

8. Capital Adequacy Ratio : CAR

The company has policy to maintain Capital Adequacy Ratio (CAR) not lower than 300% to keep competitive advantage from reinsurance credit risk charge. OIC' RBC framework has defined the lowest 1.6% reinsurance credit risk charge for domestic reinsurer who maintains Capital Adequacy Ratio: CAR not lower than 300%, which equal to AAA-rated off-shore reinsurer.

As of 31 December 2020, the company has 1,137.47 MB of Total Capital Available: TCA and 265.13 MB of Total Capital Required: TCR which resulting in 429.03% of Capital Adequacy Ratio: CAR.

Risk Based Capital phase 2: RBC2

The Office of Insurance Commission (OIC) has implemented Risk Based Capital (RBC) regulations to ensure that the insurance company has sufficient capital to cover risks arising from the business which varied by character, size and complexity of the company.

At the end of 2019, The Office of Insurance Commission (OIC) developed the capital regulation to Risk Based Capital phase 2 (RBC2) In order to better reflect risks of insurance company which vary between companies. The adequacy of capital measured by the Capital Adequacy Ratio (CAR) of Risk Based Capital 2 (RBC2), calculated as below;

$$\text{Capital Adequacy ratio: CAR} = \frac{\text{Total Capital Available: TCA}}{\text{Total Capital Required: TCR}}$$

- Total Capital Available: TCA represents the fair value adjusted of shareholders' equity corresponding to the OIC's requirements.
- Total Capital Required: TCR represents the amount of capital required in order to cover risks arising from business activities, consisting of 6 key risks;
 - 1) Insurance risk
 - 2) Market risk
 - 3) Credit risk
 - 4) Concentration risk
 - 5) Surrender risk
 - 6) Operational risk

The OIC required the insurance company to maintain CAR not lower than and 140%. The Company has policy to maintain CAR above 300% to keep competitive advantage from reinsurance credit risk charge as RBC model required the insurance company to hold the capital to cover reinsurance credit risk. Considering to this requirement, if the insurance company make outward reinsurance to domestic reinsurer who has CAR not lower than 300%, the insurance company will be allowed to hold the capital at the lowest level of risk charge 1.6%, equal to making outward reinsurance with the AAA-rated off-shore reinsurer.

Reinsurance Credit Risk Charge

| Risk Grade | Counter party | | | | | Risk Charge (%) |
|------------|----------------------|---------------------------|----------------------|---------------------|------------|-----------------|
| | Domestic (% CAR) | Off-Shore (Credit Rating) | | | | |
| | | S&P | Moody's | Fitch | A.M. Best | |
| 1 | ≥300 | AAA | Aaa | AAA | A++ | 1.6 |
| 2 | ≥200 and > 300 | AA+ AA AA- | Aa1 Aa2 Aa3 | AA+ AA AA- | A+ | 2.8 |
| 3 | ≥150 and < 200 | A+ A A- | A1 A2 A3 | A+ A A- | A A- | 4 |
| 4 | < 150 | BBB+ BBB BBB- | Baa1 Baa2 Baa3 | BBB+ BBB BBB- | B++ B+ | 8 |
| 5 | | BB+ BB BB- | Ba1 Ba2 Ba3 | BB+ BB BB- | B B- | 15 |
| 6 | | B+ B B- | B1 B2 B3 | B+ B B- | C++ C+ | 25 |
| 7 | | CCC+ or Below | Caa1 or Below | CCC+ or Below | C or Below | 48.5 |

Source: Office of Insurance Commission

Unit : Million

| Items | Value as 31 December | |
|------------------------------------|----------------------|----------|
| | Y 2020 | Y 2019 |
| Total Assets | 2,549.82 | 2,334.40 |
| Total liabilities | 1,343.13 | 1,032.15 |
| - Reinsurance contract liabilities | 931.43 | 851.17 |
| - Other liabilities | 411.70 | 180.98 |
| Shareholders' equity | 1,206.69 | 1,302.25 |
| Common Equity Tier 1 (CET1 Ratio) | 429.03 | 407.38 |
| Tier 1 Ratio | 429.03 | 407.38 |
| Capital Adequacy Ratio : CAR | 429.03 | 407.38 |
| Total Capital Available : TCA | 1,137.47 | 1,249.75 |
| Total Capital Required : TCR | 265.13 | 306.78 |