



Thai
Life
Insurance



Management Discussion and Analysis
for the 2nd 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 Association¹. The Company was founded in January 1942 and successfully developed the “Thai Life Insurance” 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



- Joined **SET50 index** under the security named “TLI” as of 1 July 2023 in accordance with the criteria set by the Stock Exchange of Thailand (SET).



- Selected as the public listed company with outstanding performance on the Environmental, Social and Governance (ESG) aspects within a group of **ESG Emerging List of 2023** as of 30 May 2023 by joining the **ESG100 universe** of Thaipat Institute.



- 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 Organic or Non-organic Community Enterprises.
- 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**”.

- Published **the first Sustainability Report of 2022** based on GRI Standards (the Global Reporting Initiative Standard), on the Company’s website.



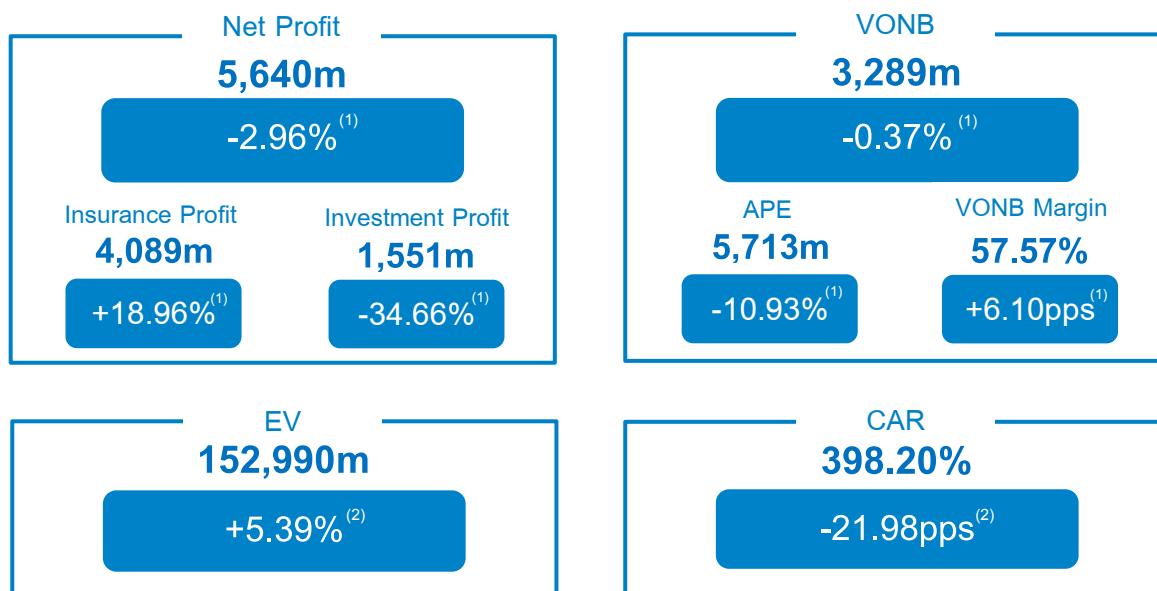
- Striving **Digital Transformation** in delivery of innovative e-Services such as e-Receipt for TLI application to deliver sustainability by reducing paper waste and the application of Robotic Process Automation (RPA) to enhance the effectiveness of the Company’s operations.



¹ YTD total premium revenues was disclosed referring to the industry data as of 30 June 2023 from Thai Life Assurance Association (TLAA).

1. RESULTS OF OPERATION AND FINANCIAL POSITION

1.1 OVERVIEW



Summary of the Company's performance for 1H23

- The Company registered a net profit of Baht 5,640 million for 1H23. Insurance profit continued to grow, while the volatility of investment profit was mainly driven by a lower gain on investments compared to the same period of last year. The Company reduced the exposure on equity securities ahead of the weak market from geopolitical conflicts in 1Q22, which had resulted in a higher base of gain on investments compared to 1Q23.
- Despite having a lower APE, VONB sustained at a similar level to the same period of last year due to the success in shifting product mix toward more profitable products.
- As of 30 June 2023, embedded value was closed at Baht 152,990 million, increased by Baht 7,820 million or 5.39% compared to the position as of 31 December 2022. The sustainable growth was mainly driven by the Value of New Business and expected return on EV.
- Our capital remains robust with a Capital Adequacy Ratio (CAR) of 398.20% as of 30 June 2023, much higher than the regulatory capital requirement of 140%.

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

² The change in EV and CAR were compared to the position at last year ended.

³ The % changes related to financial statements are based on rounded number in million baht.

1.2 RESULTS OF OPERATIONS

Unit: THB (in millions)

Operating Results	Q2/23	Q2/22	% Change	1H23	% of Premium	1H22	% of Premium	% Change
Revenues								
Net premiums earned ¹	20,309	21,498	-5.53%	39,071	100.00%	40,833	100.00%	-4.32%
Investment returns ²	4,601	4,396	4.66%	9,845	25.20%	10,989	26.91%	-10.41%
Other components of total revenues ³	49	24	104.17%	85	0.22%	50	0.13%	70.00%
Total revenues	24,959	25,918	-3.70%	49,001	125.42%	51,872	127.04%	-5.53%
Expenses								
Change in long-term technical reserve	2,074	4,392	-52.78%	3,356	8.59%	6,036	14.78%	-44.40%
Net benefits payments and insurance claims expenses	15,821	15,601	1.41%	31,152	79.73%	31,481	77.10%	-1.05%
Commissions, brokerage and other underwriting expenses	2,598	2,478	4.84%	5,157	13.20%	4,947	12.12%	4.24%
Operating expenses	1,352	1,278	5.79%	2,642	6.76%	2,504	6.13%	5.51%
Other components of total expenses (Reversal) ⁴	56	(237)	-123.63%	(252)	-0.64%	(297)	-0.73%	-15.15%
Total expenses	21,901	23,512	-6.85%	42,055	107.64%	44,671	109.40%	-5.86%
Profit before income tax expense	3,058	2,406	27.10%	6,946	17.78%	7,201	17.64%	-3.54%
Income tax expense	546	388	40.72%	1,306	3.34%	1,389	3.40%	-5.98%
Net profit	2,512	2,018	24.48%	5,640	14.44%	5,812	14.24%	-2.96%

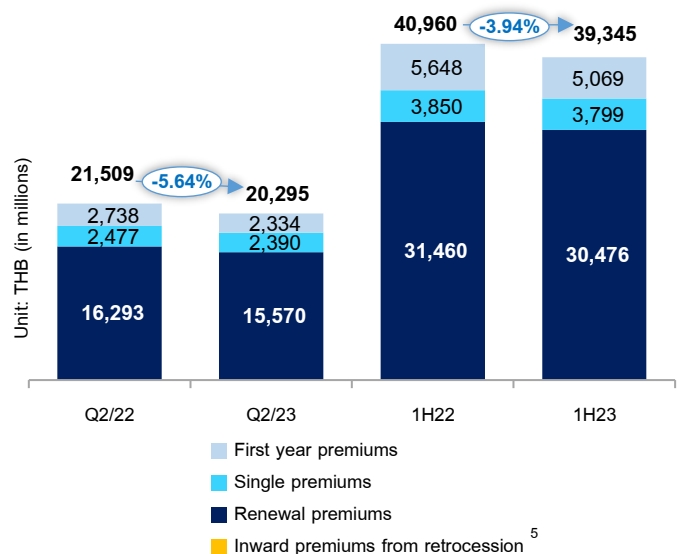
1.2.1 Revenue

Net premiums earned

Net premiums earned for 1H23 of Baht 39,071 million comprises gross written premiums Baht 39,345 million less other components Baht 274 million which include premium ceded and change in unearned premium reserve.

Gross written premiums

The slightly decrease in gross written premiums was mainly from renewal premiums due to insurance policies matured or fully paid. The Company had launched a product to recapture the matured business in June 2023, and prepared to have more products or market campaign launched in 2H23.



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 (Reversal) include expected credit losses (reversal) and other expenses.

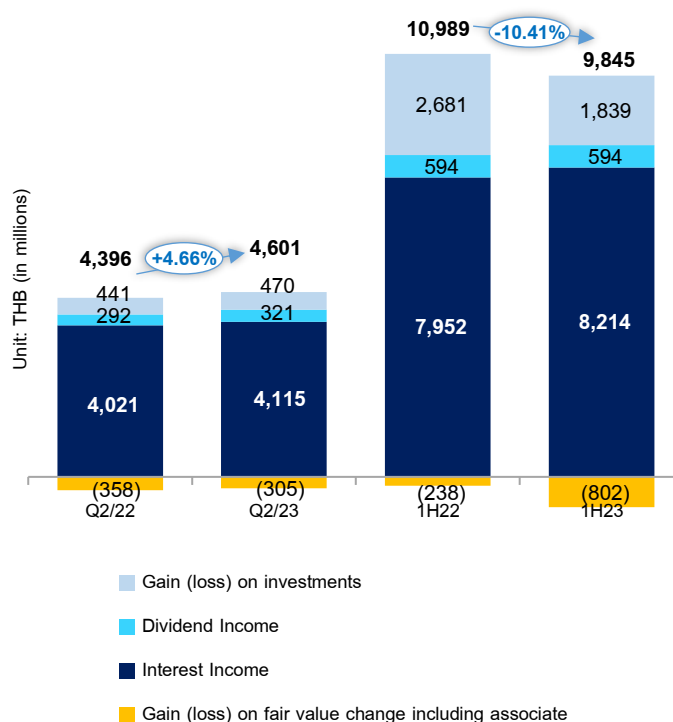
⁵ Inward premiums from retrocession amounts are not visible in the above graphic as they are insignificant.

Investment returns

Investment returns for Q2/23 increased by 4.66% compared to the same period of last year, which were primarily from the increase in interest income following the growth of fixed income portfolio as well as the increase in gain on investments from rebalancing portfolio.

For 1H23, the interest income, which is the more stable source of investment return grew by 3.29% from the same period of last year following the business growth. The volatility of investment returns was mostly driven by the gain (loss) on investments and fair value change as below:

- The gain on investments was lower than the same period of last year by Baht 842 million as the Company reduced the exposure on equity securities ahead of the weak market from geopolitical conflicts in 1Q22, which had resulted in a higher base of gain on investments compared to 1Q23.
- The higher unrealized loss on net position of fair value change in foreign currency hedge instruments and effect of foreign exchange on foreign investments of Baht 564 million, as a result of more tightening monetary policy by Federal Reserve compared to Bank of Thailand. This monetary policy resulted in a higher interest spread between Thailand and US and also affected foreign exchange.



	30 June 2023	31 December 2022
Return on average investments ¹	3.71%	3.79%

The return on average investments slightly decreased from the rationale as mentioned above and the growth of investment portfolio.

1.2.2 Expenses

Net benefits payments and insurance claims expenses

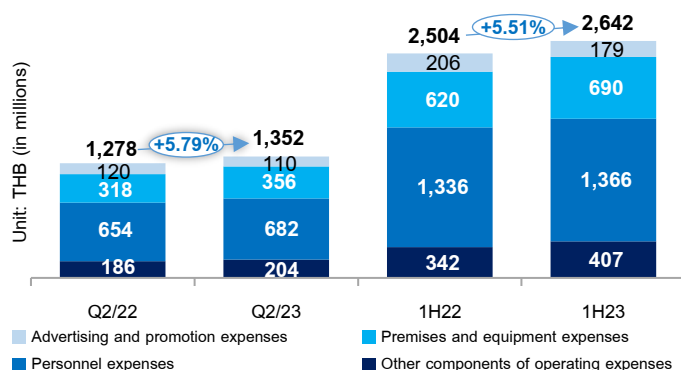
Net benefits payments and insurance claims expenses for both Q2/23 and 1H23 were similar to the same period of last year.

Commissions, brokerage and other underwriting expenses

Commissions, brokerage and other underwriting expenses for Q2/23 and 1H23 increased by Baht 120 million and Baht 210 million, or 4.84% and 4.24%, respectively, compared to the same period of last year. The increase in these expenses was mainly due to the increase in incentive expenses from sales of higher margin products.

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

Operating expenses

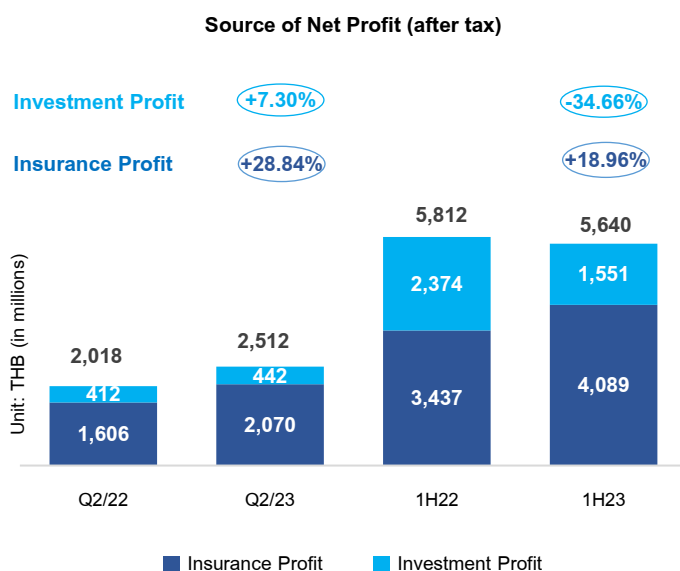


Operating expenses for Q2/23 and 1H23 increased by Baht 74 million and Baht 138 million, or 5.79% and 5.51%, respectively, compared to the same period of last year. It was primarily from the increase in consulting fees for system development and amortization cost of software expenses for the Company's digital development, such as new features on TLI application to increase customer engagement and digital sale tools for agent and bancassurance to enhance the productivity of distribution channels, etc.

Change in long-term technical reserve

Long-term technical reserve is required to be set up when the Company received the premium, for paying the insurance benefits to policyholders in the future, with a consideration of time value of money. Therefore, the change in long-term technical reserve can be split into 2 parts 1) set-up and release in accordance to the cash flows from insurance contracts and 2) interest accretion on the insurance contract liability. The first part is compared with the cash flows in the income statement resulting in **insurance profit**. The second part is compared with the Company's investment returns resulting in **investment profit**. Insurance profit and investment profit are the **source of net profit**.

1.2.3 Source of Net Profit



Note: - Summation may not add up to total amount due to rounding.
 - Income tax expenses are allocated using effective tax rate.

The **insurance profit**¹, which is a sustainable source of profit, has shown a strong growth of 18.96% in 1H23 compared to the same period of last year. The insurance profit growth has been supported by our product strategy which is focusing on selling products with sustainable profit.

The **investment profit**², which is the investment return in excess of the interest accretion on insurance contract liability (including coupon deposit) and policyholder dividend, were affected by the market volatility.

The investment profit was lower compared to the same period of last year by 34.66%, mainly due to the lower gain on investments. The Company reduced the exposure on equity securities ahead of the weak market from geopolitical conflicts in 1Q22, which had resulted in a higher base of gain on investments compared to 1Q23.

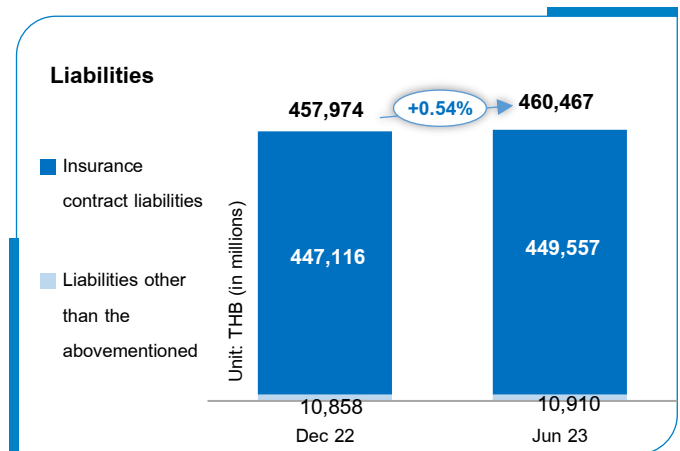
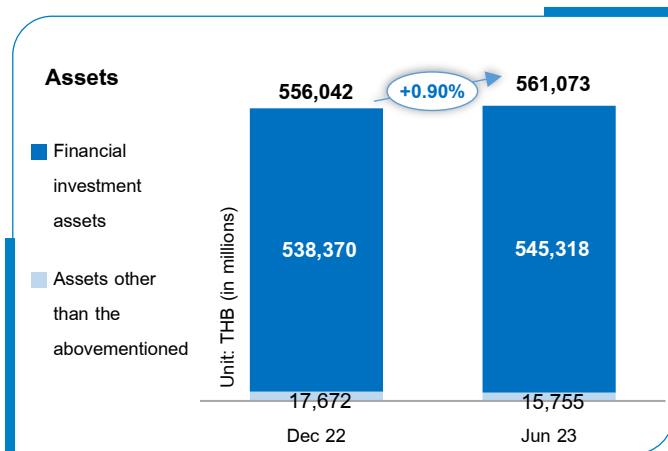
¹ Insurance profit is generated by writing an insurance contract and calculated by net profit minus the investment profit.

² Investment profit is defined as the total investment return in excess of the interest accretion on insurance contract liabilities (including coupon deposit) and policyholder dividends; total investment return consists of net investment income, gain (loss) on investments, gain (loss) on fair value change, and expected credit losses (reversal).

1.3 ANALYSIS OF FINANCIAL POSITION

Unit: THB (in millions)

	30 June 2023	% of Total Assets	31 December 2022	% of Total Assets	Change	% Change
Assets						
Cash and cash equivalents	7,000	1.25%	7,686	1.38%	(686)	-8.93%
Investment assets						
<i>Investments in securities</i>	508,837	90.69%	501,281	90.15%	7,556	1.51%
<i>Loans and accrued interest</i>	29,481	5.25%	29,403	5.29%	78	0.27%
Total investment assets	538,318	95.94%	530,684	95.44%	7,634	1.44%
Total financial investment assets	545,318	97.19%	538,370	96.82%	6,948	1.29%
Assets other than the abovementioned ¹	15,755	2.81%	17,672	3.18%	(1,917)	-10.85%
Total assets	561,073	100.00%	556,042	100.00%	5,031	0.90%
Liabilities and Equity						
Liabilities						
Insurance contract liabilities						
<i>Insurance technical reserves</i>	427,052	76.11%	423,630	76.19%	3,422	0.81%
<i>Other insurance contract liabilities</i>	22,505	4.01%	23,486	4.22%	(981)	-4.18%
Total insurance contract liabilities	449,557	80.12%	447,116	80.41%	2,441	0.55%
Liabilities other than the abovementioned ²	10,910	1.95%	10,858	1.95%	52	0.48%
Total liabilities	460,467	82.07%	457,974	82.36%	2,493	0.54%
Equity						
Share capital	31,232	5.57%	31,232	5.62%	-	0.00%
Retained earnings	66,750	11.90%	64,545	11.61%	2,205	3.42%
Other components of equity	2,624	0.46%	2,291	0.41%	333	14.54%
Total equity	100,606	17.93%	98,068	17.64%	2,538	2.59%
Total liabilities and equity	561,073	100.00%	556,042	100.00%	5,031	0.90%

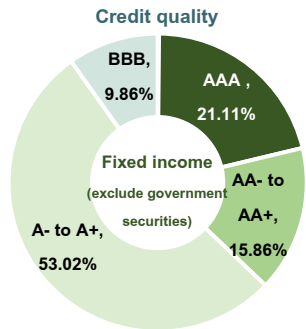
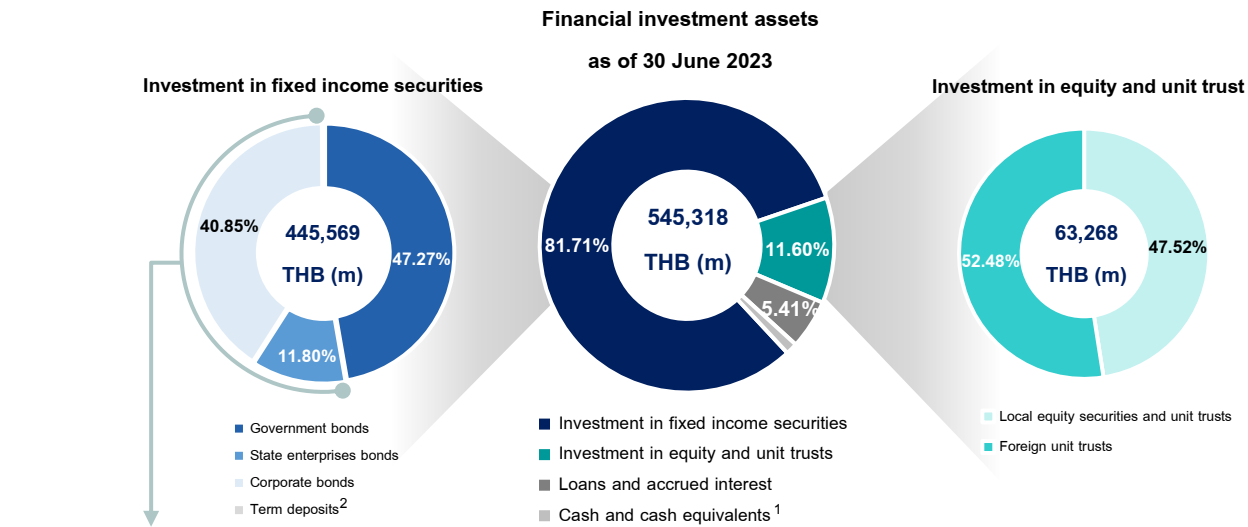


¹ Assets other than the abovementioned consist of accrued investment income, derivative assets, net investments in associated companies, net investments held to cover linked liabilities, net premiums due and uncollected, land, premises and equipment, reinsurers' share of insurance contract liabilities,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

1.3.1 Assets

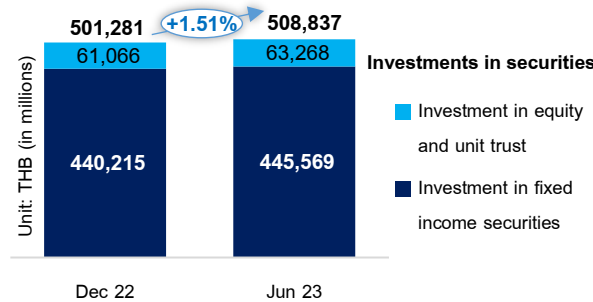
Financial investment assets



Note:

- The above graphic sets out information about the credit quality as at 30 June 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.

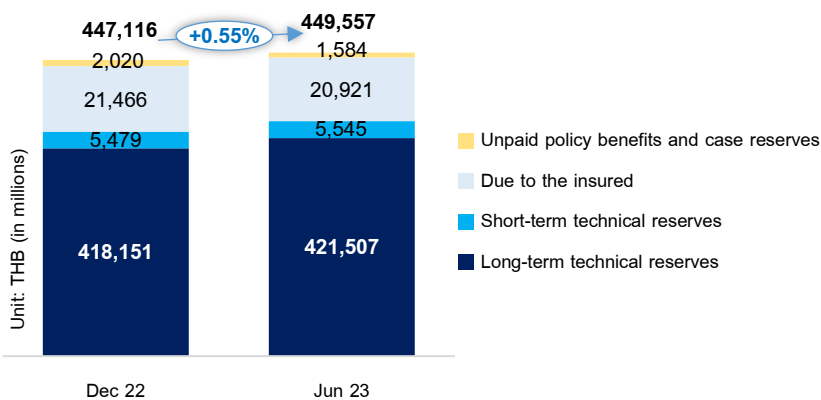
The Company's investment portfolio is well managed and professionally allocated financial investment assets in a prudent manner. The investment portfolio comprises mainly fixed income securities constituting 81.71% which generated promising stable returns. Moreover, the diversified portfolio is presented a low credit risk assets with the credit rating of the 'investment grade'.



The growth of investment in securities by 1.51% was from more investment in debt securities which resulted from the growth in insurance business and the increase in unit trust portfolio under a favourable foreign market.

1.3.2 Liabilities

Insurance contract liabilities



Insurance contract liabilities increased by 0.55% mainly from the increase in long-term technical reserve.

¹ Cash and cash equivalents 1.28% are not visible in the above graphic as they are insignificant.

² 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		
	1H23	1H22
Operating profit margin ¹	17.65%	17.58%
Net profit margin ²	11.51%	11.20%
Underwriting expense ratio ³	19.82%	18.19%
	30 June 2023	31 December 2022
Return on average shareholders' equity ⁴	10.28%	10.04%

Efficiency ratios		
	30 June 2023	31 December 2022
Return on average assets ⁵	1.66%	1.70%
Investment assets to reserves ratio ⁶	119.74%	118.69%

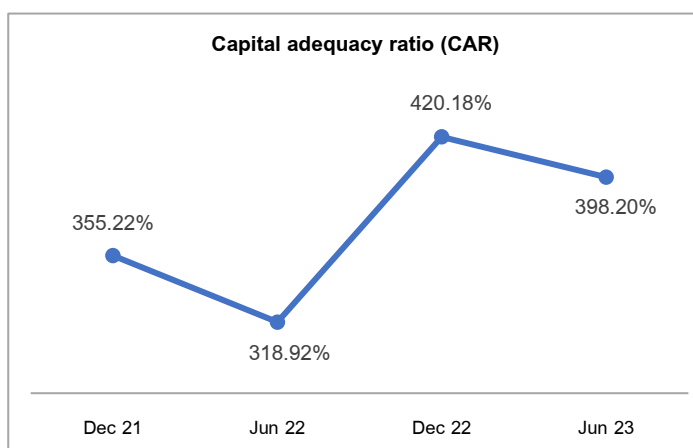
Other financial ratios		
	30 June 2023	31 December 2022
Debt to equity ratio ⁷	4.58x	4.67x
Reserves to equity ratio ⁸	4.24x	4.32x
	31 December 2022	31 December 2021
Dividend payout ratio ⁹	37.09%	30.08%

Operating profit margin and net profit margin for 1H23 increased compared to the same period of last year, primarily from the success in shifting product mix toward higher margin products.

Underwriting expense ratio for 1H23 increased compared to the same period of last year, 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 net profit for the period.

1.4.2 Capital ratios



As of 30 June 2023, the Company's capital adequacy ratio (CAR)¹⁰ was 398.20%, significantly higher than the Office of Insurance Commission (OIC) minimum requirement at 140%.

The Company's capital adequacy ratio decreased by 21.98pps (percentage points) from 420.18% as of 31 December 2022 to 398.20% as of 30 June 2023 primarily driven by paying shareholder dividends and utilizing capital to optimize investment yield.

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)

	1H23	1H22
Annualized premium equivalent (APE)	5,713	6,414
Value of new business (VONB)	3,289	3,301
VONB margin ⁽¹⁾	57.57%	51.47%
	30 June 2023	31 December 2022
Embedded value (EV)	152,990	145,170
	1H23	FY22
EV operating profit	6,952	13,797
Operating return on EV ⁽²⁾	4.79%	9.70%

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)

By product line	1H23				1H22			
	APE	%APE	VONB	VONB Margin	APE	%APE	VONB	VONB Margin
Ordinary life (Traditional)	2,733	47.83%	1,499	54.87%	4,014	62.58%	1,652	41.16%
Ordinary life (New participating)	1,159	20.29%	361	31.12%	748	11.67%	214	28.61%
Investment-linked	167	2.93%	58	34.89%	210	3.27%	69	32.97%
Riders	896	15.68%	929	103.67%	815	12.71%	969	118.89%
Others ⁽¹⁾	758	13.27%	442	58.26%	627	9.77%	397	63.29%
Total company	5,713	100.00%	3,289	57.57%	6,414	100.00%	3,301	51.47%

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)

By Channel	1H23				1H22			
	APE	%APE	VONB	VONB Margin	APE	%APE	VONB	VONB Margin
Agency	4,013	70.24%	2,311	57.59%	4,045	63.07%	2,354	58.20%
Partnership	1,184	20.73%	817	68.98%	1,975	30.80%	796	40.27%
Alternative channels ⁽¹⁾	516	9.03%	161	31.20%	393	6.13%	151	38.51%
Total company	5,713	100.00%	3,289	57.57%	6,414	100.00%	3,301	51.47%

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)

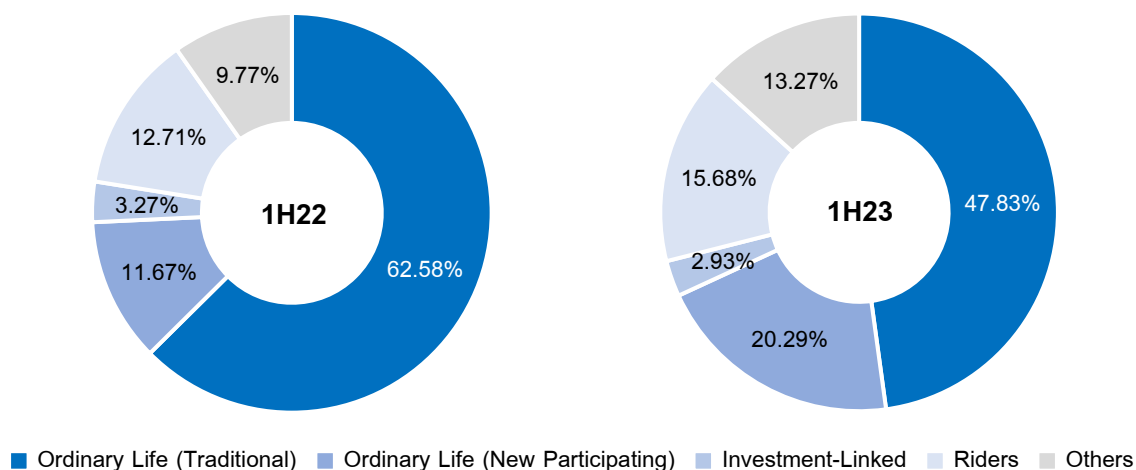
Annualized premium equivalent, or APE, is a common measure used by the life insurance industry to account for the sales of insurance products. It is calculated as 100% of annualized first year premiums plus 10% of single premiums for all new policies written during the reporting period. Compared to first 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 1H23 decreased by 10.93% to Baht 5,713 million and VONB slightly decreased by 0.37% to Baht 3,289 million, compared to the same period of last year. Despite having a lower APE, VONB sustained at a similar level to the same period of last year due to the success in shifting product mix toward more profitable product, especially on Partnership 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.

- **Agency channel:** APE and VONB sustained at a similar level to the same period of last year. Product mix continued to shift following the Company’s strategy to reduce sensitivity to the interest rate movement.
- **Partnership channel:** Despite APE decreased from the same period of last year, VONB increased as a result of shifting toward more profitable products.
- **Alternative channel:** APE and VONB increased from the same period of last year mainly due to higher production from Group Employee Benefits business.

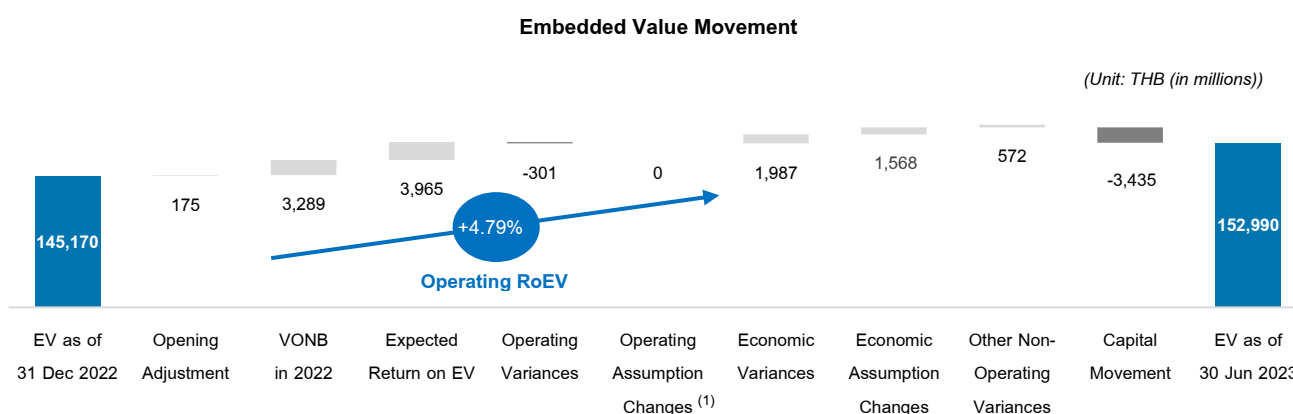
APE Mix by Product Line



Embedded value (EV)

The Company’s embedded value was closed at Baht 152,990 million as of 30 June 2023, increased by Baht 7,820 million or 5.39% from Baht 145,170 million as of 31 December 2022. The key contributors to the change were as follows:

- An opening adjustment increased the EV by Baht 175 million reflecting model enhancements
- An EV operating profit contributed Baht 6,952 million, which comprises of:
 - VONB for the six months ended 30 June 2023 of Baht 3,289 million,
 - Expected return on EV of Baht 3,965 million, and
 - Operating variance of negative Baht 301 million.
- An economic variance contributed positive Baht 1,987 million due to the interest rate movement in 1H23.
- Changes in economic assumption contributed positive Baht 1,568 million from an increase in long-term view of 10-year government bond yield and risky assets (Equity and REITs), which was partially offset by an increase in risk discount rate (RDR) from 8.0% to 8.2%
- A non-operating variance contributed positive Baht 572 million from the refinement of the modelling for non-guaranteed benefit reserves.
- A capital movement of dividends paid to our shareholders resulted in a decrease of Baht 3,435 million.



Note: (1) Operating Assumption Changes amount is zero in the above graphic as there is no change in the operating assumption.

1.5 LIQUIDITY AND CAPITAL RESOURCES

As of 30 June 2023, the Company’s cash and cash equivalents were Baht 7,000 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 monitors and manages 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 30 June 2023, the carrying value of the above-mentioned securities is amounted to Baht 5,616 million.

The Company uses the Company’s cash inflows and existing cash balances to pay liabilities under insurance policies and purchase reinsurance and investment assets. The Company also uses 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

Thai economy after the election remains highly unpredictable due to formation of the new government and its policies. However, international tourists still projected to be 30 million at the end of 2023. Meanwhile, Thai exports outlook is still dim for the remainder of this year as downside risk to economic growth in major trading partner economy.

For the inflation rate, headline inflation is expected to grow at a slower pace due to the decreasing in domestic energy prices from government assistance measures. Nonetheless, core inflation is anticipated to remain high due to its stickiness from cost passthrough to consumer prices and demand-pull inflationary pressures arising from Thai economic recovery.

Fluctuations in equity markets

In Q2/23, both Thai and international equity markets have experienced volatile sessions. However, they moved in different directions. The Thai market got pressured since the election. There are some uncertainties ahead related to government formation. While, the international markets performed well, especially the US market. However, the recent market rally could be perceived as a narrow market rally because only a few stocks have seen their price increase substantially. Some stocks potentially benefiting from the AI trend have been rising since the ChatGPT service was recognized. Given that inflation is still high and many countries' economies will slow down, we are cautious about the market.

Interest rate volatility

In Q2/23, the long-term Thai government bond yield shifted higher as compared to the previous quarter and tended to move together with global bond yields throughout this quarter but the magnitude of change was less than global bond yields. Factors causing the increase in long-term bond yield were the easing concern about liquidity crisis in financial sector, the stickiness of core inflation in many countries, and still-strong economic data despite some data pointing to a slowdown in economic activities. While, the short-dated Thai government bond yield went up more than the long-dated bond, resulting in flattening yield curve. Factors affecting a higher short-term bond yield was more aggressive monetary policy implementation from major central banks. In addition, the Bank of Thailand Monetary Policy Committee voted unanimously to raise the policy rate from 1.75% to 2.00% with its communication that the chance to further increase policy rate is still open.

In sum, the 10-year Thai government bond yield at the end of the second quarter of 2023 closed at 2.58%, up from 2.41% at the end of the previous quarter. During this quarter, the 10-year bond yield ranged between 2.46% and 2.63%.

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 has 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 15.61% and 14.77% to the industry's total agency annualized premium equivalent¹ in the first 6 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 corporate bonds, 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

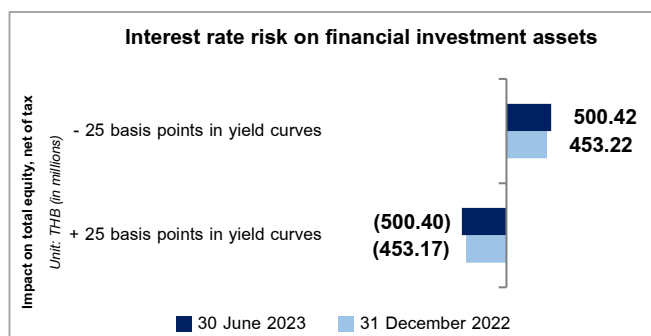
Interest rate risk is the risk that the value or future cash flows will fluctuate due to changes in market interest rates. Movement in interest rates is one of the main factors that affects the Company value of assets and liabilities and the overall investment returns.

- Exposure to total equity from financial investment assets**

As major portion of the Company's financial assets are debt securities which are mainly 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.

As of 30 June 2023, the impact of sensitivity on interest rate risk was resulted from the growth in debt security's portfolio.



Note:

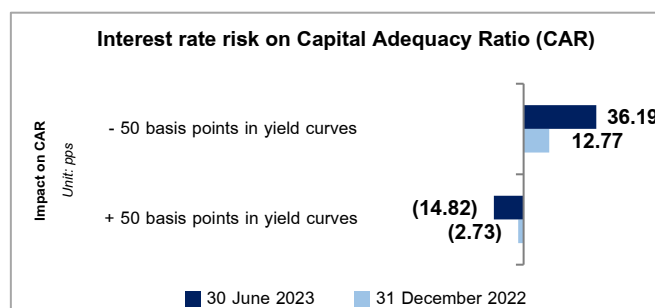
As of the dates indicated, changes of interest rates would impact the fair value of debt securities through other comprehensive income and affect the Company's total equity as shown above. This sensitivity analysis assumes that all other variables, in particular, foreign currency exchange rates, remain 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 Q2/23, the Company's duration gap between asset and liability under RBC is less than 1 year.



Note:

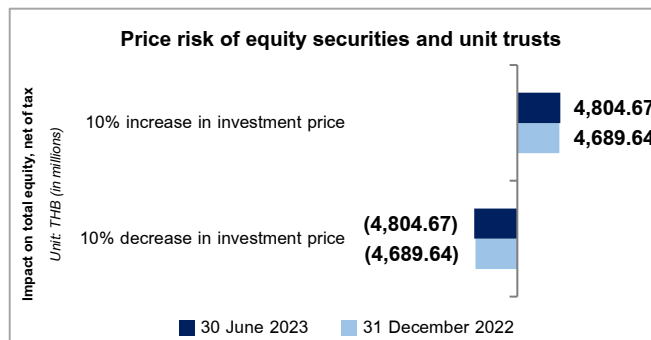
The interest rate shocks are applied on the yield curve as of each valuation date.

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.

As of 30 June 2023, the price risk arising from equity securities and unit trusts was still maintained in the similar level as compared to the last year due to the well managed investment strategy.



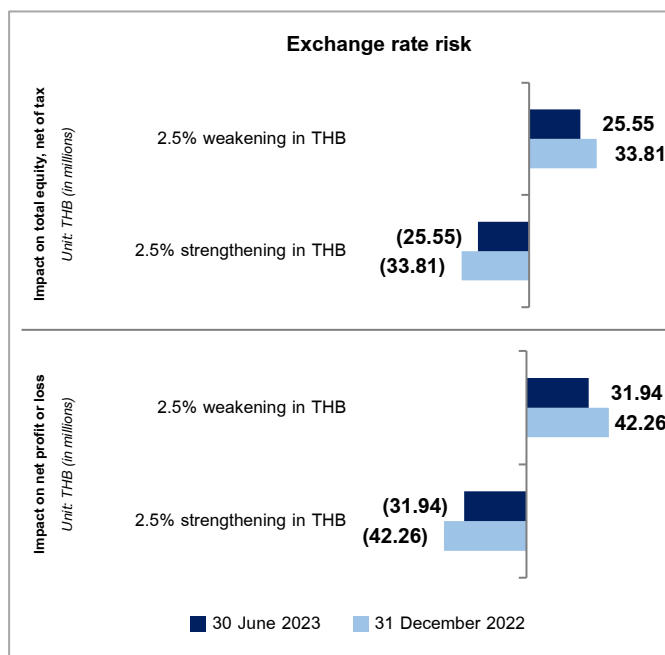
Note:

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.

As of 30 June 2023, the exchange rate risk was mitigated, compared to the last year due to the improved effectiveness in the Company’s hedging strategy.



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”.



Summary of the Company's ESG performance in Q2/23

Economic & Governance Dimension

- ✓ The Company has been selected as the public listed company with outstanding performance on the Environmental, Social and Governance (ESG) aspects within a group of **ESG Emerging List of 2023** by joining the **ESG100 universe** of Thaipat Institute. Thaipat Institute has reviewed 888 listed companies, funds, and investment trusts based on ESG information along with the Company's performance. 
- ✓ In addition, the Company embraced adaptation of the procurement manual to align with the supplier's code of conduct, which had been announced in Q1/23. This adaptation aimed to enhance supplier engagement in sustainability practices, in accordance with the Company's sustainability supply chain.

Social Dimension

- ✓ The Company aimed to continuously educate customers and society by creating shared value (CSV) **"Thai Life Insurance: Opportunity for Better Life"** project which has come to the 4th generation (Jai Klang Daen Saen Suk). The Company organized the training to educate the community enterprise located in central region of Thailand.
- ✓ The Company has organized occupation and financial management training to provide to the local community in **"Thai Life Insurance: Opportunities to Enhance Extra Occupation"** project, scheduled to take place in Q3/23.
- ✓ The Company has continuously developed ESG product which is **"Thai Life Insurance Suk Yang Yuen Refund"** product to align with the financial inclusion and literacy master plan.

Environmental Dimension

- ✓ The Company has organized **Green Building** involving improvement and maintenance of ventilation system equipment in the building including installation an air filter to create fresh air. Additionally, an automatic watering system is being set up to minimize water consumption.
- ✓ The Company has joined **Special Campaign EV / HEV Car** with Toyota Leasing to promote the use of energy-saving and environmentally friendly cars.
- ✓ Currently, the Company is in the process of developing an environmental policy to align with **Leadership in Energy and Environmental Design (LEED) standards**.

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 TFRS 9. 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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