

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

Financial statements for the year ended
31 December 2020
and
Independent Auditor's Report



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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 2020, 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 2020 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.

When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the correction be made. 2



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 2021

Prudential Life Assurance (Thailand) Public Company Limited

Statement of financial position

Assets	Note	31 December	
		2020	2019
		<i>(in Baht)</i>	
Cash and cash equivalents	5	2,445,864,712	1,916,845,997
Investment receivables		61,681,078	57,398,514
Premiums due and uncollected	6	758,410,039	566,407,209
Accrued investment income		550,324,081	700,306,061
Reinsurance receivables		121,132,622	124,972,366
Derivative assets	7	265,647,622	253,640,155
Investments assets			
Investments in securities	8, 23, 25	116,102,140,509	119,248,929,294
Loans and accrued interest	9	3,033,516,244	2,816,935,091
Investment assets where policyholders bear the investment risk	10	10,125,505,688	8,669,824,714
Non-current assets held for sale		10,029,844	10,029,844
Premises and equipment	11	81,520,663	107,816,866
Right of use asset		16,194,017	-
Intangible assets	12	19,120,812,105	11,105,950,770
Other assets	24	478,941,222	599,239,496
Total assets		<u>153,171,720,446</u>	<u>146,178,296,377</u>

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	
		2020	2019
		(in Baht)	
Liabilities			
Insurance contract liabilities	13	106,798,184,259	98,844,838,270
Investment contract liabilities	14	10,206,893,627	8,759,234,408
Investment payable		-	411,200,000
Due to reinsurers		299,095,233	283,183,712
Derivative liabilities	7	-	4,478,470
Accrued commission		335,981,110	418,751,524
Accrued expenses	24	1,174,631,116	848,150,168
Employee benefit obligations		253,725,001	269,531,650
Lease liabilities		16,352,424	-
Deferred tax liabilities	19	1,695,060,006	2,454,880,737
Income tax payable		207,378,880	-
Other liabilities	24	1,300,687,820	1,034,725,438
Total liabilities		122,287,989,476	113,328,974,377
Shareholders' equity			
Share capital			
Authorised share capital			
(2,211,152,652 ordinary shares, par value at Baht 9.14 per share)		<u>20,209,935,239</u>	<u>20,209,935,239</u>
Issued and paid share capital			
(2,211,152,652 ordinary shares, par value at Baht 9.14 per share)		20,209,935,239	20,209,935,239
Retained earnings			
Appropriated			
Legal reserve	15	463,274,996	454,973,635
Unappropriated		2,409,522,434	3,156,585,371
Other components of shareholders' equity	8, 15	7,800,998,301	9,027,827,755
Total shareholders' equity		30,883,730,970	32,849,322,000
Total liabilities and shareholders' equity		153,171,720,446	146,178,296,377

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	2020	2019
		<i>(in Baht)</i>	
Revenues			
Gross premium written		22,134,037,487	22,847,153,578
Less premium ceded		<u>(215,308,103)</u>	<u>(191,912,450)</u>
Net premiums written		21,918,729,384	22,655,241,128
Add (less) unearned premium reserve decreased (increased) from prior year		<u>18,556,765</u>	<u>(59,310,426)</u>
Net premium earned		21,937,286,149	22,595,930,702
Commission and brokerage income		88,466,278	76,524,314
Net investments income	16, 24	3,553,092,016	3,823,474,355
Gain on investments	24	1,078,678,018	782,015,916
Gain on fair value changes		123,573,567	866,057,589
Other income		<u>68,689,833</u>	<u>48,905,280</u>
Total revenues		<u>26,849,785,861</u>	<u>28,192,908,156</u>
Expenses			
Long-term technical reserve increase from prior year		7,754,555,411	10,806,863,467
Benefits payments and insurance claims expenses	18	10,485,932,758	7,345,835,916
Less benefits payments and insurance claims expenses recovered from reinsurers		<u>(80,200,293)</u>	<u>(69,132,142)</u>
Net benefits payments and insurance claims expenses		10,405,732,465	7,276,703,774
Commissions and brokerage expenses		2,127,284,741	2,918,095,446
Other underwriting expenses	18, 24, 26	2,286,149,623	2,130,203,166
Operating expenses	17, 18, 24	2,686,621,571	2,245,123,014
Expected credit losses and impairment losses on investments	20	1,342,236,981	-
Other gain		<u>(552,685)</u>	<u>(21,961,789)</u>
Total expenses		<u>26,602,028,107</u>	<u>25,355,027,078</u>
Profit before income tax		247,757,754	2,837,881,078
Income tax	19	<u>81,730,538</u>	<u>185,648,263</u>
Net profit		<u>166,027,216</u>	<u>2,652,232,815</u>
Other comprehensive income			
<i>Components of other comprehensive income that will not be reclassified subsequently to profit or loss</i>			
Defined benefit plan actuarial gain		20,348,982	85,280,667
Income tax relating to components of the comprehensive income that will not be reclassified subsequently to profit or loss		<u>(4,069,796)</u>	<u>(17,056,133)</u>
		<u>16,279,186</u>	<u>68,224,534</u>
<i>Components of other comprehensive income that will be reclassified subsequently to profit or loss</i>			
Expected credit losses and impairment losses on investments measured at fair value through other comprehensive income		1,344,719,355	-
Gain (loss) on remeasurement of investments - fair value through other comprehensive income		(4,031,207,892)	9,461,881,924
Income tax relating to components of the comprehensive income that will be reclassified subsequently to profit or loss		<u>537,297,707</u>	<u>(1,892,376,385)</u>
		<u>(2,149,190,830)</u>	<u>7,569,505,539</u>
Other comprehensive income for the year, net of income tax		<u>(2,132,911,644)</u>	<u>7,637,730,073</u>
Total comprehensive income for the year		<u>(1,966,884,428)</u>	<u>10,289,962,888</u>
Basic earnings per share	21	0.08	1.20

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

Prudential Life Assurance (Thailand) Public Company Limited
Statement of changes in equity

	Note	Retained earnings		Other components of shareholders' equity		Total shareholders' equity
		Issued and paid share capital	Legal reserve	Unappropriated	Gain on remeasurement of investment-fair value through other comprehensive income	
Year ended 31 December 2019						
Balance at 1 January 2019		20,209,935,239	322,361,994	2,094,434,993	1,458,322,216	24,085,054,442
Transactions with shareholders, recorded directly in equity						
<i>Distributions to shareholders of the Company</i>						
Dividends to shareholders of the Company	22	-	-	(1,525,695,330)	-	(1,525,695,330)
Total transactions with shareholders, recorded directly in equity		-	-	(1,525,695,330)	-	(1,525,695,330)
Comprehensive income for the year						
Net profit		-	-	2,652,232,815	-	2,652,232,815
Other comprehensive income						
Net change in fair value on available-for-sale securities, net of income tax		-	-	-	7,569,505,539	7,569,505,539
Defined benefit plan actuarial gain, net of income tax		-	-	68,224,534	-	68,224,534
Total comprehensive income for the year		-	-	2,720,457,349	7,569,505,539	10,289,962,888
Transfer to legal reserve	15	-	132,611,641	(132,611,641)	-	-
Balance at 31 December 2019		20,209,935,239	454,973,635	3,156,585,371	9,027,827,755	32,849,322,000

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

Prudential Life Assurance (Thailand) Public Company Limited
Statement of changes in equity

	Note	Retained earnings			Other components of shareholders' equity		Total shareholders' equity
		Issued and paid share capital	Legal reserve	Unappropriated (in Baht)	Gain on remeasurement of investment-fair value through other comprehensive income		
Year ended 31 December 2020							
Balance at 31 December 2019 - as reported		20,209,935,239	454,973,635	3,156,585,371	9,027,827,755	32,849,322,000	
Impact of change in accounting policies	3	-	-	(921,067,978)	922,361,376	1,293,398	
Balance at 1 January 2020 - as restated		20,209,935,239	454,973,635	2,235,517,393	9,950,189,131	32,850,615,398	
Comprehensive income for the year							
Net profit		-	-	166,027,216	-	166,027,216	
Other comprehensive income							
Expected credit losses and impairment losses on investments measured at fair value through other comprehensive income, net of income tax		-	-	-	1,075,775,484	1,075,775,484	
Loss on remeasurement of investment - fair value through other comprehensive income, net of income tax		-	-	-	(3,224,966,314)	(3,224,966,314)	
Defined benefit plan actuarial gain, net of income tax		-	-	16,279,186	-	16,279,186	
Total comprehensive income for the year		-	-	182,306,402	(2,149,190,830)	(1,966,884,428)	
Transfer to legal reserve	15	-	8,301,361	(8,301,361)	-	-	
Balance at 31 December 2020		20,209,935,239	463,274,996	2,409,522,434	7,800,998,301	30,883,730,970	

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

Prudential Life Assurance (Thailand) Public Company Limited

Statement of cash flows

		For the year ended 31 December	
	Note	2020	2019
		(in Baht)	
<i>Cash flows from operating activities</i>			
Premiums received		21,513,957,681	22,404,290,642
Cash paid to reinsurers		(79,370,609)	(42,756,321)
Interest received		3,241,336,124	3,249,318,806
Dividend received		471,353,147	539,072,570
Other income and other gains		121,105,639	94,848,591
Benefit payments and insurance claims expenses		(10,268,585,415)	(7,138,047,455)
Commissions and brokerages		(2,210,055,155)	(3,094,961,075)
Other underwriting expenses		(1,935,658,260)	(1,485,431,669)
Operating expenses		(2,037,047,329)	(1,917,383,045)
Income tax paid		(69,828,623)	(105,150,617)
Investments in securities		(57,578,635)	(10,424,452,813)
Loans		211,459,423	64,973,179
Investment assets where policyholders bear the investment risk		(69,777,616)	(15,923,314)
Net cash provided by operating activities		8,831,310,372	2,128,397,479
<i>Cash flows from investing activities</i>			
<i>Cash flow provided by</i>			
Proceeds from sale of premises and equipment		52,832	112,250
Cash flow provided by investing activities		52,832	112,250
<i>Cash flow used in</i>			
Acquisition of premises and equipment		(33,299,841)	(13,240,866)
Acquisition of intangible assets		(8,246,016,924)	(31,685,016)
Cash flow used in investing activities		(8,279,316,765)	(44,925,882)
Net cash used in investing activities		(8,279,263,933)	(44,813,632)
<i>Cash flows from financing activities</i>			
Payment of lease liabilities		(22,594,420)	-
Dividends paid to owners of the Company	22	-	(1,525,695,330)
Net cash used in financing activities		(22,594,420)	(1,525,695,330)
Net increase in cash and cash equivalents		529,452,019	557,888,517
Cash and cash equivalent at beginning of year		1,916,845,997	1,358,957,480
Cash and cash equivalent at ending of year		2,446,298,016	1,916,845,997
Less allowance of expected credit losses		(433,304)	-
Cash and cash equivalent at 31 December - Net	5	2,445,864,712	1,916,845,997

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 2020

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Prudential Life Assurance (Thailand) Public Company Limited

Notes to the financial statements

For the year ended 31 December 2020

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. In the event of a conflict or a difference in interpretation between the two languages, the Thai language statutory financial statements shall prevail.

These financial statements were approved and authorised for issue by the Board of Directors on 5 March 2021.

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 (31 December 2019: 1 branch).

The immediate and ultimate parent companies during the financial year were Staple Limited (51.21% 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.

2 Basis of preparation of the financial statements

(a) Statement of compliance

The financial statements are prepared in accordance with Thai Financial Reporting Standards (“TFRS”) and guidelines promulgated by the Federation of Accounting Professions. In addition, the financial statements are prepared in accordance with 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 on the Operations of Life Insurance Companies” B.E. 2562 (No. 2), dated 4 April 2019, which are effective for annual periods beginning on or after 1 January 2020.

The Company has initially applied Accounting Guideline: Financial Instruments and disclosure for insurance entities, TAS 32 Financial Instruments: Presentation, and TFRS 16 Leases and disclosed impact form changes to significant accounting policies in note 3.

In addition, the Company has not early adopted a number of new and revised TFRS, which are not yet effective for the current year in preparing these financial statements. The Company has assessed the potential initial impact on the financial statements of these new and revised TFRS and expects that there will be not 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 2020

(c) Functional and presentation currency

The financial statements are 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 the Company's accounting policies. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Judgement, assumptions and estimation uncertainties

Information about judgements, assumption and estimation uncertainties at 31 December 2020 that have a significant risk resulting in material adjustments to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Note 7	Derivatives
Note 8	Investment in securities
Note 12	Intangible assets
Note 13	Insurance contract liabilities
Note 14	Investment contract liabilities
Note 23	Risk management and financial instruments

Long-term technical reserves

The Company determines the long-term technical reserves based on the Net Level Premium Valuation method (NPV). The carrying amount as at the reporting date is provided in note 13.

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 were designed and as approved by 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 are no changes in assumptions from last year.

Short-term technical reserves

Short-term technical reserves consist of loss reserves, 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 from insurance contracts that can be foreseen to a reasonable extent.

However, given the uncertainty in establishing a provision for insurance claims, it is likely that the final liability could 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 2020

The Company uses “Bornhuetter-Ferguson” method, “Chain Ladder” method and “Expected Loss Ratio” method to estimate claims incurred but not reported depending on the maturity of a particular line of business and the type of business written.

Measurement of fair values

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

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

3 Change in accounting policies

From 1 January 2020, the Company has initially applied Accounting Guideline: Financial Instruments and disclosure for insurance entities “Accounting Guideline for insurance entities”, TAS 32 Financial Instruments: Presentation, and TFRS 16 Leases. Impact of changes in accounting policies on shareholders’ equity were as follows:

	Retained earnings	Other components of equity
	<i>(in thousand Baht)</i>	
At 31 December 2019 - as reported	3,611,559	9,027,828
<i>Increase (decrease) due to:</i>		
Adoption of Accounting Guideline for insurance entities and TAS 32		
Classification of financial instruments		
Foreign exchange unrealised (loss) gain on unit trust classified as debt	(1,123,127)	1,123,127
General investment	463	3,955
Impairment losses on financial assets	(28,787)	25,870
Related income tax	230,383	(230,591)
Adoption of TFRS 16 Lease	-	-
At 1 January 2020 - restated	2,690,491	9,950,189

In addition, the Company has changed the presentation of the financial statements and note to the financial statements to comply with 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 of the Operations of Life Insurance Companies” B.E. 2562 (No. 2), dated 4 April 2019.

(a) Accounting Guideline for insurance entities and TAS 32

TFRS 4 Insurance Contracts (revised 2019), has allowed insurance entities that meet the conditions as laid down by TFRS 4, to use the deferral approach to TFRS 9 and TFRS 7 for insurance entities and continue to apply Accounting Guideline: Financial Instruments and Disclosure for insurance entities until TFRS 17 Insurance contract becomes effective.

The Company has met the condition as mentioned in TFRS 4 Insurance Contracts (revised 2019) and selected to apply Accounting Guideline for Financial Instruments and Disclosure for insurance company.

Prudential Life Assurance (Thailand) Public Company Limited
Notes to the financial statements
For the year ended 31 December 2020

The Company has adopted Accounting Guideline for insurance entities by adjusting the cumulative effects to retained earnings and other components of equity on 1 January 2020. Therefore, the Company did not adjust the information presented for 2019.

For the companies adopting the temporary exemption, the TFRS 4 requires certain disclosures which have been disclosed as follows:

<i>Financial assets, net of derivative liabilities</i>	<i>Note</i>	<i>Financial assets that passed the SPPI test</i>		<i>All other Financial assets and derivative liabilities</i>	
		Fair value at 31 December 2020	Movement in fair value during the year <i>(in thousand Baht)</i>	Fair value at 31 December 2020	Movement in fair value during the year
Cash and cash equivalents	5	2,445,865	-	-	-
Derivative assets, net of derivative liabilities	7	-	-	265,648	16,486
Investments in debt securities	8	103,774,026	9,577,485	6,858,428	318,670
Investments in equity securities	8	-	-	5,469,687	(1,515,183)
Loans	9	2,705,492	-	-	-
Investment assets where policyholders bear the investment risk	10	-	-	10,125,506	773,248
Total		108,925,383	9,577,485	22,719,269	(406,779)

The impact from the adoption Accounting Guideline for insurance entities and TAS 32 as follows:

(1) *Classification and measurement of financial assets and financial liabilities*

Accounting Guideline for insurance entities requires to classify equity instrument as trading securities or available-for-sale securities and eliminates the existing classification of general investment as specified by TAS 105 and requires bifurcating embedded derivatives in a hybrid instrument in all the conditions are met.

Under TAS 32, the gains or losses on foreign exchange rate of unit trust which is classified as debt instruments are recognised in profit or loss.

The following table shows measurement categories under previous standards and Accounting Guideline. Financial Instruments and disclosure for insurance entities, including reconciliation of the carrying amounts of each class of the Company's financial assets and financial liabilities as at 1 January 2020.

Prudential Life Assurance (Thailand) Public Company Limited

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For the year ended 31 December 2020

	Measurement at 31 December 2019		Measurement under Accounting Guideline: Financial Instruments and disclosure for insurance entities at 1 January 2020	
	Note	Carrying amounts	Fair value through profit or loss (in thousand Baht)	Fair value through other comprehensive income
General investments	8	2,867	-	7,285
Derivative assets	7	253,640	253,640	-
Total		256,507	253,640	7,285
Derivative liabilities	7	4,478	4,478	-
Total		4,478	4,478	-

(2) Impairment - Financial assets

Accounting Guideline for insurance entities, which is effective on 1 January 2020, introduces forward-looking “expected credit loss” (ECL) model whereas before 2020 the Company estimated allowance for impairment loss by analysing payment histories and future expectation of payment. Accounting Guideline for insurance entities requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortised cost, debt investments measured at FVOCI and loans. For investments in equity instruments or unit trusts measured at FVOCI, impairment is considered from objective evidence of impairment, including information about significant change in negative technology, marketing, economy and law environment, which securities issuers has operated, indicate that cost of investment in this equity will not be recovered. Significant or prolonged of investments’ fair value which is lower than their cost, as objective evidence impairment.

Impairment and gains or losses from derecognition for investment measured at FVOCI are recognized in profit and loss.

The Company has determined that the application of Accounting Guideline for insurance entities at 1 January 2020 results in allowance for impairment losses as follows:

	<i>(in thousand Baht)</i>
Allowance for impairment losses at 31 December 2019	
Allowance for impairment losses on investments and loans	1,784
Allowance for impairment losses recognised at 1 January 2020 on:	
- Debt instruments measured at FVOCI	25,870
- Cash and cash equivalent	2,917
Allowance for impairment losses (ECL) at 1 January 2020	28,787

The Company has opted to recognise the impairment losses as an adjustment to retained earnings as at 1 January 2020.

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For the year ended 31 December 2020

(3) Hedge accounting

Accounting Guideline introduces guidance on hedge accounting. There are three hedge accounting models and the type of model applied depends on the hedged exposures consisting of a fair value exposure, a cash flow exposure or a foreign currency exposure on a net investment in a foreign operation. Under this Accounting Guideline, the Company is required to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness.

Currently, the Company had derivative provided in note 7 which were recognised when the derivative was exercised. However, as at 31 December 2020 the Company does not apply hedge accounting.

(b) TFRS 16 Leases

From 1 January 2020, the Company has initially adopted TFRS 16 on contracts previously identified as leases according to TAS 17 Leases and TFRIC 4 Determining whether an arrangement contains a lease using the modified retrospective approach.

Previously, the Company, as a lessee, recognised payments made under operating leases and relevant lease incentives in profit or loss on a straight-line basis over the term of the lease. Under TFRS 16, the Company assesses whether a contract is, or contains, a lease. If a contract contains lease and non-lease components, the Company allocates the consideration in the contract based on stand-alone selling price (transaction price). As at 1 January 2020, the Company recognised right-of-use assets and lease liabilities, as a result, the nature of expenses related to those leases was changed because the Company recognised depreciation of right-of-use assets and interest expense on lease liabilities.

On transition, the Company also elected to use the following practical expedients:

- do not recognise right-of-use assets and lease liabilities for leases with less than 12 months of lease term;
- use hindsight when determining the lease term;
- apply a single discount rate to a portfolio of leases with similar characteristics;
- rely on previous assessments whether leases are onerous as an alternative to performing an impairment review; and
- exclude initial direct costs from measuring the right-of-use asset.

Impact from the adoption of TFRS 16

(in thousand Baht)

At 1 January 2020

Increase in right of use asset	<u>38,392</u>
Increase in lease liabilities	<u>38,392</u>

Measurement of lease liability

(in thousand Baht)

Operating lease commitment as disclosed at 31 December 2019	<u>39,095</u>
Discounted using the incremental borrowing rate at 1 January 2020	(703)
Finance lease liabilities recognised as at 31 December 2019	<u>38,392</u>
Lease liabilities recognised at 1 January 2020	<u>38,392</u>
Weighted-average incremental borrowing rate (% per annum)	<u>1.96</u>

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4 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as disclosed in note 3.

(a) 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.

(b) 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.

(c) 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.

(d) 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 significant insurance risk as the possibility of having to pay benefits on the occurrence of an insured event that is significantly more than if the insured event did not occur.

(e) Recognition and measurement of insurance contracts

Premiums receivables

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

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For the year ended 31 December 2020

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 have cash values and is overdue for more than the grace period, the premiums receivables will be settled by granting automatic policy loans where the cash value 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 "Net Premium Valuation" method and these assumptions considered to be appropriate for the policies in force and calculated by the internal actuary of the Company.

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 comprise of the unearned premium reserve and unexpired risk reserve.

Unearned premium reserve

The unearned premium reserve for short-term group insurance, short-term riders and short-term insurance 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 its value is presented as gross of premium before reinsurance ceding 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.

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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 values are presented as gross of premium before reinsurance ceding 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 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.

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 short-term reserves and are recognised in profit or loss.

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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 best estimate 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.

(f) Financial instruments

Accounting policies applicable from 1 January 2020

(1) Recognition and initial measurement

Financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset and financial liability are initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue. A financial asset and a financial liability measured at FVTPL are initially recognised at fair value.

(2) Classification and subsequent measurement

Financial assets

Financial assets held for trading measured at fair value to profit or loss. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets other than those securities held for trading, are classified as available-for-sale investments subsequent to their initial recognition, available-for-sale investments are measured at fair value to other comprehensive income, with changes in fair value on investments recognised directly in equity, except impairment losses and monetary in 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.

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The fair value of debt securities is calculated by referencing to the price quoted by Thai Bond Market Association at reporting date. For debt securities which are not listed on the Thai Bond Market Association, the fair value is calculated by referencing to the price quoted by a reliable institutions at the reporting date.

For equity securities and other securities which are listed, the fair value is estimated using the last bid price from the Stock Exchange of Thailand (SET) at reporting date. For unit trusts which are non-listed, fair value is estimated using net asset value at reporting date.

In the event the Company reclassifies investments from one type to another, such investments will be readjusted to their fair value as at the reclassification date. The difference between the carrying amount of the investments and the fair value on the date of reclassification are recorded in profit or loss or recorded as surplus or deficit from changes in the value of investments in equity, depending on the type of investment that is reclassified.

Financial liabilities

Financial liabilities are measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(3) *Derecognition*

Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

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.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

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On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(4) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(5) Derivatives

Derivative are recognised at fair value. At the end of each reporting period the fair value is measured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on nature of the item being hedged.

(6) Loans

Loans are stated at their principal less allowance for doubtful accounts.

Accounting policies applicable before 1 January 2020

(1) Recognition and initial measurement

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

(2) Classification and subsequent measurement

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 and marketable equity securities, other than those securities held for trading, are classified as available-for-sale investments. Available-for-sale investments are, subsequent to initial recognition, stated at fair value. Change in security values are recognised directly in equity, except for impairment losses and foreign exchange differences on monetary items which 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.

The fair value of debt securities is calculated by referencing to the price quoted by Thai Bond Market Association at reporting date. For debt securities which are not listed on the Thai Bond Market Association, the fair value is calculated by referencing to the price quoted by a reliable institutions at the reporting date.

For equity securities and other securities which are listed, the fair value is estimated using the last bid price from the Stock Exchange of Thailand (SET) at reporting date. For unit trusts which are non-listed, fair value is estimated using net asset value at reporting date.

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In the event the Company reclassifies investments from one type to another, such investments will be readjusted to their fair value as at the reclassification date. The difference between the carrying amount of the investments and the fair value on the date of reclassification are recorded in profit or loss or recorded as surplus or deficit from changes in the value of investments in equity, depending on the type of investment that is reclassified.

(3) Derecognition

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.

(4) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(5) Derivatives

Derivative financial instruments comprise of cross currency swaps, forwards and bond forward contract. They are used to manage exposure to foreign exchange, interest rate, and equity market risk from investment activities. Derivative financial instruments are not used for trading purposes.

(6) Loans

Loans are stated at their principal less allowance for doubtful accounts.

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

(g) Investments where policy holder bear the risk

Investments assets held to cover linked liabilities are the investments in unit trusts under unit-linked contracts as the policy benefits are directly linked to the value of the investment in securities. These investments in securities are stated at fair value.

For unit trusts securities which are listed, the fair value is calculated using the last bid price from the Stock Exchange of Thailand (SET) at reporting date. For unit trusts which are non-listed, the fair value is calculated using net asset value at reporting date.

(h) Lease

Accounting policies applicable from 1 January 2020

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in TFRS 16.

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As a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

Right-of-use asset is measured at cost, less any accumulated depreciation and impairment loss, and adjusted for any remeasurements of lease liability. The cost of right-of-use asset includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. Depreciation is charged to profit or loss on a straight-line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect terms of the lease and type of the asset leased.

The lease liability is measured at amortised cost using the effective interest method.

The Company presents right-of-use assets and lease liabilities as separate items in the statement of financial position.

Accounting policies applicable before 1 January 2020

As a lessee

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense, over the term of the lease. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

(i) *Non-current assets held for sale*

Non-current assets are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held for sale, these assets are no longer depreciated.

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(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 buildings 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.

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(k) *Intangible assets*

Software licences

Software licences that are acquired or developed 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 based on achievement of performance targets over the life of the agreements, which have initial term of 15 years.

Performance targets, amortisation methods, useful lives and residual rates are reviewed at each financial year-end and adjusted as appropriate.

Impairment of bancassurance agreements

The carrying amounts of the bancassurance agreements are reviewed at each reporting date to determine whether there is any indication of impairment. The impairment testing is conducted when there is an indicator of impairment and the assets' recoverable amounts are estimated.

To access indicators of an impairment, the Company monitors a number of internal and external factors, including indicators that the financial performance of the agreement is likely to be worse than expected and changes in relevant legislation and regulatory requirements that could impact the Company's ability to sell new business through the bancassurance channel.

An impairment loss is recognised in profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

(l) *Impairment*

Accounting policies applicable from 1 January 2020

Equity instruments and unit trust which is classified as an available-for-sale

Impairment loss is recognised when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists.

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.

Debt instruments except for equity and unit trust which is classified as an available-for-sale

The Company recognises allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and debt investments measured at FVOCI.

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Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; or
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of a financial instrument.

The Company recognises ECLs equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition or credit-impaired financial assets, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs for investments in debt securities

Probabilities of default (PD) and loss given default (LGD) for investment in debt securities are based on historical data supplied by rating agency for each credit rating.

The Company considers debt securities to have low credit risk when its credit rating is equivalent to the globally understood definition of “investment grade”.

The Company assumes that the credit risk on debt securities has increased significantly if it is significant deterioration in debt securities’ credit rating.

The Company considers debt securities to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full; or
- the debt securities are more than 1 days past due.

The assessment of a significant increase in credit risk is performed on an individual basis.

Remeasurement of ECLs

ECLs are remeasured at each reporting date to reflect changes in the financial instrument’s credit risk since initial recognition. Increase or decrease in loss allowance is recognised as an impairment loss or a reversal of impairment loss in profit or loss, respectively. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the Company recognises an impairment loss in profit or loss with the corresponding entry in other comprehensive income.

Accounting policies applicable before 1 January 2020

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 the profit or loss unless it reverses a previous revaluation credited to equity in which case it charged to equity. Impairment loss is recognised when there has been a significant or prolonged decline in the fair value below their cost or where other objective evidence of impairment exists.

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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.

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

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 directly in other comprehensive income.

(m) Impairment of non-financial assets

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 or its cash-generating unit 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.

Calculation of recoverable amount

The recoverable amount of a non-financial asset is the greater of the asset's 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.

Reversal of impairment

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.

Prudential Life Assurance (Thailand) Public Company Limited

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For the year ended 31 December 2020

(n) Due to reinsurers and other accounts payable

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

(o) 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 and 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.

(p) 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.

(q) Revenue

Interest and dividend income

Interest income is recognised in the statement of income as it accrues. Dividend income is recognised in profit or loss on the date the Company's right to receive payments is established.

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(r) *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.

(s) *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.

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.

(t) *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.

Prudential Life Assurance (Thailand) Public Company Limited

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For the year ended 31 December 2020

(u) Related parties

A related party is a person or entity that has direct or indirect control or joint control, or has significant influence over the financial and managerial decision-making of the Company; a person entity that are under common control or under the same significant influence as the Company, or the Company had direct or indirect control or joint control or has significant influence over the financial and managerial decision-making of a person or entity.

5 Cash and cash equivalents

	2020	2019
	<i>(in thousand Baht)</i>	
Cash on hand	56	1,266
Deposits at banks - call deposits	2,046,242	1,915,580
Deposits at banks - time deposits	400,000	-
Less allowance for expected credit losses	(433)	-
Total	2,445,865	1,916,846

As at 31 December 2020 and 2019, cash and cash equivalents were denominated entirely in Thai Baht.

6 Premiums due and uncollected

As at 31 December 2020 and 2019, the balances of premiums due and uncollected are classified by aging as follows:

	2020	2019
	<i>(in thousand Baht)</i>	
Within due	757,405	488,528
Overdue		
Not over than 30 days	259	67,505
31 - 60 days	221	10,244
61 - 90 days	471	110
91 days - 1 year	178	172
Over 1 year	72	7
Total	758,606	566,566
Less allowance for doubtful accounts	(196)	(159)
Net	758,410	566,407

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
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7 Derivatives

As at 31 December 2020 and 2019, the derivative asset and liabilities were as follows:

Derivatives for which hedge accounting has not been elected

Type of contract	Objectives	No. of contracts	Notional value	31 December 2020		Gain (loss) on remeasurement of derivatives at fair value
				Assets (in thousand Baht)	Liabilities	
Foreign exchange forward	To protect against foreign exchange risk arising from investment activities	10	14,514,442	209,023	-	12,787
Cross currency swap	To protect against foreign exchange and interest rate risks arising from investment activities	1	349,272	53,101	-	(2,383)
Bond forward	To protect against interest rate risk arising from investment activities	1	191,052	2,349	-	4,907
Future	To protect against equity market risk arising from investment activities	1	99,512	1,175	-	1,175
Total		13	15,154,278	265,648	-	16,486

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Derivatives for which hedge accounting has not been elected

Type of contract	Objectives	No. of contracts	Notional value	31 December 2019		Gain (loss) on remeasurement of derivatives at fair value
				Assets (in thousand Baht)	Book value/Fair value Liabilities	
Foreign exchange forward	To protect against foreign exchange risk arising from investment activities	18	25,035,673	198,156	1,920	(56,655)
Cross currency swap	To protect against foreign exchange and interest rate risks arising from investment activities	1	349,272	55,484	-	22,767
Bond forward	To protect against interest rate risk arising from investment activities	1	191,052	-	2,558	(2,558)
Total		20	25,575,997	253,640	4,478	(36,446)

As at 31 December 2020, the Company has hedged the foreign exchange and interest rate risks arising from investment activities by entering into foreign exchange forward and cross currency swap contracts with the banks. The notional amount of these hedges is USD 486.5 million (31 December 2019: USD 838.7 million).

Prudential Life Assurance (Thailand) Public Company Limited
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8 Investments in securities

8.1 Investment in securities by measurement of accounting guidelines are as follows:

	31 Decemberr 2020		31 December 2019	
	Cost/ Amortised cost	Fair value	Cost/ Amortised cost	Fair value
	<i>(in thousand Baht)</i>			
<i>Fair value through profit or loss</i>				
Unit trusts	3,541	3,855	2,809	3,068
Total	3,541	3,855	2,809	3,068
Add unrealised gains	314	-	259	-
Total	3,855	3,855	3,068	3,068
<i>Fair value through other comprehensive income</i>				
Government and state enterprises securities	57,586,079	66,413,515	40,734,997	50,945,223
Corporate securities	36,430,451	37,172,531	40,931,008	43,288,832
Foreign securities	180,011	187,980	263,166	270,969
Equity securities	5,319,789	4,275,923	7,557,485	6,889,444
Unit trusts	8,201,298	8,048,337	18,471,771	17,848,526
Total	107,717,628	116,098,286	107,958,427	119,242,994
Add unrealised gains	8,380,658	-	11,284,784	-
Less allowance for impairment loss	-	-	(217)	-
Total	116,098,286	116,098,286	119,242,994	119,242,994
Allowance for expected credit losses - Debt		953,890		-
Allowance for impairment losses - Equity		416,700		-

General investments comprise of:

	31 December 2020		31 December 2019	
	Cost/ Amortised cost	Fair value	Cost/ Amortised cost	Fair value
	<i>(in thousand Baht)</i>			
<i>General investments</i>				
Equity securities	-	-	3,330	7,285
Less allowance for impairment losses	-	-	(463)	-
Total general investments	-	-	2,867	7,285

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8.2 Fair value through other comprehensive income

	31 December 2020		31 December 2019	
	Fair value	Allowance for expected credit losses / impairment (in thousand Baht)	Fair value	Allowance for expected credit losses / impairment
Debt securities - no significant increase in credit risk / performing (stage 1)	109,792,879	17,862	94,505,024	-
Debt securities - default / non-performing (stage 3)	839,575	936,028	-	-
Equity securities and unit trusts classified as equity	5,465,832	416,700	24,737,970	-
Total	116,098,286	1,370,590	119,242,994	-

At 31 December 2020, debt securities measured at fair value through other comprehensive income having amortised cost of Baht 1,775.6 million had a significant increase in credit risk and was transferred from stage 1 to stage 3.

8.3 Aging of debt securities

As at 31 December 2020 and 2019, investments in debt securities were classified by the remaining period to maturity as follows:

	2020				Total
	Within 1 year	Maturities		Over 10 years	
		1 - 5 years	5 - 10 years		
	(in thousand Baht)				
<i>Government and state enterprise securities</i>					
Bonds	601,394	4,389,727	7,044,592	43,747,602	55,783,315
Debentures	136,210	666,554	-	-	802,764
Notes	-	-	-	1,000,000	1,000,000
<i>Corporate securities</i>					
Debentures	802,528	12,029,882	16,949,963	6,648,078	36,430,451
<i>Foreign securities</i>					
Bonds	30,011	-	-	-	30,011
Debentures	-	150,000	-	-	150,000
Total	1,570,143	17,236,163	23,994,555	51,395,680	94,196,541
Add net unrealised gain (loss) from fair value changes on securities	(93,614)	(103,205)	1,323,367	8,450,937	9,577,485
Total debt securities	1,476,529	17,132,958	25,317,922	59,846,617	103,774,026
Allowance for expected credit losses	105,988	805,602	7,498	34,802	953,890

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	2019				Total
	Within 1 year	Maturities		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	359,608	2,634,358	3,321,215	30,134,831	36,450,012
Debentures	200,307	2,539,020	490,000	55,658	3,284,985
Notes	-	-	-	1,000,000	1,000,000
<i>Corporate securities</i>					
Debentures	-	12,815,814	21,783,117	6,331,860	40,930,791
Notes	217	-	-	-	217
<i>Foreign securities</i>					
Bonds	-	30,149	-	-	30,149
Debentures	-	233,017	-	-	233,017
Total	560,132	18,252,358	25,594,332	37,522,349	81,929,171
Add net unrealised gain from fair value changes on securities	2,900	847,088	2,011,649	9,714,433	12,576,070
Less allowance for impairment losses	(217)	-	-	-	(217)
Total available-for-sale securities	562,815	19,099,446	27,605,981	47,236,782	94,505,024

9 Loans and accrued interest

As at 31 December 2020 and 2019, loans and accrued interest receivables were classified by aging as follows:

	31 December 2020
	Loans and accrued interest, net
	<i>(in thousand Baht)</i>
Policy loans	2,705,492
Accrued interest receivable	328,024
Loans and accrued interest, net	3,033,516

	31 December 2019		Total
	Mortgage loans	Other	
	<i>(in thousand Baht)</i>		
Loan and accrued interest	1,104	119	1,223
Less allowance for doubtful accounts	(1,104)	-	(1,104)
Total	-	119	119
Policy loans	-	2,530,260	2,530,260
Accrued interest receivable	-	286,556	286,556
Loans and accrued interest, net	-	2,816,935	2,816,935

Policy loans represent loans granted to the policyholders at an amount not exceeding the cash value of the policy, an interest not exceeding the premium written calculation and plus 2% per annum.

Other loans were personal guarantee loans to staff with interest rate. At 31 December 2020, there is no other loans (31 December 2019: 0% - 6.18% per annum).

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10 Investment assets where policyholders bear the investment risk

	2020		2019	
	Cost	Fair value	Cost	Fair value
	<i>(in thousand Baht)</i>			
Unit trusts in fixed income funds	1,730,529	1,774,059	1,755,963	1,786,606
Unit trusts in equity funds	5,696,327	6,335,709	4,625,405	4,825,557
Unit trusts in mixed funds	1,848,309	1,926,840	1,977,951	2,001,962
Unit trusts in other funds	77,093	88,898	54,356	55,700
Total	9,352,258	10,125,506	8,413,675	8,669,825
<i>Add unrealised surpluses from fair value changes in investments</i>	773,248	-	256,150	-
Total Investment assets where policyholders bear the investment risk	10,125,506	10,125,506	8,669,825	8,669,825

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11 Premises and equipment

	Land	Buildings	Buildings improvements	Leasehold buildings improvements (in thousand Baht)	Office equipment and furniture	Assets under construction	Total
Cost							
At 1 January 2019	4,844	13,114	7,571	210,114	284,851	-	520,494
Additions	-	-	-	2,739	10,705	1,945	15,389
Transfers	-	-	-	1,051	-	(1,051)	-
Disposals and write-offs	-	-	-	-	(15,822)	-	(15,822)
At 31 December 2019 and 1 January 2020	4,844	13,114	7,571	213,904	279,734	894	520,061
Additions	-	-	-	1,654	23,629	28,371	53,654
Disposals and write-offs	-	-	-	(4,104)	(77,612)	-	(81,716)
At 31 December 2020	4,844	13,114	7,571	211,454	225,751	29,265	491,999
Accumulated depreciation							
At 1 January 2019	-	13,113	6,654	140,449	217,982	-	378,198
Depreciation charge for the year	-	-	-	24,486	25,375	-	49,861
Disposals and write-offs	-	-	-	-	(15,815)	-	(15,815)
At 31 December 2019 and 1 January 2020	-	13,113	6,654	164,935	227,542	-	412,244
Depreciation charge for the year	-	-	-	38,773	16,577	-	55,350
Disposals and write-offs	-	-	-	(3,186)	(53,930)	-	(57,116)
At 31 December 2020	-	13,113	6,654	200,522	190,189	-	410,478
Net book value							
At 1 January 2019	4,844	1	917	69,665	66,869	-	142,296
At 31 December 2019 and 1 January 2020	4,844	1	917	48,969	52,192	894	107,817
At 31 December 2020	4,844	1	917	10,932	35,562	29,265	81,521

The gross amount of the Company's fully depreciated building and equipment that was still in use as at 31 December 2020 amounted to Baht 162.8 million (2019: Baht 167.5 million).

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12 Intangible assets

	Software licenses	Software under development (in thousand Baht)	Bancassurance agreement	Total
Cost				
At 1 January 2019	412,535	68,704	12,775,406	13,256,645
Additions	851	118,193	-	119,044
Transfers in/ (out)	82,936	(82,936)	-	-
Disposals and write-offs	(421)	-	-	(421)
At 31 December 2019 and 1 January 2020	495,901	103,961	12,775,406	13,375,268
Additions	3,047	215,370	8,167,150	8,385,567
Transfers in/ (out)	139,069	(139,069)	-	-
Disposals and write-offs	(42,913)	(18,840)	-	(61,753)
At 31 December 2020	595,104	161,422	20,942,556	21,699,082
Accumulated amortisation				
At 1 January 2019	237,582	-	1,438,770	1,676,352
Amortisation charge for the year	89,406	-	503,580	592,986
Disposals and write-offs	(21)	-	-	(21)
At 31 December 2019 and 1 January 2020	326,967	-	1,942,350	2,269,317
Amortisation charge for the year	70,260	-	269,761	340,021
Disposals and write-offs	(31,068)	-	-	(31,068)
At 31 December 2020	366,159	-	2,212,111	2,578,270
Net book value				
At 1 January 2019	174,953	68,704	11,336,636	11,580,293
At 31 December 2019 and 1 January 2020	168,934	103,961	10,833,056	11,105,951
At 31 December 2020	228,945	161,422	18,730,445	19,120,812

On 19 March 2020, the Company has entered into a strategic bancassurance partnership with TMB Bank Public Company Limited with an initial term of 15 years. The extended exclusive partnership agreement will commence on 1 January 2021 and during the transition period between 1 April 2020 and 31 December 2020 the current agreement with Thanachart Bank was continued.

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13 Insurance contract liabilities

	2020		2019	
	Liabilities under insurance contracts	Reinsurers' share liabilities	Liabilities under insurance contracts	Reinsurers' share liabilities
	<i>(in thousand Baht)</i>			
		Net		Net
Long-term technical reserves	105,433,242	105,433,242	97,678,686	97,678,686
Short-term technical reserves				
Loss reserves and outstanding claims				
- Case reserves	45,009	45,009	50,947	50,947
- Incurred but not reported	41,382	41,382	45,377	45,377
Total loss reserves and outstanding claims	86,391	86,391	96,324	96,324
Unearned premium reserves	263,406	263,406	281,963	281,963
Total short-term technical reserves	349,797	349,797	378,287	378,287
Unpaid policy benefits	327,987	327,987	301,988	301,988
Due to insured	687,158	687,158	485,877	485,877
Total	106,798,184	106,798,184	98,844,838	98,844,838

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13.1 Long-term technical reserves

	2020	2019
	<i>(in thousand Baht)</i>	
At 1 January	97,678,686	86,871,823
Reserve increase from new and inforce policies during the year	17,133,493	16,701,818
Reserves released for benefits payment, lapse and policies cancelled during the year	<u>(9,378,937)</u>	<u>(5,894,955)</u>
At 31 December	<u>105,433,242</u>	<u>97,678,686</u>

13.2 Short-term technical reserve

13.2.1 Loss reserves and outstanding claims

	2020	2019
	<i>(in thousand Baht)</i>	
At 1 January	96,324	70,898
Insurance claim expense incurred during the year	379,317	527,455
Insurance claim expense paid during the year	<u>(389,250)</u>	<u>(502,029)</u>
At 31 December	<u>86,391</u>	<u>96,324</u>

13.2.2 Unearned premium reserves

	2020	2019
	<i>(in thousand Baht)</i>	
At 1 January	281,963	222,653
Premium written during the year	645,567	660,326
Earned premium during the year	<u>(664,124)</u>	<u>(601,016)</u>
At 31 December	<u>263,406</u>	<u>281,963</u>

13.3 Unpaid policy benefits

	2020	2019
	<i>(in thousand Baht)</i>	
Death	63,514	71,202
Unpresented cheques for benefits and claims payment	253,968	214,513
Others	<u>10,505</u>	<u>16,273</u>
Total	<u>327,987</u>	<u>301,988</u>

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13.4 Due to insured

	2020	2019
	<i>(in thousand Baht)</i>	
Policyholder deposits	681,927	476,065
Advance premium	3	42
Others	5,228	9,770
Total	687,158	485,877

14 Investment contract liabilities

The movement of investment contract liabilities are as follows;

	2020	2019
	<i>(in thousand Baht)</i>	
At 1 January	8,759,234	6,677,247
Deposit during the year	2,178,415	1,740,660
Withdrawal during the year	(1,221,612)	(533,447)
Valuation adjustment during the year	490,857	874,774
At 31 December	10,206,894	8,759,234

15 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

Remeasurement of investment-fair value through other comprehensive income

The fair value changes in investment-fair value through other comprehensive income account within equity comprises the cumulative net changes in the fair value of investment-fair value through other comprehensive income until securities are derecognised or impaired.

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16 Net investment income

	2020	2019
	<i>(in thousand Baht)</i>	
<i>Dividend income</i>		
Other parties	627,892	819,094
	<u>627,892</u>	<u>819,094</u>
<i>Interest income</i>		
Other parties	3,078,642	3,143,367
	<u>3,078,642</u>	<u>3,143,367</u>
<i>Interest expense</i>		
Subsidiary	-	(83)
Other parties	(615)	(4,657)
	<u>(615)</u>	<u>(4,740)</u>
<i>Investment related expense</i>		
Related parties	(142,995)	(125,966)
Other parties	(9,832)	(8,281)
	<u>(152,827)</u>	<u>(134,247)</u>
Total	<u>3,553,092</u>	<u>3,823,474</u>

17 Operating expenses

	2020	2019
	<i>(in thousand Baht)</i>	
Personnel expense	1,309,697	1,225,210
Premises and equipment expense	423,919	307,516
Depreciation of right-of-use assets	22,199	-
Interest expense on lease liabilities	554	-
Taxes and duties	97,150	94,156
Reversal of bad debt and doubtful accounts expense	36	(228)
Directors' remuneration	4,057	800
Other operating expenses	829,010	617,669
Total	<u>2,686,622</u>	<u>2,245,123</u>

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18 Employee benefit expenses

	2020	2019
	<i>(in thousand Baht)</i>	
Wages and salaries	806,913	724,369
Defined benefit plans	11,499	47,092
Defined contribution plans	43,352	42,995
Others	507,635	508,857
Total	<u>1,369,399</u>	<u>1,323,313</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.

19 Income tax

Income tax recognised in profit or loss

	2020	2019
	<i>(in thousand Baht)</i>	
Current tax expense		
Current year	277,207	72,834
Adjusted prior year income tax	31,324	(54,616)
Deferred tax expense		
Movements in temporary differences	(224,550)	65,416
Adjusted prior year deferred tax	(2,250)	102,014
Total income tax expense	<u>81,731</u>	<u>185,648</u>

Reconciliation of effective tax rate

	2020		2019	
	<i>Rate</i>	<i>(in thousand</i>	<i>Rate</i>	<i>(in thousand</i>
	<i>(%)</i>	<i>Baht)</i>	<i>(%)</i>	<i>Baht)</i>
Profit before income tax		<u>247,758</u>		<u>2,837,881</u>
Income tax using the Thai corporation tax rate	20.0	49,552	20.0	567,576
Income not subject to tax and expenses not deductible for tax purposes		3,106		(4,941)
Utilisation of tax losses on investment in subsidiary		-		(424,385)
Adjustments related to prior year		29,073		47,398
Total	<u>33.0</u>	<u>81,731</u>	<u>6.5</u>	<u>185,648</u>

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Movements in deferred tax balances are as follows:

	2020	2019
	<i>(in thousand Baht)</i>	
Deferred tax assets	351,790	70,496
Deferred tax liabilities	<u>(2,046,850)</u>	<u>(2,525,377)</u>
Net deferred tax liabilities	<u>(1,695,060)</u>	<u>(2,454,881)</u>

Movements in deferred tax assets and liabilities for the year ended 31 December 2020 and 2019 were as follows:

	At 1 January 2020	Impact of changes in accounting policies (Note 3)	<u>(Charged) / Credited to:</u>		At 31 December 2020
			Profit or loss	Other comprehensive income <i>(in thousand Baht)</i>	
<i>Deferred tax assets</i>					
Premises and equipment	17,971	-	5,446	-	23,417
Intangible assets	9,205	-	(3,672)	-	5,533
Provision for reinstatement	-	-	1,000	-	1,000
Employee benefit obligations	27,328	-	(1,018)	-	26,310
Unpaid policy benefits	10,905	-	(528)	-	10,377
Premium reserve	5,087	-	5,736	-	10,823
Expected credit losses and impairment losses on investments	-	5,757	268,448	-	274,205
Others	-	-	125	-	125
Total	<u>70,496</u>	<u>5,757</u>	<u>275,537</u>	<u>-</u>	<u>351,790</u>
<i>Deferred tax liabilities</i>					
Gain (loss) on remeasurement of investment - fair value through other comprehensive income	(2,256,956)	(225,416)	-	806,242	(1,676,130)
Expected credit losses and impairment losses on investments	-	(5,174)	-	(268,944)	(274,118)
Unrealised gain (loss) on exchange rate adjustment from foreign currency investment	(201,961)	224,625	(45,427)	-	(22,763)
Gain (loss) on remeasurement of investment - fair value through profit or loss	(52)	-	(11)	-	(63)
Actuarial gain on defined benefit plan	(16,576)	-	-	(4,070)	(20,646)
Unrealised gain on derivative instruments	(49,832)	-	(3,298)	-	(53,130)
Total	<u>(2,525,377)</u>	<u>(5,965)</u>	<u>(48,736)</u>	<u>533,228</u>	<u>(2,046,850)</u>
Net	<u>(2,454,881)</u>	<u>(208)</u>	<u>226,801</u>	<u>533,228</u>	<u>(1,695,060)</u>

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	At 1 January 2019	(Charged) / Credited to:		At 31 December 2019
		Profit or loss <i>(in thousand Baht)</i>	Other comprehensive income	
Deferred tax assets				
Premises and equipment	15,732	2,239	-	17,971
Intangible assets	5,424	3,781	-	9,205
Provisions	1,465	(1,465)	-	-
Employee benefit obligations	17,124	10,204	-	27,328
Unpaid policy benefits	8,301	2,604	-	10,905
Actuarial loss on defined benefit plan	480	-	(480)	-
Premium reserve	2,966	2,121	-	5,087
Total	51,492	19,484	(480)	70,496
Deferred tax liabilities				
Net fair value changes on available- for-sale securities	(364,580)	-	(1,892,376)	(2,256,956)
Unrealised gain on exchange rate adjustment from foreign currency investment	(7,803)	(194,158)	-	(201,961)
Provision for revaluation of trading securities	(6)	(46)	-	(52)
Actuarial gain on defined benefit plan	-	-	(16,576)	(16,576)
Unrealised gain on derivative instruments	(57,122)	7,290	-	(49,832)
Total	(429,511)	(186,914)	(1,908,952)	(2,525,377)
Net	(378,019)	(167,430)	(1,909,432)	(2,454,881)

20 Expected credit losses and impairment losses on investments

	31 December 2020	31 December 2019
	<i>(in thousand Baht)</i>	
Cash and cash equivalent	(2,482)	-
Investments in debt securities	928,019	-
Investments in equity securities	416,700	-
Total	1,342,237	-

21 Basic earnings per share

The calculations of basic earnings per share for the years ended 31 December 2020 and 2019 were based on the profit the years attributable to ordinary shareholders of the Company and the ordinary shares outstanding during the years as follows:

	2020	2019
	<i>(in thousand Baht)</i>	
Profit for the year attributable to ordinary shareholders of the company (basic)	166,027	2,652,233
Number of ordinary shares outstanding	2,211,153	2,211,153
Basic earnings per share (in Baht)	0.08	1.20

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22 Dividends

- (a) At the Company's Annual General Meeting of the shareholders held on 26 April 2019, the shareholders unanimously resolved the appropriation of dividend not exceeding Baht 1,425 million or Baht 0.64 per share. The dividend shall be paid out from the Company's net profit for the year 2018 and unappropriated retain earnings, provided that the Company must be granted prior approval by the Office of Insurance Commission (OIC).

However, on 9 May 2019, the Company received a letter from the OIC informing the Company that the OIC has not approved the calculation of the profit for the operation in the year 2018 in order for dividend payment due to the Company having not met one of the requirements set out in the OIC's notification on seeking approval for paying the dividend. Without the OIC's permission, the Company cannot pay the dividend for the year 2018 to the shareholders in accordance with the approval of the Annual General Shareholders' Meeting.

- (b) At the Company's Board of Directors' meeting held on 31 October 2019, the Board of Directors approved the Company's application for dividend payment to the Company's shareholders at the amount not exceeding Baht 1,537 million.

On 6 December 2019, the Company received the approval from the Office of Insurance Commission to pay the dividend to shareholders at the amount not exceeding Baht 1,537 million. The dividend amount to Baht 1,526 million or Baht 0.69 per share was paid out from the Company's net profit for the nine-month period ended 30 September 2019 and the unappropriated retained earnings to shareholders in December 2019.

At the Company's Board of Directors' meeting held on 13 May 2020, the Board of Directors reviewed the final dividend proposal for 2019 taking into consideration the impact COVID-19 on the local economy and the financial markets and concluded not to pay a final dividend in respect of the financial year ended 31 December 2019.

23 Risk management and financial instruments

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.

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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 follows:

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.

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 are 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.

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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.

As at 31 December 2020, 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 around 122 basis points (*31 December 2019: 83 basis points*). Management monitors the sensitivity to changes in rates on an ongoing basis. A decrease of 285 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. The Company performed its own risk and solvency assessment (ORSA) incorporating with its business plan, company key risk, and capital management, taking into account strategic risks and external factors which could negatively affect capital adequacy. Capital management is one of the key responsibilities of Asset and Liability Committee (ALCO). The Company activities to effectively monitor and test our capital sufficiency on a regular basis include but not limited to

- Testing capital adequacy in 3 years Business Plan;
- Regularly testing and forward projection of capital adequacy based on going concern basis and economic downturn; and
- The sensitivity test on any significant changes to assess the impact of key risk variables for better informed decisions.

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In accordance with and the requirements of the Office of Insurance Commission, all insurers are required to maintain a minimum at least 120% 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 the future movement in market interest rates will affect the interest income from deposit at banks and investments. Investments include both short-term and long-term investments that have fixed and floating interest rates. The Company has managed the risk by considering the risk of investments together with the return on such investments.

In addition, the Company has used derivative financial instruments, principally bond forward and cross currency swap (Note 7) to manage exposure to fluctuations in interest rates on specific debt securities.

At 31 December 2020 and 2019, significant financial assets classified by type of interest rate are as follows:

	2020			Total
	Non-interest bearing	Floating interest rate (in thousand Baht)	Fixed interest rate	
Financial assets				
Cash and cash equivalents	61,545	1,984,318	400,000	2,445,863
Investments in securities				
Bonds	-	-	64,103,239	64,103,239
Debentures	-	-	38,236,286	38,236,286
Notes	-	-	1,434,501	1,434,501
Policy loans	-	-	3,033,516	3,033,516
Total	61,545	1,984,318	107,207,542	109,253,405
	2019			Total
	Non-interest bearing	Floating interest rate (in thousand Baht)	Fixed interest rate	
Financial assets				
Cash and cash equivalents	68,185	1,848,661	-	1,916,846
Investments in securities				
Bonds	-	-	46,034,013	46,034,013
Debentures	-	-	47,028,495	47,028,495
Notes	-	-	1,442,516	1,442,516
Policy loans	-	-	2,530,260	2,530,260
Total	68,185	1,848,661	97,035,284	98,952,130

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As of 31 December 2020 and 2019, financial assets carrying interest at fixed rates are classified on the basis of the length of time from the reporting date to the next re-pricing date, or to the maturity date whichever is sooner. The details are as follows:

	Average interest rate (% per annum)	Maturity period				Total
		No maturity	Within 1 year	After 1 year but within 5 years	Over 5 years	
<i>At 31 December 2020</i>						
Financial assets						
Cash and cash equivalents	0.2	-	400,000	-	-	400,000
Investments in securities						
Bonds	3.29	-	635,017	4,504,662	58,963,560	64,103,239
Debentures	3.84	-	841,512	12,628,296	24,766,478	38,236,286
Notes	4.10	-	-	-	1,434,501	1,434,501
Policy loans	4.00-8.00	3,033,516	-	-	-	3,033,516
Total		3,033,516	1,876,529	17,132,958	85,164,539	107,207,542

	Average interest rate (% per annum)	Maturity period				Total
		No maturity	Within 1 year	After 1 year but within 5 years	Over 5 years	
<i>At 31 December 2019</i>						
Financial assets						
Investments in securities						
Bonds	3.96	-	359,904	2,884,961	42,789,148	46,034,013
Debentures	3.95	-	202,912	16,214,485	30,611,098	47,028,495
Notes	4.10	-	-	-	1,442,516	1,442,516
Policy loans	4.00-8.00	2,530,260	-	-	-	2,530,260
Total		2,530,260	562,816	19,099,446	74,842,762	97,035,284

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 2020 was 4.00% - 8.00% per annum (2019: 4.00% - 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.

Sensitivity analysis

A reasonable possible change of 0.5% interest rates as at 31 December 2020 would have affected the measurement of investment in debt securities and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

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	Profit or loss		Equity, net of tax	
	increase	decrease	increase	decrease
Investments in debt securities	-	-	(5,013,927)	5,013,927

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 2020 and 2019, the Company were exposed to foreign currency risk in respect of financial assets and liabilities denominated in the following currencies:

	Note	2020	2019
		<i>(in thousand Baht)</i>	
Investment in securities <i>(US Dollars)</i>	8.1	14,755,698	24,612,765
Gross risk exposure in the statements of financial position		14,755,698	24,612,765
Notional amount of foreign exchange forward contracts	7	(14,514,442)	(25,035,673)
Notional amount of cross currency swap contracts	7	(349,272)	(349,272)
Net risk exposure		(108,016)	(772,180)
Other payable - related parties <i>(Hong Kong Dollars)</i>	24	257,950	227,396
Other payable - related parties <i>(US Dollars)</i>	24	365,347	101,684
Other payable - related parties <i>(Ringgit)</i>	24	-	789
Other payable - related parties <i>(Great British Pound)</i>	24	196	1,025
Accrued investment management fee - Related Parties <i>(Singapore Dollars)</i>	24	1,792	22,305
Gross risk exposure in the statements of financial position		625,285	353,199

23.6 Credit risk

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

Key areas that the Company is exposed to credit risk are cash positions, premium due and uncollected, policy loans, mortgage loans, vehicle hire-purchase receivables and investments in debt securities.

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 policyholders, borrowers and debt securities on an ongoing basis.

Concentrations of the credit risk with respect to premiums due and uncollected are insignificant due to the large number of customers comprising the customer base and their dispersion across different industries and geographic regions in Thailand.

In addition, there is insignificant risk from policy loans since the amount lent to insured parties is less than the cash value of their policies with the Company. The maximum credit exposure arising from mortgage loans and vehicle hire-purchase receivables is the amount of the loan less the value of assets pledged as security or leased assets.

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Credit quality analysis

The following table sets out information about the credit quality as at 31 December 2020 of investment in corporate debt securities measured at fair value through comprehensive income, based on Moody's, Standard & Poor's (S&P's), Fitch, or TRIS ratings.

	Stage 1	Stage 2	Stage 3	Total
	<i>(in thousand Baht)</i>			
Investments measured at fair value through other comprehensive income				
Rated AAA	2,049,158	-	-	2,049,158
Rated AA- to AA+	19,361,088	-	-	19,361,088
Rated A- to A+	8,067,483	-	-	8,067,483
Rated BBB and below	7,043,207	-	-	7,043,207
Non-rated	-	-	839,575	839,575
Carrying amount	36,520,936	-	839,575	37,360,511
Less allowance for excepted credit losses	17,150	-	936,028	953,178

23.7 Equity price risk

The Company invests in equity portfolio to enhance longer term returns. As equity portfolio value might be volatile due to market price movements, the exposure to equities is managed carefully to ensure that the Company's internal capital requirements are met at all times, as well as in compliant with any applicable regulations by regulators. The Company monitors equity price risk on a regular basis.

Sensitivity analysis - equity price risk

A reasonably possible change of the stock market as at 31 December 2020 would have affected the valuation of investment in listed equity investments and affected equity and profit or loss by the amount shown below.

	Profit or loss		Equity, net of tax	
	2% increase	2% decrease	2% increase	2% decrease
	<i>(in thousand Baht)</i>			
Investments in equity securities	-	-	87,333	(87,333)

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 financial assets mainly comprise of 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 the timing of the amounts recognised in the statement of financial position.

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	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 2020						
Liabilities						
Insurance and investment contracts liabilities	131,280,318	12.7	36.4	21.7	29.2	100.0

	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 2019						
Liabilities						
Insurance and investment contracts liabilities	121,887,558	15.2	34.7	26.1	24.0	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 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 outstanding claim and other payables approximates the fair value.

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

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 counterparty quotes.

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The Company determines level 3 fair value based on multiple of price per book value approach for equity securities which are not marketable.

The Company determines level 3 fair value for debt securities based on recovery rate estimated and announced on ThaiBMA.

The Company recognises transfers between levels of the fair value hierarchy as of the end of reporting period during which the transfer has occurred. During the year ended 31 December 2020, debt security having fair value of Baht 839.6 million was transferred from level 2 to level 3 (2019: Nil).

23.9.1 Financial assets and liabilities 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.

	Carrying amounts and Fair value			Total
	Level 1	Level 2	Level 3	
	(in thousand Baht)			
31 December 2020				
Financial assets				
Investment in securities				
Investment measured at fair value through profit or loss	3,855	-	-	3,855
Investment measured at fair value through other comprehensive income	12,316,746	102,934,451	847,089	116,098,286
Total investment in securities	12,320,601	102,934,451	847,089	116,102,141
Derivative assets	-	265,648	-	265,648
Investment assets where policyholders bear the investment risk	10,125,506	-	-	10,125,506
Financial liabilities				
Derivative liabilities	-	-	-	-
	Carrying amounts and Fair value			Total
	Level 1	Level 2	Level 3	
	(in thousand Baht)			
31 December 2019				
Financial assets				
Investment in securities				
Trading securities	3,068	-	-	3,068
Available-for-sale securities	24,677,614	94,565,380	-	119,242,994
Total investment in securities	24,680,682	94,565,380	-	119,246,062
Derivative assets	-	253,640	-	253,640
Investment assets where policyholders bear the investment risk	8,669,825	-	-	8,669,825
Financial liabilities				
Derivative liabilities	-	4,478	-	4,478

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23.9.2 Financial assets and financial liabilities not carried at fair value

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 2020 and 2019.

24 Related parties

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 51.21% of the Company's shares
Prudential Corporation Holdings Limited	United Kingdom	Major shareholder, holds 48.72% of the Company's shares
Prudential Holdings Limited	United Kingdom	Intermediate parent company
Prudential Corporation Asia Limited Affiliate of Prudential Group	Hong Kong Thailand/ Foreign	Intermediate parent company Related party of Prudential Group

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

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

Significant transactions for the year ended 31 December 2020 and 2019 with key management personnel and related parties were as follows:

	2020	2019
	<i>(in thousand Baht)</i>	
Revenue		
Affiliate of Prudential Group		
Trailing fee	17,338	9,799
Expenses		
Subsidiary		
Impairment loss in investment in subsidiary	-	40
Interest expense on promissory note	-	83

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For the year ended 31 December 2020

	2020	2019
	<i>(in thousand Baht)</i>	
Expenses		
Affiliate of Prudential Group		
Investment management fee expenses	142,679	125,711
Investment related expenses and operating expenses	383,593	224,784
Other underwriting expenses	291,175	-
Directors and key management personnel compensation		
Short-term employee benefits	257,563	157,599
Post-employment benefit	10,417	19,378
Other long-term benefits	24,277	33,800
Total	292,257	210,777

Significant balances as at 31 December 2020 and 2019 with related parties were as follows:

	2020	2019
	<i>(in thousand Baht)</i>	
Other assets		
Affiliate of Prudential Group	<u>3,622</u>	<u>3,990</u>
Accrued investment management fee		
Affiliate of Prudential Group	<u>21,734</u>	<u>22,305</u>
Other payables		
Affiliate of Prudential Group	<u>625,285</u>	<u>330,894</u>

Significant agreements with related parties

Investment Management Agreements

The Company has entered into an Investment Management Agreement with an affiliate of the Prudential Group. The affiliate agreed to act as the Company's investment manager. The Company is committed to pay a management fee at the rate in agreements. These agreements can be terminated upon 3 months written notice.

Service agreements

In 2018 the Company has entered into Service Agreements with Prudential Holdings Limited ("PHL"), an intermediate parent company, which is Prudential Regional Head Office in Asia, for the provision of services and support for both IT and non-IT services to the Company, for a period of five years. In consideration of the provision of services provided by PHL, the Company shall pay to PHL a service fee as set out in the agreements. The agreements can be terminated upon one month written notice and can be extended upon not less than one month written notice prior to the expiry of the term of these agreements by either party.

In 2020, the Service Agreements mentioned earlier were novated from PHL to Prudential Corporation Holdings Limited ("PCHL"), major shareholder, which becomes Prudential Regional Head Office in Asia.

Prudential Life Assurance (Thailand) Public Company Limited

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For the year ended 31 December 2020

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:

	2020		2019	
	Book value	Face value (in thousand Baht)	Book value	Face value
Government bonds	<u>45,135</u>	<u>30,000</u>	<u>45,478</u>	<u>30,000</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:

	2020		2019	
	Book value	Face value (in thousand Baht)	Book value	Face value
Government and state enterprise bonds	26,496,509	20,195,500	28,170,924	19,175,700
Promissory notes	<u>1,434,501</u>	<u>1,000,000</u>	<u>1,442,516</u>	<u>1,000,000</u>
Total	<u>27,931,010</u>	<u>21,195,500</u>	<u>29,613,440</u>	<u>20,175,700</u>

26 Contribution to life insurance fund

As at 31 December 2020 and 2019, the accumulated Contribution paid to life insurance fund were as follows:

	2020 (in thousand Baht)	2019
At 1 January	147,570	122,982
Increase during the year	<u>24,312</u>	<u>24,588</u>
At 31 December	<u>171,882</u>	<u>147,570</u>

27 Commitments with non-related parties

	2020 (in thousand Baht)	2019
(a) Capital commitments		
<i>Contracted but not provided for:</i>		
Building improvements	2,539	10,232
Software licenses	<u>8,979</u>	<u>3,733</u>
Total	<u>11,518</u>	<u>13,965</u>
(b) Non-cancellable operating service agreement		
Within 1 year	37,466	21,620
1 - 5 years	<u>131,014</u>	<u>14,426</u>
Total	<u>168,480</u>	<u>36,046</u>

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	2020	2019
	<i>(in thousand Baht)</i>	
<i>(c) Non-cancellable operating lease commitments</i>		
Within 1 year	-	22,594
1 - 5 years	-	16,501
Total	<u>-</u>	<u>39,095</u>

28 Events after the reporting period

In January 2021, the Company has entered into design and construction service agreement for the leasehold improvements of new office amounting to Baht 166 million as the Company will relocate the registered head office from @Sathorn building to Mitrtown Office Tower in May 2021.