



Thai
Life
Insurance



Management Discussion and Analysis

for the 3rd quarter, 2022

MANAGEMENT DISCUSSION AND ANALYSIS

Thai Life Insurance Public Company Limited (the Company) is the first largest life insurance company in Thailand which owned and operated by Thai nationals with history of more than 80 years based on total premium revenues for 9M22, according to Thai Life Assurance Association. The Company was founded in January 1942 and successfully developed the “Thai Life” brand to be well-regarded as one of the top insurance providers in Thailand, with a high level of brand recognition. The brand symbolizes “the optimistic partners for all with insightful expertise, passion for the good, realistic vision and dedication”.

KEY MILESTONES

- The year 2022 marks the Company's 80th year of operation under the vision "To be an insurance company of sustainability" through delivering sustainable value to all stakeholders. The action is scheduled for two phases: Transformation Tomorrow, transition to a better future (2022-2026) and Sustainable Tomorrow, stepping into a strong and sustainable future (2027-2031).
- Pursue Digital Transformation in delivery of innovative e-Services such as e-Payment that provide an online insurance premium payment through “Thai Life Insurance” application that can automate payment of insurance premiums via Online Direct Debit (ODD), e-Policyholder Guidebook, and e-manual for the insured. In addition, the Company received Digital Transformation Initiative of the Year for Thailand from Insurance Asia Award 2022.
- Expand opportunities for Thai people of all levels to obtain affordable life and health insurance by developing a health insurance package that is light-hearted and comfortable, named "Thai Life Insurance Health Fit Bao Bao”.
- Collaborate with Virtual Influencer: Ailynn, to communicate on insurance matters as well as about Thai life insurance, in order to connect the life insurance business to the virtual world (Metaverse).

1. RESULTS OF OPERATION AND FINANCIAL POSITION

1.1 OVERVIEW

Unit: THB (in millions)

Operating Results	Q3/22	Q3/21	% Change	9M22	% of Premium	9M21	% of Premium	% Change
Revenues								
Net premiums earned ⁽¹⁾	20,929	20,086	4.20%	61,762	100.00%	60,403	100.00%	2.25%
Investment returns ⁽²⁾	4,765	4,629	2.94%	15,633	25.31%	14,922	24.70%	4.76%
Other components of total revenues ⁽³⁾	221	136	62.50%	392	0.64%	270	0.45%	45.19%
Total revenues	25,915	24,851	4.28%	77,787	125.95%	75,595	125.15%	2.90%
Expenses								
Change in long-term technical reserve	3,260	3,750	-13.07%	9,296	15.05%	14,461	23.94%	-35.72%
Net benefits payments and insurance claims expenses	15,625	14,663	6.56%	47,106	76.27%	39,749	65.81%	18.51%
Commissions, brokerage and other underwriting expenses	2,610	2,307	13.13%	7,557	12.24%	7,199	11.92%	4.97%
Operating expenses	1,435	1,160	23.71%	3,939	6.38%	3,626	6.00%	8.63%
Other components of total expenses (Reversal) ⁽⁴⁾	292	183	59.56%	(5)	-0.01%	92	0.15%	-105.43%
Total expenses	23,222	22,063	5.25%	67,893	109.93%	65,127	107.82%	4.25%
Profit before income tax expense	2,693	2,788	-3.41%	9,894	16.02%	10,468	17.33%	-5.48%
Income tax expense	485	525	-7.44%	1,874	3.03%	2,269	3.76%	-17.41%
Net profit	2,208	2,263	-2.47%	8,020	12.99%	8,199	13.57%	-2.18%

Note:

⁽¹⁾ Net premiums earned include gross premium written, premium ceded and unearned premium reserve.

⁽²⁾ Investment returns include net investment income, gain (loss) on investments, gain (loss) on fair value change and share of profit (loss) of associate.

⁽³⁾ Other components of total revenues include fee and commission income and other income.

⁽⁴⁾ Other components of total expenses include expected credit losses (reversal) and other expenses.

In summary, we registered net profit of Baht 8,020 million for 9M22 with the significant items as listed below:

- Premium revenue generated from the new business policies was Baht 14,163 million, increased by Baht 3,400 million or 31.59% compared to the same period of last year. By the nature of industry, 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 same period of last year.
- Medical claims increased by Baht 1,176 million mainly due to higher claims relating to COVID-19.
- In Q3/22, the medical claims relating to COVID-19 has been declined and appeared lower than the same period of last year. Other diseases, however, appeared higher than the same period of last year as the ease of COVID-19 measure has resumed the seasonality of claim in rainy season.
- Investment returns increased by Baht 711 million primarily from higher interest and dividend incomes of Baht 935 million due to the growth in investment portfolio as a result of IPO capital injection and proceeds from the growth in insurance business, and the net gain on foreign exchange of offshore investment and hedged instruments of Baht 379 million. This was partly offset by the lower gain on sale of investments by Baht 603 million.
- On 21 July 2022, the Company received proceeds of Baht 13,600 million from the new issuance of 850,000,000 shares at par value of Baht 1 at offering price of Baht 16 per share. As a result, share premium increased amounting to Baht 12,488 million net of shares issuance expenses of Baht 262 million. The Company registered the increase in issued paid-up new share capital with Ministry of Commerce on 21 July 2022.

	As of 30 September 2022	As of 30 June 2022	As of 31 March 2022
Capital adequacy ratio	358.50%	318.92%	360.57%

The increase in our capital adequacy ratio as of 30 September 2022, as compared to 30 June 2022, was primarily due to the capital injection from IPO, the increase in properties from the revaluation as required by the Office of Insurance Commission (OIC) and a positive impact from changes in market value of assets and liabilities driven by the change in market interest rates.

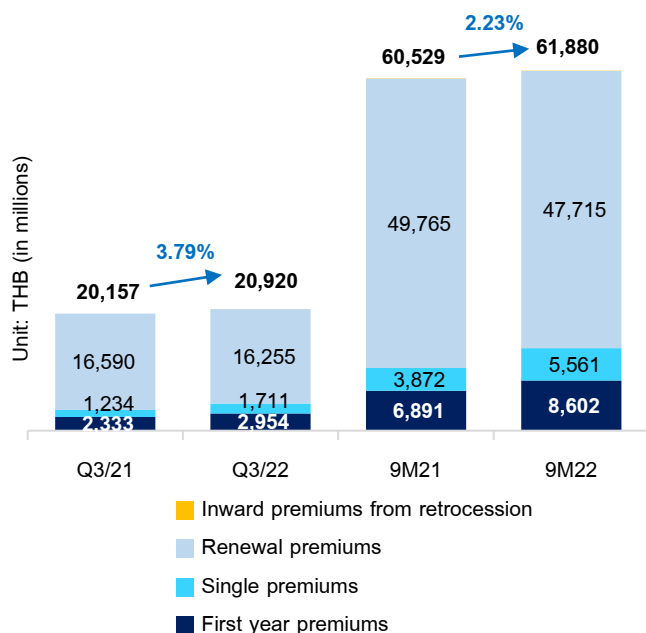
1.2 RESULTS OF OPERATIONS

1.2.1 Revenues

Net premiums earned

Net premiums earned for 9M22 comprises of gross written premiums Baht 61,880 million less other components Baht 118 million which include premium ceded and change in unearned premium reserve.

Gross written premiums



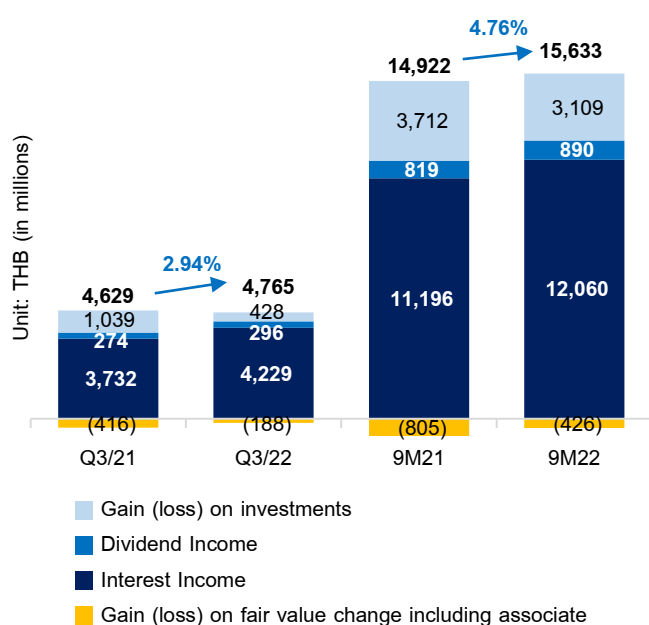
Gross written premiums for Q3/22 and 9M22 increased by 3.79% and 2.23%, respectively compared to the same period of last year which were primarily from the items as listed below:

- First year premiums increased by Baht 621 million and Baht 1,711 million, or 26.62% and 24.83%, respectively. This was mainly contributed by our strong new business growths.
- Single premiums increased by Baht 477 million and Baht 1,689 million, or 38.65% and 43.62%, respectively.
- However, the renewal premiums decreased due to mature policies.

Note:

Inward premiums from retrocession amounts are not visible in the above graphic as they are insignificant.

Investment returns



Investment returns increased from the rising in interest income due to the growth in our fixed income portfolio from IPO capital, proceeds from the growth in insurance business and the net gain on foreign exchange of offshore investments and hedged instruments. This was partly offset by the lower gain on sale of investments.

	30 September 2022	31 December 2021
Return on average investments ¹	3.82%	3.89%

Return on average investments is comparable to last year even though there was an increase in investment portfolio from IPO capital and proceeds from the growth in insurance business.

¹ Return on average investments is calculated as sum of net investment income and gain (loss) on investment in the latest 12 months divided by an average of the sum of net financial investment assets at the beginning and the end of the period.

1.2.2 Expenses

Change in long-term technical reserve

Change in long-term technical reserve for Q3/22 and 9M22 decreased by Baht 490 million and Baht 5,165 million, or 13.07% and 35.72%, respectively, compared to the same period of last year. The lower change in long-term technical reserve was primarily due to more release of the reserve from maturity policies in 2022 than the same period of last year.

Net benefits payments and insurance claims expenses

Net benefits payments and insurance claims expenses for Q3/22 and 9M22 increased by Baht 962 million and Baht 7,357 million, or 6.56% and 18.51%, respectively, compared to the same period of last year. The higher net benefits payments and insurance claims expenses was primarily from the higher maturity benefits and medical claims.

The higher maturity benefit was due to more policies matured compared to the same period of last year. However, it was mostly offset by the more release of the long-term technical reserve, and results in an immaterial impact to the net profit.

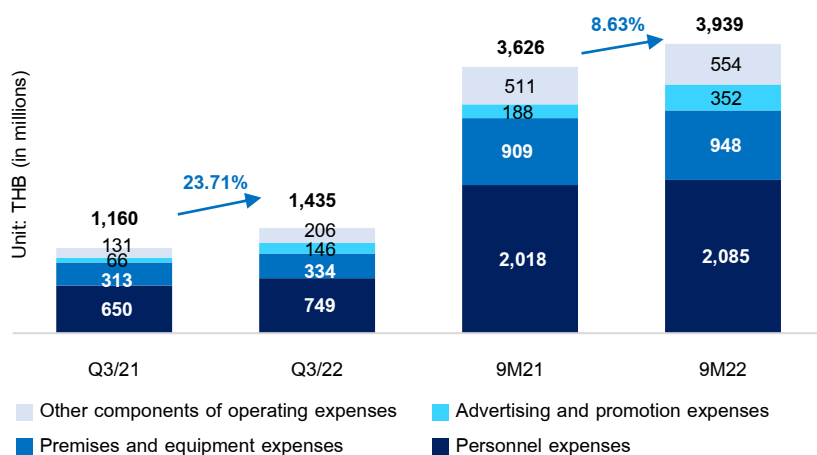
Medical claims for Q3/22 and 9M22 increased by Baht 339 million and Baht 1,176 million, respectively, compared to the same period of last year. In Q3/22, the medical claims relating to COVID-19 has been declined and appeared lower than the same period of last year. Other diseases, however, appeared higher than the same period of last year as the ease of COVID-19 measure has resumed the seasonality of claims in rainy season.

Our benefits and insurance claims expenses have been impacted by the COVID-19 outbreak. Our loss ratio relating to medical claims was 7.35% for 9M22 compared to 5.57% for 9M21 mainly due to higher medical claims relating to COVID-19. Medical claims relating to COVID-19 amounted to Baht 527 million and Baht 1,258 million, accounted for 15.63% and 27.65% of our overall medical claims for 9M21 and 9M22, respectively. However, the medical claims relating to COVID-19 have been declined from Baht 474 million for Q1/22 to Baht 452 million for Q2/22 and Baht 332 million for Q3/22.

Commissions, brokerage and other underwriting expenses

Commissions, brokerage and other underwriting expenses for Q3/22 and 9M22 increased by Baht 303 million and Baht 358 million, or 13.13% and 4.97%, respectively, compared to the same period of last year. The increase in these expenses was mainly due to the incentive to increase in sale of higher profit margin products.

Operating expenses



Operating expenses for Q3/22 and 9M22 increased by Baht 275 million and Baht 313 million, or 23.71% and 8.63%, respectively, compared to the same period of last year. It was primarily from advertisement expenses for the promotion of new products and corporate image.

1.3 ANALYSIS OF FINANCIAL POSITION

Unit: THB (in millions)

	30 September 2022	% of Total Assets	31 December 2021	% of Total Assets	Change	% Change
Assets						
Cash and cash equivalents	5,660	1.03%	7,326	1.37%	(1,666)	-22.74%
Investment assets						
<i>Investments in securities</i>	493,700	89.93%	480,691	90.07%	13,009	2.71%
<i>Loans and accrued interest</i>	29,341	5.34%	29,936	5.61%	(595)	-1.99%
Total investment assets	523,041	95.27%	510,627	95.68%	12,414	2.43%
Total financial investment assets	528,701	96.30%	517,953	97.05%	10,748	2.08%
Assets other than the abovementioned ⁽¹⁾	20,302	3.70%	15,753	2.95%	4,549	28.88%
Total assets	549,003	100.00%	533,706	100.00%	15,297	2.87%
Liabilities and Equity						
Liabilities						
Insurance contract liabilities						
<i>Insurance technical reserves</i>	417,819	76.11%	408,529	76.55%	9,290	2.27%
<i>Other insurance contract liabilities</i>	23,884	4.35%	24,963	4.68%	(1,079)	-4.32%
Total insurance contract liabilities	441,703	80.46%	433,492	81.23%	8,211	1.89%
Liabilities other than the abovementioned ⁽²⁾	17,679	3.22%	13,783	2.58%	3,896	28.27%
Total liabilities	459,382	83.68%	447,275	83.81%	12,107	2.71%
Equity						
Share capital	31,231	5.69%	17,893	3.35%	13,338	74.54%
Retained earnings	63,276	11.52%	57,907	10.85%	5,369	9.27%
Other components of equity	(4,886)	-0.89%	10,631	1.99%	(15,517)	-145.96%
Total equity	89,621	16.32%	86,431	16.19%	3,190	3.69%
Total liabilities and equity	549,003	100.00%	533,706	100.00%	15,297	2.87%

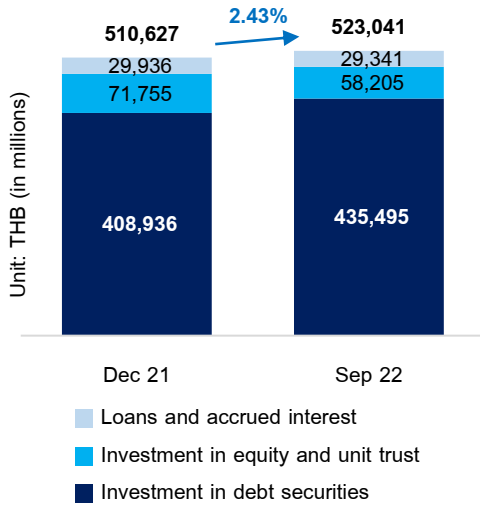
Note:

⁽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.

⁽²⁾ Liabilities other than the abovementioned consists of investment contract liabilities, reinsurance payable, derivative liabilities, income tax payable, deferred tax liabilities, net, employee benefit obligations and other liabilities.

1.3.1 Assets

Investment assets



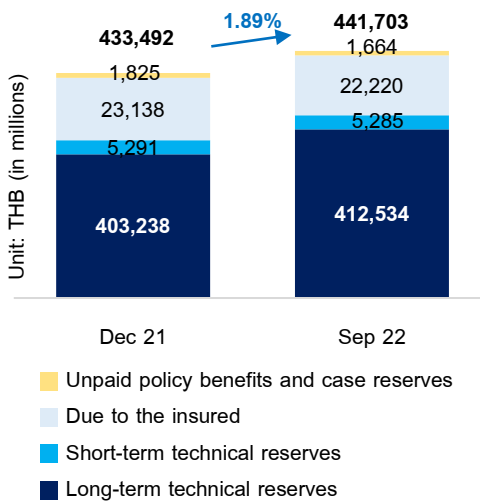
Investment assets as of 31 December 2021 and 30 September 2022 comprised investments in securities and loans (included accrued interest), in which the investments in securities accounted for 94.14% and 94.39% of total investment assets, respectively.

Our investments in securities as of 30 September 2022 comprised mainly of investments in fixed income securities (government bonds, state enterprise bonds, corporate bonds) and term deposits, which constituting 83.26% of the total portfolio as compared to 80.09% as of 31 December 2021.

Investment assets grew by 2.43%, primarily due to the increase in debt securities which resulted from IPO capital and proceeds from the growth in insurance business.

1.3.2 Liabilities

Insurance contract liabilities



Insurance contract liabilities increased by 1.89%, primarily due to the increase in long-term technical reserves from both the growth in new and renewal insurance business.

1.4 FINANCIAL RATIOS AND ACTUARIAL DATA

1.4.1 Financial ratios

Profitability ratios		
	9M22	9M21
Operating profit margin ¹	15.99%	17.29%
Net profit margin ²	10.31%	10.85%
Underwriting expense ratio ³	18.58%	17.88%
	30 September 2022	31 December 2021
Return on average shareholders' equity ⁴	9.47%	10.22%
Efficiency ratios		
	30 September 2022	31 December 2021
Return on average assets ⁵	1.54%	1.63%
Investment assets to reserves ratio ⁶	118.41%	117.79%
Other financial ratios		
	30 September 2022	31 December 2021
Debt to equity ratio ⁷	5.13x	5.17x
Reserves to equity ratio ⁸	4.66x	4.73x
	31 December 2021	31 December 2020
Dividend payout ratio ⁹	30.08%	29.99%

Net profit margin for 9M22 is comparable to the same period of last year. While operating profit margin for 9M22 decreased from the same period of last year due to the higher increase of new business which resulted in more initial loss, but profitable in subsequent years, from acquiring new insurance policies and higher medical claims relating to COVID-19.

Return on average shareholders' equity, debt to equity ratio, and reserves to equity ratio are also comparable to last year even though the shareholders' equity increase from the issuance of IPO ordinary shares.

1.4.2 Capital ratios

	As of 30 September 2022	As of 30 June 2022	As of 31 March 2022
Capital adequacy ratio ¹⁰	358.50%	318.92%	360.57%

As of 30 September 2022, our capital adequacy ratio was 358.50%, significantly higher than the minimum regulatory requirement to prevent the OIC's business intervention of 140%.

The increase in our capital adequacy ratio as of 30 September 2022, as compared to 30 June 2022, was primarily due to the capital injection from IPO, the increase in properties from the revaluation as required by the OIC and a positive impact from changes in market value of assets and liabilities driven by the change in market interest rates.

¹ Operating profit margin is calculated as profit before income tax expense divided by gross written premiums for the period.

² Net profit margin is calculated as net profit divided by total revenues for the period.

³ 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.

⁴ Return on average shareholders' equity is calculated as net profit in the latest 12 months divided by average total shareholders' equity at the beginning and the end of the period.

⁵ Return on average assets is calculated as net profit in the latest 12 months divided by average total assets at the beginning and the end of the period.

⁶ Investment assets to reserves ratio is calculated as investment assets divided by insurance contract liabilities at the end of the period.

⁷ Debt to equity ratio is calculated as total liabilities divided by total shareholders' equity at the end of the period.

⁸ Reserves to equity ratio is calculated as insurance contract liabilities (excluding unpaid policy benefits, case reserves and due to the insured) divided by total shareholders' equity at the end of the period.

⁹ 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.

¹⁰ 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).

1.4.3 Actuarial data

Unit: THB (in millions)

	9M22	9M21
Annual premium equivalent (APE)	9,641	7,678
Value of new business (VONB)	5,151	3,986
VONB margin ¹	53.42%	51.91%
	Y2021	Y2020
Embedded value	142,277	134,786

Unit: THB (in millions)

By product	9M22			9M21		
	APE	VONB	VONB Margin	APE	VONB	VONB Margin
Ordinary Life (Traditional)	5,950	2,582	43.39%	4,728	1,846	39.05%
Ordinary Life (New Participating)	1,245	393	31.60%	356	65	18.25%
Investment-Linked	307	101	32.95%	644	191	29.71%
Riders	1,218	1,443	118.50%	1,114	1,398	125.58%
Others	921	631	68.49%	837	485	57.93%
Total Company	9,641	5,151	53.42%	7,678	3,986	51.91%

Unit: THB (in millions)

By Channel	9M22			9M21		
	APE	VONB	VONB Margin	APE	VONB	VONB Margin
Agency	6,532	3,699	56.62%	5,489	2,957	53.86%
Partnership	2,548	1,225	48.09%	1,745	869	49.83%
Alternative Channels ⁽¹⁾	561	227	40.38%	444	160	35.96%
Total Company	9,641	5,151	53.42%	7,678	3,986	51.91%

Note: (1) Alternative channels are telemarketing, group employee benefits and digital platforms.

Annual premium equivalent (APE)

Annual premium equivalent is a commonly used industry measure accounting for the 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 reporting 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 25.58% to Baht 9,641 million for 9M22 from Baht 7,678 million for 9M21, primarily from agency and partnership channels. The growth in annual premium equivalent from agency channel was mainly driven by higher sales on our new participating endowment products. The growth in annual premium equivalent from partnership channel was mainly driven by a recovery of sales after the reopening of bank branches as social distancing measures eased and a successful execution of product strategies with our partners.

¹ VONB margin is calculated as VONB divided by APE.

Value of new business (VONB)

Value of new business is an actuarial metric, which represents an actuarially determined estimate of the value to shareholders arising from the new policies written during the relevant reporting period. It 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 increased by 29.23% to Baht 5,151 million for 9M22 from Baht 3,986 million for 9M21, following the growth of annual premium equivalent.

Value of new business margin

Value of new business margin increased to 53.42% for 9M22 from 51.91% for 9M21, primarily due to the interest rate movement and the shift on product mix.

Embedded value

Our embedded value increased by Baht 7,491 million in 2021, from Baht 134,786 million as of 31 December 2020 to Baht 142,277 million as of 31 December 2021, representing a 5.56% increase. The key contributors to this change were the value of new business for the twelve months ended 31 December 2021 of Baht 5,585 million, the expected return on embedded value of Baht 7,269 million, an economic variance of negative Baht 3,968 million, reflecting changes in the market value of assets and liabilities due to the increase in market interest rates, an increase from change in economic assumptions of Baht 912 million, and a capital movement in relation to dividends paid to our shareholders causing a decrease of Baht 2,258 million.

1.5 LIQUIDITY AND CAPITAL RESOURCES

As of 30 September 2022, our cash and cash equivalents were Baht 5,660 million. Our primary cash inflows came from insurance premiums, cash receipts from investments in securities, and interests received from debt instruments, which mostly generated steady fixed income.

Net written premiums are generally affected by the level of policy surrenders, fully paid-ups, maturities, and deaths. 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, 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 when in need of cash. As of 30 September 2022, the carrying value of deposits and short-term government bonds with a maturity of less than one year is amounted to Baht 12,202 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.

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

With 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. Our loss ratio relating to medical claims was 7.35% for 9M22 compared to 5.57% for 9M21. The increase was mainly due to having higher medical claims relating to COVID-19. Medical claims relating to COVID-19 amounted to Baht 527 million and Baht 1,258 million accounting for 15.63% and 27.65% of our overall medical claims for 9M21 and 9M22, respectively.

However, the medical claims relating to COVID-19 have been declined from Baht 474 million for Q1/22 to Baht 452 million for Q2/22 and Baht 332 million for Q3/22.

Macroeconomic conditions in Thailand

Thailand's GDP growth in Q2/ 22 was 2.50%, below market consensus at 3.10%, however improved from 2.30% in Q1/22. The modest growth primarily driven by private consumption sector which grew by 6.90% in Q2/22, compared to 3.50% in Q1/22, partly benefits from government's stimulus measures. Meanwhile, the growth on government consumption plunged to 2.40% in Q2/22 from 7.20% in Q1/22.

According to the minutes of Monetary Policy Committee (MPC) meeting in September 2022, the Bank of Thailand (BoT) remained its 2022 GDP growth forecast at 3.30% as the Thai economy has continued to recover due to stronger domestic demand and a recovering trend in foreign tourists. However, BoT reduced its 2023 GDP growth forecast to 3.80% from 4.20% as downside risks remain from a slower global economy, impact of higher living costs and decreasing in fiscal stimulus packages.

In August 2022 meeting, the Monetary Policy Committee (MPC) voted 6 to 1 to raise the policy rate by 0.25 percentage point with one member voted to raise the policy rate by 0.50 percentage point. Moreover, MPC voted unanimously to raise the policy rate by 0.25 percentage point in September 2022 meeting. As a result, the policy rate at the end of the third quarter of 2022 is 1.00%. The reason that MPC voted to raise the policy rate because the Thai economy is projected to continue recovering with strong momentum and a larger-than-expected number of foreign tourist arrivals.

For the inflation, Thailand's headline CPI in September 2022 was 6.41%, declining from 7.86% in the prior month. However, it 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 3.15% and 3.12% in August 2022 and September 2022, respectively.

From this reason, the BOT's raised its headline inflation forecasts to 6.30% (from 6.20%) for 2022 and 2.60% (from 2.50%) for 2023 and its core inflation forecasts to 2.60% (from 2.20%) for 2022 and 2.40% (from 2.00%) for 2023.

Interest rate volatility

In the third quarter of 2022, the movement of Thai government bond yield was volatile mostly in conjunction with global government bond yields. The 10-year Thai government bond yield was 3.21% at the end of this quarter, increasing from 2.90% at the end of previous quarter. During the third quarter, the 10-year bond yield ranged between 2.42% and 3.30%.

The factors that caused the bond yield higher were as follows:

- 1) Still rising global inflation, contrary to the previous forecast of starting to decline in this quarter.
- 2) Stronger-than-forecast economic data in major economies, especially very robust labour markets.

- 3) A more aggressive stance from central banks around the world in order to tackle the high level of inflation.

While the factors that caused the bond yield lower were as follows:

- 1) Increasing demand from market participants in primary and secondary markets
- 2) Lower-than-planned bond supply from the Public Debt Management Office (PDMO)
- 3) A less aggressive monetary policy tightening from the Monetary Policy Committee (MPC).

From the beginning of July 2022 to the middle of August 2022, Thai government bond yield curve went lower with a flattening bias, continuing a downward trend from the second quarter. Market participants were less concerned about a duration risk and had ample liquidity on hands, so the demand for Thai government bonds were higher in both primary and secondary markets. From the middle of August 2022 to the end of September 2022, the world government bond yields moved higher after central banks around the world signalled a more aggressive stance in tightening monetary policies. The more aggressive stance came from the upside surprise of inflation rates and still strong momentum in the labor markets. These factors also caused the Thai government bond yield curve to move higher with a steepening bias.

Fluctuations in equity markets

Equity securities accounted for 14.05% and 11.13% of our total investment assets' carrying value as of 31 December 2021 and 30 September 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 are backing non-unit-linked products.

In periods of protracted or steep declines in the equity markets, surrenders may increase from customers who hold investment-linked products and shift to other products. Additionally, sales of the mentioned products typically decrease in times of uncertainty or market volatility because the customers may be reluctant to purchase the new policies of such products.

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. The new effective regulations in 2022 which have the impact to the Company are as follows:

- The minimum capital adequacy ratio for the OIC's intervention has reverted back from 120% to 140% since 1 January 2022. The Company consistently maintained the capital adequacy ratio significantly higher than the minimum regulatory requirements imposed (our capital adequacy ratio was 358.50% as of 30 September 2022).
- 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.
- In light of the OIC's COVID-19 pandemic relief measure guidelines, the Company has extended the grace period for 60 days for all policies under which the original grace period had expired between 27 February 2020 and 30 June 2020 and, upon request, have extended the grace period for 60 days for policies under which the original grace period had expired between 1 July 2020 and 31 December 2022.

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 cash flows, 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 and an appropriate claim experience are important to our results of operations.

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 16.24% and 16.94% to the industry's total agency annual premium equivalent¹ in 9M21 and 9M22, 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.

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.

Seasonality

We are subject to seasonal fluctuations in our results of operations and cash flow. Consequently, our interim results should not be used as an indication of our annual results due to the reasons as follows:

- Insurance volumes increase significantly around December, as customers often avail themselves of the personal income tax advantages that life insurance products offer.
- We 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.
- Typically, medical claims are observed having the seasonality mainly driven by the weather.

Environment, Society and Governance (“ESG”)

The Company focuses on sustainable business operations with the vision "To be an insurance company of sustainability" by delivering 6 values from business operations to stakeholders, such as responding to customer needs, caring for employee well-being, being a selected life insurance company for partners, providing sustainable growth for return on investment, responsible or enhancing the quality of life and committing to good corporate governance. Furthermore, the Company has integrated ESG into business strategies. From product design, and risk management, to investment policy with the "3Rs": Risk, Return, and Real Impact cover the Company, society, and environment, including the development of corporate social responsibility projects. The Company has developed a "Corporate Social Responsibility Strategic Master Plan" focusing on Giving, Caring and Fulfilling strategies since 2008 to drive corporate social responsibility projects for more than 10 years.

Currently, the Company has the structure to support the operation for sustainability by the sustainable development committee (SD Committee) with Chief Executive Officer and President as the Chairperson which designated on 15 September 2022 to drive the organization towards sustainable business policy in managing with good governance, social care, and environmentally friendly. Therefore, the Company will have a comprehensive strategy for the environment, social, and governance (ESG) which is in accordance with the United Nations Sustainable Development Goals describe as three strategies:

1. **Promise Strategy** is upholding promises to all stakeholders, particularly consumers with management adhering to good corporate governance and managing employees professionally and ethically.
2. **Protect Strategy** is a customer-centric strategy through product development and responsible service and can meet the needs of customers individually (Personalized) and focuses on managing risks that may occur both directly and indirectly. Customer sustainability includes the responsible management of customer data and information technology systems.
3. **Prosper Strategy** is creating a flourishing boom. Focusing on economic growth while contributing to the creation of society and the environment. Both community and social management in a sustainable manner, as well as environmental management.

The Company strives for product and service innovativeness by integrated with the governance, social and environmental factors which are the key contribution in creating value and driving the strong sustainable growth for the Company and stakeholders. This will lead the organization "To be an insurance company of sustainability" as the vision stated.

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 30 September 2022, we had financial investment assets of Baht 528,701 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.

Unit: THB (in millions)

Sensitivity Analysis	Total Equity, Net of Tax	
	30 September 2022	31 December 2021
+ 25 basis points in yield curves	(414.11)	(394.17)
- 25 basis points in yield curves	414.14	394.23

Note:

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 above. This sensitivity analysis assumes that all other variables, in particular, foreign currency exchange rates, remain constant.

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 predominated 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.

Unit: THB (in millions)

Sensitivity Analysis	Total Equity, Net of Tax	
	30 September 2022	31 December 2021
2.5% strengthening in THB	2.10	(26.41)
2.5% weakening in THB	(2.10)	26.41

Unit: THB (in millions)

Sensitivity Analysis	Impact on Net Profit or Loss	
	30 September 2022	31 December 2021
2.5% strengthening in THB	2.62	(33.01)
2.5% weakening in THB	(2.62)	33.01

Note:

As of the dates indicated, movements in U.S. dollar would affect the net exposure of our financial investment assets denominated in foreign currencies and foreign currency hedged instruments and reflect the impact on total equity and net profit or loss as shown above. 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.

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.

Unit: THB (in millions)

Sensitivity Analysis	Total equity, net of tax	
	30 September 2022	31 December 2021
10% increase in investment price	4,444.47	5,561.66
10% decrease in investment price	(4,444.47)	(5,561.66)

Note:

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 above, excluding investments assets held to cover unit-linked liabilities.

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 1 January 2025. 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 in preparation of 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 have almost completed the 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.



Thai
Life

Insurance

Thai Life Insurance Public Company Limited
123 Ratchadaphisek Road, Din Daeng, Bangkok 10400, Thailand
Tel. +66 2247 0247 Fax. +66 2246 9946
www.thailife.com Registration No. 0107555000104