Thai Life Insurance

Management Discussion and Analysis

for the year 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, according to Thai Life Assurance Association[1]. 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

- Being listed company in the Stock Exchange of Thailand (SET) on 25 July 2022 with security named "TLI"
- 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: Transforming Tomorrow: transiting to a better future (2022-2026) and Sustainable Tomorrow: stepping into a strong and sustainable future (2027-2031).
- Pursuing Digital Transformation in delivery of innovative e-Services such as e-Policyholder Guidebook and 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). In addition, the Company received Digital Transformation Initiative of the Year for Thailand from Insurance Asia Award 2022.
- Expanding 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 affordable, named "Thai Life Insurance Health Fit Bao Bao".
- Collaborating with Eisai (Thailand) Marketing Co., Ltd. develop innovative care for Alzheimer, particularly those in the early stage and to educate Thai people understanding and preventing Alzheimer and Dementia.

1. RESULTS OF OPERATION AND FINANCIAL POSITION

1.1 OVERVIEW

The Company delivered sustainable and impressive financial performance in 2022 compared to 2021.

Net Profit	APE	CAR
9,265m	12,819m	420.18%
+10.38%	+12.77%	+64.96pps

VONB	VONB Margin	EV
7,325m	57.14%	145,170m
+31.17%	+8.01pps	+2.03%

[1] YTD total premium revenues was disclosed referring to the industry data as of 30 November 2022 from Thai Life Assurance Association (TLAA). By the time the Company published this document, TLAA's industry data as of 31 December 2022 has not been published.

1.2 RESULTS OF OPERATIONS

Unit: THB (in millions)

Operating Results	YE22	% of Premium	YE21	% of Premium	Change	% Change
Revenues						
Net premiums earned[1]	87,636	100.00%	90,104	100.00%	(2,468)	-2.74%
Investment returns[2]	19,025	21.71%	18,700	20.75%	325	1.74%
Other components of total revenues[3]	492	0.56%	442	0.50%	50	11.31%
Total revenues	**107,153**	**122.27%**	**109,246**	**121.25%**	**(2,093)**	**-1.92%**
Expenses						
Change in long-term technical reserve	14,913	17.02%	28,225	31.32%	(13,312)	-47.16%
Net benefits payments and insurance claims expenses	64,992	74.16%	53,458	59.33%	11,534	21.58%
Commissions, brokerage and other underwriting expenses	10,552	12.04%	10,404	11.55%	148	1.42%
Operating expenses	5,467	6.24%	5,073	5.63%	394	7.77%
Other components of total expenses (Reversal)[4]	(193)	-0.22%	1,284	1.43%	(1,477)	-115.03%
Total expenses	**95,731**	**109.24%**	**98,444**	**109.26%**	**(2,713)**	**-2.76%**
Profit before income tax expense	**11,422**	**13.03%**	**10,802**	**11.99%**	**620**	**5.74%**
Income tax expense	2,157	2.46%	2,408	2.67%	(251)	-10.42%
Net profit	**9,265**	**10.57%**	**8,394**	**9.32%**	**871**	**10.38%**

In summary, the Company registered **net profit of Baht 9,265 million for YE22** with the significant items as listed below:

- Investment returns increased by Baht 325 million, or 1.74% compared to the last year which were primarily from the rising in interest income due to the increase in market interest rate and the growth in the Company's fixed income portfolio as a result of IPO capital injection and proceeds from the growth in insurance business. This was partly offset by the lower gain on sale of investments.
- Overall, the gross written premium decreased by 2.62% mainly due to some fully paid premiums of endowment products and matured policies. Nevertheless, premium revenue generated from the new business policies, including first year premiums and single premiums, was Baht 18,899 million, increased by Baht 1,197 million or 6.76% compared to the last year. By the nature of industry, with the higher new business, the Company has incurred more initial loss from acquiring new insurance policies which further reduced the Company's net profit compared to the last year.
- Medical claims increased by Baht 1,421 million mainly due to higher claims relating to COVID-19 in early half of this year before the situation improved which leads to continuously decline in the claims relating to COVID-19. However, there was higher seasonality claims relating to other diseases in rainy season in the second half of this year.
- There was the reversal of expected credit loss (ECL) in 2022 of Baht 361 million to reflect the improvement in credit risk.
- 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 12,489 million net of shares issuance expenses of Baht 261 million. The Company registered the increase in issued paid-up new share capital with Ministry of Commerce on 21 July 2022.

[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.

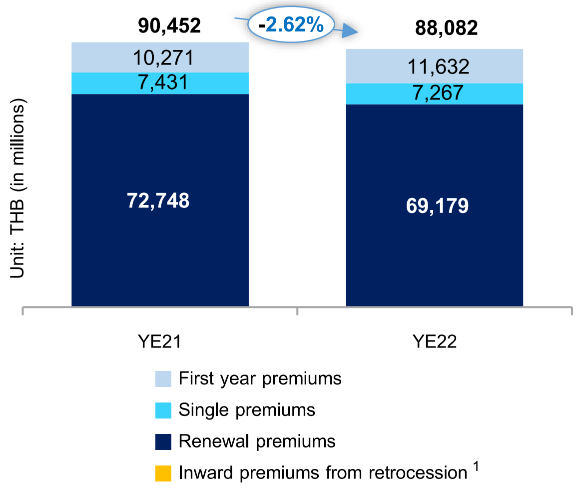
[4] Other components of total expenses include expected credit losses (reversal) and other expenses.

1.2.1 Revenues

Net premiums earned

Net premiums earned for YE22 comprises gross written premiums Baht 88,082 million less other components Baht 446 million which include premium ceded and change in unearned premium reserve.

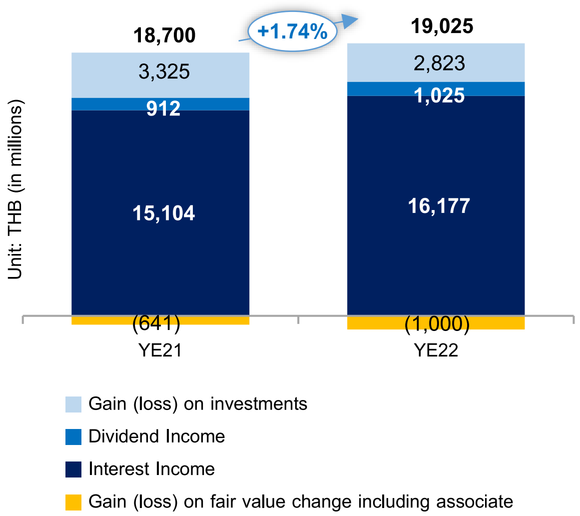
Gross written premiums



Gross written premiums for YE22 decreased by 2.62% compared to the last year which were primarily from the items as listed below:

- Renewal premiums decreased by Baht 3,569 million, or 4.91%. This was mainly due to some fully paid premiums of endowment products which have been sold over the prior periods and matured policies.
- However, premium revenue generated from the new business policies, including first year premiums and single premiums, was Baht 18,899 million, increased by Baht 1,197 million or 6.76% compared to the last year. In addition, first year premiums increased by Baht 1,361 million, or 13.25%. This was mainly contributed by the strong new business growth.

Investment returns



Investment returns for YE22 increased by Baht 325 million, or 1.74% compared to the last year which were primarily from:

- Higher interest and dividend incomes of Baht 1,186 million due to the increase in market interest rate and the growth in investment portfolio as a result of IPO capital injection and proceeds from the growth in insurance business.

Partly offset by:

- Lower gain on sale of investments by Baht 502 million
- Higher net loss on foreign exchange of offshore investment and hedged instruments of Baht 359 million.

	31 December 2022	31 December 2021
Return on average investments[2]	3.79%	3.89%

The return on average investments was stable compared to last year as the composition of investment portfolio remains prudent and investment in debt securities benefited from rising interest rate, despite volatile equity markets.

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

[2] 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 YE22 decreased by Baht 13,312 million, or 47.16%, compared to the last year. The lower change in long-term technical reserve was primarily due to more release of the reserve from maturity policies for YE22 compared to the last year.

Net benefits payments and insurance claims expenses

Net benefits payments and insurance claims expenses for YE22 increased by Baht 11,534 million, or 21.58%, compared to the 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 last year. However, it was mostly offset by the more release of the long-term technical reserve abovementioned, and results in an immaterial impact to the net profit.

The medical claims for YE22 increased by Baht 1,421 million compared to the last year mainly due to the higher medical claims relating to COVID-19 and seasonality claims relating to other diseases in rainy season.

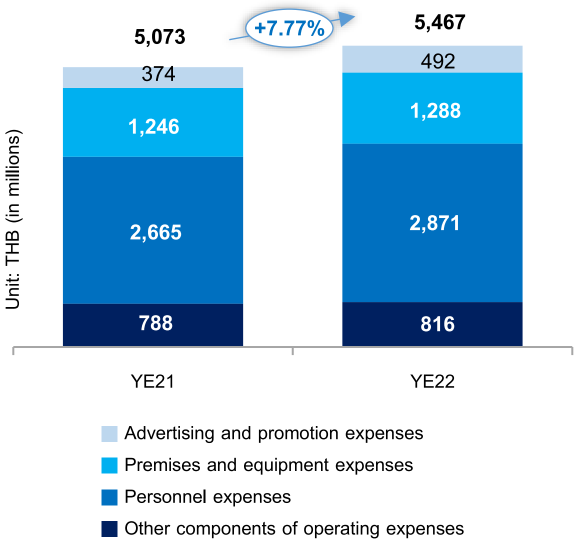
The medical claims relating to COVID-19 amounted to Baht 900 million and Baht 1,427 million, accounted for 19.33% and 23.49% of the Company's overall medical claims for YE21 and YE22, respectively. Despite the higher amount compared to the last year, the medical claims relating to COVID-19 have been continuously declining from Baht 474 million for Q1/22 to Baht 452 million for Q2/22, Baht 332 million for Q3/22 and Baht 169 million for Q4/22.

Other diseases, on the other hand, was higher than the last year by Baht 894 million as the ease of COVID-19 measure has resumed the seasonality claims relating to other diseases in rainy season for the second half of 2022.

Commissions, brokerage and other underwriting expenses

Commissions, brokerage and other underwriting expenses for YE22 increased by Baht 148 million, or 1.42%, compared to the last year. The increase in these expenses was mainly due to the increase in incentive expenses from sale of higher margin products.

Operating expenses

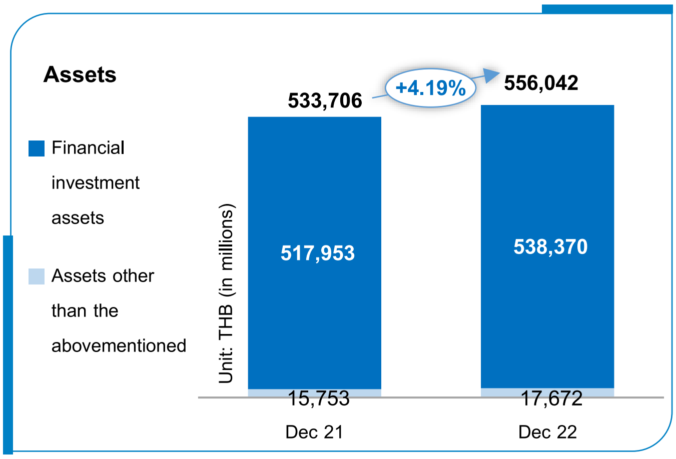


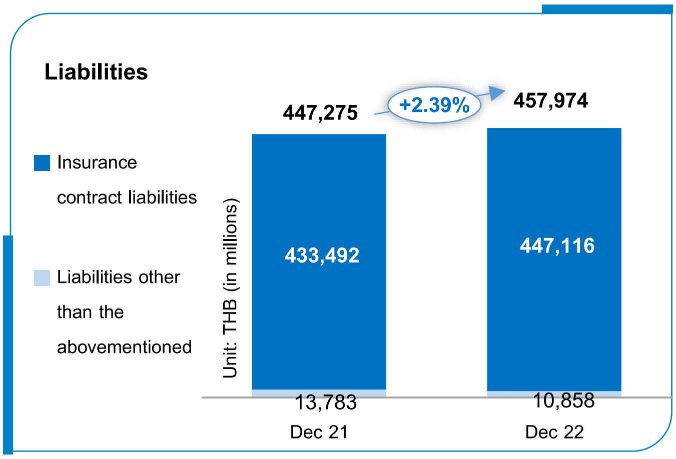
Operating expenses for YE22 increased by Baht 394 million, or 7.77%, compared to the last year. It was primarily from increase in personnel expenses and advertisement expenses for the promotion of new products and corporate image.

1.3 ANALYSIS OF FINANCIAL POSITION

Unit: THB (in millions)

	31 December 2022	% of Total Assets	31 December 2021	% of Total Assets	Change	% Change
Assets						
Cash and cash equivalents	7,686	1.38%	7,326	1.37%	360	4.91%
Investment assets						
Investments in securities	*501,281*	*90.15%*	*480,691*	*90.07%*	*20,590*	*4.28%*
Loans and accrued interest	*29,403*	*5.29%*	*29,936*	*5.61%*	*(533)*	*-1.78%*
Total investment assets	530,684	95.44%	510,627	95.68%	20,057	3.93%
Total financial investment assets	**538,370**	**96.82%**	**517,953**	**97.05%**	**20,417**	**3.94%**
Assets other than the abovementioned[1]	17,672	3.18%	15,753	2.95%	1,919	12.18%
Total assets	**556,042**	**100.00%**	**533,706**	**100.00%**	**22,336**	**4.19%**
Liabilities and Equity						
Liabilities						
Insurance contract liabilities						
Insurance technical reserves	*423,630*	*76.19%*	*408,529*	*76.55%*	*15,101*	*3.70%*
Other insurance contract liabilities	*23,486*	*4.22%*	*24,963*	*4.68%*	*(1,477)*	*-5.92%*
Total insurance contract liabilities	**447,116**	**80.41%**	**433,492**	**81.23%**	**13,624**	**3.14%**
Liabilities other than the abovementioned[2]	10,858	1.95%	13,783	2.58%	(2,925)	-21.22%
Total liabilities	**457,974**	**82.36%**	**447,275**	**83.81%**	**10,699**	**2.39%**
Equity						
Share capital	31,232	5.62%	17,893	3.35%	13,339	74.55%
Retained earnings	64,545	11.61%	57,907	10.85%	6,638	11.46%
Other components of equity	2,291	0.41%	10,631	1.99%	(8,340)	-78.45%
Total equity	**98,068**	**17.64%**	**86,431**	**16.19%**	**11,637**	**13.46%**
Total liabilities and equity	**556,042**	**100.00%**	**533,706**	**100.00%**	**22,336**	**4.19%**



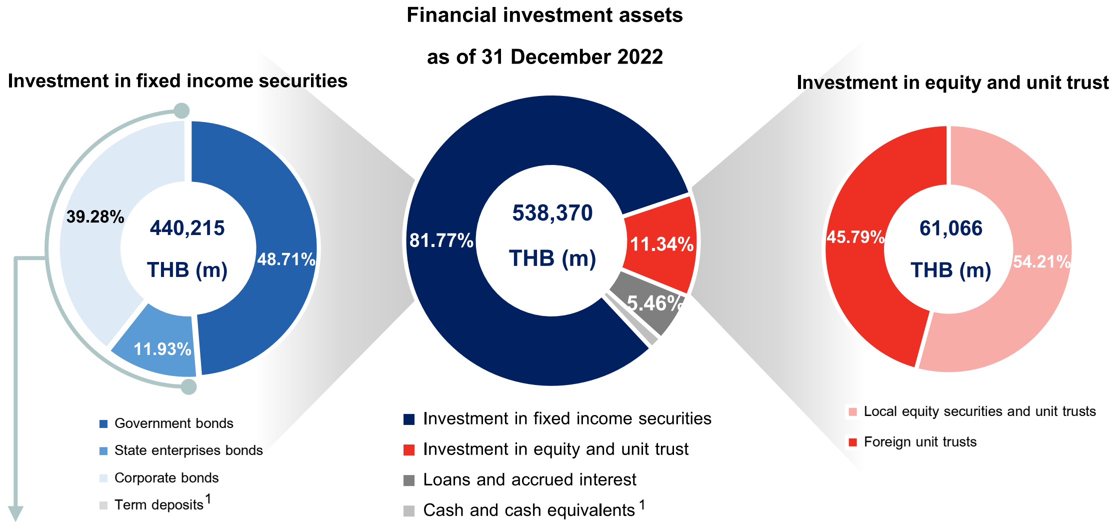


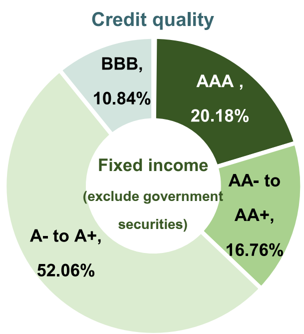
[1] Assets other than the abovementioned consist of accrued investment income, derivative assets, net investments in associated companies, investments held to cover linked liabilities, net premiums due and uncollected, net land, premises and equipment, reinsurers' share of insurance contract liabilities, 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

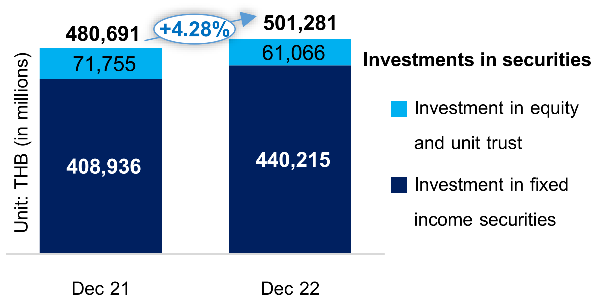
Financial investment assets





The Company's investment portfolio is well managed and professionally allocated financial investment assets in a prudent manner. The investment portfolio comprises mainly fixed income securities constituting 81.77% which generated promisingly stable returns. Moreover, the diversified portfolio is presented a low credit risk with the credit rating of the 'investment grade'.

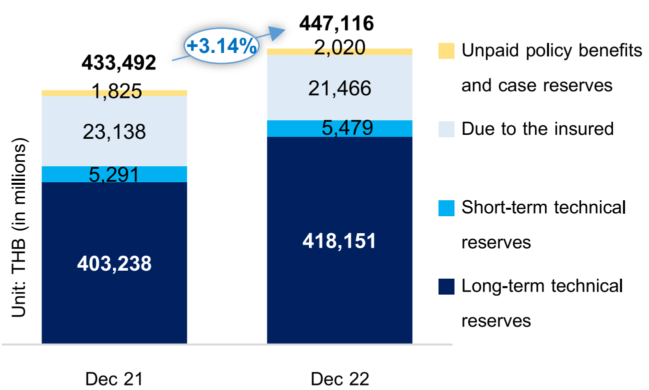
Note:
- The above graphic sets out information about the credit quality as at 31 December 2022 of investment in fixed income securities (state enterprises and corporate)
- Short-term credit rating of F1+(tha) 0.16% is not visible in the above graphic as they are insignificant.



The growth of investment in securities by 4.28% was resulted from IPO capital and proceeds from the growth in insurance business.

1.3.2 Liabilities

Insurance contract liabilities



Insurance contract liabilities increased by 3.14%, primarily due to the increase in long-term technical reserves from the growth in new business.

[1] Cash and cash equivalents 1.43% and term deposits 0.08% are not visible in the above graphic as they are insignificant.

1.4 FINANCIAL RATIOS AND ACTUARIAL DATA

1.4.1 Financial ratios

Profitability ratios		
	YE22	**YE21**
Operating profit margin[1]	12.97%	11.94%
Net profit margin[2]	8.65%	7.68%
Underwriting expense ratio[3]	18.19%	17.11%
	31 December 2022	**31 December 2021**
Return on average shareholders' equity[4]	10.04%	10.22%

Efficiency ratios		
	31 December 2022	**31 December 2021**
Return on average assets[5]	1.70%	1.63%
Investment assets to reserves ratio[6]	118.69%	117.79%

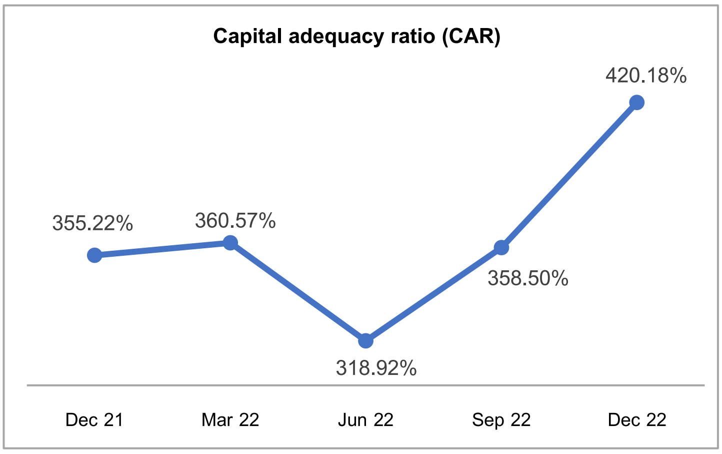
Other financial ratios		
	31 December 2022	**31 December 2021**
Debt to equity ratio[7]	4.67x	5.17x
Reserves to equity ratio[8]	4.32x	4.73x
	31 December 2021	**31 December 2020**
Dividend payout ratio[9]	30.08%	29.99%

Operating profit margin, net profit margin, and return on average assets for YE22 increased from the last year which was primarily from increase in investment returns due to the growth in investment portfolio as a result of IPO capital injection and proceeds from the growth in insurance business.

Underwriting expense ratio for YE22 increased from the last year which was mainly due to the increase in incentive expenses from sale of higher margin products.

Debt to equity ratio and reserves to equity ratio are lower compared to last year due to the increase in shareholders' equity from the issuance of IPO ordinary shares.

1.4.2 Capital ratios



As of 31 December 2022, the Company's capital adequacy ratio (CAR)[10] was 420.18%, significantly higher than the Office of Insurance Commission (OIC) minimum requirement at 140%.

The capital adequacy ratio as of 31 December 2022 increased, compared to 30 September 2022, primarily due to lower asset-liability risk charge as a result of achieving a better asset-liability match. Meanwhile, the company's capital is continuously strengthened by our profitable business.

[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)

	YE22	YE21
Annualized premium equivalent (APE)	12,819	11,367
Value of new business (VONB)	7,325	5,585
VONB margin[(1)]	57.14%	49.13%
Embedded value (EV)	145,170	142,277
EV operating profit	13,797	12,523
Operating return on EV[(2)]	9.70%	9.29%

Note: (1) VONB margin is calculated as VONB divided by APE.

(2) Operating return on EV is calculated as EV operating profit divided by opening EV.

Unit: THB (in millions)

	YE22				YE21[(1)]			
By product line	**APE**	**%APE**	**VONB**	**VONB Margin**	**APE**	**%APE**	**VONB**	**VONB Margin**
Ordinary life (Traditional)	7,690	59.99%	3,790	49.28%	7,029	61.84%	2,618	37.25%
Ordinary life (New participating)	1,848	14.42%	635	34.34%	868	7.63%	164	18.94%
Investment-linked	416	3.25%	133	32.04%	826	7.27%	242	29.31%
Riders	1,617	12.61%	1,897	117.33%	1,547	13.61%	1,899	122.73%
Others[(2)]	1,248	9.73%	870	69.74%	1,097	9.65%	661	60.28%
Total company	**12,819**	**100.00%**	**7,325**	**57.14%**	**11,367**	**100.00%**	**5,585**	**49.13%**

Note: (1) Product grouping follows the latest classification in 2022.

(2) Others consist of Industrial Life Insurance, Group Insurance and Personal Accident Insurance (PA)

(3) Summation may not add up to total amount due to rounding.

Unit: THB (in millions)

	YE22				YE21			
By Channel	**APE**	**%APE**	**VONB**	**VONB Margin**	**APE**	**%APE**	**VONB**	**VONB Margin**
Agency	8,784	68.52%	5,224	59.47%	7,902	69.52%	4,083	51.68%
Partnership	3,284	25.62%	1,801	54.84%	2,845	25.03%	1,263	44.41%
Alternative channels[(1)]	751	5.86%	300	39.97%	620	5.46%	238	38.35%
Total company	**12,819**	**100.00%**	**7,325**	**57.14%**	**11,367**	**100.00%**	**5,585**	**49.13%**

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

(2) Summation may not add up to total amount due to rounding.

Annualized premium equivalent (APE)

Annualized premium equivalent, or APE, is a common measure used by the life insurance industry to account for the sales of insurance products. It 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, the Company believe APE provides a more accurate indication of the sustainability of the Company's new business as it normalizes single premiums into the equivalent of regular premiums.

The Company's APE in 2022 increased by 12.77% to Baht 12,819 million. All channels recorded positive APE growths.

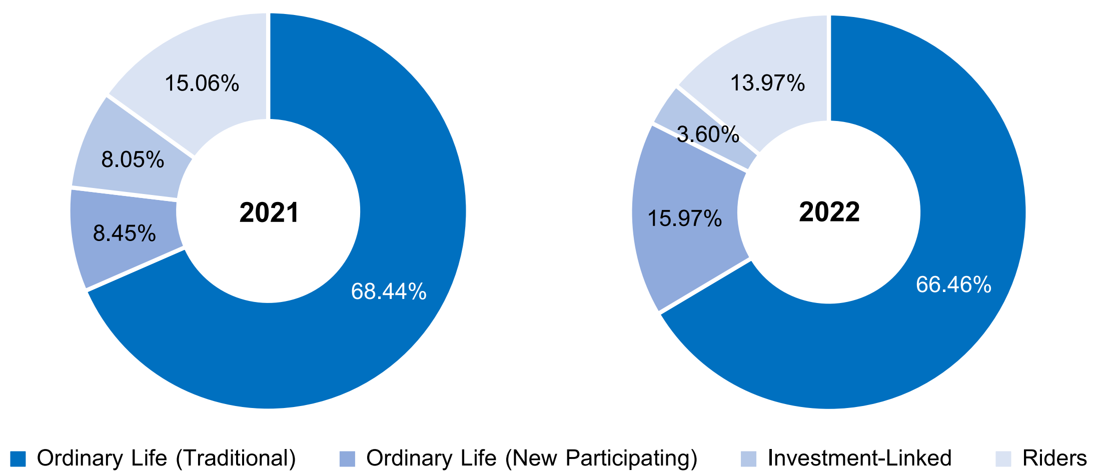
- Agency channel continued to promote the Company's new participating endowment products and received a good response from the market.
- Partnership channels experienced a recovery of sales after the restricted measures for COVID-19 in bank branches have been gradually eased.
- Alternative channels growth was mainly from group employee benefits driven by businesses' recovery after COVID-19 situation and channel's new marketing strategy.

Value of new business (VONB) and Value of new business margin (VONB Margin)

Value of new business, or VONB, represents an estimated economic value generated from the new policies written during the reporting period. It is calculated as the present value, measured at point of sale, of future net-of-tax profits less the corresponding cost of capital. The Company believes VONB providing a more proper indication of the value generated from the new business, and hence the Company's ability to create value for shareholders.

In 2022, the Company's VONB grew 31.17% to Baht 7,325 million. VONB margin increased by 8.01pps (percentage points) to 57.14%. The strong VONB growth was a result of shifting in product mix driven by the Company's strategy and beneficial interest rate movement. The Company's product strategy is to shift toward products whose profitability are less sensitive to the interest rate movement, including participating endowment products, investment-linked products, and riders as shown in diagram of 'APE Mix by Product Line (excluding others)' below. The Company believe this strategy would enable us to deliver a sustainable growth in VONB.

APE Mix by Product Line (excluding others)



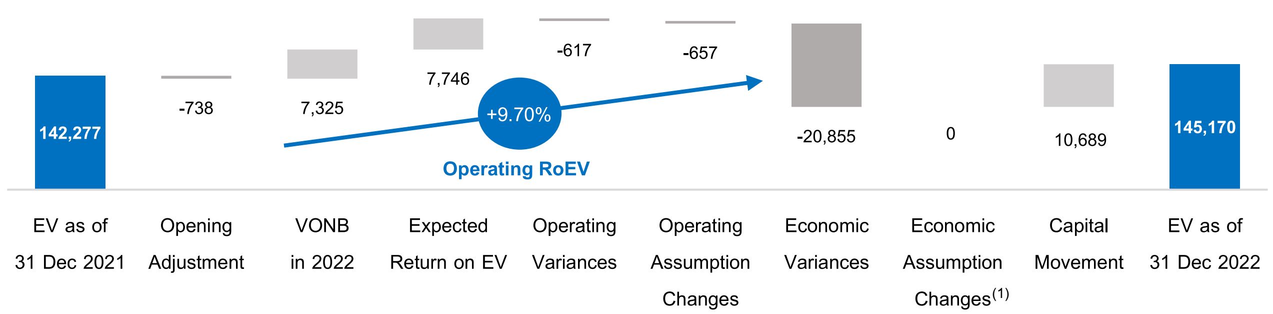
Embedded value (EV)

The Company's embedded value in 2022 increased by Baht 2,893 million, or 2.03% from Baht 142,277 million as of 31 December 2021 to Baht 145,170 million as of 31 December 2022. The key contributors to this change were as follows:

- An EV operating profit contributed Baht 13,797 million, which comprises of:
  - VONB for the twelve months ended December 31, 2022 of Baht 7,325 million,
  - Expected return on EV of Baht 7,746 million,
  - Operating variance of negative Baht 617 million, and
  - Operating assumption changes of negative Baht 657 million.
- An economic variance contributed negative Baht 20,855 million because of the material increase in market interest rates during 2022, together with the fact that the Company's long term investment return assumptions have been kept unchanged, as well as falls in equity markets.
- An opening adjustment reduced the EV by Baht 738 million reflecting model enhancements and methodology refinements.
- A capital movement in relation to issuance of ordinary shares to the public and dividends paid to our shareholders resulted in an increase of Baht 10,689 million.

Embedded Value Movement

(Unit: THB (in millions))



Note: (1) Economic Assumption Changes amount is not visible in the above graphic as there is no any change in the economic assumption.

1.5 LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2022, the Company's cash and cash equivalents were Baht 7,686 million. The Company's 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 fully paid-ups, maturities, surrenders, and deaths. The Company closely monitor and manage the level of policy benefits payment in order to minimize liquidity risk. Also, liquidity from net investment income is generated from the Company's portfolio of investment assets.

Apart from cash and cash equivalents, the Company's investments partially comprise highly liquid and marketable securities such as deposits and short-term government bonds with maturities of less than one year. These could be liquidated when in need of cash. As of 31 December 2022, the carrying value of deposits and short-term government bonds with maturities of less than one year is amounted to Baht 15,226.73 million.

The Company use the Company's cash inflows and existing cash balances to pay liabilities under insurance policies and purchase reinsurance and investment assets. The Company also use the Company's funds to pay operating expenses, income taxes and dividends that may be declared and payable to the Company's shareholders. The dividend payment, profit distributions and settlement are 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. The Company's medical claim was higher for YE22 compared to YE21, mainly due to higher medical claims relating to COVID-19 in early half of this year before the situation improved which leads to continuously decline in claims.

As recently many countries re-open their borders, there is a risk that the number of COVID-19 cases may arise. While there has been no obvious trend of higher cases in Thailand after the re-open, the Company are still monitor the situation closely.

Macroeconomic conditions in Thailand

Thailand's fourth-quarter GDP growth in 2022 was 1.4% year on year, below market expectations of 3.6%, despite service sector increased by 94.6%. The slowdown was primarily driven by lower growth on private consumption and exports. Private consumption moderate at 5.7% year on year, which was lower compared to a 9.1% increase in the previous quarter. Exports fell by 10.5% year on year, which was lower compared to a 2.3% increase in the previous quarter. Government consumption fell by 8.0% due to the high base in the last year. Accordingly, full year 2022 real GDP increased by 2.6%. For 2023 outlook, Bank of Thailand (BOT) projected Thai economy to expand by 3.7%. Main reasons are the improving in private consumption and surge in tourist arrival owing to the recent many countries re-opening borders which resulted in recovering trend in foreign tourist arrival as since pre-COVID-19 era. The mentioned factors will be one of the major driver for Thai economic recovery, although the downside risks remain from a slower global economy and external risks.

Nevertheless, exports, as a key driver of Thailand's economic growth, dropped for a third straight month by 14.6% in December 2022 due to slowdown in global demand. For the year 2022, exports increased by 1.3% year-on-year which was lower than the BOT's full-year target of 7.4% growth. For the year 2023, many researchers view that Thai exports should continue to slowdown in the periods ahead according to worsening global economic conditions in major economies, aligning with BOT's forecast of 1.0% expand in 2023.

Meanwhile, inflation in December 2022 was in the downward trend but remained in the high position. Thai core consumer price index (Core-CPI) in December surged to 3.2% year-on-year and reached 2.5% for the year 2022. While headline consumer price index (CPI) meets the forecast in December 2022 with the expansion by 5.9% from the last year. As a consequence, CPI inflation in 2022 was 6.1%, the highest rate since 1998. The pace remains well above the BOT's target range of 1% to 3%.

The Monetary Policy Committee (MPC) has raised policy interest rate from 1.00% to 1.25% in the final meeting of 2022, held on November 2022. This is supported by Thai economic recovery due to stronger improvement in tourism sector than expect with more than 11.8 million foreign tourists visited Thailand in 2022. The MPC intends to continue a gradual policy normalization, since the monetary objectives is to maintaining price stability, supporting sustainable economic growth and preserving financial stability.

Interest rate volatility

In the fourth quarter of 2022, Thai government bond yield was lower than the previous quarter. Thai bond yield tended to move together with global bond yield in the downward movement, while it moved less or even moved in the opposite direction when global bond yield moved higher. During the first three weeks of the fourth quarter, Thai government bond yield curve shifted upward across the curve resulting in the same slope of the yield curve. Thereafter, the yield curve continued to trade lower since the third week of October. Yield of long-dated bond dropped more drastically than yield of short-dated bond causing a flattening yield curve.

The factors affecting the decreasing of bond yield mainly came from market participants adjusting their expectation of the Federal Reserve monetary policy path to be less hawkish and seeing a higher probability of policy rate cut in the second half of 2023. This development was because the market perceived that inflation rates especially in the US were slowdown and already passed the peak, as well as economic data came out weaker and signaled a higher risk of recession in the coming quarters. In addition, investors became more aggressive to add duration since they were less concerned about duration risk and still had ample liquidity. The movement of 10-year Thai government bond yield in this quarter ended at 2.64%, down from 3.21% at the end of the previous quarter. During the fourth quarter, the 10-year bond yield ranged between 2.52% and 3.32%.

Fluctuations in equity markets

Changes in the equity markets may affect the Company's investment returns and the Company's overall results of operations. In particular, the Company 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.

Pricing, persistency and claims experience

Effective pricing of the Company's products affects the Company's business and results of operations. Pricing of the Company's products involves an analysis of historical data, various assumptions and estimates related to the Company's 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 assessment of the Company's management over available information. However, the ability to accurately price insurance products is subject to a number of assumptions relating to factors outside the Company's control, including the availability of sufficient data.

Pricing has a major impact on the Company's persistency and claims experience. Both also vary over time and type of products. Moreover, the persistency and claims experience may vary from the assumptions that the Company uses for designing and pricing products. Maintaining a high level of persistency and an appropriate claim experience are important to the Company's operating results.

Persistency experience may also be impacted by changes in consumer sentiment or policyholder behaviour, the relative competitiveness of the Company's products, changes in regulations and the investment performance and other factors. Claims experience may also be impacted by changes in mortality, morbidity and other factors.

Regulatory environment

The Company's operating activities are subject to certain government regulations. These regulations impact the Company's corporate structure, capital requirements, product designs, distribution channels, and investment guidelines, among others. The Company have a dedicated team that regularly studies the implications of evolving government legislation, regulations, and policies to adapt the Company's strategies and operations to ensure the Company 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 (CAR):** The OIC has reverted the minimum CAR from 120% back to 140% since 1 January 2022. The Company consistently maintained the capital adequacy ratio significantly higher than the minimum regulatory requirements imposed (the Company's capital adequacy ratio was 420.18% as of 31 December 2022).

- **The OIC's COVID-19 pandemic relief measure guidelines:** The Company has extended the grace period of premium payment for 60 days to all policies which held the original grace period between 27 February 2020 and 30 June 2020 and, upon request, has extended the grace period of premium payment for 60 days to policies which held the original grace period between 1 July 2020 and 31 December 2022.

- **Guideline, Methods of issuing and offering for sale a life insurance policies of life insurance companies:** Prescribe the procedure to offering for sale by considering the principle of fair customer service includes:
  - Refraining from selling insurance policies other than Monday to Saturday between 8.30 a.m. and 7.00 p.m. without the customer's consent
  - Prohibiting of the use of the term implying a deposit which is misleading in the product characteristics
  - Adding details in the offering for sale documents to make it clearer for customers
  - Requiring companies to supervise in the event that the agent opens a temporary booth
  - Advertising through media must specify a warning message according to the specified message

- **Criteria for Approval of Insurance Application Form and Text for Life Insurance:** Requires the use of insurance applications under certain conditions such as reducing certain questions, including race and religion questions, individually specific family health questions, to avoid collecting sensitive personal information and adding a personal data protection policy notice to comply with the principles of personal data protection act (PDPA).

- **Personal Data Protection Act (PDPA):** Effective from June 1, 2022, the Company has arranged various important processes to support the enforcement of the law, such as:
  - Preparing a personal data protection policy
  - Providing awareness among employees
  - Examining the flow of data in the organization (Data Inventory Mapping)
  - Providing a consent management system
  - Providing security measures for personal data (Security Measure)
  - Providing procedure for the action when a breach of personal information is found
  - Following up on the progress of the subordinate legislation to improve the policy and process in order to conform with the changes

Competition

Competition impacts the Company's policy acquisition costs, operating expenses, the growth of customer base, market share, margins and profits. The Company competes in business on the basis of various factors, including coverage offered, product features, pricing, 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 industry, barriers to entry are relatively high given large capital requirements and other regulatory limitations. Some of the Company's competitors may offer higher commissions or more attractive rewards to agents and other distribution intermediaries or offer customers similar products at lower prices. However, the Company's agency channel remains one of the strongest in the market. According to Thai Life Assurance Association, the Company contributed 16.17% and 16.62% to the industry's total agency annualized premium equivalent[1] in the first 11 months of 2021 and 2022, respectively.

The Company may see more consolidation in the life insurance sector, which could lead to the Company's 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 the Company's partners to distribute insurance products of their affiliates rather than the Company's products. Moreover, the Company may also compete indirectly against banks, investment management firms and mutual fund companies. This is because consumers may evaluate the Company's offerings against certain financial products these firms provide, as well as against real estate, gold and other alternative investments.

Seasonality

The Company's results of operations and cash flow are subjected to seasonal fluctuations. Consequently, the interim results should not be used as an indication of the Company's 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.
- The Company typically experiences higher sales in the last month of each quarter as campaigns introducing to promote sales among agents and other sales force usually conclude at the end of the relevant quarter. In addition, the Company evaluates the sales performance of the Company's staff on a half-yearly basis. Therefore, increase in sales is generally seen at the end of the first half of the year and year-end.
- Typically, medical claims occurred seasonally mainly driven by the weather.

[1] Thai Life Assurance Association does not report the industry's annualized premium equivalent and only provides the industry's first year premiums and single premiums. Industry's annualized premium equivalent is approximated from 100% of industry's first year premiums plus 10% of industry's single premiums.

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, enhancing responsibility for the quality of life and committing to good corporate governance. Furthermore, the Company has integrated ESG into business strategies: product design, risk management and investing activities with the "3Rs" concept: Risk, Return, and Real Impact covering 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.

The Company strives for technology and digital innovation to integrate 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.

Currently, the Company has set organization structure to support the operation for sustainability by establishing the sustainable development committee (SD Committee) with Director and Chief Executive Officer as the Chairperson to drive the organization towards sustainable business.

The Company determines the **"Sustainable Development Master Plan"** by covering the ESG which is in accordance with the United Nations Sustainable Development Goals described as three strategies:

1. **Promise Strategy** is upholding promises to all stakeholders with management adhering to good corporate governance and managing employees professionally and ethically.

2. **Protect Strategy** is a customer-centric strategy through product and service development with responsibility to meet the needs of customers individually (Personalized) and focusing on risk management that may occur both directly and indirectly. Customer sustainability includes the responsible management on customer data and information technology systems.

3. **Prosper Strategy** is creating prosperity by focusing on an economic growth while participating in creation of society and environment, as well as sustainable management in community, society and environment.

In November 2022, the Company organized a sustainability workshop (Sustainability Day: Cascade & Workshop) to formulate sustainability goals. (short-term, medium-term, and long-term), including sustainability action plans that are consistent with the Company's Materiality Topics to serve as a framework for SD implementation 2023 and prepare for the sustainability report 2022 (The first SD Report of the Company).

In December 2022, the Board of Directors, executives, and management held a meeting with the top management of the Stock Exchange of Thailand (SET) to share the business operations toward sustainability under the topic of "To Discuss Sustainability Operations". The objective of the meeting is to suggest and share the ideas of sustainable business development, and provide significant improvement information in the capital market including the trend of new-world investment to develop sustainability for Thai business sector.

2.2 QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

Market risk is the risk of potential loss in 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. The Company are exposed to market risk arising principally from the Company's investing activities and market risk also affects to the Company's capital adequacy ratio.

Interest rate risk

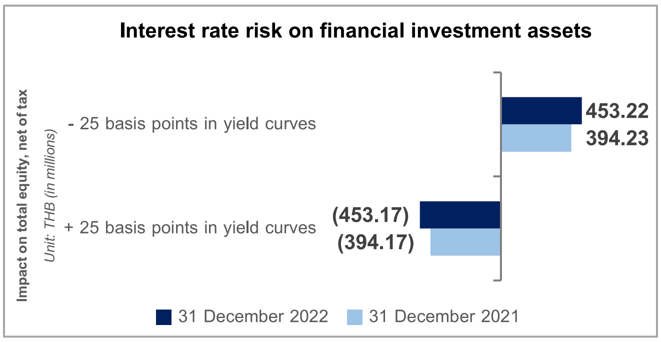
Movement in interest rates is one of the main factors that affects the Company value of assets and liabilities and the overall investment returns.

- **Exposure to total equity from financial investment assets**

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 the Company's 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 the market value of these assets and the Company's overall investment returns.

However, most of the Company's debt securities are classified as amortized cost while only a small portion is accounted for as fair value through other comprehensive income (FVOCI). On the other hand, the Company's insurance contract liability is not materially affected by the current interest rate movement as the interest rate used to calculate the liability is principally locked in at the rate of product pricing. Therefore, the fluctuation in the market interest rate would only slightly affect the Company's total equity in the Financial Statement.

In addition, the Company uses derivative instruments, principally interest rate swaps, bond forwards, and cross currency swaps to manage exposure to fluctuations in interest rates on specific debt securities.



Note:

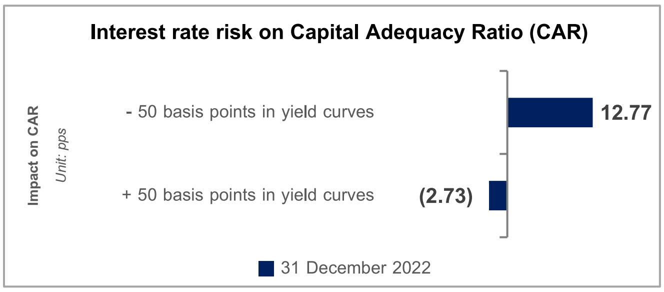
As of the dates indicated, changes of interest rates would impact the fair value of debt securities through other comprehensive income and affect the Company's total equity as shown above. This sensitivity analysis assumes that all other variables, in particular, foreign currency exchange rates, remain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

- **Exposure to capital adequacy ratio (CAR)**

Unlike financial statements in which assets and liabilities are mainly recognized under book value basis, capital adequacy ratio is calculated by taking the market value of all assets and liabilities into account, and therefore has a higher exposure to market risks.

Exposure to interest rate fluctuations arises when there is a movement mismatch between rate-sensitive assets and liabilities. The Company mitigates interest rate risk by defining a target duration gap between the Company's assets and liabilities and, to the extent possible and practicable, to reduce the gap. In addition, the Company uses derivative instruments to manage such exposures.

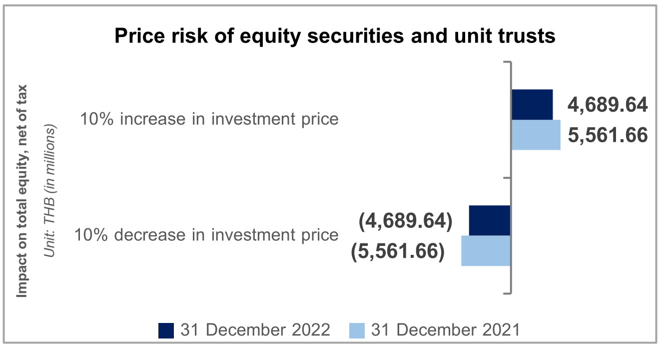
For YE22, the Company's duration gap between asset and liability under RBC is less than 1 year.



Price risk

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

The Company mitigates price risk by determining risk appetite level and maintaining the risk to be within the appetite limit. The Company also employs various non-statistical and statistical tools such as value at risk and sensitivity analysis to evaluate the risk level.

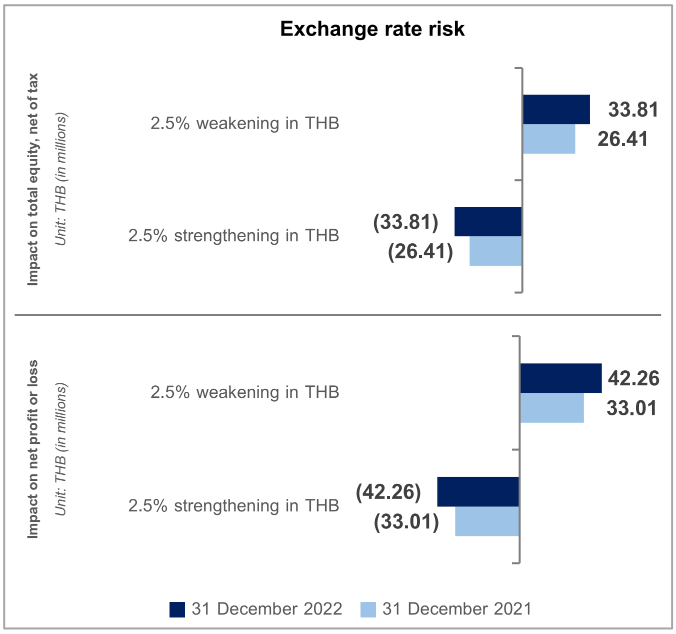


Note:

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

Exchange rate risk

Exchange rate risk arises when the Company enter into transactions denominated in foreign currencies such as investment in bonds or equity securities denominated in foreign currencies. Although liabilities are predominated in Thai Baht, the Company invests, 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. The Company's business units monitor foreign currency exposures and where these are not consistent with the Company's risk appetite, positions may be closed or hedging instruments may be purchased. The Company uses various derivative instruments such as cross currency interest rate swap and foreign exchange forward to hedge against the exchange rate risk. The Company's internal policy generally requires to use derivatives to hedge against 80% to 100% of foreign exchange exposures.



Note:

As of the dates indicated, movements in U.S. dollar would affect the net exposure of 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 sale and purchases of financial instruments.

2.3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

TFRS 17 is an insurance accounting standard applicable to insurance contracts that will come into effect for the Company's financial periods commencing on 1 January 2025. The new standard represents a fundamental shift in how the Company accounts for insurance contracts. TFRS 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.

The Company began the preparation for TFRS 17 adoption in 2017. The Company's 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 TFRS 17 compliant balance sheet.
- Phase 4 — Parallel run. The Company runs the TFRS 17 system in parallel with the existing accounting system in this stage. This phase involves obtaining reviews from auditors and informing the Board of Directors of the new accounting policies.
- Phase 5 — The Company commences financial reporting in compliance with TFRS 17.

The Company is completing phase 3(b) and stepping into phase 4 of the implementation process as we are preparing for parallel run. The Company is also studying the full impact of the adoption of the TFRS 17 on the Company's financial performance including the equity impact as at the effective date and the projection of future IFRS17 net profit. The Company collaborates closely with the regulators and other players in the industry to evaluate the impact and execution challenges of the adoption.

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