3,250	3,097
Corporate Tax ("Tax")	(820)	(783)	(748)
Cost of Target Required Capital ("CoC")	(314)	(345)	(371)
<b>Value of One year New Business</b>	<b>2,283</b>	<b>2,122</b>	<b>1,977</b>



EV per Share	Risk Discount Rate		
Investment Income	9%	10%	11%
4.75%	17.5	17.0	16.6
5.00%	18.7	18.2	17.7
5.25%	20.0	19.4	18.8

VNB per Share	Risk Discount Rate		
Investment Income	9%	10%	11%
4.75%	1.7	1.6	1.5
5.00%	1.9	1.8	1.6
5.25%	2.1	2.0	1.8



**Thank You !**