



Thai
Life
Insurance



Management Discussion
and Analysis (MD&A)

For The Quarter Ended
June 30, 2022

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to convey our management's perspective on our financial condition, results of operations and cash flow as of December 31, 2021, and June 30, 2022 and for the six-month period ended June 30, 2021 and 2022, as measured in accordance with TFRS and guidelines promulgated by the Federation of Accounting Professions.

The discussion and analysis below in conjunction with our unaudited interim financial statements, together with each of their related notes should be read.

Our historical results presented in this discussion and analysis do not necessarily indicate results expected for any future period. Although the following discussion is based on assumptions we consider reasonable, our actual results may differ materially from any forward-looking statements described or implied herein.

1. RESULTS OF OPERATION AND FINANCIAL POSITION

1.1 OVERVIEW

We are the largest domestically founded Thai life insurance brand based on total premium revenues for the six-month period ended June 30, 2021 and 2022, according to Thai Life Assurance Association. Our operation can trace its roots back more than 80 years. Founded in January 1942, we were the first life insurance company in Thailand owned and operated by Thai nationals. We have successfully developed the Thai Life brand into a brand that is well-regarded as one of the top insurance providers in Thailand, with a high level of brand recognition. The Thai Life brand symbolizes an optimistic partner for all with insightful expertise, passion for the good, realistic vision and dedication.

A summary of our operation results for the six-month period ended June 30, 2022, we recognized net profit of Baht 5,811.54 million with the significant items as listed below:

- Premium revenue generated from the new insurance policies was Baht 9,498.18 million increasing by Baht 2,301.72 million which accounted for 31.98% compared to the six-month period ended June 30, 2021.
- Gain on investments was Baht 2,680.68 million which was similar to the six-month period ended June 30, 2021.
- The expected credit loss of Baht 398.71 million was partially reversed to reflect the improvement in credit risk.
- There was an increase in claim payment for medical benefits from COVID-19 of Baht 855.9 million compared to the six-month period ended June 30, 2021.
- With the higher new business, we have incurred more initial loss from acquiring new insurance policies which further reduced our net profit compared to the six-month period ended June 30, 2021.

A summary of our financial position as at June 30, 2022, the key balances are as below:

- Investments in securities was Baht 481,119.55 million and shareholders' equity was Baht 76,365.57 million. The key change from the balances as at December 31, 2021 was due to the revaluation of investments which was in line with the unfavorable equity markets.

1.2 BASIS OF PRESENTATION

The condensed interim financial statements are presented in the same format as the annual financial statements together with notes to the interim financial statements on a condensed basis (“interim financial statements”) in accordance with Thai Accounting Standard (TAS) No. 34 Interim Financial Reporting and guidelines promulgated by the Federation of Accounting Professions. In addition, the interim financial statements are prepared in accordance with the Notification of the Office of Insurance Commission (OIC) regarding “Rules, Procedures, Conditions and Timing for the Preparation and Submission of the Financial Statements and Reporting on the Operations of Life Insurance Companies” B.E. 2562 (No. 2), dated 4 April 2019, which are effective for periods beginning on or after 1 January 2020.

The interim financial statements do not include all of the financial information required for full annual financial statements but focus on new activities, events and circumstances to avoid repetition of information previously reported. Accordingly, these interim financial statements should be read in conjunction with the financial statements of the Company for the year ended 31 December 2021.

1.3 USE OF JUDGEMENTS, ESTIMATES AND ACCOUNTING POLICIES

In preparing these interim financial statements, judgements and estimates are made by management in applying the Company's accounting policies. Actual results may differ from these estimates. The accounting policies, methods of computation and the key sources of estimation uncertainty were the same as those that described in the financial statements for the year ended 31 December 2021.

1.4 DESCRIPTION OF KEY LINE ITEMS

Gross written premiums

Gross written premiums represent all premium revenue received by us for a given period, without deduction for premiums ceded by us to reinsurers. Our gross written premiums include inward premiums from retrocession but exclude the investment portion of unit-linked products. We receive inward premiums from retrocession from a retrocedent, pursuant to arrangements which require us to be the retrocessionaire for a portion of the risks that such retrocedent reinsures.

Premiums ceded to reinsurers

Premiums ceded represent the portion of gross written premiums ceded to reinsurers, who share part of the insured risk that we have assumed under our insurance contracts.

A decrease (increase) in unearned premium reserves from previous year/period

A decrease (increase) in unearned premium reserves from a previous year/period reflects the year-to-year or period-to-period change to unearned premium reserves, which represent the total annual unexpired written premiums less the amount earned.

Fee and commission income

Fee and commission income comprises the fees we earn from our investment-linked contracts and commissions we derive from our reinsurers.

Net investment income

Net investment income comprises interest income and dividend income from associated companies, additional related parties and others, less investment expenses. Dividend income comes from our investments in equity securities and equity investment funds while interest income comes from our investments in fixed-income securities, loans and similar receivables. Investment expenses consist of specific business taxes (subjected to revenue earned from life insurance business such as interest, fee, and service incomes), investment fees paid for securities borrowing and lending, and credit support annex payables for derivatives transactions. We also allocate operating expenses in connection with our investment department, including expenses relating to personnel and premises, as part of our investment expenses.

Gains (loss) on investments

Gains (loss) on investments represent the returns earned when we sell an investment for more (less) than its purchase price.

Gain (loss) on fair value change

Gain (loss) on fair value change reflects the changes in fair value of our financial assets and financial liabilities over the course of a given period. It mainly includes the net profit and loss impact from changes in fair value of forward foreign exchange contracts used to manage foreign exchange risk where hedge accounting does not apply.

Share of profit (loss) of associate

Share of profit (loss) of associate relates to profits (loss) from our investments in associated companies.

Other income

Other income includes any gains or losses on the disposal of land, premises or equipment, as determined by comparing the carrying amount with the proceeds of the sale. It also includes revenues from other operating activities such as rental income and support service income, among others.

Long-term technical reserve increase from previous year/period

Long-term technical reserves are liabilities for insurance contractual benefits and claims that are expected to be incurred in the future. Long-term technical reserves are recorded when the premiums are recognized and are released when benefits and claims are incurred. We calculate long-term technical reserves using the net level premium valuation method. Each liability is measured using assumptions, including mortality, morbidity and discounted interest rates considered to be appropriate for the policies in force. For unit-linked contracts, unit reserves are determined based on the value of the underlying asset backing the units relating to the policies and non-unit reserves are calculated based on the unearned cost of insurance. A long-term technical reserve increase from a previous year/period reflects the year-to-year or period-to-period change to the amount of these reserves.

Benefits payments and insurance claims expenses

Benefits payments and insurance claims expenses primarily represent the costs we incur when settling claims for policy benefits and insurance claims, including payment at maturity, cash surrender, losses and adjustments, net of subrogation recoveries and changes in provision for short-term insurance claims. Benefits payments and insurance claims expenses also include certain personnel expenses, premises and equipment expenses, among other expenses.

Benefits payments and insurance claims expenses recovered from reinsurers

Benefits payments and insurance claims expenses recovered from reinsurers represent: (i) the monies we recover from reinsurers under our reinsurance agreements when we pay claims under our insurance contracts to policyholders; and (ii) profit share received from reinsurers. Profit share arises from profits reinsurers generate from the portfolio we seek to reinsure.

Commissions and brokerage expenses

Commissions and brokerage expenses represent the payments we make to agents and others for selling our policies and providing additional customer services, including collecting premiums from policyholders.

Other underwriting expenses

Other underwriting expenses primarily represent contributions paid to the life insurance fund but also include certain personnel expenses, premises and equipment expenses, among other expenses.

Operating expenses

Operating expenses include personnel expenses, premises and equipment expenses, advertising and promotion expenses, bank fees, consulting fees, and taxes and duties, among other expenses. These expenses also take into account any provision for or reversal of allowance for premiums due. Personnel expenses are our most significant operating expenses and include salaries, allowances, bonuses and other benefits.

Expected credit loss (reversal)

Expected credit loss is a probability-weighted estimate of credit losses measured using the present value of cash shortfalls we expect to incur (e.g. the difference between cash flows we are obligated to pay under a contract and the cash flows that we expect to receive), discounted at the effective interest rates of the financial assets.

Other expenses

Other expenses primarily comprise write-off expenses related to litigation, service expenses for policyholders, and miscellaneous expenses such as expenses for office materials and refreshments offered to customers at branches and customer service centers.

Income tax expense

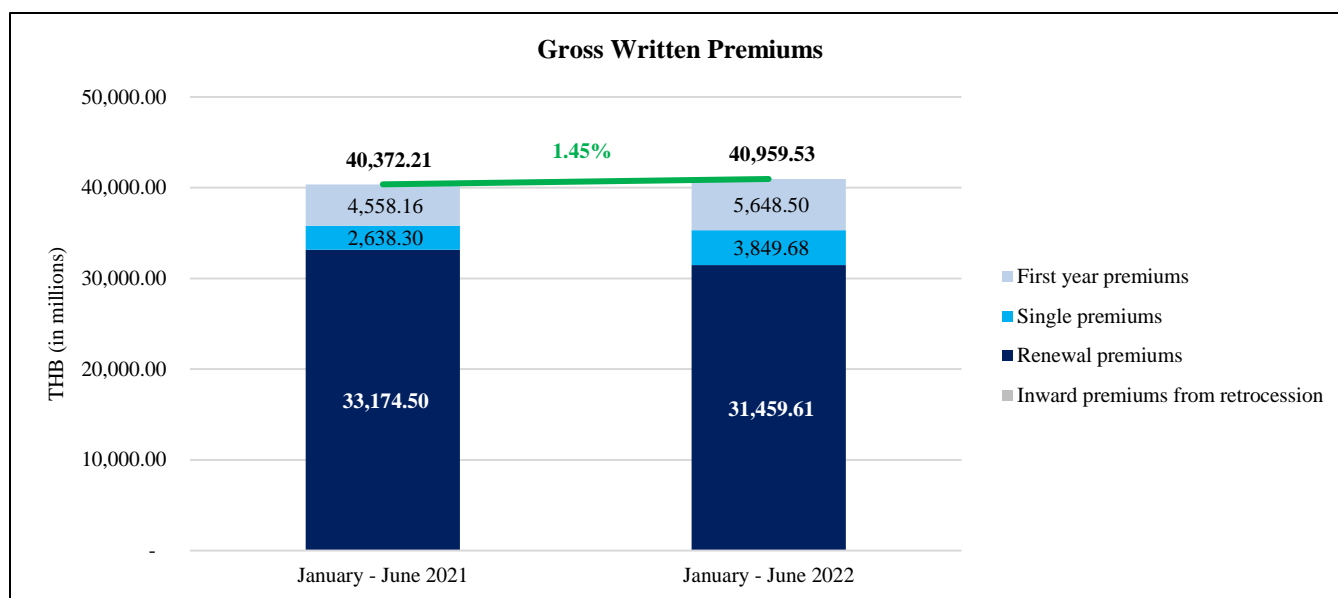
Income tax expense is the aggregate amount included in the determination of profit for a period with respect to current and deferred taxes. It uses the Thai corporation tax rate of 20% and is reconciled to account both for income and/or expenses not subject to tax as well as for adjustments for previous periods.

1.5 RESULTS OF OPERATIONS

1.5.1 Revenues

Gross written premiums

The graphic below illustrates the breakdown of our gross written premiums for each of the periods indicated.



Note: Inward premiums from retrocession for the six-month period ended June 30, 2021 and 2022 amounted to Baht 1.25 million and Baht 1.74 million, respectively. These amounts are not visible in the above graphic as they are insignificant.

	For the six-month period ended June 30,	
	2021	2022
	<i>THB (in millions)</i>	
Gross written premiums		
First year premiums	4,558.16	5,648.50
Single premiums	2,638.30	3,849.68
Renewal premiums	33,174.50	31,459.61
Total premium revenues	40,370.96	40,957.79
Inward premiums from retrocession	1.25	1.74
Gross written premiums	40,372.21	40,959.53

Gross written premiums increased by 1.45% to Baht 40,959.53 million in the six-month period ended June 30, 2022 from Baht 40,372.21 million in the six-month period ended June 30, 2021, primarily due to **increase in new business premium**, including higher first year premiums of Baht 1,090.34 million accounted for 23.92% and single premium of Baht 1,211.38 million accounted for 45.92% generated by agency channels and commercial bank. This increase was partially offset by the lower in renewal premiums from the fully paid, mature and lapse policies.

Premiums ceded to reinsurers

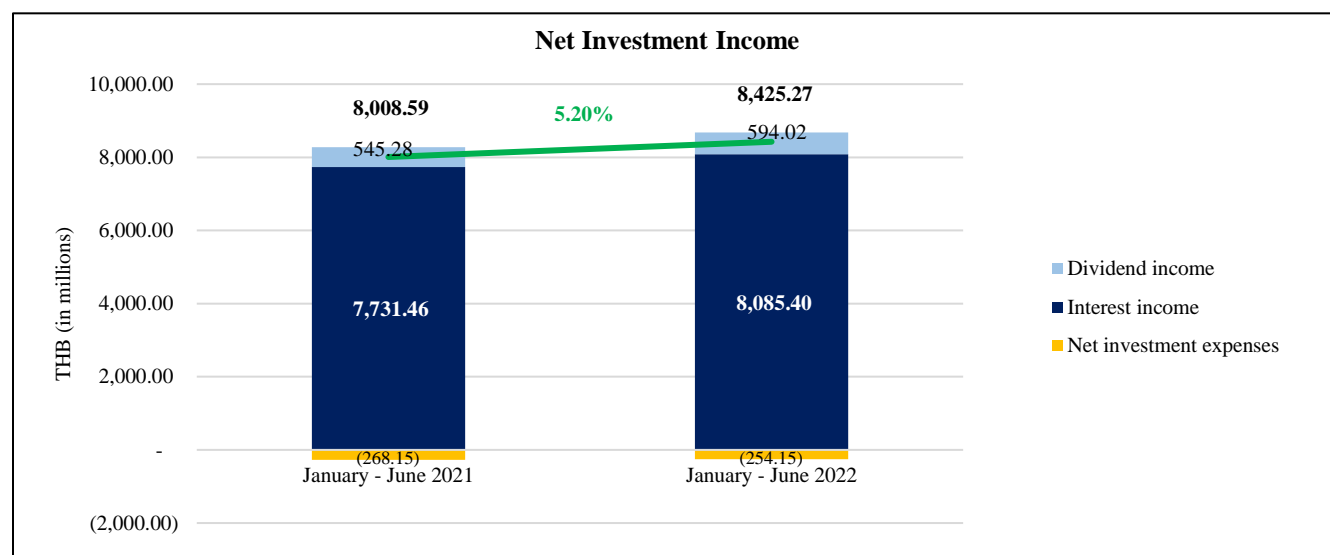
Premiums ceded to reinsurers increased by 27.75% to Baht 163.78 million for the six-month period ended June 30, 2022 from Baht 128.20 million for the six-month period ended June 30, 2021, as we entered into reinsurance arrangements for health riders.

Net premiums earned

As a result of the foregoing, net premiums earned increased by 1.28% to Baht 40,833.10 million for the six-month period ended June 30, 2022 from Baht 40,317.07 million for the six-month period ended June 30, 2021.

Net investment income

The graphic below sets forth the breakdown of our net investment income for each of the periods indicated.



Investment income, which comprises dividend and interest income (net of investment expenses), increased by 5.20% to Baht 8,425.27 million for the six-month period ended June 30, 2022 from Baht 8,008.59 million for the six-month period ended June 30, 2021. Investment income was 15.78% and 16.24% of total revenues for the six-month period ended June 30, 2021 and 2022, respectively.

Dividend income increased by 8.94% to Baht 594.02 million for the six-month period ended June 30, 2022 from Baht 545.28 million for the six-month period ended June 30, 2021, primarily due to an improved economic environment resulting in higher dividends received from our equity and unit investment portfolios.

Interest income increased by 4.58% to Baht 8,085.40 million for the six-month period ended June 30, 2022 from Baht 7,731.46 million for the six-month period ended June 30, 2021, primarily due to growth in our fixed income portfolio size.

Investment expenses decreased by 5.22% to Baht 254.15 million for the six-month period ended June 30, 2022 from Baht 268.15 million for the six-month period ended June 30, 2021, primarily due to a decrease in specific business taxes. We paid more specific business taxes in the six-month period ended June 30, 2021 as we sold foreclosed properties during that period while we did not sell any foreclosed properties in the six-month period ended June 30, 2022.

Gain on investments

Gain on investments was close to the same period of the previous year which was changed from Baht 2,673.46 million for the six-month period ended June 30, 2021 to Baht 2,680.68 million for the six-month period ended June 30, 2022.

Loss on fair value change

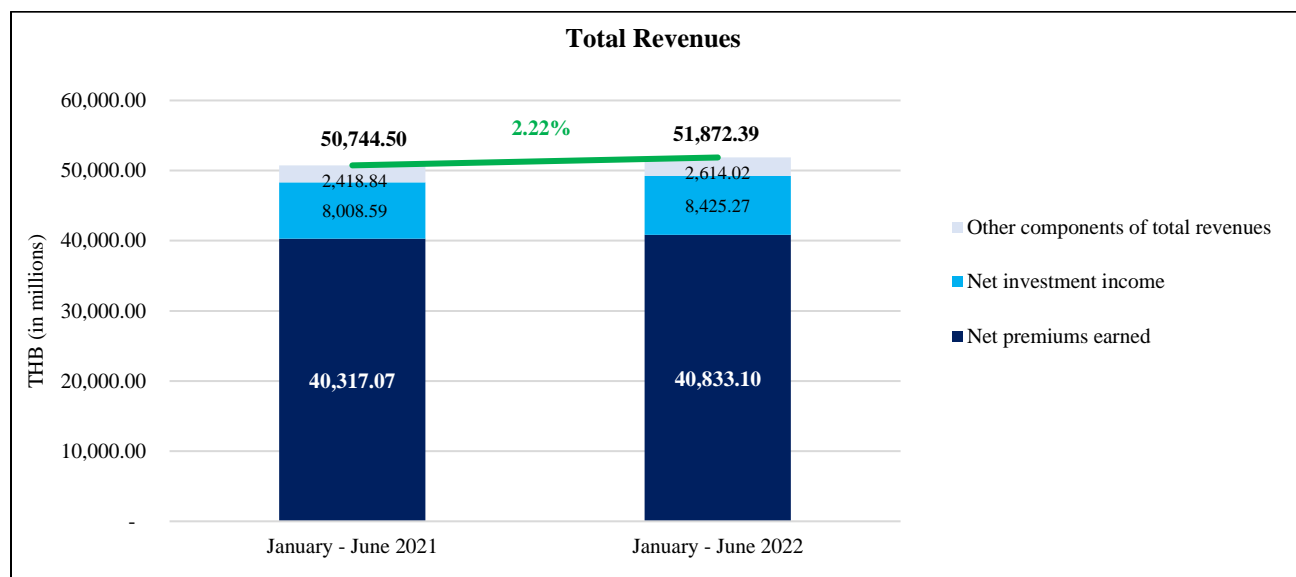
Loss on fair value change decreased by 39.76% to Baht 240.29 million for the six-month period ended June 30, 2022 from Baht 398.89 million for the six-month period ended June 30, 2021, primarily due to the weakening of Thai Baht which resulted in gain on foreign exchanges in relation to our foreign investments. Such gain was partially offset by loss on fair value change of derivatives.

Share of profit of associate

Share of profit of associate decreased by 73.64% to Baht 2.66 million for the six-month period ended June 30, 2022, from Baht 10.09 million for the six-month period ended June 30, 2021, primarily as CB Life recorded a life policy reserve increase from new policies and loss from foreign exchanges.

Total revenues

The graphic below sets forth the breakdown of our total revenues for each of the periods indicated.



Note: Other components of total revenues include fee and commission income, gain (loss) on investments, gain (loss) on fair value change, share of profit (loss) of associate and other income. Other components of total revenues for the six-month period ended June 30, 2021 and 2022 amounted to Baht 2,418.84 million and Baht 2,614.02 respectively.

As a result of the foregoing, total revenues increased by 2.22% to Baht 51,872.39 million for the six-month period ended June 30, 2022 from Baht 50,744.50 million for the six-month period ended June 30, 2021.

1.5.2 Expenses

Long-term technical reserve increase from previous period

We recorded a 43.64% lower long-term technical reserve increase from the previous period for the six-month period ended June 30, 2022. The long-term technical reserve increase from the previous period was Baht 6,036.11 million for the six-month period ended June 30, 2022 compared to Baht 10,710.67 million for the six-month period ended June 30, 2021. The lower long-term technical reserve increase from the previous period was primarily due to the higher reserve release from more policies reaching maturity in the first half of 2022 compared to the same period of 2021.

Benefits payments and insurance claims expenses

Benefits payments and insurance claims expenses increased by 25.51% to Baht 31,540.83 million for the six-month period ended June 30, 2022 from Baht 25,129.21 million for the six-month period ended June 30, 2021, primarily due to higher maturity payments from the policies sold in the previous years and higher medical claims.

Our benefits and insurance claims expenses have been impacted by the COVID-19 outbreak. See also “2.1 Significant Factors affecting our Financial Condition and Results of Operations — The effects of COVID-19”. Our loss ratio relating to medical claims was 7.2% in the six-month period ended June 30, 2022 compared to 5.1% in the same period of 2021 as the payment relating to COVID-19 increased. Medical claims relating to COVID-19 amounted to Baht 69.3 million and Baht 925.2 million for the six-month period ended June 30, 2021 and 2022, respectively, representing 3.4% and 31.2% of our overall medical claims for those periods. However, the medical claims relating to COVID-19 decreased from Baht 473.7 million for the first quarter in 2022 to Baht 451.5 million for the second quarter in 2022.

Commissions and brokerage expenses

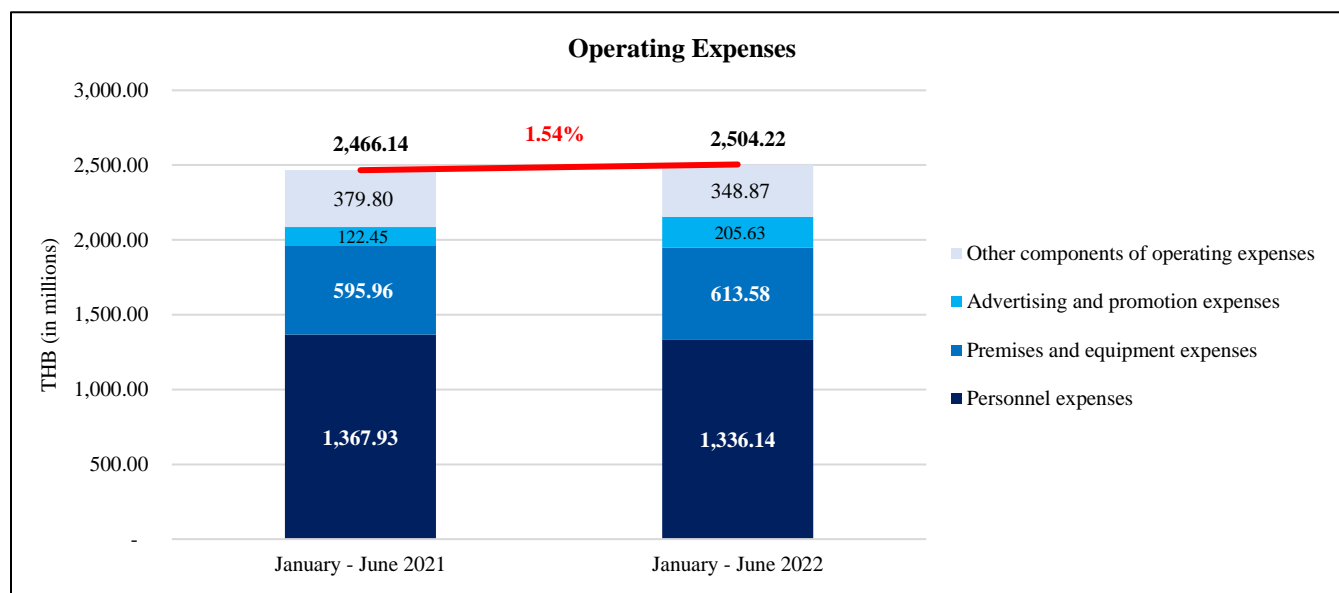
Commissions and brokerage expenses decreased by 2.96% to Baht 4,104.37 million for the six-month period ended June 30, 2022 from Baht 4,229.59 million for the six-month period ended June 30, 2021, in accordance with the Company’s strategy to intensely increase sales volume in the products that are less interest rate sensitive with the higher profit margins. Therefore, the benefits and compensations structure for the distribution channels was changed based on the proportion of product types which was different from the six-month period ended June 30, 2021.

Other underwriting expenses

Other underwriting expenses increased by 27.16% to Baht 842.35 million for the six-month period ended June 30, 2022 from Baht 662.43 million for the six-month period ended June 30, 2021 in line with an increase in our total premium revenues.

Operating expenses

The graphic below sets forth the breakdown of our operating expenses for each of the periods indicated.



Operating expenses increased by 1.54% to Baht 2,504.22 million for the six-month period ended June 30, 2022 from Baht 2,466.14 million for the six-month period ended June 30, 2021, primarily due to an increase in advertisement expenses for the promotion of new products and corporate image.

Reversal expected credit loss

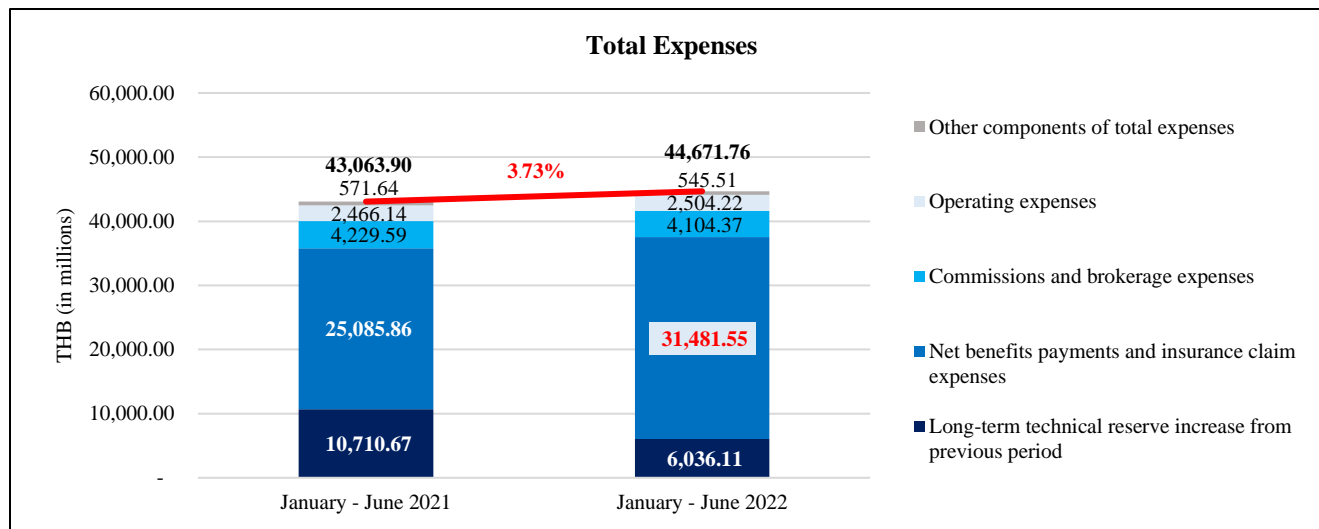
We recorded a reversal of expected credit loss of Baht 398.71 million for the six-month period ended June 30, 2022 compared to a reversal of expected credit loss of Baht 121.54 million for the six-month period ended June 30, 2021, primarily due to partial reversal of provisions we made for expected credit loss to reflect a decreased credit risk profile.

Other expenses

Other expenses increased by 231.28% to Baht 101.87 million for the six-month period ended June 30, 2022 from Baht 30.75 million for the six-month period ended June 30, 2021, primarily due to an increase in allowance for doubtful accounts.

Total expenses

The graphic below sets forth the breakdown of our total expenses for each of the periods indicated.



Note: Other components of total expenses include other underwriting expenses, expected credit losses (reversal) and other expenses. Other components of total expenses for the six-month period ended June 30, 2021 and 2022 amounted to Baht 571.64 million and Baht 545.51 million respectively.

As a result of the foregoing, total expenses increased by 3.73% to Baht 44,671.76 million for the six-month period ended June 30, 2022 from Baht 43,063.90 million for the six-month period ended June 30, 2021.

Income tax expense

Income tax expense decreased by 20.41% to Baht 1,389.09 million for the six-month period ended June 30, 2022 from Baht 1,745.27 million for the six-month period ended June 30, 2021. Income tax expense in each period was in line with the movements of our profit before income tax expense under our separate financial statements during the period.

1.5.3 Profit for the period

Profit for the six-month period ended June 30, 2021 and 2022 were amounted to Baht 5,935.33 million and Baht 5,811.54 million, respectively. Profit for the six-month period ended June 30, 2022 was mainly resulted from the significant items as listed below;

- Premium revenue generated from the new insurance policies was Baht 9,498.18 million increasing by Baht 2,301.72 million which accounted for 31.98% compared to the six-month period ended June 30, 2021.
- Gain on investments was Baht 2,680.68 million which was similar to the six-month period ended June 30, 2021.
- The expected credit loss of Baht 398.71 million was partially reversed to reflect the improvement in credit risk.

- There was an increase in claim payment for medical benefits from COVID-19 of Baht 855.9 million compared to the six-month period ended June 30, 2021.
- With the higher new business, we have incurred more initial loss from acquiring new insurance policies which further reduced our net profit compared to the six-month period ended June 30, 2021.

1.5.4 Annual premium equivalent and Value of new business

Annual premium equivalent

Annual premium equivalent is a commonly used industry measure of insurance product sales of insurance companies that is calculated as 100% of annualized first year premiums plus 10% of single premiums for all new policies written during the period. Compared to first year premiums and single premiums, we believe that annual premium equivalent provides a more accurate indication of the sustainability of our new business as it normalizes single premiums into the equivalent of regular premium payments.

Annual premium equivalent increased by 23.26% to Baht 6,413.7 million in the six-month period ended June 30, 2022 from Baht 5,203.5 million in the six-month period ended June 30, 2021, primarily due to sales from new participating endowment products and high growth in the partnership channel. Growth in the partnership channel was driven by a recovery of sales at bank branches after the reopening of bank branches as social distancing measures eased and successful execution of product strategies with our partners.

Value of new business

Value of new business is an actuarial metric, which represents an actuarially determined estimate of the value to shareholders arising from new life insurance business issued in the relevant reporting period, and is calculated as the present value, measured at point of sale, of future net-of-tax profits on a local statutory basis less the corresponding cost of capital. We believe that value of new business provides useful information for investors as to the value being created by new business activity, and hence our ability to generate profits from new business.

Value of new business for the six-month period ended June 30, 2022 increased by 24.15% to Baht 3,301.2 million from Baht 2,659.0 million for the six-month period ended June 30, 2021, following the growth of annual premium equivalent.

1.6 ANALYSIS OF FINANCIAL POSITION

1.6.1 Assets

As of December 31, 2021, and June 30, 2022, our total assets were Baht 533,706.29 million and Baht 533,109.99 million, respectively.

The following table sets forth the principal components of our assets as of the dates indicated:

	<u>As of December 31,</u> <u>2021</u>	<u>As of June 30,</u> <u>2022</u>
<i>THB (in millions)</i>		
Financial investment assets		
Cash and cash equivalents	7,326.48	5,197.67
Investment assets		
Investments in securities	480,690.51	481,119.55
Loans and accrued interest	29,936.27	29,423.70
Total investment assets	510,626.78	510,543.25
Total financial investment assets	517,953.26	515,740.92
Assets other than the abovementioned⁽¹⁾	15,753.03	17,369.07
Total assets	533,706.29	533,109.99

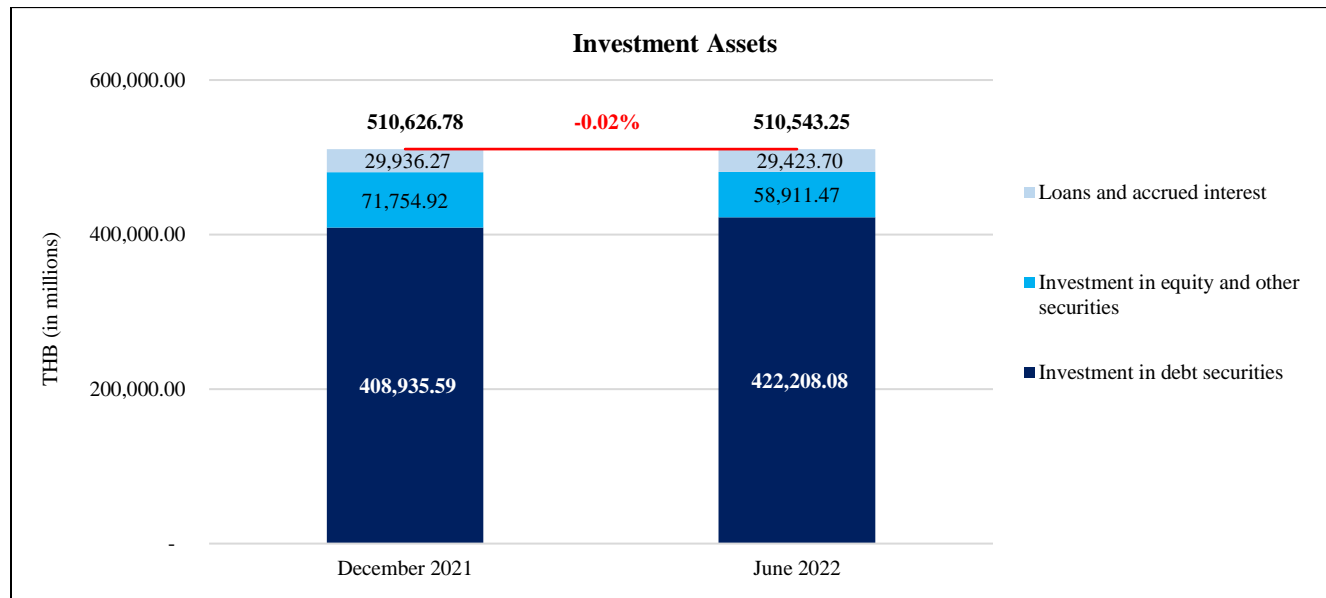
Note:

- (1) Assets other than the abovementioned consist of accrued investment income, derivative assets, net investments in associated companies, investments held to cover linked liabilities, net premiums due and uncollected, net land, premises and equipment, reinsurers' share of insurance contract liabilities, net reinsurance receivables, net intangible assets, net property foreclosed, net deferred tax assets and other assets.

Financial investment assets

(1) Cash and cash equivalents

Cash and cash equivalents decreased by 29.06% to Baht 5,197.67 million as of June 30, 2022 from Baht 7,326.48 million as of December 31, 2021, primarily due to decrease in short-term investments with less than 90-day maturity.

(2) *Investment assets*


Note: Investment in equity and other securities comprise investment in common stocks and investment units.

Investment assets comprised investments in securities and loans and accrued interest. As of December 31, 2021 and June 30, 2022, investments in securities accounted for 94.14% and 94.24% of investment assets, respectively. Our investments in debt securities are carried at either amortized cost or fair value, while our investments in equity securities are carried at fair value.

Our investments in securities consisted mainly of investments in fixed income securities (government bonds, government agency bonds, corporate bonds) and term deposits, constituting 80.09% and 82.70% of our portfolio of the total investment assets as of December 31, 2021 and as of June 30, 2022, respectively. As of the same dates, the carrying value of our investments in fixed income securities and term deposits was Baht 408,935.59 million and Baht 422,208.08 million, respectively. Our investments in equity and other securities had a carrying value of Baht 71,754.92 million and Baht 58,911.47 million, respectively, as of December 31, 2021 and as of June 30, 2022.

Investment assets decreased by 0.02% to Baht 510,543.25 million as of June 30, 2022 from Baht 510,626.78 million as of December 31, 2021, primarily due to the revaluation of our equity securities and investment units under the unfavorable equity markets.

Assets other than the abovementioned

As of June 30, 2022, we recorded assets other than the abovementioned Baht 17,369.07 million, which primarily comprise of accrued investment income, net premiums due and uncollected, and net land, premises and equipment and net intangible assets accounted for 24.89%, 21.65%, and 20.86% of the total assets other than the abovementioned, respectively.

1.6.2 Liabilities

As of December 31, 2021 and June 30, 2022, our total liabilities were Baht 447,275.06 million, and Baht 456,744.42 million, respectively.

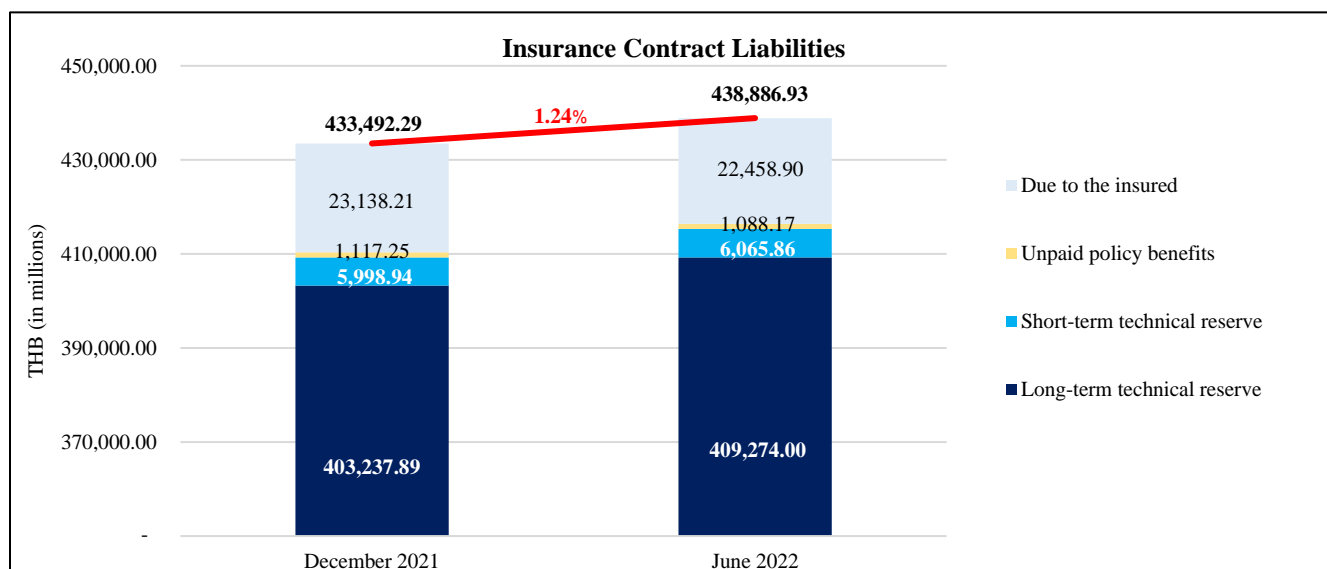
The following table sets forth the principal components of our liabilities as of the dates indicated:

	As of December 31, 2021	As of June 30, 2022
<i>THB (in millions)</i>		
Liabilities		
Insurance contract liabilities		
Long-term technical reserves	403,237.89	409,274.00
Short-term technical reserves	5,998.94	6,065.86
Unpaid policy benefits	1,117.25	1,088.17
Due to the insured	23,138.21	22,458.90
Total insurance contract liabilities	433,492.29	438,886.93
Other liabilities ⁽¹⁾	5,321.72	7,885.67
Employee benefit obligations	1,593.28	1,504.01
Deferred tax liabilities, net	2,027.41	-
Liabilities other than the abovementioned ⁽²⁾	4,840.36	8,467.81
Total liabilities	447,275.06	456,744.42

Notes:

- (1) Other liabilities include deposit from agents, accrued operating expenses, credit support annex payables for derivatives transactions, accrued commission and brokerage expenses, suspense premiums, investment payables and others.
- (2) Liabilities other than the abovementioned consists of investment contract liabilities, reinsurance payable, derivative liabilities and income tax payable.

Insurance contract liabilities



Insurance contract liabilities comprise long-term technical reserves, short-term technical reserves, unpaid policy benefits and due to the insured.

Long-term technical reserves are liabilities for insurance contractual benefits and claims that are expected to be incurred in the future. Long-term technical reserves are recorded when the premiums are recognized and are released when benefits and claims are incurred. We calculate long-term technical reserves using the net level premium valuation method. Each liability is measured using assumptions, including mortality, morbidity and discounted interest rates considered to be appropriate for the policies in force. Long-term technical reserves amounted to Baht 403,237.89 million and Baht 409,274.00 million as of December 31, 2021 and June 30, 2022, respectively.

Short-term technical reserves comprise unearned premium reserves and loss reserves and outstanding claims. Unearned premium reserves are portions of gross written premiums relating to unexpired risk of insurance coverage. When the unexpired risks are considered to be greater than unearned premium reserves, the difference is recognized as unexpired risk reserves. Loss reserves and outstanding claims are provisions for our estimated ultimate cost of settling all claims incurred but unpaid, whether or not reported, and related handling expenses of short-term insurance contracts.

Unpaid policy benefits represent claims and benefits payable under payment process to policyholders in relation to death claims, surrenders, coupon and dividends, maturities, including related interest payable and other claims.

Due to the insured comprises policyholder deposits in respect of policy benefits, advance premiums received from the insured and outstanding cheques for policy benefits and claims.

Total insurance contract liabilities increased by 1.24% to Baht 438,886.93 million as of June 30, 2022 from Baht 433,492.29 million as of December 31, 2021, primarily due to the increase in long-term technical reserves from receiving renewal premium and new policies.

Other liabilities

Other liabilities consist of deposit from agents, accrued operating expenses, credit support annex payables for derivatives transactions, accrued commission and brokerage, suspense premiums, investment payables and others.

Other liabilities increased by 48.18% to Baht 7,885.67 million as of June 30, 2022 from Baht 5,321.72 million as of December 31, 2021, mainly due to the increase of payables from purchase of investments which were under the settlement period as there were higher investments by the end of the period ended June 30, 2022 compared to December 31, 2021.

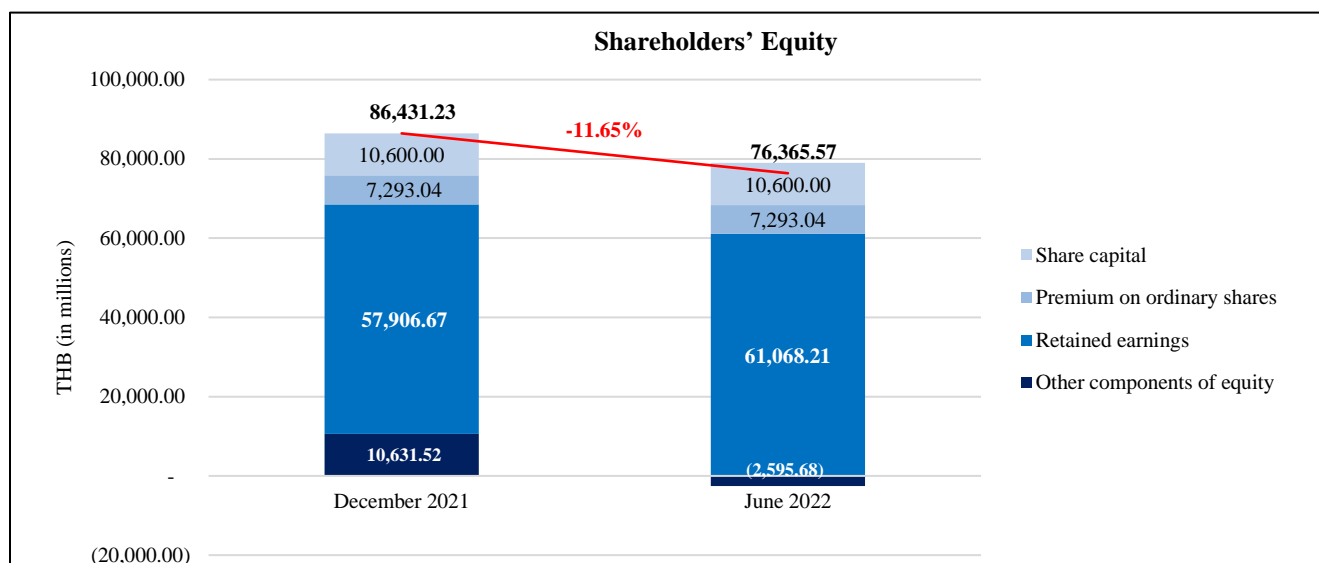
Employee benefit obligations

Employee benefit obligations decreased by 5.60% to Baht 1,504.01 million as of June 30, 2022 from Baht 1,593.28 million as of December 31, 2021, primarily due to a decrease in accrued employee benefits as such employee's bonus benefits were paid during the period.

Liabilities other than the abovementioned

Liabilities other than the abovementioned increased by 74.94% to Baht 8,467.81 million as of June 30, 2022 from Baht 4,840.36 million as of December 31, 2021, primarily due to an increase in derivative liabilities resulting from change on fair value of derivatives due to the weakening of Thai Baht and the rising in interest rate.

1.7 SHAREHOLDERS' EQUITY



The following table sets forth the main components of our shareholders' equity information as of December 31, 2021 and June 30, 2022:

	<u>As of December 31,</u> <u>2021</u>	<u>As of June 30,</u> <u>2022</u>
	<i>THB (in millions)</i>	
Equity		
Share capital		
Authorized share capital	11,600.00	11,600.00
Issued and paid-up share capital	10,600.00	10,600.00
Premium on ordinary shares	7,293.04	7,293.04
Retained earnings		
Appropriated		
Legal reserve	1,160.00	1,160.00
Unappropriated	56,746.67	59,908.21
Other components of equity	10,631.52	(2,595.68)
Total equity	86,431.23	76,365.57

Our equity, as of June 30, 2022, was Baht 76,365.57 million, representing 11.65% decrease from Baht 86,431.23 million as of December 31, 2021. The decrease was primarily due to the revaluation of existing investment portfolios under other components of equity which was in line with the volatile stock and bond markets.

1.8 LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2022, our cash and cash equivalents were Baht 5,197.67 million. Our principal cash inflows come from insurance premiums, cash receipts from investments in securities, and interests received from debt instruments, which mostly generated fixed income.

Net written premiums are generally affected by fluctuations in the level of policy surrenders, withdrawals, maturities, death and guarantees to policyholders. We closely monitor and manage the level of policy benefits payment in order to minimize liquidity risk. Liquidity from net investment income is generated from our portfolio of investment assets.

Apart from cash and cash equivalents, in general, our investments partially comprise highly liquid and marketable securities such as deposits and short-term government bonds with a maturity of less than one year, which generally could be liquidated to meet cash needs. As of June 30, 2022, the carrying value of deposits and short-term government bonds with a maturity of less than one year amounted to Baht 8,851.98 million.

We use our cash inflows and existing cash balances to pay liabilities under insurance policies and purchase reinsurance and investment assets. We also use our funds to pay operating expenses, income taxes and dividends that may be declared and payable to our shareholders. The payment of dividends and other distributions and payments is regulated by the OIC.

The following table sets forth our cash flows for the periods indicated:

	For the six-month period ended June 30,	
	2021	2022
	<i>THB (in millions)</i>	
Net cash (used in) provided by operating activities	(4,092.04)	692.60
Net cash used in investing activities	(779.64)	(171.41)
Net cash used in financing activities	(2,257.80)	(2,650.00)
Net decrease in cash and cash equivalents	(7,129.48)	(2,128.81)
Cash and cash equivalents at the beginning of the period	10,497.72	7,326.48
Cash and cash equivalents at the end of the period	3,368.24	5,197.67

Operating activities

Cash flows from our operating activities include revenue and expenses from sales of our insurance products and net purchases and sales of financial investments.

Net cash provided by operating activities for the six-month period ended June 30, 2022 was Baht 692.60 million compared to net cash used in operating activities for the six-month period ended June 30, 2021 of Baht 4,092.04 million, reflecting an increase in cash received from higher premium revenues.

Investing activities

Net cash used in investing activities decreased by 78.01% to Baht 171.41 million for the six-month period ended June 30, 2022 from Baht 779.64 million for the six-month period ended June 30, 2021, primarily due to lower investments in intangible assets given that we made investments in contractual rights during the six-month period ended June 30, 2021.

Financing activities

Net cash used in financing activities increased by 17.37% to Baht 2,650.00 million for the six-month period ended June 30, 2022 from Baht 2,257.80 million for the six-month period ended June 30, 2021 as we approved dividend payments to shareholders at higher rate of dividend per share compared to 2021.

1.9 CAPITAL EXPENDITURE

We regularly make capital expenditures to expand our operations, maintain our equipment and increase our operating efficiency. In 2021 and in the six-month period ended June 30, 2022, our capital expenditures were mainly for computer hardware and software. We have historically funded our capital expenditures through cash provided by our operating activities, including insurance premiums, cash generated by our investments in securities, and interest from fixed income investments and loans, mostly comprising debt instruments.

The following table sets forth our capital expenditures for the periods indicated:

	For the year ended December 31, 2021	For the six-month period ended June 30, 2022
	<i>THB (in millions)</i>	
Building	43	11
Furniture and fixtures.....	114	34
Hardware	54	31
Software.....	183	59
Assets under construction	(21) ⁽¹⁾	(10) ⁽¹⁾
Total	373	125

Note:

(1) Data presents net amount after reclassification of assets into other categories after construction or development has been completed.

Our planned capital expenditures primarily consist of investments related to the purchasing and installation of operating information technology equipment in line with our goal to transform ourselves into a strategic data driven organization.

Future capital expenditures for the years ended December 31, 2023 and 2024 are expected to be approximately, Baht 739 million and Baht 746 million, respectively, and will primarily comprise information technology projects to accommodate our business operations, improve our customer experience, enhance efficiency and productivity, reduce costs, and strengthen data analytics capabilities. These include adding new features to the TLI Application, enhancing our system to accommodate claims submitted through our digital platforms, and improving our data governance.

We intend to fund our future capital expenditures with our existing cash balance and proceeds from the Offering in July 2022.

1.10 CAPITAL ADEQUACY RATIO

It is our policy to maintain an adequate level of capital and liquidity to support our business strategies and growth, to meet regulatory requirements and to weather current and future economic cycles. We believe that we have taken a conservative stance with respect to our capital and liquidity management, as reflected in our high capital adequacy ratio in recent years.

The OIC, among other things, sets capital adequacy requirements that an insurer must meet in order to be authorized to carry on insurance business in or from Thailand. The current absolute minimum capital adequacy requirement for a life insurance company is 100%. However, if the capital adequacy ratio of a life insurance company falls below 140%, the OIC may intervene and implement appropriate measures to oversee the operations of such company. As of June 30, 2022, our capital adequacy ratio was 318.92%, significantly higher than the minimum regulatory requirement to prevent the OIC's business intervention of 140% as of the same date.

1.11 INDEBTEDNESS

We did not have any indebtedness as of June 30, 2022.

1.12 CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of June 30, 2022, our material contractual obligations and commitments related primarily to construction of branches and consulting and service agreements for computer systems, employment contracts, and other information technology service contracts.

The following table sets forth our principal contractual commitments as of the dates indicated:

	As of June 30, 2022 Payment due by period			
	Total	Less than 1 year	Year 1-5	More than 5 years
	<i>THB (in millions)</i>			
Commitment from operating lease agreements				
Commitment from operating lease agreements.....	161.86	78.12	78.85	4.89
Capital expenditure commitment				
Building and other construction.....	10.37	10.37	-	-
Other commitments				
Consulting and service fees for computer systems.....	434.98	356.77	67.90	10.31
Employment contracts and other service fees	339.78	242.67	89.32	7.79

1.13 CONTINGENT LIABILITIES AND GUARANTEES

Due to the nature of the insurance business, we are involved in legal proceedings in the ordinary course of business. The legal proceedings primarily involve claims on our insurance policies. We are also involved in immaterial legal and arbitration proceedings that do not relate to claims on our insurance policies.

We make provisions from time to time for the probable losses to us with respect to those claims when our management can reasonably estimate the outcome of the proceedings, taking into account the legal advice we have received. We do not make provisions for pending litigation when the outcome of the litigation cannot be reasonably estimated or our management believes that the probability is remote or that any resulting liabilities will not have a material adverse effect on our financial position or operating results. We believe that the recorded amount of reserves, unpaid policy benefits, and due to insured parties in the financial statements is adequate to meet the potential losses in respect of these claims.

As of June 30, 2022, we did not have any material contingent liabilities.

1.14 OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2022, we had no material off-balance sheet arrangements.

1.15 EVENT AFTER THE REPORTING PERIOD

As at 21 July 2022, the Company was listed on the Stock Exchange of Thailand and offered shares to investors in the amount of 2,316,698,900 shares at the price of 16 baht per share, representing 20% of the total shares after the offering, consisting of

1. Newly issued ordinary shares offered by the Company 850,000,000 shares.
2. Existing ordinary shares offered by the existing shareholders (V.C. Property Co.,Ltd.) 1,166,575,300 shares.
3. Existing ordinary shares offered by the existing shareholders (Her Sing (H.K.) Limited) 300,123,600 shares.

The Company's shares were traded on the Stock Exchange of Thailand on 25 July 2022.

1.16 FINANCIAL RATIOS AND ACTUARIAL DATA

The following table sets forth certain financial ratios and actuarial data commonly used in the insurance sector as of the dates and for the periods indicated therein.

Liquidity ratios

	As of December 31, 2021	As of June 30, 2022
Premium turnover ⁽¹⁾ (days)	18.62	15.51

Profitability ratios

	For the six-month period ended June 30,	
	2021	2022
Operating profit margin ⁽²⁾ (%).....	19.02	17.58
Net profit margin ⁽³⁾ (%).....	11.70	11.20
Underwriting expense ratio ⁽⁴⁾ (%).....	18.23	18.19

	As of December 31, 2021	As of June 30, 2022
Gross return on average investments ⁽⁵⁾ (%).....	3.89	3.91
Net return on average investments ⁽⁶⁾ (%).....	3.22	3.25
Net premium ratio ⁽⁷⁾ (times).....	1.10x	1.14x
Return on average shareholders' equity ⁽⁸⁾ (%).....	10.22	10.43

Efficiency ratios

	As of December 31, 2021	As of June 30, 2022
Return on average assets ⁽⁹⁾ (%).....	1.63	1.58
Investment assets to reserves ratio ⁽¹⁰⁾ (%).....	117.79	116.33
Asset turnover ratio ⁽¹¹⁾ (times).....	0.21x	0.21x

Financial ratios

	As of December 31, 2021	As of June 30, 2022
Debt to equity ratio ⁽¹²⁾ (times).....	5.17x	5.98x
Reserves to equity ratio ⁽¹³⁾ (times).....	4.73x	5.44x
Reserves to assets ratio ⁽¹⁴⁾ (times).....	0.77x	0.78x

	As of December 31, 2020	As of December 31, 2021
Dividend payout ratio ⁽¹⁵⁾ (%).....	29.99	30.08

Capital ratios

	As of December 31, 2021	As of March 31, 2022	As of June 30, 2022
Total capital required ⁽¹⁶⁾ (in THB millions).....	28,966.7	28,486.9	27,376.0
Capital adequacy ratio ⁽¹⁷⁾ (%).....	355.22	360.57	318.92

Actuarial data

	For the six-month period ended June 30,	
	2021	2022
VONB margin ⁽¹⁸⁾ (%).....	51.1	51.5
	For the year ended December 31,	
	2020	2021
Embedded value (in THB millions)	134,786.2	142,277.3

Notes:

- (1) Premium turnover is calculated as 365 times the average overdue premium receivables at the beginning and the end of the period divided by gross written premiums. For the six-month period ended June 30, 2022, premium turnover is calculated as 365 times the average overdue premium receivables at the end of the six-month periods ended June 30, 2021 and 2022 divided by gross written premiums of the latest 12 months to eliminate the effect of seasonal fluctuations.
- (2) Operating profit margin is calculated as profit before income tax expense divided by gross written premiums for the period.
- (3) Net profit margin is calculated as net profit divided by total revenues for the period.
- (4) Underwriting expense ratio is calculated as taking the sum of the commission and brokerage expenses, other underwriting expenses and operating expense; and dividing such sum by gross written premiums for the period.
- (5) Gross return on average investments is calculated as sum of net investment income and gain on investment divided by an average of the sum of net financial investment assets at the beginning and the end of the period. For the six-month period ended June 30, 2022, gross return on average investments is calculated as sum of net investment income and gain on investment in the latest 12 months divided by an average of the sum of net financial investment assets at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (6) Net return on average investments is calculated as net investment income divided by an average of net financial investment assets at the beginning and the end of the period. For the six-month period ended June 30, 2022, net return on average investments is calculated as net investment income in the latest 12 months divided by an average of net financial investment assets at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (7) Net premium ratio is calculated as net written premiums divided by average total shareholders' equity at the beginning and the end of the period. For the six-month period ended June 30, 2022, net premium ratio is calculated as net written premiums in the latest 12 months divided by average total shareholders' equity at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (8) Return on average shareholders' equity is calculated as net profit for the period divided by average total shareholders' equity at the beginning and the end of the period. For the six-month period ended June 30, 2022, return on average shareholders' equity is calculated as net profit in the latest 12 months divided by average total shareholders' equity at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (9) Return on average assets is calculated as net profit for the period divided by average total assets at the beginning and the end of the period. For the six-month period ended June 30, 2022, return on average assets is calculated as net profit in the latest 12 months for the period divided by average total assets at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (10) Investment assets to reserves ratio is calculated as investment assets divided by insurance contract liabilities at the end of the period.
- (11) Asset turnover ratio is calculated as total revenues divided by average total assets at the beginning and the end of the period. For the six-month period ended June 30, 2022, asset turnover ratio is calculated as total revenues in the latest 12 months divided by average total assets at the end of the six-month periods ended June 30, 2021 and 2022 to eliminate the effect of seasonal fluctuations.
- (12) Debt to equity ratio is calculated as total liabilities divided by total shareholders' equity at the end of the period.
- (13) Reserves to equity ratio is calculated as insurance contract liabilities (excluding unpaid policy benefits and due to the insured) divided by total shareholders' equity at the end of the period.
- (14) Reserves to assets ratio is calculated as insurance contract liabilities (excluding unpaid policy benefits and due to the insured) divided by total assets at the end of the period.
- (15) Dividend payout ratio is calculated as approved dividend payment divided by net profit from the operating results of the period on which dividend payment consideration was based. Dividends declared based on operating results for the year ended December 31, 2021 has been approved at the 2022 Annual General Meeting of the Shareholders held on April 1, 2022.
- (16) Total capital required is calculated in accordance with the Notification of the OIC on Types of Capital and Rules, Criteria, and Conditions for Calculation of Capital of Life Insurance Companies B.E. 2562 (as amended).
- (17) Capital adequacy ratio is calculated, utilising total capital required, in accordance with the Notification of the OIC on Types of Capital and Rules, Criteria, and Conditions for Calculation of Capital of Life Insurance Companies B.E. 2562 (as amended).
- (18) VONB margin is calculated as VONB divided by APE.

Set out below is a discussion of certain key financial ratios:

Profitability ratios

Our operating profit margin and net profit margin for the six-month period ended June 30, 2022 were 17.58% and 11.20%, respectively, which were close to the same period of the previous year with the same rationale as the explanation in "Profit for the period". See "1.5 Results of Operations — 1.5.3 Profit for the period".

For the six-month period ended June 30, 2022, gross return on average investments, net return on average investments, net premium ratio, and return on average shareholders' equity were 3.91%, 3.25%, 1.14 times, and 10.43%, respectively. These ratios were slightly increased compared to the year ended December 31, 2021. The Company can maintain the profitability ratios close to the previous year whereas investments in securities and shareholders' equity were changed from December 31, 2021 mainly due to the revaluation of investments which was in line with the unfavorable equity markets.

Capital ratios

Our capital adequacy ratio was 355.22%, 360.57% and 318.92% as of December 31, 2021, March 31, 2022 and June 30, 2022, respectively. The decrease in our capital adequacy ratio as of June 30, 2022, as compared to March 31, 2022, was primarily due to a capital movement in relation to dividends paid to our shareholders, a negative impact from changing in market value of assets and liabilities driven by the increase in market interest rates, and the depreciation on equity securities and unit trusts. To be more aligned with the international standard, OIC has amended the calculation formula for surrender risk charge, which is effective from June 30, 2022. However, we have not been affected by this regulation change, as our reserves and capitals are sufficient.

Actuarial data

Our value of new business margin increased from 51.1% for the six-month period ended June 30, 2021 to 51.5% for the six-month period ended June 30, 2022, primarily due to the interest rate movement and the shift on product mix.

Our embedded value increased by Baht 7,491.1 million in 2021, from Baht 134,786.2 million as of December 31, 2020 to Baht 142,277.3 million as of December 31, 2021, representing a 5.6% increase. The key contributors to this change were the value of new business for the twelve months ended December 31, 2021 of Baht 5,584.6 million, the expected return on embedded value of Baht 7,268.7 million, an economic variance of negative Baht 3,967.6 million, reflecting changes in the market value of assets and liabilities due to the increase in market interest rates, an increase from a change in an economic assumption of Baht 911.6 million, and a capital movement in relation to dividends paid to our shareholders causing a decrease of Baht 2,257.8 million.

2. FACTORS AND EVENTS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2.1 SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The effects of COVID-19

The spread of the virus and its effect on the socio-economic situation, benefit payments may increase as a result of increases in health issues or mortality rates. As of the date of this reporting period, our loss ratio relating to medical claims was 7.2% in the six-month period ended June 30, 2022 compared to 5.1% in the same period of 2021 as payment relating to COVID-19 increased. Medical claims relating to COVID-19 amounted to Baht 69.3 million and Baht 925.2 million for the six-month period ended June 30, 2021 and 2022, respectively, representing 3.4% and 31.2% of our overall medical claims for those periods.

However, the medical claims relating to COVID-19 decreased from Baht 473.7 million for the first quarter in 2022 to Baht 451.5 million for the second quarter in 2022. Therefore, the loss ratio relating to medical claims has started to reduce from 8.0% for the first three-month period ended March 31, 2022, to 7.2% for the six-month period ended June 30, 2022.

Macroeconomic conditions in Thailand

Our business and profitability are affected by general economic conditions. Economic growth trends, household savings rates, consumer attitudes towards financial savings and changing demographics are some of the key factors affecting the performance of Thailand's life insurance industry. Fluctuating foreign exchange rates and other global economic developments often have an impact on general economic conditions in Thailand as well. For example, positive trends in Thailand's economic conditions have historically had a favorable impact on the demand of our products.

Thailand's GDP in the first quarter of 2022 expanded by 2.2%YoY, exceeding market consensus at 1.7%YoY, improving from a 1.8% growth in the previous quarter, amid Omicron outbreak and rising inflation. The modest growth primarily driven by private consumption sector which was growing by 3.9%YoY (previous 0.4%YoY). Private consumption partly benefits from government's stimulus measures. Meanwhile, government consumption growth plunged from 8.1%YoY in Q4 2021 to 4.6%YoY in this quarter.

Accordingly, The Bank of Thailand (BoT) has raised its 2022 GDP forecast by 0.01% to 2.3%YoY, as Thai economy has continued to recover due to stronger domestic demand and a recovering trend in foreign tourists. While downside risks are still remained from slower global economy, impact of higher living costs and decreasing in fiscal stimulus packages.

Amid sharply rising inflation, Thailand's headline CPI hit a 13-year high in May 2022 at 7.1% from 4.6% in the prior month and is likely to stay above the BoT's medium-term target range this year. Headline inflation is largely attributed to the rise in energy and food prices, in line with other countries. Whereas core inflation was at 2.0%YoY and 2.2%YoY in April 2022 and May 2022 respectively. As such, the BoT's raised its headline inflation forecasts significantly to 6.2% from 4.9% in 2022 and to 2.5% from 1.7% in 2023 and its core inflation forecasts to 2.2% from 2.0% in 2022 and to 2.0% from 1.7% in 2023.

Interest rate volatility

Some of our insurance products and our investment returns are sensitive to interest rate fluctuations. Given that a majority of our investment portfolio is held in debt securities, our investment income should increase in periods of rising interest rates. However, this may also reduce the market value of our investment portfolio, resulting in realized and unrealized losses on our existing investments. Rising interest rates may also lead to an increase in surrenders of existing policies and annuity contracts if policyholders perceive competing products to have better returns. This may require the sale of invested assets at a time of declining prices, which may lead to realized losses.

In the second quarter of 2022, Thai government bond yield curve has moved significantly higher in conjunction with government bond yield movements globally. The key drivers behind the moves were higher and more persistent inflation and more aggressive stances from central banks around the world in order to tackle inflation. In the latest policy meeting in June, the BOT's MPC has also shifted its stance on monetary policy and stressed the need to contain negative impacts on Thai economy from higher and more broad-based inflation. Even though, the MPC voted 4:3 to maintain the policy rate at 0.50%, it sent a strong signal for the need of a policy rate hike in the upcoming meetings.

From the beginning of April 2022 to middle of May 2022, Thai government bond yield curve went higher with a steepening bias because there was a duration risk from a bond switching activity scheduled in the second week of May. However, the bond switching went through with lower-than-expected amount for the long-term bonds; as a result, yields of long-term bonds collapsed, especially 10 to 20-year bond. From the middle of May 2022 to end of June 2022, the yield curve movement was on a flattening bias, where short-end government bond yields increased from MPC shifting towards a more aggressive stance and policy rate hikes expectations and long-end bond yields were quite stable.

Fluctuations in equity markets

Equity securities represented 14.1% and 11.5% of our investment assets' total carrying value as of December 31, 2021 and June 30, 2022, respectively. Changes in the equity markets may affect our investment returns and our overall results of operations. In particular, we bear the risks associated with investments that back products that are not unit-linked.

In periods of protracted or steep declines in the equity markets, surrenders may increase with customers shifting to other products. Additionally, because customers may be reluctant to commit to new investment-linked policies in times of uncertainty or market volatility, sales of investment-linked products typically decrease during such periods.

Regulatory environment

Our operating activities are subject to certain government regulations. These regulations impact our corporate structure, capital requirements, product designs, distribution channels, and investment guidelines, among others. In addition, our businesses and personnel are subject to the stringent supervision and audit of regulatory authorities. Over time, Thai regulations have become increasingly complex and stringent. Though we expect this trend to continue, we have a dedicated team that regularly studies the implications of evolving government legislation, regulations, and policies to adapt our strategies and operations to ensure we comply with such changes.

Changes in government policy, legislation, regulatory interpretation or enforcement applicable to us or our partners in any of our current or proposed markets may lead to a significant increase in compliance obligations and/or costs. For example, from January 1, 2022, the threshold for such OIC's intervention has increased from 120% to 140%. Though we have consistently maintained a capital adequacy ratio significantly higher than the minimum regulatory requirements imposed (our capital adequacy ratio was 318.92% as of June 30, 2022), compliance costs can be significant as we carry out sensitivity analyses for our capital adequacy ratio as part of our annual business planning process. If we fail to meet relevant regulatory requirements, we may be subject to regulatory sanctions, penalties, and fines, depending on the degree of the deficiency. In particular, failure to maintain an adequate capital adequacy ratio could result in direct government intervention or injunction for business expansion or revocation of the insurance business license.

Additionally, regulatory changes could affect our profitability by limiting our revenues. Certain of our products may become subject to additional pricing restrictions. For example, the OIC recently issued a regulation governing the terms and conditions of health insurance products that came into effect in November 2021. The new regulation is intended to standardize standalone health insurance issued by non-life insurance companies and health insurance riders issued by life insurance companies, requiring us to adjust the terms and conditions of our health riders and recalibrate our pricing and sales strategies for certain products. Government rules may also affect our investment options. Such restrictions could potentially limit our ability to diversify investment risks and improve returns on our investment portfolio. However, the flexibility permitted under the OIC's latest stance promises to be a positive change. In light of COVID-19, insurers may now generate higher returns because the OIC has relaxed both the scope of what investments insurers can participate in as well as the extent to which they can invest in certain assets.

The OIC recently issued a regulation on investment in lending business for infrastructure project that came into effect in June 2022. The new regulation is intended to expand investment opportunities for life insurance companies to be able to invest in a wider range of assets. The new regulation is benefit to the life insurance companies to increase the investment opportunities and options in managing investment assets to meet the obligations.

Pricing, persistency and claims experience

Effective pricing of our products affects our business and results of operations. Pricing of our products involves an analysis of historical data, various assumptions and estimates related to our insurance reserves, future investment returns and our expense management, an application of appropriate pricing methodologies and ongoing monitoring to recognize changes in risk trends to forecast severity and frequency of losses. Such assumptions and estimates are based on our management's assessment of information available to us, but the ability to accurately price insurance products is subject to a number of assumptions relating to factors outside our control, including the availability of sufficient data.

Pricing has a major impact on our persistency and claims experience. Both our persistency experience and our claims experience also vary over time and from one type of product to another, and our persistency and claims experience may vary from the assumptions that we make when we design and price our products. Maintaining a high level of persistency is important to our results of operations.

Conversely, our claims experience affects our profitability in terms of costs, with benefits payments and insurance claims expenses comprising 58.35% and 70.61% of our expenses for the six-month period ended June 30, 2021 and 2022, respectively.

Persistency experience may also be impacted by changes in consumer sentiment or policyholder behavior, the relative competitiveness of our products, changes in regulations and the investment performance of our funds, among other factors, while our claims experience may also be impacted by changes in mortality, morbidity and other factors.

Competition

Competition impacts our policy acquisition costs, our operating expenses, the growth of our customer base, our market share and our margins and spreads. We compete for business on the basis of various factors, including coverage offered, product features, price, quality of customer service, distribution network, relationships with partners, reinsurers and others, brand recognition, size of operations, operating efficiency, financial strength and credit ratings. Though technology disruption may impact our industry, barriers to entry are relatively high given large capital requirements and other regulatory limitations. Some of our competitors may offer higher commissions or more attractive rewards to agents and other distribution intermediaries or offer customers similar products at lower prices. However, our agency channel remains one of the strongest in the market. According to Thai Life Assurance Association, we contributed 16.2% and 15.6% to the industry's total agency annual premium equivalent¹ in 2021 and the six-month period ended June 30, 2021 and 2022, respectively.

We may see more consolidation in the life insurance sector, which could lead to our competitors attaining increased financial strength, management capabilities, resources, operational experience, market share, distribution channels and capabilities in pricing, underwriting and claims settlement. In addition, closer alignment between the insurance and banking industries may incentivize some of our partners to distribute insurance products of their affiliates rather than our products. Moreover, we may also compete indirectly against banks, investment management firms and mutual fund companies, among others. This is because consumers may evaluate our offerings against certain financial products these firms provide, as well as against real estate, gold and other alternative investments.

Seasonality

We are subject to seasonal fluctuations in our results of operations and cash flow. Consequently, our results for an interim period should not be used as an indication of our annual results. Insurance volumes typically increase significantly around December, as customers often avail themselves of the personal income tax advantages that life insurance products offer. We also typically experience higher sales in the last month of each quarter as campaigns we introduce to promote sales among agents and other sales force usually conclude at the end of the relevant quarter. In addition, as we evaluate the sales performance of our staff on a half-yearly basis, we generally see an increase in sales at the end of the first half of the year and year-end.

¹ Thai Life Assurance Association does not report the industry's annual premium equivalent and only provides the industry's first year premiums and single premiums. Industry's annual premium equivalent is derived from 100% of industry's first year premiums plus 10% of industry's single premiums. Industry's annual premium equivalent is not directly comparable to ours. Industry's first year premiums that are used for the calculation of industry's annual premium equivalent are recognized when premiums are received at the point of annual premium equivalent calculation while first year premiums that we use for our calculation of annual premium equivalent recognize premiums on an annualized basis.

Environment, Society and Governance (“ESG”)

The insurance industry increasingly places significance on sustainability to respond to customers’ demand for products that consider ESG elements. Therefore, it is necessary for us to incorporate ESG principles into our business strategies, product design, risk management, business alliances, investments, and corporate social responsibility to maintain competitiveness. We are in the process of adopting various ESG policies and implementing ESG concepts in our operations. For instance, we design and develop products that promote well-being and embed ESG considerations into our investment analysis. Our ESG investments primarily consider the “three Rs” principles: Risks, Returns, and Real Impact (on the development of society or environment). We aim to promote transparency and sustainability in our operations and consider all stakeholders involved in the value chain, including employees, business partners, society, and the environment.

In 2022, we have reviewed and prepared a 3-year Sustainable Development Master Plan (Year 2022-2024) to adapt business operations to the new normal and the company’s future business direction, consisting of the “three Ps” principles as follows:

- **Promise:** Upholding promises to all stakeholders, especially our customers, with management under good corporate governance and human resource management to be professional and ethical
- **Protect:** Protection is a customer centric strategy through product development and service responsibility to meet the individual needs of consumers. We emphasize on managing risks that may occur directly and indirectly, customer sustainability management, and responsible customer data and information technology systems management
- **Prosper:** Creating prosperity, economic growth, and contributing to the creation of society and the environment by sustainable community and social management and environmental management

We have set sustainability goals according to the ESG policies and guidelines as follows:

- **Environment:** Emphasis on climate change risk and impact management to maintain business continuity and to ensure that it does not affect all stakeholders by the establishment of the Risk Management Committee, developing business continuity plans and disaster management plans, and environmental management through the projects initiation to reduce the environmental impact from the company's business operations, such as using the digital system to reduce resource consumption, reducing energy consumption or reducing waste
- **Social:** Emphasis on human resource management. We operate our business based on humanism principle that regard personnel as the most important asset and capital. We are committed to enhancing our employees to be smart and good people to stand beside customers and society. We manage our employees with respect for human rights, equality, safety, and fair treatment in accordance with the Company's regulations and relevant regulations under the corporate values and culture that we believe that cooperation, and commitment are the keys to success.
- **Governance:** We operate our business with good corporate governance by systematic monitoring of operating results and instilling the code of conduct to our employees such as anti-corruption, compliance with social and economic laws, etc. We are also aware of the market conduct by managing customer data responsibly to build our customers’ confident in the Company's products and services information which are complete and transparent and protecting customer privacy.

If we are unable to follow the ESG policies and guidelines that we set, such failure may have a negative effect on us. For example, our reputation may be jeopardized if we are unable to maintain investment alternatives that answer to customers' ESG demand. As a result, customers may refrain from purchasing our life insurance products or renewing their existing policies with us, which may, in turn, affect our renewal premiums and new business premiums. In addition, the adoption of ESG-related policies and concepts may narrow our investment options. Nevertheless, we believe that the adoption of ESG-related practices will benefit us in the long term in that it will enable us to become one of the key players in sustainable business in Thailand and reinforce our leadership in the life insurance business.

2.2 QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

Market risk is the risk of potential loss to future earnings, fair values or future cash flows that may result from adverse changes in interest rates, foreign exchange rates, equity securities prices and commodities, which can have an adverse effect on income and capital. We are exposed to market risk arising principally from our holding of financial investment assets. As of June 30, 2022, we had financial investment assets of Baht 515,740.92 million, which are subject to market risk arising from our investment activities.

Interest rate risk

Movement in interest rates is one of the main factors that affect the value of our assets and liabilities and the overall investment return. Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As our financial assets principally comprise debt securities and, to a lesser extent, loans and term deposits, changes in the level of interest rates can have a significant impact on our overall investment returns.

Exposure to interest rate fluctuations arises when there is a tenure mismatch between rate-sensitive assets and liabilities items. We mitigate interest rate risk by defining the target duration gap between our assets and liabilities and, to the extent possible and practicable, lengthen the duration of our assets to better match that of our liabilities. In addition, we use derivative instruments, principally interest rate swaps, bond forwards, and cross currency swaps to manage exposure to fluctuations in interest rates on specific debt securities.

As of the dates indicated, changes of interest rates would impact the fair value of our debt securities through other comprehensive income and affect our total equity as shown below. This sensitivity analysis assumes that all other variables, in particular, foreign currency exchange rates, remain constant.

	<u>As of December 31, 2021</u>	<u>As of June 30, 2022</u>
	<i>THB (in millions)</i>	
	Total equity, net of tax	
+ 25 basis points in yield curves	(394.17)	(391.64)
- 25 basis points in yield curves	394.23	391.68

Exchange rate risk

Exchange rate risk arises when we enter into transactions denominated in foreign currencies such as investment in bonds or equity securities denominated in foreign currencies. Although our liabilities are predominantly denominated in Thai Baht, we invest, in some instances, in instruments in foreign currencies for yield enhancement and risk diversification purposes. These investments expose us to gains and losses arising from foreign exchange rate movements. Our business units monitor foreign currency exposures and where these are not consistent with our risk appetite, positions may be closed or hedging instruments may be purchased. We use various derivative instruments such as cross currency interest rate swap and foreign exchange forward to hedge against the exchange rate risk. Our internal policy generally requires us to use derivatives to hedge against 80% to 100% of our foreign exchange exposures.

As of the dates indicated, movements in U.S. dollar would affect the value of our financial investment assets denominated in foreign currencies and impact total equity and net profit or loss as shown below. This sensitivity analysis assumes that all other variables, in particular, interest rates, remain constant and ignores any impact of our sale and purchases of financial instruments.

	<u>As of December 31, 2021</u>	<u>As of June 30, 2022</u>
	<i>THB (in millions)</i>	
	Total equity, net of tax	
2.5% strengthening in THB	(26.41)	(11.07)
2.5% weakening in THB	26.41	11.07
	Impact on net profit or loss	
2.5% strengthening in THB	(33.01)	(13.84)
2.5% weakening in THB	33.01	13.84

Price risk

Price risk is the risk that arises from changes in equities and commodities prices that may adversely affect our income or capital funds. We invest in equity and unit trust portfolio to enhance longer term returns and diversify risks.

We mitigate price risk by determining risk appetite level and maintaining the risk to be within the appetite limit. We also employ various non-statistical and statistical tools such as value at risk and sensitivity analysis to evaluate the risk level.

As of the dates indicated, changes in equity prices would affect the value of our investments in listed equity securities and unit trusts and impact total equity as shown below, excluding investments assets held to cover unit-linked liabilities.

	<u>As of December 31, 2021</u>	<u>As of June 30, 2022</u>
	<i>THB (in millions)</i>	
	Total equity, net of tax	
10% increase	5,561.66	4,513.65
10% decrease	(5,561.66)	(4,513.65)

2.3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

IFRS 17 is an insurance accounting standard applicable to insurance contracts that will come into effect for our financial periods commencing on January 1, 2024. The new standard represents a fundamental shift in how we account for insurance contracts. IFRS 17 aims to increase transparency as it requires organizations to place a greater focus on improving data quality, achieving data normalization and encouraging cross-interpretation.

We began the preparation for IFRS 17 adoption in 2017. Our implementation plan is divided into the following five phases:

- Phase 1 — Gap assessment. This stage includes studying the basic concepts, training and budget assessment.
- Phase 2 — Preparation of business requirements document describing business solutions for the product and designing and building a pilot actuarial model. This phase contemplates completion of transition approach assessment and first draft accounting policy.
- Phase 3(a) — Detailed sub-ledger system design and actuarial model build. This phase includes completion of detailed design and testing of the system and full actuarial models.
- Phase 3(b) — Test run and transition proposition. This phase involves producing a IFRS 17 compliant balance sheet.
- Phase 4 — Parallel run. We run the IFRS 17 system in parallel with the existing accounting system in this stage. This phase involves obtaining reviews from auditors and informing the Board of the new accounting policies.
- Phase 5 — We commence financial reporting in compliance with IFRS 17.

We are currently in phase 3(a) of the implementation process. We are also in the process of studying the full impact of the adoption of the IFRS 17 on our financial performance. We collaborate closely with the regulators and other players in the industry to evaluate the impact and execution challenges of the adoption.

3. FINANCIAL STATEMENTS

3.1 STATEMENT OF FINANCIAL POSITION

The following table sets out data from our statement of financial position as of December 31, 2021, and June 30, 2022:

	As of December 31, 2021	As of June 30, 2022
<i>THB (in millions)</i>		
Assets		
Cash and cash equivalents	7,326.48	5,197.67
Premiums due and uncollected, net.....	4,354.56	3,761.17
Accrued investment income.....	4,063.42	4,322.47
Reinsurers' share of insurance contract liabilities.....	6.57	94.25
Reinsurance receivables, net.....	126.66	100.43
Derivative assets	900.54	926.71
Investment assets		
Investments in securities.....	480,690.51	481,119.55
Loans and accrued interest.....	29,936.27	29,423.70
Investments in associates, net	470.93	442.78
Investments held to cover linked liabilities.....	150.41	138.25
Property foreclosed, net	308.57	308.78
Land, premises and equipment, net.....	2,533.93	2,424.85
Intangible assets, net.....	1,291.94	1,197.93
Deferred tax assets, net	-	1,175.93
Other assets.....	1,545.50	2,475.52
Total assets	533,706.29	533,109.99
Liabilities and Equity		
<i>Liabilities</i>		
Insurance contract liabilities	433,492.29	438,886.93
Investment contract liabilities	150.41	138.25
Reinsurance payable	183.36	219.08
Derivative liabilities.....	3,055.33	6,915.52
Income tax payable	1,451.26	1,194.96
Deferred tax liabilities, net.....	2,027.41	-
Employee benefit obligations.....	1,593.28	1,504.01
Other liabilities	5,321.72	7,885.67
Total liabilities.....	447,275.06	456,744.42

	<u>As of December 31,</u> <u>2021</u>	<u>As of June 30,</u> <u>2022</u>
	<i>THB (in millions)</i>	
<i>Equity</i>		
Share capital		
Authorised share capital	11,600.00	11,600.00
Issued and paid-up share capital	10,600.00	10,600.00
Premium on ordinary shares	7,293.04	7,293.04
Retained earnings		
Appropriated		
Legal reserve	1,160.00	1,160.00
Unappropriated	56,746.67	59,908.21
Other components of equity	10,631.52	(2,595.68)
Total equity	86,431.23	76,365.57
Total liabilities and equity	533,706.29	533,109.99

3.2 STATEMENT OF COMPREHENSIVE INCOME

The following table sets out data from our statement of comprehensive income for the six-month period ended June 30, 2021 and 2022:

	For the six-month period ended June 30,	
	2021	2022
	<i>THB (in millions)</i>	
Revenues		
Gross premium written	40,372.21	40,959.53
Less Premium ceded	(128.20)	(163.78)
Net premiums written	40,244.01	40,795.75
Add (less) Unearned premium reserve decrease (increase) from previous period	73.84	(50.44)
(Less) add Reinsurers' share of (decrease) increase in unearned premium reserve from previous period	(0.78)	87.79
Net premiums earned	40,317.07	40,833.10
Fee and commission income	14.64	13.91
Net investment income	8,008.59	8,425.27
Gain on investments.....	2,673.46	2,680.68
Loss on fair value change	(398.89)	(240.29)
Share of profit of associate	10.09	2.66
Other income	119.54	157.06
Total revenues	50,744.50	51,872.39
Expenses		
Long-term technical reserve increase from previous period	10,710.67	6,036.11
Benefits payments and insurance claims expenses	25,129.21	31,540.83
Less Benefits payments and insurance claims expenses recovered from reinsurers.....	(43.35)	(59.28)
Net benefits payments and insurance claims expenses	25,085.86	31,481.55
Commissions and brokerage expenses	4,229.59	4,104.37
Other underwriting expenses	662.43	842.35
Operating expenses	2,466.14	2,504.22
Reversal expected credit loss	(121.54)	(398.71)
Other expenses.....	30.75	101.87
Total expenses	43,063.90	44,671.76
Profit before income tax expense	7,680.60	7,200.63
Income tax expense.....	1,745.27	1,389.09
Profit for the period	5,935.33	5,811.54

3.3 STATEMENT OF CASH FLOWS

The following table sets out a summary of our cash flows for the six-month period ended June 30, 2021 and 2022:

	For the six-month period ended June 30,	
	2021	2022
	<i>THB (in millions)</i>	
Net cash (used in) provided by operating activities	(4,092.04)	692.60
Net cash used in investing activities.....	(779.64)	(171.41)
Net cash used in financing activities	(2,257.80)	(2,650.00)
Net decrease in cash and cash equivalents	(7,129.48)	(2,128.81)
Cash and cash equivalents at the beginning of the period	10,497.72	7,326.48
Cash and cash equivalents at the end of the period.....	3,368.24	5,197.67



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