Management Discussion and Analysis for the 1st quarter, 2023

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 81 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 the first life insurance company to develop a product package **"Thai Life Insurance Suk Yang Yuen Refund"** in accordance with sustainable development goals to insure qualified organic producers.
- Being the first life insurance company to cover all stages of Alzheimer, by extending coverage for Alzheimer from the early stage under the product **"Thai Life Insurance Promptpay CI 108"**.
- Pursuing **Digital Transformation** in delivery of innovative e-Services such as e-Receipt for TLI application to deliver sustainability by reducing paper waste and the application of Robotic Process Automation (RPA) to enhance the effectiveness of the Company's operations.
- Published **the first sustainability report of 2022** based on GRI Standards (the Global Reporting Initiative Standard), on the Company's website.

[1] YTD total premium revenues was disclosed referring to the industry data as of 31 March 2023 from Thai Life Assurance Association (TLAA).

1. RESULTS OF OPERATION AND FINANCIAL POSITION

1.1 OVERVIEW

The Company delivered sustainable growth in VONB and a strong financial position.

VONB
1,701m
+8.67%[(1)]

VONB Margin
56.18%
+9.10pps[(1)]

APE
3,028m
-8.92%[(1)]

Net Profit
3,129m
-17.51%[(1)]

CAR
449.56%
+29.38pps[(2)]

1.2 RESULTS OF OPERATIONS

Unit: THB (in millions)

Operating Results	Q1/23	% of Premium	Q1/22	% of Premium	Change	% Change
Revenues						
Net premiums earned[3]	18,762	100.00%	19,335	100.00%	(573)	-2.96%
Investment returns[4]	5,165	27.53%	6,533	33.79%	(1,368)	-20.94%
Other components of total revenues[5]	115	0.61%	86	0.44%	29	33.72%
Total revenues	**24,042**	**128.14%**	**25,954**	**134.23%**	**(1,912)**	**-7.37%**
Expenses						
Change in long-term technical reserve	1,282	6.83%	1,644	8.50%	(362)	-22.02%
Net benefits payments and insurance claims expenses	15,330	81.71%	15,880	82.13%	(550)	-3.46%
Commissions, brokerage and other underwriting expenses	2,559	13.64%	2,469	12.77%	90	3.65%
Operating expenses	1,291	6.88%	1,226	6.34%	65	5.30%
Other components of total expenses (Reversal)[6]	(308)	-1.64%	(59)	-0.30%	(249)	422.03%
Total expenses	**20,154**	**107.42%**	**21,160**	**109.44%**	**(1,006)**	**-4.75%**
Profit before income tax expense	**3,888**	**20.72%**	**4,794**	**24.79%**	**(906)**	**-18.90%**
Income tax expense	759	4.04%	1,001	5.18%	(242)	-24.18%
Net profit	**3,129**	**16.68%**	**3,793**	**19.61%**	**(664)**	**-17.51%**

[1] The change in VONB, VONB Margin, APE, and net profit were compared to the same period of last year.

[2] The change in CAR was compared to the last quarter ended.

[3] Net premiums earned include gross premium written, premium ceded and unearned premium reserve.

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

[5] Other components of total revenues include fee and commission income and other income.

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

Summary of the Company's performance for Q1/23

The Company registered **net profit of Baht 3,129 million** with the significant items as listed below:

- Investment returns decreased by Baht 1,368 million, or 20.94% compared to the same period of last year which were primarily from the items as listed below:
  - The lower gain on sale of investments by Baht 871 million was from high gain on sale of investments of Baht 2,240 million in Q1/22. In Q1/22, the Company sold major lot of investments as there was a concern of the market downturn. The downturn was resulted from high inflation due to geopolitical conflicts and market liquidity.
  - The higher unrealized loss on fair value change in hedge instruments and loss on foreign exchange in foreign investments of Baht 617 million was in accordance with the market situation as more tightening monetary policy by Federal Reserve compared to Bank of Thailand. This monetary policy resulted in higher interest spread between Thailand and USA.
- The Company achieved a similar level of gross written premiums compared to the same period of last year, and was able to successfully promote the new participating products with a good response from the market. APE proportion of such product over total APE increased from 9.87% for Q1/22 to 19.27% for Q1/23 in line with the Company’s product strategy.
- Net benefits payments and insurance claims expenses decreased by Baht 550 million, or 3.46% compared to the same period of last year mainly due to the lower medical claims relating to COVID-19 and maturity benefits.
- Other components of total expenses decreased due to the reversal of expected credit loss (ECL) in Q1/23 of Baht 330 million to reflect the improvement in credit risk.

Additional Information:

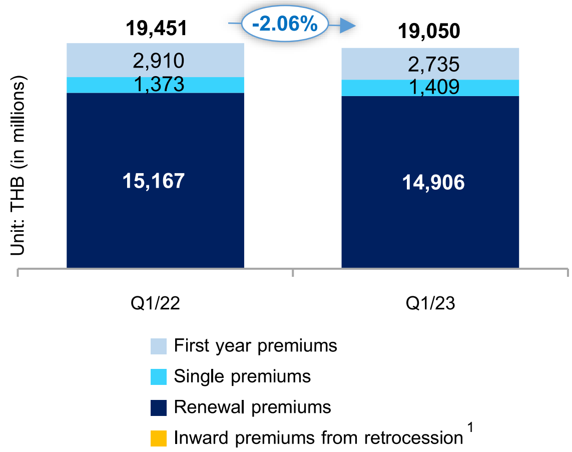
- As of 31 March 2023, the Company directly hold STARK's shares with a cost amount of Baht 450 million. An unrealized loss amount of Baht 332 million was booked under other comprehensive income, based on the Company’s prudent valuation. This unrealized loss didn't have a material impact to the Company’s performance. In addition, the Company's investment portfolio has an overall unrealized gain amount of Baht 1,820 million.

1.2.1 Revenues

Net premiums earned

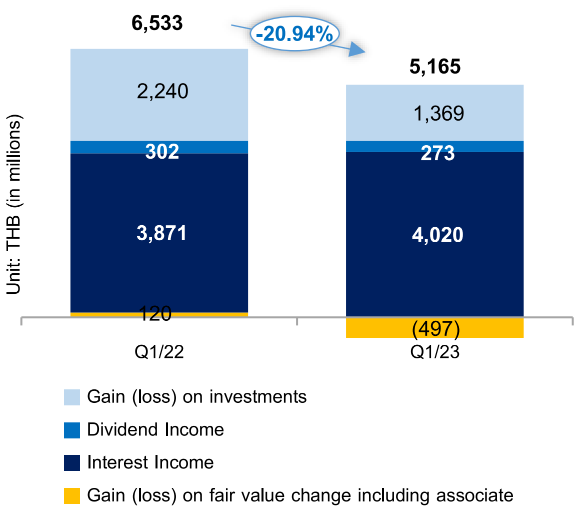
Net premiums earned for Q1/23 of Baht 18,762 million comprises gross written premiums Baht 19,050 million less other components Baht 288 million which include premium ceded and change in unearned premium reserve.

Gross written premiums



The Company achieved a similar level of gross written premiums for both premium revenues generated from the new business policies, including first year premiums and single premiums, and renewal premiums, as the same period of last year. The Company was able to successfully promote the new participating products with a good response from the market. APE proportion of such product over total APE increased from 9.87% for Q1/22 to 19.27% for Q1/23 in line with the Company's product strategy.

Investment returns



	31 March 2023	31 December 2022
Return on average investments[2]	3.63%	3.79%

Investment returns for Q1/23 decreased by 20.94% compared to the same period of last year which were primarily from the items as listed below:

- The lower gain on sale of investments by Baht 871 million was from high gain on sale of investments of Baht 2,240 million in Q1/22. In Q1/22, the Company sold major lot of investments as there was a concern of the market downturn. The downturn was resulted from high inflation due to geopolitical conflicts and market liquidity.
- The higher unrealized loss on fair value change in hedge instruments and loss on foreign exchange in foreign investments of Baht 617 million was in accordance with the market situation as more tightening monetary policy by Federal Reserve compared to Bank of Thailand. This monetary policy resulted in higher interest spread between Thailand and USA.

The return on average investments slightly decreased from the rationale as mentioned above and the growth of investment portfolio which was resulted from the revaluation gain on investments.

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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 Q1/23 decreased by Baht 362 million, or 22.02%, compared to the same period of last year. The lower change in long-term technical reserve was primarily due to lower level of reserve required from improved product mix compared to the same period of last year.

Net benefits payments and insurance claims expenses

Net benefits payments and insurance claims expenses for Q1/23 decreased by Baht 550 million, or 3.46%, compared to the same period of last year which were primarily from the lower medical claims relating to COVID-19 and maturity benefits.

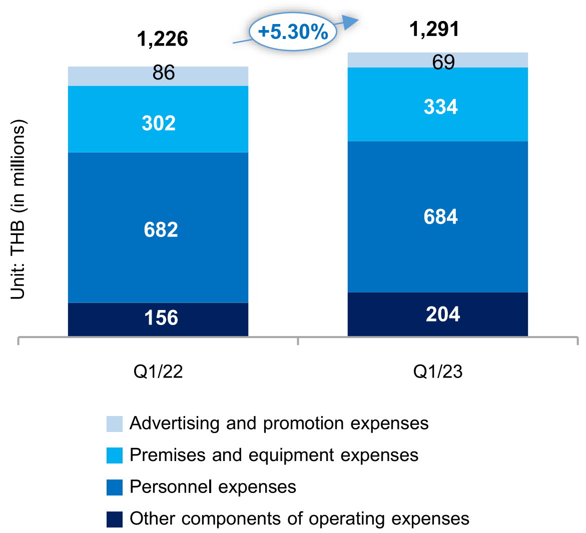
The medical claims relating to COVID-19 decreased by 91.56% compared to the same period of last year. The amount for Q1/23 was Baht 40 million, while for Q1/22, the amount was Baht 474 million. The medical claims relating to COVID-19 has been continuously reducing since the mid-2022 as the COVID-19 situation improved.

Other diseases, on the other hand, was higher than the same period of last year by Baht 303 million as the seasonality resumed.

Commissions, brokerage and other underwriting expenses

Commissions, brokerage and other underwriting expenses for Q1/23 increased by Baht 90 million, or 3.65%, compared to the same period of last year. The increase in these expenses was mainly due to the increase in incentive expenses from sale of higher margin products.

Operating expenses

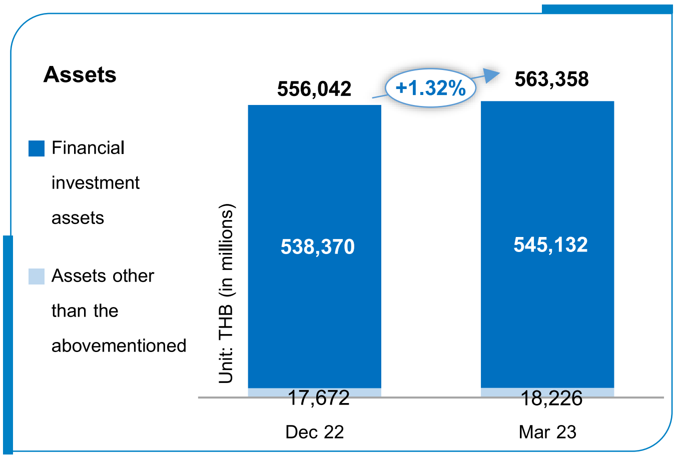


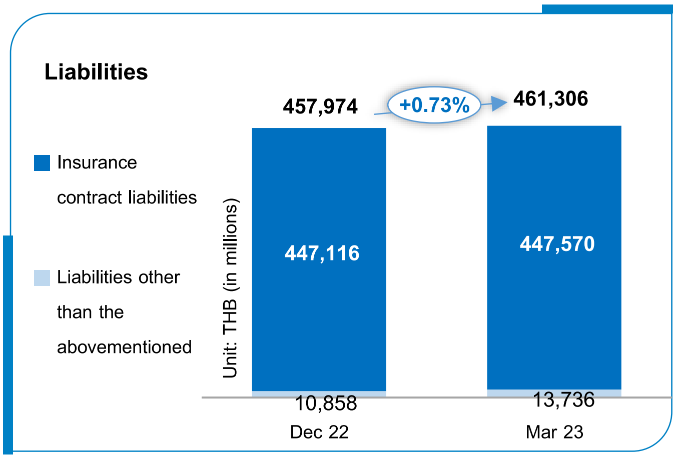
Operating expenses for Q1/23 increased by Baht 65 million, or 5.30%, compared to the same period of last year. It was primarily from the increase in consulting fees and software expenses for the Company's digital development in preparation for the adoption of TFRS 17 "Insurance Contracts" that will come into effect for the Company's financial year commencing on 1 January 2025.

1.3 ANALYSIS OF FINANCIAL POSITION

Unit: THB (in millions)

	31 March 2023	% of Total Assets	31 December 2022	% of Total Assets	Change	% Change
Assets						
Cash and cash equivalents	11,062	1.96%	7,686	1.38%	3,376	43.92%
Investment assets						
Investments in securities	*504,920*	*89.63%*	*501,281*	*90.15%*	*3,639*	*0.73%*
Loans and accrued interest	*29,150*	*5.17%*	*29,403*	*5.29%*	*(253)*	*-0.86%*
Total investment assets	534,070	94.80%	530,684	95.44%	3,386	0.64%
Total financial investment assets	**545,132**	**96.76%**	**538,370**	**96.82%**	**6,762**	**1.26%**
Assets other than the abovementioned[1]	18,226	3.24%	17,672	3.18%	554	3.13%
Total assets	**563,358**	**100.00%**	**556,042**	**100.00%**	**7,316**	**1.32%**
Liabilities and Equity						
Liabilities						
Insurance contract liabilities						
Insurance technical reserves	*425,100*	*75.46%*	*423,630*	*76.19%*	*1,470*	*0.35%*
Other insurance contract liabilities	*22,470*	*3.99%*	*23,486*	*4.22%*	*(1,016)*	*-4.33%*
Total insurance contract liabilities	**447,570**	**79.45%**	**447,116**	**80.41%**	**454**	**0.10%**
Liabilities other than the abovementioned[2]	13,736	2.44%	10,858	1.95%	2,878	26.51%
Total liabilities	**461,306**	**81.89%**	**457,974**	**82.36%**	**3,332**	**0.73%**
Equity						
Share capital	31,232	5.54%	31,232	5.62%	-	0.00%
Retained earnings	67,673	12.01%	64,545	11.61%	3,128	4.85%
Other components of equity	3,147	0.56%	2,291	0.41%	856	37.36%
Total equity	**102,052**	**18.11%**	**98,068**	**17.64%**	**3,984**	**4.06%**
Total liabilities and equity	**563,358**	**100.00%**	**556,042**	**100.00%**	**7,316**	**1.32%**



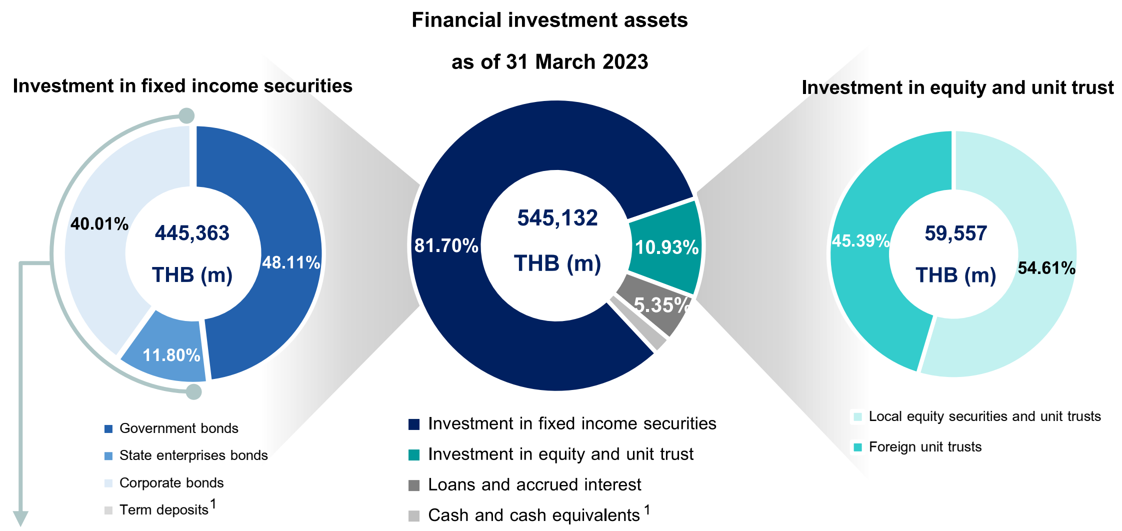


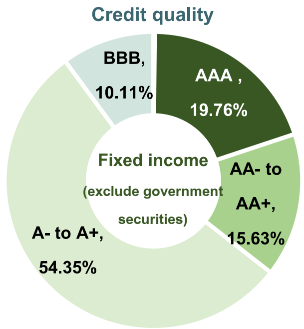
[1] Assets other than the abovementioned consist of accrued investment income, derivative assets, net investments in associated companies, investments held to cover linked liabilities, net premiums due and uncollected, net land, premises and equipment, reinsurers' share of insurance contract liabilities,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

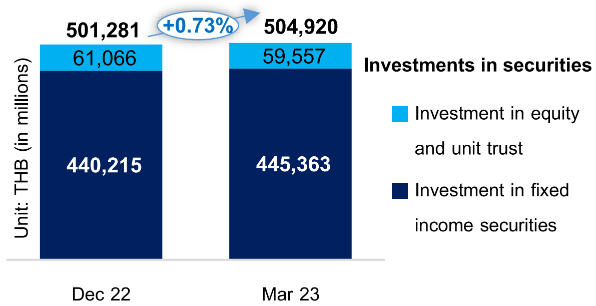
Financial investment assets





Note:
- The above graphic sets out information about the credit quality as at 31 March 2023 of investment in fixed income securities (state enterprises and corporate)
- Short-term credit rating of F1+(tha) 0.15% is not visible in the above graphic as they are insignificant.

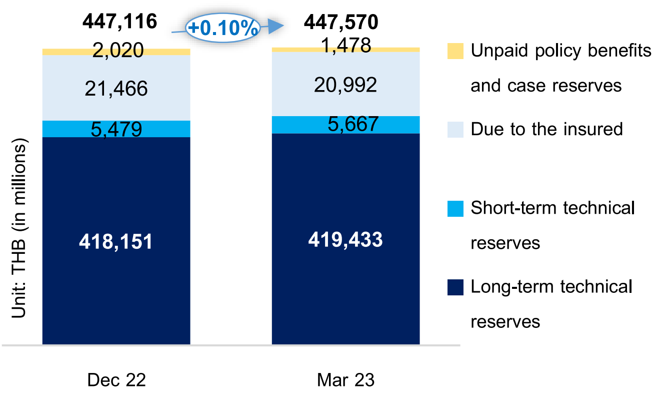
The Company's investment portfolio is well managed and professionally allocated financial investment assets in a prudent manner. The investment portfolio comprises mainly fixed income securities constituting 81.70% which generated promisingly stable returns. Moreover, the diversified portfolio is presented a low credit risk with the credit rating of the 'investment grade'.



The growth of investment in securities by 0.73% was resulted from the increase in debt securities which resulted from the growth in insurance business.

1.3.2 Liabilities

Insurance contract liabilities



There was no significant change in total insurance contract liabilities as of 31 March 2023 compared to 31 December 2022.

[1] Cash and cash equivalents 2.02% 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		
	Q1/23	**Q1/22**
Operating profit margin[1]	20.41%	24.65%
Net profit margin[2]	13.01%	14.62%
Underwriting expense ratio[3]	20.21%	19.00%
	31 March 2023	**31 December 2022**
Return on average shareholders' equity[4]	9.15%	10.04%

Efficiency ratios		
	31 March 2023	**31 December 2022**
Return on average assets[5]	1.57%	1.70%
Investment assets to reserves ratio[6]	119.33%	118.69%

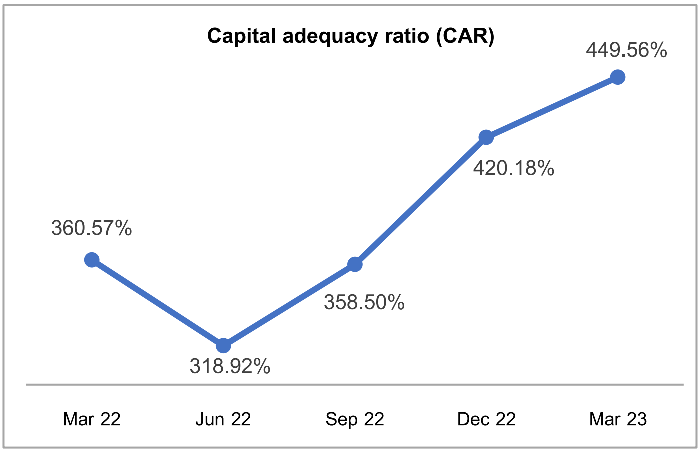
Other financial ratios		
	31 March 2023	**31 December 2022**
Debt to equity ratio[7]	4.52x	4.67x
Reserves to equity ratio[8]	4.17x	4.32x
	31 December 2022	**31 December 2021**
Dividend payout ratio[9]	37.09%	30.08%

Operating profit margin, net profit margin, and return on average assets for Q1/23 slightly decreased compared to the same period of last year which were primarily from the lower gain on sale of investments compared to the high gain on sale of investments in Q1/22. In Q1/22, the Company sold major lot of investments as there was a concern of the market downturn.

Underwriting expense ratio for Q1/23 increased compared to the same period of 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 were lower compared to last year due to the increase in shareholders' equity from the revaluation gain on investments and hedged instruments under other components of shareholders' equity.

1.4.2 Capital ratios



As of 31 March 2023, the Company's capital adequacy ratio (CAR)[10] was 449.56%, significantly higher than the Office of Insurance Commission (OIC) minimum requirement at 140%.

The Company's capital adequacy ratio increased by 29.38pps (percentage points) from 420.18% as of 31 December 2022 to 449.56% as of 31 March 2023 primarily driven by our sustainable operating profit, a reduction in risky assets such as equities and unit trusts, and the movement of 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)

	Q1/23	Q1/22
Annualized premium equivalent (APE)	3,028	3,324
Value of new business (VONB)	1,701	1,565
VONB margin(1)	56.18%	47.08%

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

Unit: THB (in millions)

	Q1/23				Q1/22			
By product line	**APE**	**%APE**	**VONB**	**VONB Margin**	**APE**	**%APE**	**VONB**	**VONB Margin**
Ordinary life (Traditional)	1,470	48.55%	792	53.89%	2,105	63.32%	755	35.87%
Ordinary life (New participating)	583	19.27%	194	33.19%	328	9.87%	81	24.82%
Investment-linked	94	3.10%	34	36.21%	123	3.69%	36	29.39%
Riders	443	14.63%	463	104.44%	434	13.05%	511	117.71%
Others(1)	438	14.46%	219	49.96%	335	10.07%	182	54.32%
Total company	**3,028**	**100.00%**	**1,701**	**56.18%**	**3,324**	**100.00%**	**1,565**	**47.08%**

Note: (1) Others consist of Industrial Life Insurance, Group Insurance and Personal Accident Insurance (PA)

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

Unit: THB (in millions)

	Q1/23				Q1/22			
By Channel	**APE**	**%APE**	**VONB**	**VONB Margin**	**APE**	**%APE**	**VONB**	**VONB Margin**
Agency	2,105	69.53%	1,194	56.73%	2,282	68.63%	1,131	49.55%
Partnership	598	19.75%	422	70.51%	826	24.86%	366	44.33%
Alternative channels(1)	325	10.73%	85	26.20%	216	6.51%	68	31.50%
Total company	**3,028**	**100.00%**	**1,701**	**56.18%**	**3,324**	**100.00%**	**1,565**	**47.08%**

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

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

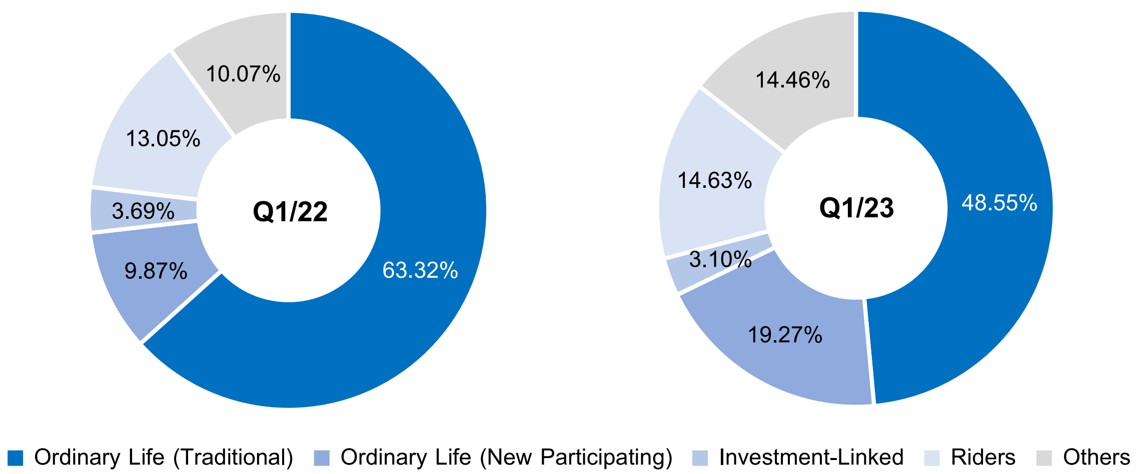
Annualized premium equivalent (APE), Value of new business (VONB) and Value of new business margin (VONB Margin)

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.

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. Value of new business margin, or VONB margin, is calculated as VONB divided by APE.

The Company's APE in Q1/23 decreased by 8.92% to Baht 3,028 million while VONB, however, increased by 8.67% to Baht 1,701 million, compared to the same period of last year. Despite having a decrease in APE, VONB continued to grow as a result of the favourable interest rate movement and the success in shifting product mix toward more profitable product, especially in Agency and Bancassurance channel. The Company continued to promote products whose profitability are healthy and less sensitive to the interest rate movement, such as new participating products, investment-linked products, and riders, as shown in the diagram of 'APE Mix by Product Line' below. The Company believe this strategy would enable us to deliver a sustainable growth in VONB.

APE Mix by Product Line



1.5 LIQUIDITY AND CAPITAL RESOURCES

As of 31 March 2023, the Company's cash and cash equivalents were Baht 11,062 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 March 2023, the carrying value of the above-mentioned securities is amounted to Baht 10,315 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

Macroeconomic conditions in Thailand

So far this year, the recovery of Thailand's economic growth primarily came from an improving tourism industry. However, Thailand's economic growth in the future may be affected from the weakening of export sector in line with the global slowdown.

Thailand's inflation rate expects to grow at a slower pace due to the decreasing in oil prices, and Thai exports, a government support program, and a high base from the previous year. However, the cost of energy and cooking gas remained high, and the recovering economics particularly in the tourism sector is also causing price pressures.

Interest rate volatility

In Q1/23, the long-term Thai government bond yield went lower than the previous quarter, and interest rate volatility was increased. Mostly, the long-term Thai government bond yield tended to move together with global bond yield but the magnitude of change was less than global bond yield due to many factors. First, market participants changed their view on the Federal Reserve monetary policy path to be close to its peak and expected to see a policy rate cut in the second half of 2023. Second, the US economic data came out weaker signaling a slowdown in economic activities and inflation rate continued to be on a downward trend. Furthermore, many financial institutions in the US and Europe were facing a liquidity crisis and losses on fixed income investment, causing a higher risk of recession.

In the future, the Thai government bond yield still will be volatile. There are many factors that affect market such as concerning about the economic slowdown from further hiking policy rate, sticky inflation and financial stability problems in US and Europe.

Fluctuations in equity markets

Market movement is not clear. International equity which performed poorly last year started to recover, while Thai equity market which outperformed many markets has been decreasing. Interest rate and inflation outlook still play an important role but global economic growth will get more attention this year. Geopolitical risk such as debt ceiling and US-China conflict could be an additional risk.

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.

Regulatory environment

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 2023 which have the impact to the Company are as follows:

- **The Royal Decree on the Exchange of Information for International Agreements on Taxation B.E. 2566:** The decree was announced in the Royal Gazette on 30 March 2023 to comply with the Common Reporting Standard (CRS). Life insurance companies have been stipulated to be reporting person for reporting the financial account information. When tax residency indication was found, the Company must report the financial account owner and financial account information of insurance policy to the Director-General of the Revenue Department within 30 June of the following year. Currently, the Company is in the process of preparing to support the enforcement of the law.
- **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 and approved by the Company, 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 2023.

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, customer privilege, 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 16.05% and 14.87% to the industry's total agency annualized premium equivalent[1] in the first 3 months of 2022 and 2023, respectively.

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, digital asset, 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.

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

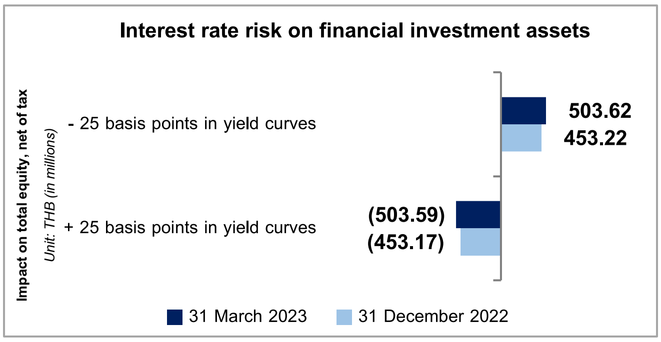
Movement in interest rates is one of the main factors that affects the Company value of assets and liabilities and the overall investment returns.

- **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:

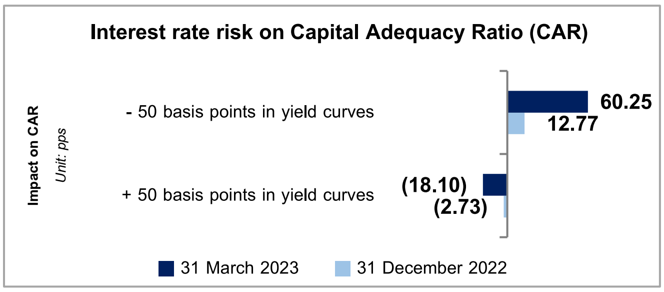
As of the dates indicated, changes of interest rates would impact the fair value of debt securities through other comprehensive income and affect the Company's total equity as shown above. This sensitivity analysis assumes that all other variables, in particular, foreign currency exchange rates, remain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

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

Unlike financial statements in which assets and liabilities are 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 Q1/23, the Company's duration gap between asset and liability under RBC is less than 1 year.



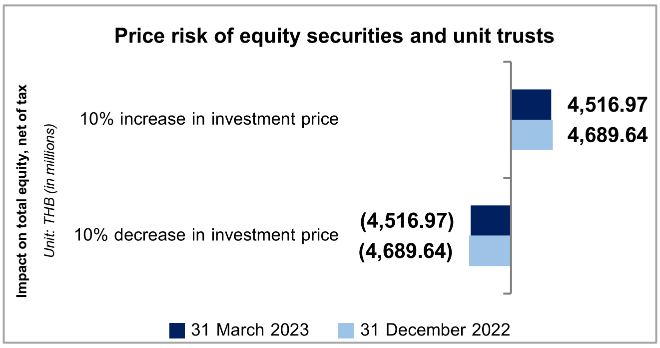
Note:

The interest rate shocks are applied on the yield curve as of each valuation date.

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.

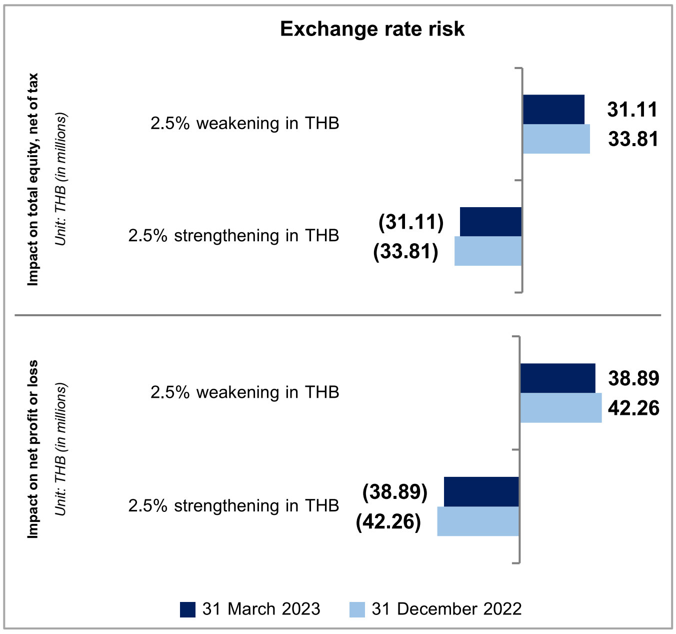


Note:

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 ENVIRONMENT, SOCIETY AND GOVERNANCE ("ESG")

The Company focuses on sustainable business operations with the vision **"To be an insurance company of sustainability"**. The Company integrates ESG into business strategies, including the development of corporate social responsibility projects. 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.

In February 2023, the Company announced the Supplier Code of Conduct to serve as a framework for operations between the Company and supplier to cooperate sustainably and provide a supplier management plan to enhance the sustainable supply chain.

In March 2023, the Company launched ESG products for qualified organic producers. The product named is **"Thai Life Insurance Suk Yang Yuen Refund"**, which is a product that meets the needs of sustainable life insurance aligns with the following dimensions:

- **Environmental dimension:** promotes organic agriculture to reduce global warming,
- **Social dimension:** reduces inequality and increases access to healthcare services, and
- **Economic & governance dimensions:** financial inclusion and affordable premiums to create security for themselves and their families. Also, the community enterprises of organic certificate will receive a first-year premium discount, and refund the last year's premium if there is no claim within 5 years.

Furthermore, the Company published the first sustainability report of 2022, which is based on the Global Reporting Initiative Standard (GRI Standards), on the Company's website.

For environmental management, the Company plans to install Solar Cells at the head office and some branches. In Q1/23, the Company has already been installed Solar Cells at Thonburi branch as the first branch in the parking lot.

2.4 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.

TFRS 17 aims to increase transparency requiring the Company to disclose product profitability and source of profit. Our product strategy focusing on products with sustainable profit will continue to secure our profit under TFRS 17. The Company has finished system testing and implementation in 2022. As a result, our systems for TFRS 17 are now ready to be used for preparing parallel run. The Company is also assessing the financial impact of adopting TFRS 17 together with TFRS9. 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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