5. The valuation, method and assumption to assess insurance contract liabilities

5.1 Book Value

Liabilities from insurance contracts will be measured based on groups of contracts. The process of determining the insurance contract liability involves a number of estimates and judgments, which are set out below.

A. Estimates of future cash flows

The Management shall estimate future cash flows incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events. As this is a prediction of the future, significant judgement is applied in determining the assumptions that underpin the estimation of future cash flows. These assumptions include, but are not limited to, operating assumptions such as morbidity, mortality, persistency and expenses, and economic assumptions such as risk-free rates and illiquidity premium.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract, including those for which the Company has discretion over the amount or timing. These include future premium receipts, payments to (or on behalf of) policyholders, insurance acquisition cash flows and other costs that are incurred in fulfilling contracts.

In relation to reinsurance contracts held, the probability weighted estimates of the present value of future cash flows includes the potential credit losses and losses from other disputes to reflect the non-performance risk of the reinsurers.

B. Expense assumptions used in future cash flow estimation

Insurance acquisition cash flows and other costs that are incurred in fulfilling contracts comprise both direct costs and an allocation of fixed and variable overheads incurred by the insurance entities. The Company projects estimates of future expenses relating to the fulfilment of contracts using current expense levels adjusted for inflation. Costs that are incurred in fulfilling the contracts include, claims handling costs, policy administration expenses, investment management expenses and other costs specifically chargeable to the policyholders under the terms of the contracts. Expenses included in estimated future cash flows comprise expenses directly attributable to the groups of contracts, including an allocation of fixed and variable overheads incurred by the insurance entities.

Investment management expenses in relation to the management of the assets backing policyholder liabilities are included in the fulfilment cash flows for business using the VFA model, other participating business using the general model and general model non-participating business where the Company performs investment management activities to enhance benefits from insurance coverage for policyholders.

Most of the costs incurred by the insurance entities within the Company are considered to be incurred for the purpose of selling and fulfilling insurance contracts and are hence treated as attributable expenses. Cash flows that are not directly attributable to a portfolio of insurance contracts, such as some product development and training costs, are recognised in other operating expenses as incurred.

C. Policyholder benefits

The assumptions used to project the cash flows also reflect the actions that management would take over the duration of the projection, the time it would take to implement these actions and any expenses incurred in taking those actions. Management actions encompass, but are not confined to, investment allocation decisions, levels of regular and final bonuses and crediting rates.

D. Insurance acquisition cash flow

Insurance acquisition cash flows arise from the activities of selling, underwriting and starting a group of insurance contracts that are directly attributable to a group of contracts (e.g. non-refundable commissions paid on issuance of a contract) are allocated to that group and to the groups that will include renewals of those contracts.

E. Determining the point of recognition and the boundary of an insurance contract

The point of initial recognition of a group of contracts is the earliest of the premium due date, the date coverage starts and, for an onerous contract, the date the contract is signed and accepted by both parties.

The contract boundary defines which future cash flows are included in the measurement of a contract. The boundary of the fulfilment cash flows is considered to be the point at which the Company both no longer has substantive rights and obligations under the insurance contract to provide services or compel the policyholder to pay premiums. The contract boundary is assessed at inception and then reassessed only when there are changes in features or circumstances that alter the commercial substance of the contract or when there are changes in the products within a portfolio. The reassessment of the contract boundary for any changes is performed at the end of each reporting period.

For most contracts issued by the Company, there is little judgement involved in determining the contract boundary as either a single premium is received for a contract which is expected to continue for a long period, or a guaranteed premium is received for regular premium contracts.

For certain contracts where the premiums are not guaranteed, more judgement is involved in assessing the Company's substantive rights and obligations. When determining the boundary for these contracts various factors are taken into consideration by the Company such as the Company's practical ability to terminate or refuse renewal of a contract, the Company's ability to fully reprice at the individual contract level and whether the Company has the ability to reassess risks at a portfolio level and set a price that fully reflects the risks of that portfolio.

Where riders attach to and are not separated from a base contract, the contract boundary is determined based on the component of the contract which has the longest contract boundary.

Future cash flows relating to riders which are not purchased at the inception of the base contract, but are added at a later date, are not included within the contract boundary at initial recognition. As the addition of these riders is the exercise of an option under the contract it is not considered a contract modification but is instead treated as changes in fulfilment cash flows.

Similar considerations to those applying to underlying insurance contracts apply in determining the contract boundary of groups of reinsurance contracts held.

F. Discount rate

The Company elects to determine discount rates on a bottom-up basis, starting with a liquid risk-free yield curve and adding an illiquidity premium to reflect the characteristics of the insurance contracts.
Risk-free rates are based on government bond yields. Government bond yields are obtained from publicly available data sources. Yield curves are constructed by using a market-observed curve up to a last liquid point and then extrapolating to an ultimate yield curve.

The illiquidity premium is calculated as the yield-to-maturity on a reference portfolio of assets with similar liquidity characteristics to the insurance contracts, (in particular, corporate bonds) less the risk-free curve, and an allowance for credit risk.

The allowance for credit risk includes a credit risk premium which is derived through a lifetime projection of expected bond cash flows, allowing for the cost of downgrades and defaults, a rebalancing rate of projected downgrades and a recovery rate in the event of default.

A proportion of the reference portfolio's illiquidity premium (either 0%, 50% or 100%) is applied to portfolios of insurance contracts reflecting the liquidity characteristics of the insurance contracts. The liquidity characteristics are assessed from the policyholders' perspective. Consideration is given to the nature of premiums, the level of underwriting, and the surrender and other benefit features of the portfolios. A product's illiquidity premium is restricted to be no greater than reasonably expected to be earned on the assets backing the insurance contract liabilities, over the duration of the insurance contracts.

Where cash flows vary based on the return on underlying items, the projected earned rate is set equal to the discount rate.

G. Risk adjustment for non-financial risk

The risk adjustment for non-financial risk reflects the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils insurance contracts.

For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

The risk adjustment for non-financial risk is determined by the Company using a confidence level approach. This is implemented through the use of provisions for adverse deviations (PADs) calibrated using non-financial risk distributions and correlation assumptions. The PADs are applied to best estimate assumptions and hence the risk adjustment is calculated on a contract-by-contract basis.

The Company's risk adjustment allows for all insurance, persistency and expense risks and operational risks specific to uncertainty in the amount and timing of insurance contract cash flows. Reinsurance counterparty default risk is excluded from the calculation. Diversification is included on a net of reinsurance basis within each insurance entity of the Company. Diversification is not allowed for between entities.

By applying a confidence level technique, the Company estimates the probability distribution of the expected present value of the future cash flows from insurance contracts at each reporting date and calculates the risk adjustment for non-financial risk as the excess of the value at risk at the 75th percentile (the target confidence level) over the expected present value of the future cash flows. The confidence level is calibrated over a one-year period.

H. Coverage units

The proportion of CSM recognised in profit or loss at the end of each reporting period for a group of contracts is determined as the ratio of: (a) the coverage units in the period; divided by (b) the sum of the coverage units in the period and the present value of expected coverage units in future periods.

The total number of coverage units in a group reflects the quantity of service provided determined by considering the quantity of benefits for each contract and its expected coverage period. The Company defines the quantity of benefits for insurance services as the maximum amount which a policyholder receives when an insured event takes place, for example the sum assured, the annual limit for a medical plan or the present value of a stream of payments. The quantity of benefits is updated each period. Investment related and investment-return services are assumed to be constant over time.

Where there are multiple different services in a group of contracts for example both insurance and investment services are provided, the quantities of benefits for the different types of service are combined using weighting factors. These weighting factors are defined as the present value of expected outflows for each type of service, determined at a contract level.

The expected coverage period is the expected duration up to the contract boundary. The expected coverage period of the contracts in a group and the calculation of future coverage units allows for expected decrements (e.g. deaths and lapses) in each future period using current best estimate assumptions consistent with the best estimate liabilities (BEL) calculation.

The Company elects to allow for the time value of money by discounting future coverage units in the determination of the proportion of CSM recognised in profit or loss.

Determination of coverage units for groups of reinsurance contracts held follows the same principles as for groups of underlying contracts.

Information of Policy Liabilities Valuation as follows:

Unit: Million Baht

Description	Book value	
	2025	2024
Net Insurance contract liabilities	191,370	158,791
- Insurance contract assets	-	-
- Insurance contract liabilities	191,370	158,791

Remark: 1. Net insurance contract liabilities are calculated as insurance contract liabilities less insurance contract assets.

2. Book value refer to the amounts of assets and liabilities measured and recognized in accordance with the Thai Financial Reporting Standards, in particular TFRS 17, with the primary objective of enabling investors and financial analysts to understand the economic value of insurance contract liabilities as recognized under generally accepted accounting principles in Thailand. Such amounts must be audited and certified by a licensed auditor.

5.2 Appraisal value

Long-term insurance contracts

- Insurance liabilities are calculated using the Gross Premium Valuation (GPV) method, based on best-estimate assumptions of future cash inflows and outflows over the policy term. Insurance liabilities are measured as the present value of cash outflows less the present value of cash inflows, together with a provision for adverse deviation to reflect uncertainty in the obligations at the 75th percentile confidence level.
- Key insurance assumptions include mortality, lapse, and expense assumptions, as certified by an actuary approved by the Office of Insurance Commission (OIC).
- The discount rate applied in the present value calculation for benefits, expenses, and premiums is based on the zero-coupon yield of Thai government bonds, using the higher of the yield as at the valuation date or the weighted average yield over the preceding eight quarters.

Short-term insurance contracts

- Insurance liabilities comprise claim liabilities and premium liabilities.
- Claim liabilities include reported claims and outstanding payments (case reserves), as well as incurred but not reported claims (IBNR), and are estimated using appropriate actuarial methods, depending on data availability and product characteristics.
- Premium liabilities are measured as the higher of unearned premium reserves (UPR) and unexpired risk reserves (URR).

Unit: Million Baht

Description	Appraisal value	
	2025	2024
Technical reserves (gross of reinsurance)		
(1) Long-term technical reserves	187,656	148,764
(2) Short-term technical reserves		
(2.1) Claim reserves	179	210
(2.2) Premium reserves	321	381
Due to insured	2,087	2,056

Remark: 1. Claim reserves comprise reported outstanding claims and claims in the course of settlement, and incurred but not reported (IBNR) claims, including both allocated loss adjustment expenses (ALAE) and unallocated loss adjustment expenses (ULAE).

2. Premium reserves represent the higher of:
   (i) the unexpired risk reserve for policies in force, before reinsurance, and
   (ii) the unearned premium reserve, before reinsurance.

3. Appraised value refers to the value of insurance contract liabilities determined in accordance with the Notification of the Office of Insurance Commission on the valuation of assets and liabilities of life insurance companies.
   The primary objectives of such valuation are prudential supervision and financial stability, and to ensure that the insurer maintains adequate ability to meet its obligations under insurance contracts in full to policyholders.
   The valuation must be performed by a licensed actuary approved by the Registrar, applying generally accepted actuarial principles. The assumptions used shall be consistent with the company's actual experience, or, where sufficient company-specific data is not available, may be based on industry experience and appropriately adjusted to reflect the specific characteristics of the company's insurance portfolio.
   In addition, the insurance reserves shall include a Provision for Adverse Deviation (PAD) in accordance with the requirements prescribed by the Office of Insurance Commission.
4. The insurance contract liabilities measured at book value and appraised value may differ materially due to the different objectives and valuation methodologies as described above. Users of this information are therefore advised to carefully consider and understand the objectives and approaches underlying each valuation basis before making any decisions.

For more information about the valuation, method and assumption to assess insurance contract liabilities, please visit our website.

https://www.prudential.co.th/corp/prudential-th/en/about-prudential-thailand/our-financial-performance/