

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

Long-term technical reserves

The Company determines the long-term technical reserves based on the approved actuarial methodology.

Process involved in determining assumptions

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

Short-term technical reserves

Short-term technical reserves consist of loss reserve, outstanding claims and premium reserves.

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.

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.

Information of Policy Liabilities Valuation as follows

Unit: Million Baht

| Description | Year 2019 | | Year 2018 | |
|-------------------------------|------------|-----------------|------------|-----------------|
| | Book value | Appraisal value | Book value | Appraisal value |
| Long-term technical reserves | 97,679 | 105,865 | 86,872 | 88,595 |
| Short-term technical reserves | 378 | 353 | 294 | 268 |
| Unpaid policy benefits | 302 | 302 | 285 | 285 |
| Due to insured | 486 | 486 | 321 | 321 |

Remark: Book value is value of liability from insurance contract liabilities appraised according to accounting standard. The key objective is to enable investors to analyze economic value of liability from insurance contract liabilities according to accounting standards in Thailand. The said value was audited by certified public accountant.

Appraisal value is value of insurance contract liabilities assessed under the Notification of the Insurance Commission on Asset Valuation and Life Assurance Valuation. Primary purpose is for overseeing the financial security of insurance companies and to ensure that the Company is able to fully cover the Insured Person's insurance benefits according to the insurance policy. It is required assessment from actuary that qualified by the registrar according to actuarial standard. The assumption used for determining this shall be in line with actual experience or in case that the Company has no enough experience, it could be referred to the industry experience and adjust to be suit to the Company's portfolio characteristic. Moreover, reserve must include Provision of Adverse Deviation, which is prescribed by the OIC.

Notice: in some period book value and appraisal value of insurance contract liabilities may be materially different. This is due to the differences of objective and methodology that said above. By the way, the one who will use the information above should carefully study and understand the objective and methodology to calculate book value and appraisal value before making decision.

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

<https://www.prudential.co.th/corp/prudential-th/en/our-company/our-financial-performance/index.html>