

**Prudential Life Assurance (Thailand)
Public Company Limited**

Financial statements for the year ended
31 December 2017
and
Independent Auditor's Report



KPMG Phoomchai Audit Ltd.
Empire Tower, 50th-51st Floors
1 South Sathorn Road, Yannawa
Sathorn, Bangkok 10120, Thailand
Tel +66 2677 2000, Fax +66 2677 2222

บริษัท เคพีเอ็มจี ภูมิภาค ไทย สอบบัญชี จำกัด
ชั้น 50-51 เอ็มไพร์ทาวเวอร์
1 ถนนสาทรใต้ แขวงยานนาวา
เขตสาทร กรุงเทพฯ 10120
โทร +66 2677 2000 แฟกซ์ +66 2677 2222

Independent Auditor's Report

To the Shareholders of Prudential Life Assurance (Thailand) Public Company Limited

Opinion

I have audited the financial statements of Prudential Life Assurance (Thailand) Public Company Limited (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

Basis for Opinion

I conducted my audit in accordance with Thai Standards on Auditing (TSAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with the Code of Ethics for Professional Accountants issued by the Federation of Accounting Professions that is relevant to my audit of the financial statements, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with TSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with TSAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Chanchai S.

(Chanchai Sakulkoedsin)
Certified Public Accountant
Registration No. 6827

KPMG Phoomchai Audit Ltd.
Bangkok
5 March 2018

Prudential Life Assurance (Thailand) Public Company Limited

Statement of financial position

Assets	Note	31 December	
		2017	2016
		<i>(in Baht)</i>	
Cash and cash equivalents	4	3,131,870,185	2,541,570,889
Premiums due and uncollected	5	482,435,198	510,153,063
Accrued investment income		668,099,071	608,341,114
Reinsurance receivables		55,818,788	78,478,936
Derivative assets		233,725,497	31,106
Investments assets			
Investments in securities	6, 25	88,754,775,314	75,112,493,806
Loans	7	2,027,030,451	1,630,842,502
Investment in subsidiary	8	7,446,940	7,461,993
Investment assets where policyholders bear the investment risk	9	2,969,410,026	1,669,659,944
Assets held for sale		10,029,844	10,029,844
Premises and equipment	10	185,000,032	193,860,775
Intangible assets	11	11,934,239,708	12,233,401,841
Other assets		395,928,928	278,391,133
Total assets		110,855,809,982	94,874,716,946

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited

Statement of financial position

Liabilities and shareholders' equity	Note	31 December	
		2017	2016
		<i>(in Baht)</i>	
Liabilities			
Investment payable		993,722,940	-
Insurance contract liabilities	13	76,760,247,394	66,363,608,680
Investment contract liabilities	14	3,032,414,746	1,670,612,030
Due to reinsurers		131,086,343	154,942,415
Derivative liabilities		3,213,272	77,580,611
Income tax payable		133,887,424	299,575,075
Accrued commission		402,677,764	343,599,222
Accrued expenses	24	712,301,206	602,050,846
Employee benefit obligations		303,872,162	272,733,291
Deferred tax liabilities	12	965,215,406	391,486,635
Other liabilities	24	548,779,479	405,701,190
Total liabilities		83,987,418,136	70,581,889,995
Shareholders' equity			
Share capital	15		
Authorised share capital		20,209,935,239	20,209,935,239
Issued and paid share capital		20,209,935,239	20,209,935,239
Retained earnings			
Appropriated			
Legal reserve	16	251,361,476	161,083,826
Unappropriated		2,564,366,872	2,121,837,630
Other components of shareholders' equity			
Net fair value changes in available-for-sale securities	6, 16	3,842,728,259	1,799,970,256
Total shareholders' equity		26,868,391,846	24,292,826,951
Total liabilities and shareholders' equity		110,855,809,982	94,874,716,946

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited
Statement of comprehensive income

		For the year ended 31 December	
	Note	2017	2016
		<i>(in Baht)</i>	
Revenues			
Gross premium written		20,046,039,448	19,165,792,931
Less premium ceded		(192,163,860)	(171,915,687)
Net premiums written		19,853,875,588	18,993,877,244
Add unearned premium reserve decreased (increased) from previous year		82,525,864	(57,866,253)
Net premium earned		19,936,401,452	18,936,010,991
Commission and brokerage income		30,163,397	26,782,790
Net investments income	17, 24	2,806,301,055	2,538,173,023
Gain on investments	24	471,006,560	712,852,925
Gain on fair value changes		195,329,636	-
Other income		5,585,327	2,725,624
Total revenues		23,444,787,427	22,216,545,353
Expenses			
Long-term technical reserve increase from prior year		10,394,549,508	9,840,063,996
Benefits payments and insurance claims expenses	19	5,118,455,055	4,814,810,580
Less benefits payments and insurance claims expenses recovered from reinsurers		(85,495,936)	(84,094,957)
Net benefits payments and insurance claims expenses		5,032,959,119	4,730,715,623
Commissions and brokerage expenses		2,476,136,727	2,227,383,612
Other underwriting expenses	19, 26	1,426,572,352	1,294,545,140
Operating expenses	18, 19, 24	1,788,605,274	1,467,404,537
Loss on fair value changes		-	34,543,574
Total expenses		21,118,822,980	19,594,656,482
Profit before income tax		2,325,964,447	2,621,888,871
Income tax	20	520,411,447	612,919,097
Net profit		1,805,553,000	2,008,969,774
Other comprehensive income			
<i>Components of other comprehensive income that will not be reclassified to profit or loss</i>			
Defined benefit plan actuarial gain (loss)		12,153,039	(2,418,095)
Income tax relating to components of the comprehensive income that will not be reclassified to profit or loss		(2,430,608)	483,619
		9,722,431	(1,934,476)
<i>Components of other comprehensive income that will be reclassified to profit or loss</i>			
Net change in fair value on available-for-sale securities		2,553,447,504	(1,706,533,673)
Income tax relating to components of the comprehensive income that will be reclassified to profit or loss		(510,689,501)	341,306,734
		2,042,758,003	(1,365,226,939)
Other comprehensive income for the year, net of income tax		2,052,480,434	(1,367,161,415)
Total comprehensive income for the year		3,858,033,434	641,808,359
Basic earnings per share	21	0.82	0.91

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited

Statement of changes in equity

	Note	Issued and paid share capital	Retained earnings		Other components of shareholders' equity	Total shareholders' equity
			Legal reserve	Unappropriated <i>(in Baht)</i>	Net fair value changes in available-for-sale securities	
Year ended 31 December 2016						
Balance at 1 January 2016		20,209,935,239	60,635,337	414,254,560	3,165,197,195	23,850,022,331
Transactions with shareholders, recorded directly in equity						
<i>Distributions to shareholders of the Company</i>						
Dividends to shareholders of the Company	22	-	-	(199,003,739)	-	(199,003,739)
Total transactions with shareholders, recorded directly in equity		-	-	(199,003,739)	-	(199,003,739)
Comprehensive income for the year						
Net profit		-	100,448,489	1,908,521,285	-	2,008,969,774
Other comprehensive income						
Net change in fair value on available-for-sale securities, net of income tax		-	-	-	(1,365,226,939)	(1,365,226,939)
Defined benefit plan actuarial loss, net of income tax		-	-	(1,934,476)	-	(1,934,476)
Total comprehensive income for the year		-	100,448,489	1,906,586,809	(1,365,226,939)	641,808,359
Balance at 31 December 2016		<u>20,209,935,239</u>	<u>161,083,826</u>	<u>2,121,837,630</u>	<u>1,799,970,256</u>	<u>24,292,826,951</u>

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited

Statement of changes in equity

		Retained earnings		Other components of shareholders' equity	
	Issued and paid share capital	Legal reserve	Unappropriated (in Baht)	Net fair value changes in available-for-sale securities	Total shareholders' equity
<i>Note</i>					
Year ended 31 December 2017					
	20,209,935,239	161,083,826	2,121,837,630	1,799,970,256	24,292,826,951
Transactions with shareholders, recorded directly in equity					
<i>Distributions to shareholders of the Company</i>					
Dividends to shareholders of the Company	22	-	(1,282,468,539)	-	(1,282,468,539)
Total transactions with shareholders, recorded directly in equity		-	(1,282,468,539)	-	(1,282,468,539)
Comprehensive income for the year					
Net profit		90,277,650	1,715,275,350	-	1,805,553,000
Other comprehensive income					
Net change in fair value on available-for-sale securities, net of income tax		-	-	2,042,758,003	2,042,758,003
Defined benefit plan actuarial gain, net of income tax		-	9,722,431	-	9,722,431
Total comprehensive income for the year		90,277,650	1,724,997,781	2,042,758,003	3,858,033,434
Balance at 31 December 2017	20,209,935,239	251,361,476	2,564,366,872	3,842,728,259	26,868,391,846

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited

Statement of cash flows

	Note	For the year ended 31 December	
		2017	2016
		<i>(in Baht)</i>	
<i>Cash flows from operating activities</i>			
Premiums received		19,686,583,419	18,694,882,571
Cash paid to reinsurers		(77,700,451)	(31,388,483)
Interest received		2,781,404,103	2,537,937,104
Dividend received		38,802,567	17,607,033
Other income		5,360,851	2,710,625
Benefit payments and insurance claims expenses		(5,033,839,984)	(4,474,661,046)
Commissions and brokerages		(2,417,058,185)	(2,270,423,837)
Other underwriting expenses		(1,022,770,756)	(1,216,915,752)
Operating expenses		(1,615,867,801)	(1,653,430,375)
Income tax paid		(625,490,436)	(552,655,199)
Investments in securities		(9,994,213,540)	(10,820,304,325)
Loans		(8,656,440)	(30,396,163)
Investment assets where policyholders bear the investment risk		240,434,793	(13,685,674)
Deposits at financial institutions		100,047	(1,528)
Net cash provided by operating activities		<u>1,957,088,187</u>	<u>189,274,951</u>
<i>Cash flows from investing activities</i>			
<i>Cash flows provided by</i>			
Proceeds from sale of premises and equipment		237,526	15,000
Cash flows provided by investing activities		<u>237,526</u>	<u>15,000</u>
<i>Cash flow used in</i>			
Acquisition of premises and equipment		(41,686,591)	(58,605,647)
Acquisition of intangible assets		(42,871,287)	(88,662,343)
Cash used in investing activities		<u>(84,557,878)</u>	<u>(147,267,990)</u>
Net cash used in investing activities		<u>(84,320,352)</u>	<u>(147,252,990)</u>
<i>Cash flows from financing activities</i>			
Dividends paid to owners of the Company	22	(1,282,468,539)	(199,003,739)
Net cash used in financing activities		<u>(1,282,468,539)</u>	<u>(199,003,739)</u>
Net increase (decrease) in cash and cash equivalents		590,299,296	(156,981,778)
Cash and cash equivalent at beginning of period		2,541,570,889	2,698,552,667
Cash and cash equivalent at ending of period	4	<u>3,131,870,185</u>	<u>2,541,570,889</u>
Supplement cash flow information			
Non-cash items			
Investment receivable		5,861,452	4,500,337
Investment payable		993,722,940	-
Net fair value changes on available-for-sale securities		2,553,447,504	(1,706,533,673)

The accompanying notes are an integral part of these financial statements.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Note	Contents
1	General information
2	Basis of preparation of the financial statements
3	Significant accounting policies
4	Cash and cash equivalents
5	Premiums due and uncollected
6	Investments in securities
7	Loans
8	Investment in subsidiary
9	Investment assets where policyholders bear the investment risk
10	Premises and equipment
11	Intangible assets
12	Deferred tax
13	Insurance contract liabilities
14	Investment contract liabilities
15	Share capital
16	Reserves
17	Net investment income
18	Operating expenses
19	Employee benefit expenses
20	Income tax
21	Basic earnings per share
22	Dividends
23	Insurance and finance risks management
24	Related parties
25	Securities and assets pledged with the Registrar
26	Contribution to life insurance fund
27	Commitments with non-related parties
28	Events after the reporting period

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

These notes form an integral part of the financial statements.

The financial statements issued for Thai statutory and regulatory reporting purposes are prepared in the Thai language. These English language financial statements have been prepared from the Thai language statutory financial statements, and were approved and authorised for issue by the Board of Directors on 5 March 2018.

1 General information

Prudential Life Assurance (Thailand) Public Company Limited, (the “Company”), is incorporated in Thailand and has its registered office at @Sathorn Building, 20th - 27th Floors, 9 / 9 South Sathorn Road, Yannawa, Sathorn, Bangkok. The Company has 1 branch (2016: 1 branch).

The immediate and ultimate parent companies during the financial year were Staple Limited (51.2% shareholding) which was incorporated in Thailand, and Prudential Plc. which was incorporated in the United Kingdom, respectively.

The principal activity of the Company is to operate life assurance. Details of the Company’s subsidiary as at 31 December 2017 and 2016 are given in notes 8 and 24.

2 Basis of preparation of the financial statements

(a) Statement of compliance

The financial statements are prepared in accordance with Thai Financial Reporting Standards (TFRSs), guidelines promulgated by the Federation of Accounting Professions (“FAP”) and the Notification of the Office of Insurance Commission regarding “Rules, Procedures, Conditions and Timing for the Preparation and Submission of the Financial Statements and Reporting the Operations of Life Insurance Companies” B.E 2559, dated 4 March 2016.

The FAP has issued new and revised TFRSs effective for annual accounting periods beginning on or after 1 January 2017. The initial application of these new and revised TFRSs has resulted in changes in certain of the Company’s accounting policies. These changes have no material effect on the financial statements.

In addition to the above new and revised TFRSs, the FAP has issued a number of other new and revised TFRSs which are effective for annual financial periods beginning on or after 1 January 2018 and have not been adopted in the preparation of these financial statements.

The Company has made a preliminary assessment of the potential initial impact on the Company’s financial statements of these new and revised TFRS and expects that there will be no material impact on the financial statements in the period of initial application.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following items:

<i>Items</i>	<i>Measurement bases</i>
Derivative financial instruments	Fair value
Trading and available-for-sale investments	Fair value
Investment assets where policyholders bear the investment risk	Fair value

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

(c) *Functional and presentation currency*

The financial statements are prepared and presented in Thai Baht, which is the Company's functional currency. All financial information presented in Thai Baht has been rounded in the notes to the financial statements to the nearest thousand unless otherwise stated.

(d) *Use of judgements and estimates*

The preparation of financial statements in conformity with TFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumption and estimation uncertainties that have a significant risk of resulting in a material adjustments to the amounts recognised in the financial statements is included in the following notes:

Note 13	Insurance contract liabilities
Note 14	Investment contract liabilities

Long-term technical reserves

The Company determines the long-term technical reserves based on the Net Level Premium Valuation method (NPV).

Process involved in determining assumptions

The Company determines assumptions in relation to mortality, morbidity and pricing rates that were established at the time when insurance products designed and as approved to the Office of Insurance Commission. These assumptions are locked-in and used for calculating the liabilities over the life of the contract. This year, there is no change in assumption from last year. The carrying amount as at the reporting date is provided in note 13.

Short-term technical reserves

Short-term technical reserves consist of loss reserve and outstanding claims and premium reserves. The carrying amount as at the reporting date is provided in note 13.

Process involved in determining assumptions

The Company determines the loss reserves and outstanding claims in accordance with the Company's claim assessment. The assumptions used in the estimation are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts to the extent that can be reasonably foreseen.

However, given the uncertainty in establishing a provision for insurance claims, it is likely that the final outcome could prove to be significantly different from the original liability established.

Provision is made at the reporting date for the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

The Company uses “Bornhuetter-Ferguson” method to estimate claims incurred but not reported which combines, features of the Chain ladder and Expected loss ratio methods. The method is appropriate for immature and volatile portfolio experience.

Measurement of fair values

A number of the Company’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Further information about the methods and assumptions made in measuring fair values is disclosed in note 23.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) *Exemption from consolidation*

The Company has not prepared consolidated financial statements for the year ended 31 December 2017 and 2016; in accordance with the Thai Accounting Standard No.27 (revised 2016) Separate Financial Statements and Thai Financial Reporting Standard No.10 (revised 2016) Consolidated Financial Statements. The Company had informed all its common shareholders that management intend to present the Company’s financial statements on a non-consolidated basis, and no objections were raised. The results of the Company are consolidated into the financial statements of its ultimate parent company, Prudential Plc.

(b) *Foreign currencies*

Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rates at the reporting date. Foreign exchange differences arising from translation are recognised in profit or loss.

Non-monetary assets and liabilities measured at cost in foreign currencies are translated to the functional currency at the exchange rates at the dates of the transactions.

(c) *Derivative financial instruments*

Derivative financial instruments are used to manage exposure to foreign exchange and interest rate risks arising from investment activities. Derivative financial instruments are not used for trading purposes.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, they are remeasured at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The fair value of derivatives is based on valuation techniques, including discounted cash flow models.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

(d) *Cash and cash equivalents*

Cash and cash equivalents in the statements of cash flows comprise cash balances, call deposits and highly liquid short-term investments.

(e) *Classification of insurance and investment contracts*

The Company issues insurance contracts that transfer insurance risk. These are classified as insurance contracts.

Insurance contracts are those contracts under which the Company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event adversely affects the policyholder or other beneficiary. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least significant level more than the benefits payable if the insured event did not occur.

(f) *Recognition and measurement of insurance contracts*

Premiums receivables

Premiums receivables are stated at their invoice value less allowance for doubtful accounts.

The allowance for doubtful accounts is assessed primarily on analysis of payment histories and future expectations of customer payments. Bad debts are written off when incurred.

For individual policies that are overdue more than the grace period, the premiums receivables will be settled by granting automatic policy loans where the cash surrender is greater than the amount due.

Long-term technical reserves

A liability for contractual benefits and claims that are expected to be incurred in the future is recorded when the premiums are recognised and is released when benefit and claims are incurred. The liability is measured using assumptions considered to be appropriate for the policies in force and calculated by the internal actuary of the Company and using the "Net Premium Valuation" method.

Loss reserves and outstanding claims

Loss reserves and outstanding claims are recorded for the estimated cost of all claims notified but not settled at the reporting date, using the information available at the time. In addition, a loss reserve is also made for the cost of claims incurred but not reported as at the reporting date based on the Company's experience and historical data. Differences between the provision for loss reserves and outstanding claims at the reporting date and subsequent revisions and settlements are included in the profit or loss.

Premium reserves

The premium reserves comprises of the unearned premium reserve and unexpired risk reserve.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Unearned premium reserve

The unearned premium reserve for group insurance, short-term riders and short-term insurance which are calculated based on a pro-rata basis of the premium based on the remaining duration of each policy.

Unexpired risks reserve

Unexpired risks reserve is the reserve for the claims, which may occur, of the in-force policy. Unexpired risks reserve is set aside using an actuarial method. The reserve is calculated as the best estimate of the claims, which are expected to occur during the remaining coverage periods, based on the historical claims data.

Premium written and premium earned

Short-term insurance contracts

Premium written is recognised as revenue on the inception date and are presented gross of premium ceded and commissions and brokerage expenses.

Premium earned comprises of premium written during the year and change in unearned premium reserves and is recognised as revenue proportionally over the period of coverage of insurance policy.

Long-term insurance contracts

First year gross premium written is recognised on the effective date. Renewal gross premium written is recognised when premium is due, only if the policy is still in force. First year gross premium written and renewal gross premium written are presented gross of premium ceded and commissions and brokerage expenses.

Premium received in advance is not recognised until the due date.

Commissions and brokerage expenses

Commissions and brokerage expenses are recognised as expenses when incurred.

Benefits, claims and loss adjustment expenses

Benefits, claims and loss adjustment expenses consist of benefits, claims and losses adjustment paid during the years, net of changes in provision for short-term insurance claims. They are recognised as expense in profit or loss when incurred

Reinsurance

Assets, liabilities, income and expense arising from reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premium ceded, reinsurer's share of change in unearned premium reserve, commission income and benefits, claims and loss adjustment expenses recovered from reinsurers are recognised as expense or revenue in accordance with the pattern of reinsurance service received when incurred.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

An asset or liability is recognised in the statement of financial position representing reinsurance receivables, reinsurer's share of insurance contract liabilities and reinsurance payables. The net amount is presented in the statement financial position only when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. The measurement of reinsurance assets is consistent with the measurement of the underlying insurance contracts.

Amounts recoverable under reinsurance contracts are assessed for impairment at reporting date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer.

Liability adequacy test

Short-term insurance contracts

The liability of the Company under short-term insurance contracts is tested for adequacy by comparing the best estimate using an actuarial method with the carrying amount of unearned premiums reserve at the reporting date. Where an expected shortfall is identified, additional provisions are made for unearned premiums and are recognised in profit or loss.

Long-term insurance contracts

The liability of the Company under long-term insurance contracts is tested for adequacy by comparing the best estimate of future contractual cash flows by using current assumptions with the carrying amount of long-term technical reserves at the reporting date. Where an expected shortfall is identified, additional provisions are made for long-term technical reserves are recognised in profit or loss.

An additional provision for liability inadequacy is made where the reserves are calculated by using actuarial method "Gross Premium Valuation" based on current assumptions of policies in force at the reporting date exceeds the liabilities calculated by using Net Premium Valuation method.

Unbundling of deposit components

Some insurance contracts contain both insurance component and a deposit component. In some cases, an insurer is required or permitted to unbundle those components:

The Company's accounting policy requires unbundling a deposit component if both the following conditions are met:

- (1) the Company can measure the deposit component (including any embedded surrender options) separately (i.e. without considering the insurance component) and
- (2) The Company's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

(g) *Investments in securities*

Investments in debt and equity securities

Debt securities and marketable equity securities held for trading are stated at fair value with any resultant gain or loss recognised in profit or loss.

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost, less any impairment losses. The difference between the acquisition cost and redemption value of such debt securities is amortised using the effective interest rate method over the period to maturity.

Debt securities and marketable equity securities, other than those securities held for trading or intended to be held to maturity, are classified as available-for-sale investments. Available-for-sale investments are, subsequent to initial recognition, stated at fair value and change therein, other than impairment losses and foreign currency differences on available-for-sale monetary items, are recognised directly in equity. Impairment losses and foreign exchange differences are recognised in profit or loss. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

Equity securities which are not marketable are stated at cost less any impairment losses.

Initial recognition

Purchases and sales of investments are initially recognized on trade date which is the date that the Company commits to purchase or sell the investments.

Disposal of investments

On disposal of an investment, the difference between net disposal proceeds and the carrying amount together with the associated cumulative gain or loss that was reported in equity is recognised in profit or loss.

If the Company disposes of part of its holding of a particular investment, the deemed cost of the part sold is determined using the weighted average method applied to the carrying value of the total holding of the investment.

(h) *Investment in subsidiary*

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Investments in subsidiaries are accounted for using the cost method.

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

(i) Loans

Loans are stated at the principal amounts less allowance for doubtful accounts.

The Company provides an allowance for doubtful accounts based on the overdue period and the collateral value.

(j) Premises and equipment

Recognition and measurement

Owned assets

Land is measured at cost less impairment losses. Building and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When separate parts of building and equipment have different useful lives, they are accounted for individually (major components).

Any gains and losses on disposal of an item of premises and equipment are determined by comparing the proceeds from disposal with the carrying amount of premises and equipment, and are recognised net within other income in profit or loss.

Subsequent costs

The cost of replacing a part of an item of premise and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of premise and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of building and equipment. The estimated useful lives are as follows:

Buildings	20	years
Buildings improvements	5	years
Leasehold improvements	5 and 9	years
Office equipment and furniture	5	years
Motor vehicles	5	years

No depreciation is provided on freehold land or assets under construction.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

(k) *Intangible assets*

Software licences

Software licences that are acquired by the Company and have finite useful lives are stated at cost less accumulated amortisation and impairment losses. Software licences are amortised in profit or loss on a straight-line basis over their estimated useful lives from the date that they are available for use. The estimated useful lives is 5 years.

No amortisation is provided on intangible assets under installation.

Bancassurance agreements

Bancassurance agreements recognised in intangible asset are stated at cost less accumulated amortisation and accumulated impairment losses (if any). They are being amortised in profit or loss over the life of the agreements, which is 15 years, based on achievement of performance targets.

Amortisation methods, useful lives and residual rates are reviewed at each financial year-end and adjusted if appropriate.

(l) *Impairment*

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amounts are estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in profit or loss unless it reverses a previous revaluation credited to equity, in which case it is charged to equity.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the value of the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of held-to-maturity securities carried at amortised cost is calculated as the present value of the estimated future cash flows discounted at the original effective interest rate. Receivables with a short duration are not discounted.

The recoverable amount of available-for-sale financial assets is calculated by reference to the fair value.

The recoverable amount of a non-financial asset is the greater of the assets' value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Reversals of impairment

An impairment loss in respect of a financial asset is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised in profit or loss. For financial assets carried at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised in other comprehensive income.

Impairment losses recognised in prior periods in respect of other non-financial assets are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Due to reinsurers and other accounts payable

Due to reinsurers and other accounts payable are stated at cost.

(n) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution plans are personnel expensed as the related service is provided.

Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefit obligations is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability, actuarial gain or loss are recognised immediately in other comprehensive income. The Company determines the interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

(o) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(p) Revenue

Interest and dividend income

Interest income is recognised in the statement of income as it accrues, except when interest is in arrears for more than 6 months when it is recognised on a cash basis. Dividend income is recognised in profit or loss on the date the Company's right to receive payments is established which in the case of quoted marketable securities is usually the ex-dividend date.

(q) Expenses

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

(r) Income tax expense

Income tax expense for the year comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) Earnings per share

The Company presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

4 Cash and cash equivalents

	2017	2016
	<i>(in thousand Baht)</i>	
Cash on hand	1,755	13,163
Deposits at banks - call deposits	1,870,115	2,328,408
Deposits at banks - time deposits	1,260,000	200,000
Total	<u>3,131,870</u>	<u>2,541,571</u>

As at 31 December 2017 and 2016, cash and cash equivalents were denominated entirely in Thai Baht.

5 Premiums due and uncollected

As at 31 December 2017 and 2016, the balances of premiums due and uncollected are classified by aging as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
Within due	410,042	471,281
Overdue		
Not over than 30 days	72,092	36,923
31 - 60 days	380	713
61 - 90 days	332	698
91 days - 1 year	339	689
over 1 year	468	460
Total	<u>483,653</u>	<u>510,764</u>
<i>Less allowance for doubtful accounts</i>	<i>(1,218)</i>	<i>(611)</i>
Net	<u>482,435</u>	<u>510,153</u>

The Company has established procedures for following up on the collection of premiums due and uncollected from agents and brokers to ensure it is made within the credit terms. Legal action is taken against agents and brokers on a case-by-case basis when premiums due and uncollected are overdue.

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

6 Investments in securities

6.1 Investments in securities types

(a) *Trading and available-for-sale securities comprise of:*

	2017			Fair value
	Cost/ amortised cost	Unrealised gain <i>(in thousand Baht)</i>	Unrealised loss	
<i>Trading securities</i>				
Unit trusts	1,896	339	(5)	2,230
Total trading securities	1,896	339	(5)	2,230
<i>Available-for-sale securities</i>				
<i>Government and state enterprise securities</i>				
Bonds	45,284,130	3,028,483	(423,031)	47,889,582
Debentures	4,140,938	314,808	(292)	4,455,454
Notes	1,000,000	182,990	-	1,182,990
<i>Private securities</i>				
Debentures	27,520,996	1,262,503	(47,881)	28,735,618
Notes	217	-	-	-
<i>Foreign securities</i>				
Bonds	2,138,765	25,225	(11,132)	2,152,858
Unit trusts	2,121,298	601,488	-	2,722,786
Exchange Traded Fund	1,742,408	-	(129,751)	1,612,657
Total	83,948,752	5,415,497	(612,087)	88,751,945
<i>Less allowance for impairment</i>	<i>(217)</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total available-for-sale securities	83,948,535	5,415,497	(612,087)	88,751,945

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

	2016			Fair value
	Cost/ amortised cost	Unrealised gain (in thousand Baht)	Unrealised loss	
Trading securities				
Unit trusts	1,843	263	(14)	2,092
Total trading securities	1,843	263	(14)	2,092
Available-for-sale securities				
<i>Government and state enterprise securities</i>				
Bonds	39,951,224	2,037,787	(1,009,548)	40,979,463
Debentures	4,260,807	172,688	(8,026)	4,425,469
Notes	1,000,000	119,557	-	1,119,557
<i>Private securities</i>				
Debentures	22,789,308	865,729	(222,298)	23,432,739
Notes	217	-	-	-
<i>Foreign securities</i>				
Bonds	1,914,866	30,212	(5,825)	1,939,253
Unit trusts	1,201,126	242,984	-	1,444,110
Exchange Traded Fund	1,742,408	26,703	-	1,769,111
Total	72,859,956	3,495,660	(1,245,697)	75,109,702
Less allowance for impairment	(217)	-	-	-
Total available-for-sale securities	72,859,739	3,495,660	(1,245,697)	75,109,702

(b) Held to maturity securities comprise of:

	2017		2016	
	Cost/ amortised cost (in thousand Baht)	Fair value	Cost/ amortised cost (in thousand Baht)	Fair value
Held-to-maturity securities				
Deposit at banks with original maturity over 3 months	-	-	100	100
Total held-to-maturity securities	-	-	100	100

(c) General investments comprise of:

	2017		2016	
	Cost/ carrying value (in thousand Baht)	Fair value	Cost/ carrying value (in thousand Baht)	Fair value
General investments				
Equity securities - ordinary shares	1,063	5,033	1,063	4,984
Less allowance for impairment	(463)	-	(463)	-
Total general investments	600	5,033	600	4,984

Deposits at banks which were pledged as collateral for issuing letters of guarantee for use of electricity and post office services were cancelled and closed in August 2017 (31 December 2016: Baht 0.1 million).

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

6.2 Remaining period of investments in debt securities

As at 31 December 2017 and 2016, investments in debt securities were classified by the remaining period to maturity as follows:

	2017				Total
	Within 1 year	Maturity		Over 10 years	
		1 - 5 years	5 - 10 years <i>(in thousand Baht)</i>		
<i>Available-for-sale securities</i>					
<i>Government and state enterprise securities</i>					
Bonds	4,597,170	1,082,090	9,448,871	30,155,999	45,284,130
Debentures	102	2,070,347	1,558,662	511,827	4,140,938
Notes	-	-	-	1,000,000	1,000,000
<i>Private debt securities</i>					
Debentures	405,295	4,648,666	18,732,354	3,734,681	27,520,996
Notes	217	-	-	-	217
<i>Foreign debt securities</i>					
Bonds	-	1,815,901	322,864	-	2,138,765
Total	5,002,784	9,617,004	30,062,751	35,402,507	80,085,046
Add unrealised gain from fair value changes on securities	8,847	445,832	1,598,155	2,278,839	4,331,673
Less allowance for impairment	(217)	-	-	-	(217)
Total available-for-sale securities	5,011,414	10,062,836	31,660,906	37,681,346	84,416,502
<i>Held-to-maturity securities</i>					
Deposits at banks with original maturity over 3 months	-	-	-	-	-
Total held-to-maturity securities	-	-	-	-	-
Total debt securities	5,011,414	10,062,836	31,660,906	37,681,346	84,416,502

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

	2016				Total
	Within 1 year	Maturity		Over 10 years	
		1 - 5 years	5 - 10 years		
		<i>(in thousand Baht)</i>			
Available-for-sale securities					
<i>Government and state enterprise securities</i>					
Bonds	160,000	2,512,483	9,065,587	28,213,154	39,951,224
Debentures	-	903,379	2,795,927	561,501	4,260,807
Notes	-	-	-	1,000,000	1,000,000
<i>Private debt securities</i>					
Debentures	539,958	5,559,979	12,437,927	4,251,444	22,789,308
Notes	217	-	-	-	217
<i>Foreign debt securities</i>					
Bonds	-	1,154,186	558,158	202,522	1,914,866
Total	700,175	10,130,027	24,857,599	34,228,621	69,916,422
Add unrealised gain from fair value changes on securities	10,908	462,358	967,935	539,075	1,980,276
Less allowance for impairment	(217)	-	-	-	(217)
Total available-for-sale securities	710,866	10,592,385	25,825,534	34,767,696	71,896,481
Held-to-maturity securities					
Deposits at banks with original maturity over 3 months	100	-	-	-	100
Total held-to-maturity securities	100	-	-	-	100
Total debt securities	710,966	10,592,385	25,825,534	34,767,696	71,896,581

6.3 Net fair value changes on available-for-sale securities

	31 December	
	2017	2016
	<i>(in thousand Baht)</i>	
Net change in fair value on available-for-sale securities	4,803,410	2,249,963
Less deferred tax liability	(960,682)	(449,993)
Net	3,842,728	1,799,970

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

7 Loans

As at 31 December 2017 and 2016, loans and accrued interest receivables were classified by aging as follows:

Outstanding period	Policy loans		Mortgage loans		2017 Other loans		Total		Total
	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	
Current	2,026,942	198,550	-	-	88	-	2,027,030	198,550	2,225,580
Overdue over 12 months	-	-	1,104	-	-	-	1,104	-	1,104
Total	2,026,942	198,550	1,104	-	88	-	2,028,134	198,550	2,226,684
Less allowance for doubtful accounts	-	-	(1,104)	-	-	-	(1,104)	-	(1,104)
Net	2,026,942	198,550	-	-	88	-	2,027,030	198,550	2,225,580

Outstanding period	Policy loans		Mortgage loans		2016 Other loans		Total		Total
	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	Principal	Accrued interest receivable*	
Current	1,630,843	161,823	-	-	-	-	1,630,843	161,823	1,792,666
Overdue over 12 months	-	-	1,104	-	-	-	1,104	-	1,104
Total	1,630,843	161,823	1,104	-	-	-	1,631,947	161,823	1,793,770
Less allowance for doubtful accounts	-	-	(1,104)	-	-	-	(1,104)	-	(1,104)
Net	1,630,843	161,823	-	-	-	-	1,630,843	161,823	1,792,666

* Presented in accrued investment income in the statement of financial position.

Other loans were personal guarantee loans to staff with interest rates of 5.18% - 5.25% per annum (31 December 2016: nil).

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

8 Investment in subsidiary

Investment in subsidiary as at 31 December 2017 and 2016 was as follows:

Name of subsidiary	Type of business	Ownership interest		Paid-up capital		At cost		Allowance for impairment loss		At cost - net	
		2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
		(%)		<i>(in thousand Baht)</i>							
Thanachart Life Assurance Public Company Limited	Life insurance	<u>100</u>	<u>100</u>	<u>3,708</u>	<u>3,708</u>	<u>2,129,313</u>	<u>2,129,313</u>	<u>(2,121,866)</u>	<u>(2,121,851)</u>	<u>7,447</u>	<u>7,462</u>

The movement in the carrying value of the Subsidiary was as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	7,462	7,475
Less allowance for impairment	<u>(15)</u>	<u>(13)</u>
At 31 December	<u>7,447</u>	<u>7,462</u>

As at 31 December 2017, the Company has not yet completed the liquidation process.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

9 Investment assets where policyholders bear the investment risk

	2017		2016	
	Cost	Fair value <i>(in thousand Baht)</i>	Cost	Fair value
Unit trusts in fixed income funds	517,940	521,822	476,698	483,473
Unit trusts in equity funds	1,700,865	1,784,936	882,138	863,680
Unit trusts in mixed funds	617,036	662,652	306,030	322,507
Total	2,835,841	2,969,410	1,664,866	1,669,660
Add unrealised surpluses from fair value changes in investments	133,569	-	4,794	-
Total Investment assets where policyholders bear the investment risk	2,969,410	2,969,410	1,669,660	1,669,660

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

10 Premises and equipment

	Land	Buildings	Buildings improvements	Leasehold improvements (in thousand Baht)	Office equipment and furniture	Assets under construction	Total
<i>Cost</i>							
At 1 January 2016	5,562	17,823	7,571	189,331	201,523	4,041	425,851
Additions	-	-	-	4,913	30,596	25,631	61,140
Transfers	(718)	(4,709)	-	18,248	6,725	(24,973)	(5,427)
Disposals and write-offs	-	-	-	-	(30)	-	(30)
At 31 December 2016 and 1 January 2017	4,844	13,114	7,571	212,492	238,814	4,699	481,534
Additions	-	-	-	897	32,780	8,438	42,115
Transfers	-	-	-	-	12,864	(12,864)	-
Disposals and write-offs	-	-	-	(3,332)	(8,172)	(273)	(11,777)
At 31 December 2017	4,844	13,114	7,571	210,057	276,286	-	511,872
<i>Accumulated depreciation</i>							
At 1 January 2016	-	17,822	6,654	73,317	154,099	-	251,892
Depreciation charge for the year	-	-	-	22,886	17,634	-	40,520
Transfers	-	(4,709)	-	-	-	-	(4,709)
Disposals and write-offs	-	-	-	-	(30)	-	(30)
At 31 December 2016 and 1 January 2017	-	13,113	6,654	96,203	171,703	-	287,673
Depreciation charge for the year	-	-	-	23,793	26,897	-	50,690
Transfers	-	-	-	-	-	-	-
Disposals and write-offs	-	-	-	(3,332)	(8,159)	-	(11,491)
At 31 December 2017	-	13,113	6,654	116,664	190,441	-	326,872
<i>Net book value</i>							
At 1 January 2016	5,562	1	917	116,014	47,424	4,041	173,959
At 31 December 2016 and 1 January 2017	4,844	1	917	116,289	67,111	4,699	193,861
At 31 December 2017	4,844	1	917	93,393	85,845	-	185,000

The gross amount of the Company's fully depreciated building and equipment that was still in use as at 31 December 2017 amounted to Baht 227.9 million (2016: Baht 197.7 million).

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

11 Intangible assets

	Software licenses	Software under construction (in thousand Baht)	Bancassurance agreement	Total
Cost				
At 1 January 2016	145,343	59,160	12,775,406	12,979,909
Additions	26,428	62,235	-	88,663
Transfers in/ (out)	63,631	(63,631)	-	-
Disposals	-	(7,375)	-	(7,375)
At 31 December 2016 and 1 January 2017	235,402	50,389	12,775,406	13,061,197
Additions	12,368	30,625	-	42,993
Transfers in/ (out)	28,359	(28,359)	-	-
Disposals	(24)	(1,976)	-	(2,000)
At 31 December 2017	276,105	50,679	12,775,406	13,102,190
Accumulated amortisation				
At 1 January 2016	88,012	-	539,476	627,488
Amortisation charge for the year	22,335	-	177,972	200,307
At 31 December 2016 and 1 January 2017	110,347	-	717,448	827,795
Amortisation charge for the year	38,157	-	302,022	340,179
Disposals and write-offs	(24)	-	-	(24)
At 31 December 2017	148,480	-	1,019,470	1,167,950
Net book value				
At 1 January 2016	57,331	59,160	12,235,930	12,352,421
At 31 December 2016 and 1 January 2017	125,055	50,389	12,057,958	12,233,402
At 31 December 2017	127,625	50,679	11,755,936	11,934,240

12 Deferred tax

Deferred tax assets and liabilities as at 31 December 2017 and 2016 were as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
Deferred tax assets	46,403	64,333
Deferred tax liabilities	(1,011,618)	(455,820)
Net deferred tax liabilities	(965,215)	(391,487)

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

Movements in total deferred tax assets and liabilities for the year ended 31 December 2017 and 2016 were as follows:

	At 1 January 2017	(Charged) / Credited to:		At 31 December 2017
		Profit or loss (Note 20) (in thousand Baht)	Other comprehensive income	
Deferred tax assets				
Premises and equipment	15,778	(2,164)	-	13,614
Intangible assets	2,294	(2,279)	-	15
Employee benefit obligations	25,609	(1,168)	-	24,441
Unpaid policy benefits	3,680	2,884	-	6,564
Actuarial loss on defined benefit plan	1,462	-	(1,462)	-
Premium reserve	-	1,769	-	1,769
Provision for forward valuation	15,510	(15,510)	-	-
Total	64,333	(16,468)	(1,462)	46,403
Deferred tax liabilities				
Net fair value changes on available-for-sale securities	(449,993)	-	(510,689)	(960,682)
Intangible assets	(1,398)	1,398	-	-
Unrealised gain on year-end exchange rate adjustment from foreign currency bonds	(4,379)	581	-	(3,798)
Provision for revaluation of trading securities	(50)	(17)	-	(67)
Actuarial gain on defined benefit plan	-	-	(969)	(969)
Provision for forward valuation	-	(46,102)	-	(46,102)
Total	(455,820)	(44,140)	(511,658)	(1,011,618)
Net	(391,487)	(60,608)	(513,120)	(965,215)

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

	At 1 January 2016	(Charged) / Credited to:		At 31 December 2016
		Profit or loss (Note 20) <i>(in thousand Baht)</i>	Other comprehensive income	
<i>Deferred tax assets</i>				
Premises and equipment	13,166	2,612	-	15,778
Intangible assets	2,294	-	-	2,294
Provisions	15,871	(15,871)	-	-
Employee benefit obligations	37,038	(11,429)	-	25,609
Unpaid policy benefits	5,096	(1,416)	-	3,680
Actuarial loss on defined benefit plan	978	-	484	1,462
Provision for forward valuation	-	15,510	-	15,510
Total	74,443	(10,594)	484	64,333
<i>Deferred tax liabilities</i>				
Net fair value changes on				
available- for-sale securities	(791,299)	-	341,306	(449,993)
Intangible assets	(202)	(1,196)	-	(1,398)
Unrealised gain on year-end exchange rate adjustment from foreign currency bond	(445)	(3,934)	-	(4,379)
Provision for revaluation of trading investment	(31)	(19)	-	(50)
Interest income	(142)	142	-	-
Total	(792,119)	(5,007)	341,306	(455,820)
Net	(717,676)	(15,601)	341,790	(391,487)

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

13 Insurance contract liabilities

	Liabilities under insurance contracts	2017 Reinsurers' share liabilities	Net <i>(in thousand Baht)</i>	Liabilities under insurance contracts	2016 Reinsurers' share liabilities	Net
Long-term technical reserves	76,027,733	-	76,027,733	65,633,184	-	65,633,184
Short-term technical reserves						
Loss reserves and outstanding claims						
- Case reserves	26,878	-	26,878	41,093	-	41,093
- Incurred but not reported	21,010	-	21,010	456	-	456
Total loss reserves and outstanding claims	<u>47,888</u>	-	<u>47,888</u>	<u>41,549</u>	-	<u>41,549</u>
Unearned premium reserves	238,610	-	238,610	321,136	-	321,136
Total short-term technical reserves	<u>286,498</u>	-	<u>286,498</u>	<u>362,685</u>	-	<u>362,685</u>
Unpaid policy benefits	224,672	-	224,672	228,698	-	228,698
Due to insured	221,344	-	221,344	139,042	-	139,042
Total	<u>76,760,247</u>	-	<u>76,760,247</u>	<u>66,363,609</u>	-	<u>66,363,609</u>

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

13.1 Long-term technical reserves

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	65,633,184	55,793,120
Reserve increase from new and inforce policies during the year	13,585,957	12,030,098
Reserves released for benefits payment, lapse and cancel policies during the year	<u>(3,191,408)</u>	<u>(2,190,034)</u>
At 31 December	<u>76,027,733</u>	<u>65,633,184</u>

13.2 Short-term technical reserve

13.2.1 Loss reserves and outstanding claims

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	41,549	33,258
Insurance claim expense incurred during the year	450,664	708,943
Insurance claim expense paid during the year	<u>(444,325)</u>	<u>(700,652)</u>
At 31 December	<u>47,888</u>	<u>41,549</u>

13.2.2 Unearned premium reserves

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	321,136	263,270
Premium written in the year	75,955	174,711
Earned premium in the year	<u>(158,481)</u>	<u>(116,845)</u>
At 31 December	<u>238,610</u>	<u>321,136</u>

13.3 Unpaid policy benefits

	2017	2016
	<i>(in thousand Baht)</i>	
Death	67,278	101,438
Unpresented cheques for benefits and claims payment	145,573	117,360
Others	<u>11,821</u>	<u>9,900</u>
Total	<u>224,672</u>	<u>228,698</u>

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

13.4 Due to insured

	2017	2016
	<i>(in thousand Baht)</i>	
Policyholder deposits	213,770	129,208
Advance premium	146	211
Others	7,428	9,623
Total	<u>221,344</u>	<u>139,042</u>

14 Investment contract liabilities

The movement of investment contract liabilities are as follow;

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	1,670,612	1,544,156
Deposit during the year	1,772,999	275,254
Withdrawal during the year	(613,124)	(268,015)
Valuation adjustment during the year	201,928	119,217
At 31 December	<u>3,032,415</u>	<u>1,670,612</u>

15 Share capital

		2017		2016	
	Par value per share <i>(in Baht)</i>	Number	Amount <i>(thousand shares / thousand Baht)</i>	Number	Amount
<i>Authorised</i>					
At 1 January					
- ordinary shares	9.14	<u>2,211,153</u>	<u>20,209,935</u>	<u>2,211,153</u>	<u>20,209,935</u>
At 31 December					
- ordinary shares	9.14	<u>2,211,153</u>	<u>20,209,935</u>	<u>2,211,153</u>	<u>20,209,935</u>
<i>Issued and paid-up</i>					
At 1 January					
- ordinary shares	9.14	<u>2,211,153</u>	<u>20,209,935</u>	<u>2,211,153</u>	<u>20,209,935</u>
At 31 December					
- ordinary shares	9.14	<u>2,211,153</u>	<u>20,209,935</u>	<u>2,211,153</u>	<u>20,209,935</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company.

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

16 Reserves

Legal reserve

Section 116 of the Public Companies Act B.E. 2535 requires that a public company shall allocate not less than 5% of its annual net profit, less any accumulated losses brought forward, to a reserve account (“legal reserve”), until this account reaches an amount not less than 10% of the registered authorised capital. The legal reserve is not available for dividend distribution.

Other components of equity

Fair value changes in available-for-sale securities

The fair value changes in available-for-sale securities account within equity comprises the cumulative net changes in the fair value of available-for-sale securities until securities are derecognised or impaired.

17 Net investment income

	2017	2016
	<i>(in thousand Baht)</i>	
<i>Dividend income</i>		
Other parties	38,803	17,607
	<u>38,803</u>	<u>17,607</u>
<i>Interest income</i>		
Other parties	2,769,277	2,520,749
	<u>2,769,277</u>	<u>2,520,749</u>
<i>Interest expense</i>		
Subsidiary	(112)	(113)
Other parties	(1,667)	(70)
	<u>(1,779)</u>	<u>(183)</u>
Total	<u>2,806,301</u>	<u>2,538,173</u>

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

18 Operating expenses

	2017	2016
	<i>(in thousand Baht)</i>	
Personnel expense	978,435	752,665
Premises and equipment expense	282,569	267,256
Taxes and duties	84,230	81,901
Bad debt and doubtful accounts expense (reversal)	607	(1,424)
Directors' remuneration	639	2,066
Other operating expenses	442,125	364,941
Total	<u>1,788,605</u>	<u>1,467,405</u>

19 Employee benefit expenses

	2017	2016
	<i>(in thousand Baht)</i>	
Wages and salaries	624,251	535,273
Defined benefit plans	20,800	19,807
Defined contribution plans	36,465	30,692
Others	331,695	207,870
Total	<u>1,013,211</u>	<u>793,642</u>

The defined contribution plans comprise provident funds established by the Company for its employees. Membership to the fund is on a voluntary basis. Contributions are made monthly by the employees at rates ranging from 3% to 15% of their basic salaries and by the Company at rates ranging from 5% to 10% of the employees' basic salaries. The provident fund is registered with the Ministry of Finance as juristic entity and is managed by a licensed Fund Manager.

20 Income tax

Income tax recognised in profit or loss

	<i>Note</i>	2017	2016
		<i>(in thousand Baht)</i>	
Current tax expense			
Current year		470,196	558,113
Adjusted prior year income tax		(10,393)	39,205
Deferred tax expense			
Movements in temporary differences	<i>12</i>	54,670	4,592
Adjusted prior year deferred tax	<i>12</i>	5,938	11,009
Total income tax expense		<u>520,411</u>	<u>612,919</u>

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Reconciliation of effective tax rate

	2017		2016	
	Rate (%)	(in thousand Baht)	Rate (%)	(in thousand Baht)
Profit before income tax		2,325,964		2,621,889
Income tax using the Thai corporation tax rate	20	465,193	20	524,378
Income not subject to tax and expenses not deductible for tax purposes		(731)		2,733
Adjust related to prior year		(4,455)		50,214
No deferred tax provision on timing differences		60,404		35,594
Total	22	520,411	23	612,919

Income tax reduction

Revenue Code Amendment Act No. 42 B.E. 2559 dated 3 March 2016 grants a reduction of the corporate income tax rate to 20% of net taxable profit for accounting periods which being on or after 1 January 2016.

21 Basic earnings per share

The calculations of basic earnings per share for the years ended 31 December 2017 and 2016 were based on the profit the years attributable to ordinary shareholders of the Company and the ordinary shares outstanding during the years as follows:

	2017	2016
Profit for the year attributable to ordinary shareholders of the company (basic) (in thousand Baht)	1,805,553	2,008,970
Number of ordinary shares outstanding (in thousand shares)	2,211,153	2,211,153
Basic earnings per share (basic) (in Baht)	0.82	0.91

22 Dividends

On 17 August 2016, the Company received the approval from the Office of Insurance Commission to pay the dividend to shareholders within an amount of Baht 200 million. On 25 August 2016, at the extraordinary shareholder meeting, the shareholders of the Company unanimously resolved the appropriation of dividend of Baht 0.09 per share, amounting to Baht 199 million. The dividend was paid to shareholders in September 2016.

At the Company's Annual General Meeting of the shareholders held on 24 April 2017, the shareholders unanimously resolved the appropriation of dividend not exceeding Baht 1,908 million.

On 26 April 2017, the Company received the approval from the Office of Insurance Commission to pay the dividend to shareholders within an amount of Baht 1,296 million or Baht 0.58 per share. The dividend amounting to Baht 1,282 million or Baht 0.58 per share was paid to shareholders in May 2017.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

23 Insurance and finance risks management

23.1 Financial risk management policies

The Company is exposed to normal business risks from changes in market interest rates and currency exchange rates and from non-performance of contractual obligations by counterparties. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

Risk management is integral to the whole business of the Company. The Company has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Company's risk management process to ensure that an appropriate balance between risk and control is achieved.

23.2 Insurance risk management

Insurance risk is the risk under any one insurance contract which is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance contract liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. Risks that are specific to the various types of insurance contracts are elaborated as follow:

23.2.1 Underwriting risks

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk and the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of the type of risk and the level of insured benefits. The risk selection process determines the groups of insurance risk that are acceptable to the Company so that diversification of insurance risk types is achieved. At the same time, this is to ensure within each of these risk types, there is a sufficiently large population of risks to reduce the variability of the expected outcome.

Each group of insurance risks is classified into categories of standard and degree of substandard through underwriting. Medical selection and financial underwriting guidelines included in the Company's underwriting procedures allow the correct assignment of insurance risk to the appropriate classes. Each class has varied premium to reflect the health condition and family medical history of the applicants

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Claims risk

Claims risk refers to the possibility that the frequency or severity of claims arising from insurance contracts exceeds the level assumed when the products were priced.

Claim trends are monitored on an ongoing basis. Exposure to large claims is managed by establishing policy retention limits, which vary by products. Policies in excess of the limits are reinsured with other companies.

Mortality and morbidity is monitored monthly and the overall experience was within the Company's assumptions used in "Gross premium valuation" reserve calculation.

Investment returns

The Company's policy of closely matching the cash flows of assets with those of the corresponding liabilities is designed to mitigate the Company's exposure to future changes in interest rates. The interest rate risk positions are monitored on an ongoing basis due to the mismatch of assets and corresponding liabilities, which reduces capital adequacy ratio.

Policyholder behaviour

The Company seeks to design products that minimize financial exposure to lapse, surrender and other policyholder behaviour risk. The Company monitors lapse, surrender and other policyholder behaviour experience. Policyholder behaviour experience was when compared to the Company's assumptions used in the "Gross premium valuation" reserve calculation.

Expense overrun risk

The Company prices its products to cover the expected costs of servicing and maintaining them. The Company monitors expenses monthly, including comparisons of actual expenses to expense levels allowed for in pricing and valuation.

In pricing insurance products the Company manages expense overrun risk by allowing for an appropriate level of expenses that reflects a realistic medium-term to long-term view of the underlying cost structure. A disciplined expense budgeting and management process is followed that controls expenses within product pricing allowances over the medium to long term.

23.2.2 Concentration of insurance risk

Concentrations of risk may arise where a particular event or a series of events could impact heavily upon the Company's insurance contract liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts, and relate to circumstances where significant liabilities could arise.

Insurance risk for contracts is also affected by the policyholders' right to pay reduced or no future premiums, or to terminate the contract completely. As a result, the amount of insurance risk is also subject to policyholder behaviour. On the assumption that policyholders will make decisions rationally, overall insurance risk can be assumed to be aggravated by such behaviour. The Company has factored the impact of policyholders' behaviour into the assumptions used to measure insurance contract liabilities.

The Company has life insurance for participating and non-participating contracts with guaranteed benefits. The amount of risk to which the Company is exposed depends on the level of guarantees inherent in the contracts and the current interest rate. The changes in interest rate will not cause a change to the amount of the liability, unless the change is material enough to trigger a liability adequacy test adjustment.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

As at 31 December 2017, the discount interest rates for the purpose of the liability adequacy test, in accordance with industry practice, is the average of eight quarters of the zero coupon Thailand government bond yield curve plus illiquidity premium of 25 - 42 basis points (31 December 2016: 27 - 49 basis points). Management monitors the sensitivity to changes in rates on an ongoing basis. A decrease of 130 basis points from current market interest rates would not be trigger a liability adequacy test adjustment.

23.3 Capital management

The Company's capital management policy is to maintain a strong capital base to meet policyholders' obligations and the requirements of the Office of Insurance Commission, to create shareholder value and deliver sustainable returns to shareholders.

In accordance with and the requirements of the Office of Insurance Commission, all insurers are required to maintain a minimum at least 140% of capital adequacy ratio. It is the Company's policy to hold capital levels in excess of minimum requirement.

23.4 Interest rate risk

Interest rate risk is the risk that future movements in market interest rates will affect the results of the Company's operations and its cash flows.

At 31 December 2017 and 2016, the significant financial assets classified by type of interest rate were as follows:

	2017			Total
	Non-interest bearing	Floating interest rate (in thousand Baht)	Fixed interest rate	
Cash and cash equivalents	59,126	1,812,744	1,260,000	3,131,870
Investments in securities				
Bonds	-	1,881,909	48,160,531	50,042,440
Debentures	-	-	33,191,072	33,191,072
Notes	-	-	1,182,990	1,182,990
Policy loans	-	-	2,026,942	2,026,942
Total	59,126	3,694,653	85,821,535	89,575,314

	2016			Total
	Non-interest bearing	Floating interest rate (in thousand Baht)	Fixed interest rate	
Cash and cash equivalents	30,834	2,310,737	200,000	2,541,571
Investments in securities				
Bonds	-	1,791,740	41,126,976	42,918,716
Debentures	-	-	27,858,208	27,858,201
Notes	-	-	1,119,557	1,119,557
Deposits at banks with original maturity over 3 months	-	-	100	100
Policy loans	-	-	1,630,843	1,630,843
Total	30,834	4,102,477	71,935,684	76,068,995

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

At 31 December 2017 and 2016, the significant financial assets carrying interest rate at fixed rates were classified, according to the period from the reporting date to the maturity date. The details were as follows:

	Average interest rate (% per annum)	2017				Total
		No maturity	Within 1 year	After 1 year but within 5 years	After 5 years	
Cash and cash equivalent	0.64	-	1,260,000	-	-	1,260,000
Investment in securities						
Bonds	3.46	-	4,598,152	2,201,730	41,360,649	48,160,531
Debentures	4.10	-	413,262	7,075,507	25,702,303	33,191,072
Notes	4.10	-	-	-	1,182,990	1,182,990
Policy loans	4.00-8.00	2,026,942	-	-	-	2,026,942
Total		2,026,942	6,271,414	9,277,237	68,245,942	85,821,535

	Average interest rate (% per annum)	2016				Total
		No maturity	Within 1 year	After 1 year but within 5 years	After 5 years	
Cash and cash equivalent	0.85	-	200,000	-	-	200,000
Investment in securities						
Bonds	3.85	-	161,763	3,077,670	37,887,543	41,126,976
Debentures	4.31	-	549,102	6,747,259	20,561,847	27,858,208
Notes	4.10	-	-	-	1,119,557	1,119,557
Deposits at banks with original maturity over 3 months	1.56	-	100	-	-	100
Policy loans	4.50-8.00	1,630,843	-	-	-	1,630,843
Total		1,630,843	910,965	9,824,929	59,568,947	71,935,684

Policy loans are fully collateralised by the value of the underlying policy and carry interest rates which follow the regulations of the Office of Insurance Commission. The average rate of interest in the year ended 31 December 2017 was 4.00% - 8.00% per annum (2016: 4.50% - 8.00% per annum). The contractual maturity of these loans would generally follow the maturity profile of the underlying insurance policy with which they are associated. Policyholders may repay policy loans prior to maturity.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

23.5 Foreign currency risk

The Company is exposed to foreign currency risk relating to settlement of financial assets and financial liabilities which are denominated in foreign currencies.

At 31 December 2017 and 2016, the Company were exposed to foreign currency risk in respect of financial assets and liabilities denominated in the following currencies:

	Note	2017	2016
		<i>(in thousand Baht)</i>	
Investment in securities <i>(US Dollars)</i>	6.1	5,625,743	4,958,043
Gross risk exposure in the statements of financial position		5,625,743	4,958,043
Notional amount of foreign exchange forward contracts	27 (c)	(5,596,268)	(4,619,896)
Notional amount of cross currency swap contracts	27 (c)	(349,272)	(349,272)
Net risk exposure		(319,797)	(11,125)
Other payable - related parties <i>(Hong Kong Dollars)</i>	24	2,025	480
Other payable - related parties <i>(US Dollars)</i>	24	1,437	29,633
Other payable - related parties <i>(Ringgit)</i>	24	24	6,229
Accrued consulting fee - Related Parties <i>(Singapore Dollars)</i>	24	26,015	24,102
Gross risk exposure in the statements of financial position		29,501	60,444

23.6 Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty to settle its financial and contractual obligations to the Company as and when they fall due.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all debt securities of customers requiring credit over a certain amount. At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the reporting date.

23.7 Equity price risk

The exposure to equities is managed carefully in accordance with the Company's asset allocations. The asset allocations are designed with consideration to liabilities' obligations, capital requirements, and mandates from the Company's external regulators and its monitored on an ongoing basis.

The nature of the Company's exposures to equity risk and its objectives, policies and processes for managing equity risk have not changed significantly from the prior period.

23.8 Liquidity risk

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows.

The Company's non-cash financial assets mainly comprise cash and cash equivalents, deposits with financial institutions and investments in securities which are highly liquid and are able to be sold quickly at close to their fair value when the Company wishes to raise funds.

The following tables show information about the estimated timing of the undiscounted net cash flows from the Company's insurance and investment contract liabilities. The analysis provided is by estimating timing, of the amounts recognised in the statement of financial position.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

	Amount (in thousand Baht)	Estimated <u>undiscounted</u> net cash flows				Total
		1 - 5 years	6-10 years	11-15 years (%)	More than 16 years	
31 December 2017						
Liabilities						
Insurance and investment contracts liabilities	97,783,992	9.5	43.1	26.0	21.4	100.0
31 December 2016						
Liabilities						
Insurance and investment contracts liabilities	88,109,389	0.4	47.4	30.7	21.5	100.0

23.9 Fair values of financial assets and liabilities

Fair value hierarchy

Analyses recurring fair value measurements for financial assets and financial liabilities. These fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: input for the asset or liability that are not based on observable market data (unobservable inputs).

The Company recognises transfers between levels of the fair value hierarchy as of the end of reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 December 2017 and 2016.

The following methods and assumptions were used by the Company in estimating fair value of financial assets and financial liabilities as disclosed herein.

The carrying value of these financial instruments, cash and cash equivalents, accrued investment income, premiums due and uncollected, loans, due to reinsurers, unpaid policy benefit loss reserves and outstand claim and other payables approximates the fair value.

The Company determines Level 2 fair values for debt securities using the clean price on last day of the period provided by the Thai Bond Market Association and foreign issued debt securities are based on broker quotes.

The Company determines Level 2 fair values for unit trusts using the net asset value (NAV) on the last business day of the period provided by assets management companies.

The Company determines Level 2 fair values for promissory notes using discounted cash flow technique, which uses contractual cash flows and a market - related discount rate.

Level 2 fair values for simple over-the-counter derivative financial instruments are based on broker quotes.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

23.9.1 Financial assets carried at fair value.

The Company have an established control framework with respect to the measurement of fair values. This is to ensure that prudent revaluation principles and proper internal control procedures are in place.

The following table analyses significant financial assets carried at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Fair value			Total
	Level 1	Level 2 (in thousand Baht)	Level 3	
31 December 2017				
Financial assets				
<i>Trading securities</i>				
<i>Private securities</i>				
Unit trusts	2,230	-	-	2,230
Total trading securities	2,230	-	-	2,230
<i>Available-for-sale securities</i>				
Government and state enterprise				
debt securities	-	53,528,026	-	53,528,026
Private debt securities	-	28,735,618	-	28,735,618
Foreign debt securities	-	2,152,858	-	2,152,858
Unit trusts and Exchange Traded Fund	4,274,857	60,586	-	4,335,443
Total available-for-sale securities	4,274,857	84,477,088	-	88,751,945
Investment assets where policyholders bear the investment risk	2,969,410	-	-	2,969,410
31 December 2016				
Financial assets				
<i>Trading securities</i>				
<i>Private securities</i>				
Unit trusts	2,092	-	-	2,092
Total trading securities	2,092	-	-	2,092
<i>Available-for-sale securities</i>				
Government and state enterprise				
debt securities	-	46,524,489	-	46,524,489
Private debt securities	-	23,432,739	-	23,432,739
Foreign debt securities	-	1,939,253	-	1,939,253
Unit trusts and Exchange Traded Fund	3,152,461	60,760	-	3,213,221
Total available-for-sale securities	3,152,461	71,957,241	-	75,109,702
Investment assets where policyholders bear the investment risk	1,669,660	-	-	1,669,660

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

23.9.2 Financial assets and financial liabilities not carried at fair

The fair value of financial assets and financial liabilities did not have significant difference with carrying value as shown in the statement of financial position as at 31 December 2017 and 2016.

24 Related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control or joint control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Relationships with key management personnel and related parties were as follows:

Name of entities/Personnel	Country of Incorporation/ Nationality	Nature of relationships
Key management personnel	Thai/ Foreigners	Persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any directors (whether executive or otherwise) of the Company
Prudential Plc.	United Kingdom	Ultimate parent of Prudential group
Staple Limited	Thailand	Parent company, holds 51.2% of the Company's shares
Prudential Corporation Holdings Limited	United Kingdom	Major shareholder, holds 48.7% of the Company's shares
Thanachart Life Assurance Public Company Limited	Thailand	Subsidiary, the Company holds 100% of the shares
Eastspring Investment (Singapore) Limited	Singapore	An affiliate of the Company's major shareholders
Affiliate of Prudential Group	Foreign	Related party of Prudential Group

The pricing policies for particular types of transactions are explained further below:

Transactions	Pricing policies
Investment consulting fee expense	Contractually agreed price
Operating expenses	Contractually agreed price
Interest expense on promissory note	Contractually agreed rate

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

Significant transactions for the years ended 31 December 2017 and 2016 with key management personnel and related parties were as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
Expenses		
Subsidiary		
Impairment loss in investment in subsidiary	15	13
Interest expense on promissory note	112	113
Expenses		
Affiliate of Prudential Group		
Investment consulting fee expenses	105,515	99,080
Operating expenses	62,655	84,302
Directors and key management personnel compensation		
Short-term employee benefits	391,305	265,782
Post-employment benefit	33,276	18,149
Other long-term benefits	45,471	5,093
Total	<u>470,052</u>	<u>289,024</u>

Significant balances as at 31 December 2017 and 2016 with related parties were as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
Promissory note (included in other liabilities)		
Promissory note payable to the subsidiary	<u>7,543</u>	<u>7,648</u>
Accrued investment management and consulting fee		
Affiliate of Prudential Group	<u>26,015</u>	<u>24,184</u>
Other liabilities		
Affiliate of Prudential Group	<u>3,485</u>	<u>36,914</u>

Significant agreements with related parties

Investment Management Agreements

The Company has entered into an Investment Management Agreement with Eastspring Investments (Singapore) Limited (“Eastspring”) which is an affiliate of the Prudential Group. Eastspring agreed to act as the Company’s investment manager and provide dealing services. The Company is committed to pay a management fee at the rate in agreements. These agreements can be terminated upon 3 months written notice.

Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2017

25 Securities and assets pledged with the Registrar

25.1 The Company's investments in debt securities have been pledged with the Registrar in accordance with Section 20 of the Life Assurance Act B.E. 2535, as amended by the Life Assurance Act (No. 2) B.E. 2551:

	2017		2016	
	Book value	Face value	Book value	Face value
	<i>(in thousand Baht)</i>			
Government bonds	<u>38,407</u>	<u>30,000</u>	<u>60,552</u>	<u>50,000</u>

25.2 The Company's investments in debt securities have been pledged as life assurance policy reserve with the Registrar in accordance with Section 24 of the Life Assurance Act B.E. 2535, as amended by the Life Assurance Act (No. 2) B.E. 2551:

	2017		2016	
	Book value	Face value	Book value	Face value
	<i>(in thousand Baht)</i>			
Government and state enterprise bonds	16,885,992	13,969,700	12,643,866	10,953,700
Promissory notes	<u>1,182,990</u>	<u>1,000,000</u>	<u>1,119,557</u>	<u>1,000,000</u>
Total	<u>18,068,982</u>	<u>14,969,700</u>	<u>13,763,423</u>	<u>11,953,700</u>

25.3 As at 9 May 2017, the Office of Insurance Commission considered that Thanachart Life Assurance Public Company Limited (the "Subsidiary") had no any liabilities under insurance contracts and additional complaint or lawsuit case and already placed security for stay of execution of the judgement. Therefore, the Registrar had returned government and state enterprise bonds included in the Company's investments in debt securities which were pledged in the name of the Subsidiary in accordance with Section 20 and 24 of the Life Assurance Act B.E. 2535, as amended by the Life Assurance Act (No. 2) B.E. 2551, (31 December 2016: book value Baht 23.9 million (face value Baht 20.0 million) and book value Baht 4,866.7 million (face value Baht 4,368.1 million), respectively). These investments, including the rights and obligations, were transferred from the Subsidiary to the Company as a result of the entire business transfer during the year 2014, and met all criteria for recognition in the Company's books at the entire business transfer date on 1 October 2014. The return process was ended in May 2017.

26 Contribution to life insurance fund

As at 31 December 2017 and 2016, the accumulated Contribution paid to life insurance fund were as follows:

	2017	2016
	<i>(in thousand Baht)</i>	
At 1 January	75,009	55,395
Increase during the year	<u>21,819</u>	<u>19,614</u>
At 31 December	<u>96,828</u>	<u>75,009</u>

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2017

27 Commitments with non-related parties

	2017	2016
	<i>(in thousand Baht)</i>	
(a) Capital commitments		
<i>Contracted but not provided for</i>		
Leasehold improvements and office equipment	-	1,950
Software licenses	<u>15,108</u>	<u>10,968</u>
Total	<u>15,108</u>	<u>12,918</u>
	2017	2016
	<i>(in thousand Baht)</i>	
(b) Non-cancellable operating lease commitments		
Within one year	44,387	42,651
After one year but within five years	<u>128,290</u>	<u>172,678</u>
Total	<u>172,677</u>	<u>215,329</u>
	2017	2016
	<i>(in thousand USD)</i>	
(c) Commitments from foreign exchange forward contracts		
<i>Within one year - US dollar</i>	<u>115,827</u>	<u>80,916</u>
<i>Within three years - US dollar</i>	<u>50,033</u>	<u>50,033</u>
 <i>Commitments from cross currency swap contracts</i>		
<i>Within five years - US dollar</i>	<u>9,900</u>	<u>9,900</u>

28 Events after the reporting period

At the Company's Board of Directors' meeting held on 5 March 2018, the Board of Directors approved the Company's application for dividend payment to the Company's shareholders at the amount not exceeding Baht 2,193 million. The dividend shall be paid out from the Company's net profit for the year 2017 and the unappropriated retained earnings. In this regard, it also depends on the approval from the Office of Insurance Commission (OIC).