



บริษัท กรุงเทพประกันชีวิต จำกัด (มหาชน)
BANGKOK LIFE ASSURANCE PUBLIC COMPANY LIMITED

“Management Discussion and Analysis for the year ended 31 December 2014”



Management's Discussion and Analysis for 2014

Business Overview

Industry total premiums as of December were 504 billion baht¹, a 13.75% increase over the same period of the previous year. They can be divided into first year premiums of 171 billion baht, a 14.94% increase and renewal year premiums of 333 billion baht, a 13.15% increase. The premium collection rate was 86%. The top five market share companies held a 70% market share, and the other 19 companies held the remaining 30% market share. The Company had a 10.28% market share and was ranked 4th, improved from 5th in 2013, with an 8.83% market share.

Bancassurance channel has continued to grow. Based on the data between January and November 2014, it showed that industry bancassurance total premiums increased by 22%², compared to the same period of the previous year. Bancassurance premiums were 43% of total premiums earned from all channels, an increase from 39% in 2013. On the other hand, agent channel growth has slowed down. Its total premiums only increased by 6%. Agent channel premiums were 51% of total premiums earned from all channels, a decrease from 54% in 2013.

Industry profit for 2014 (January – November, 2014) decreased by 23.42 billion baht or 56% from 2013. In 2014, profit amounted to 18.45 billion baht while that of 2013 was 41.86 billion baht. The main reason was that life policy reserve in 2014 increased by 77.18 billion baht or 50% from 2013, but premiums earned grew by 14%.

Significant Events

Increase of Registered Capital

The Company registered capital increased from 1.22 billion baht to 1.71 billion baht by issuing 488 million shares at par value of 1 baht per share, total of 488 million baht. Such registered capital increase was for a stock dividend payment of 482 million shares, an offer the remaining share from stock dividend of 2.77 million shares for sale at the price of 47.25 baht per share, and an offer of 362 shares for the Company Employee Provident Fund at 1 baht per share. The total amount received from issued and paid up shares was 2.8 million baht and share premium was 128.3 million baht, a total of 131.1 million baht. In addition, the remaining 2.9 million shares are reserved for future warrant exercises.

¹Source: Thai Life Assurance Association

²Source: Office of Insurance Commission

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Investment in Subsidiary Company (BLA Insurance Broker)

In 2014, the Company acquired BLA Insurance Broker Co., Ltd. by increasing its investment from 15% to 99% of the registered and paid up capital, equal to 3.98 million baht.

Operating Performance

Table 1: Operating Result Summary

Statement of income	Quarter			Year						
	4/2014		4/2013		%QoQ	2014		2013		%YoY
Unit : Million										
Revenues										
Net premiums earned	7,446	100%	8,350	100%	-11%	51,172	100%	38,795	100%	32%
Net investment income	2,259	30%	1,768	21%	28%	8,812	17%	7,056	18%	25%
Other income	963	13%	111	1%	763%	1,489	3%	584	2%	155%
Total revenues	10,668	143%	10,229	123%	4%	61,473	120%	46,435	120%	32%
Expenses										
Underwriting expenses	(7,305)	-98%	(8,669)	-104%	-16%	(56,347)	-110%	(39,296)	-101%	43%
Operating expenses	(538)	-7%	(442)	-5%	22%	(2,015)	-4%	(1,828)	-5%	10%
Total expenses	(7,843)	-105%	(9,111)	-109%	-14%	(58,362)	-114%	(41,125)	-106%	42%
Tax	(546)	-7%	(213)	-3%	156%	(446)	-1%	(930)	-2%	-52%
NI	2,279	31%	905	11%	152%	2,665	5%	4,381	11%	-39%

Premium Income

In the fourth quarter of 2014, premium growth slowed down. First year premiums decreased by 33%, amounting to 1.30 billion baht. In the first, second and third quarters, the growth rates were 200%, 37% and 48% respectively. In the fourth quarter of 2013, the Company received a large volume of first year premiums in single-premium payment mode through bancassurance channel while in the fourth quarter of 2014, there was no large volume of premiums earned from any particular product.

The growth rate of renewal year premiums was 1% in the fourth quarter of this year while in the first, second and third quarters, the growth rates were 48%, 2% and 0.1% respectively. This was because in the first quarter of 2013, the Company had a considerable increase in first year premiums which resulted in high renewal year premiums in the first quarter of this year. Total premiums earned in the fourth quarter declined by 11%. They amounted to 7.45 billion baht.

Agent channel was the main channel of the Company in the fourth quarter of 2014. Total premiums from agent channel were 55% of total premiums earned from all channels. That of bancassurance channel was 42%. Compared to the same period of the previous year, such proportion of agent channel premiums slightly decreased. In 2013, the proportions of premiums from agent and bancassurance channels to total premiums were 56% and 42% respectively.

For 2014, the growth rate of first year premiums was 81%, with first year premiums amounting to 19.07 billion baht. This was because in the first quarter of 2014, the Company received a large volume of premiums from bancassurance channel. As a result, first year premiums from bancassurance increased

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by 101%. Agent channel had a satisfactory growth rate of first year premiums at 5% in 2014.

Net premiums written for 2014 were 51.17 billion baht, a 32% increase. Total premiums from bancassurance channel to total premiums earned from all channels were 71%. That of agent channel was 27%. Compared to the same period of the previous year, the ratio of bancassurance premiums to total premiums increased because of considerably high growth in first year premiums. For this reason, the ratio of bancassurance premiums to total premiums increased from 2013. In 2013, the ratio of bancassurance premiums to total premiums was 63% and that of agent channel was 34%.

Table 2: Increase/decrease of first year premium ratio

	Increase/decrease ratio				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Bancassurance channel	213%	37%	-56%	-24%	101%
Agents and brokers channel	112%	36%	-15%	-48%	5%
Other channel	-17%	50%	33%	38%	18%
Total	200%	37%	-48%	-33%	81%

Table 3: Increase/decrease of total premium ratio

	Increase/decrease ratio				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Bancassurance channel	134%	7%	-23%	-8%	48%
Agents and brokers channel	23%	9%	3%	-9%	5%
Other channel	4%	10%	7%	35%	10%
Total	104%	7%	-13%	-7%	33%

Table 4 : Premium of each channel to total premium ratio

	2014					2013				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Bancassurance channel	85%	66%	56%	42%	71%	74%	67%	63%	42%	63%
Agents and brokers channel	13%	31%	41%	55%	27%	22%	30%	35%	56%	34%
Other channel	2%	3%	3%	2%	2%	4%	3%	3%	2%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Investment Income

In the fourth quarter of 2014, the Company earned an investment income of 2.26 billion baht. Gain on investment was 955 million baht, a 73% increase over the previous year. It resulted from an increase of investment income by 28% and an increase of gain on investment by 989%. The main reason of the investment income increase was from an increase of investment assets by 24% over the same period of 2013. Gain on investment considerably increased because the SET improved in the fourth quarter this year.

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In 2014, the Company earned an investment income of 8.81 billion baht. Gain on investment was 1.52 billion baht, a 35% increase over the previous year. It resulted from an increase of the investment income by 25% and an increase of gain on investment by 155%. The main reason why the investment income increased was from an increase of the investment assets by 24% over the same period of 2013. Gain on investment considerably increased because the SET improved this year.

The rate of return on investment in 2014 increased from 4.98% in 2013 to 5.41% in 2014. The comprehensive rate of return on investment, including gain/loss in the fair value of available-for-sale securities of which the majority investment was in equity, increased to 6.16% and 4.37% in 2014 and 2013 respectively.

Underwriting Expenses

Underwriting expenses of the fourth quarter of 2014 decreased from 2013 by 16% or 1.36 billion baht from 8.67 billion baht in 2013 to 7.31 billion baht in 2014.

1. The item "Life policy reserve increase from the previous year" decreased by 23%. This was because premiums earned decreased by about 11% and the Company reviewed its assumptions used in the reserve calculation under Gross Premium Valuation: GPV³ at every year end. Such assumption change was done to reflect the true experience. As a result, the reserve calculated under GPV decreased even though the interest rate in the fourth quarter of 2014 dropped, compared to the end of the third quarter of 2014.
2. Benefits payments and loss adjustment expenses decreased by 9%. The decrease in benefits payments was mainly contributed to by maturity expenses which greatly decreased by 47%. The reason was because the number of policies that matured in the fourth quarter of 2014 declined. The ratios of maturity expenses to life policy reserve were 26% and 41% in 2014 and 2013 respectively.
3. Commissions and brokerages increased by 10 million baht or 2% from 590 million baht in 2013 to 600 million baht in 2014. This was in the opposite direction to a 7% decrease in the Company total premiums earned in the fourth quarter. The popular insurance plans in the fourth quarter of 2013 had low commission rates while the products sold in the fourth quarter of 2014 were protection products which have relatively high commission rates.

Underwriting expenses in 2014 increased by 42% or 17.21 billion baht from 41.02 billion baht in 2013 to 58.23 billion baht in 2014. The increase in underwriting expenses was greater than a 32% increase in net premiums earned. The items under underwriting expenses which considerably increased this year included the following:

³Calculation based on current assumptions, follow OIC regulation base in RBC report.

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1. Life policy reserve increased from the previous year by 61%. The main reason was that an additional reserve was set aside for the amount by which the reserve calculated under the GPV method is greater than the amount calculated under the NPV method, as mentioned earlier. The Company set aside the additional reserve by 3.30 billion baht, equal to the amount by which GPV is greater than NPV.
2. Benefits payments and loss adjustment expenses increased by 14%. The increase in these expenses was mainly contributed to by surrender benefits which considerably increased by 54% due to a greater number of in-forced policies.
3. Commissions and brokerages increased by 100 million baht, a 4% increase from 2.71 billion baht in 2013 to 2.81 billion baht in 2014. Such increase was lower than a 33% increase in total premiums. This was because the majority of premiums that increased in 2014 came from short-term endowment. This type of product has relatively low commission rates.

Operating Expenses

Operating expenses of the fourth quarter of 2014 increased by 23% or 97 million baht from 421 million baht in 2013 to 518 million baht, because the Company launched a new product, "BLA Unit Pension" in the fourth quarter. It resulted in higher advertisement expenses.

Operating expenses for 2014 increased by 9% or 157 million baht from 1.72 billion baht in 2013 to 1.88 billion baht in 2014. The increase was due to the development of human resources so as to support growth in the insurance industry and to enhance the Company competitiveness. In addition, the Company continued its policy on advertising spending in 2014, continuing from 2013 through integrated marketing communication. This included television commercials which mainly aimed to create brand awareness of "Bangkok Life Assurance" as well as to publicize financial planning in Bangkok and other regions nationwide. The advertisement was done to educate all groups of people in the importance of integrated financial planning.

Profit for the Period for Separate Financial Statement

The Company profit for the fourth quarter of 2014 was 2.28 billion baht. It increased from 905 million baht in the fourth quarter of 2013 by 1.37 billion baht, or by 152%. This was due to the reversal of a 798 million baht additional life policy reserve which was set aside in the previous quarter and the increase of net investment income. If the effect of the life policy reserve reversal is excluded, the Company will have its profit for the period (net amount after tax) in a sum of 1.64 billion baht, 81% greater than that of 2013.

The Company profit for 2014 was 2.67 billion baht. It decreased from 4.38 billion baht in 2013 by 1.72 billion baht or 39%. This was because the increase in total income and net investment income was

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lower than the increase in underwriting expenses. As a result, profit for the period decreased. The main reason was that life policy reserve increased as it was affected by drop in interest rates. Therefore, the Company reserve increased higher than under normal circumstances. However, if the effect from such reserve increase is excluded, the Company profit for the period (net amount after tax) will be 5.31 billion baht, a 21% increase from 2013.

Profit for the Period for Consolidated Financial Statement

The Company profit for the fourth quarter of 2014 was 2.28 billion baht. Profit for the year 2014 was 2.66 billion baht. This profit amount was lower than what was reported in the separate financial statement, because the Company acquired 99% of the shares in BLA Insurance Broker Co. Ltd. ("BLAIB") in the third quarter of 2014. Therefore, BLAIB loss for the period was also included in the consolidated financial statement. BLAIB incurred a loss of about 1.3 million baht and 3 million baht for the 3-month period and for the entire year respectively.

Financial Position Summary

Financial Position	As at 31 Dec 2014		As at 31 Dec 2013		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	5,703	3%	1,331	1%	4,372	328%
Premiums due and uncollected	1,725	1%	1,840	1%	-114	-6%
Investments	202,973	94%	165,163	96%	37,810	23%
Premises and equipment	402	0%	346	0%	56	16%
Other assets	4,785	2%	3,115	2%	1,669	54%
Total assets	215,588	100%	171,795	100%	43,793	25%
Liabilities and equity						
Life policy reserves	177,435	82%	136,616	80%	40,819	30%
Insurance contract liabilities	9,131	4%	8,842	5%	289	3%
Other liabilities	3,443	2%	4,074	2%	-631	-15%
Total liabilities	190,009	88%	149,532	87%	40,477	27%
Total equity	25,579	12%	22,263	13%	3,316	15%
Total liabilities and equity	215,588	100%	171,795	100%	43,793	25%

Assets

Total assets increased by 25% from 31 December, 2013. The significant item that had high growth was investment assets, which increased by 23%. It was a result of 31% growth in 2014 revenue from 45.85 billion baht in 2013 to 59.98 billion baht in 2014. At year-end 2014, the ratio of investment assets to total assets was 0.94.

Liabilities

Total liabilities increased by 27% from 31 December, 2013. Insurance contractual liabilities increased by 28% because of the 30% increase in life policy reserve, amount of 40.82 billion baht, as mentioned in the operating result section.

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Shareholders' Equity

Shareholders' equity increased by 15% from 22.26 billion baht as at 31 December, 2013 to 25.58 billion baht as at 31 December, 2014. The increase was from operational gain of 2.67 billion baht in 2014 and from the remaining shares from the dividend payment which were sold in a sum of 131 million baht. Moreover, other components of shareholders' equity increased due to an increase in gain from fair value of available-for-sale securities after tax by 26% or 1.15 billion baht. Because the SET improved and the interest rates decreased, fair value of available-for-sale securities increased.

Cash Flows

Unit : Million For the year ended	Statement of cash flows					
	2014		2013		Change	
Source of fund						
From operating	42,382	100%	28,087	100%	14,295	51%
Share addition	144	0%	59	0%	84	142%
Net cash provided	42,526	100%	28,147	66%	14,379	51%
Used of fund						
Investment activities	(37,476)	-88%	(26,765)	-63%	(10,711)	40%
Dividend paid	(678)	-2%	(917)	-2%	239	-26%
Net used of fund	(38,154)	-90%	(27,681)	-65%	(10,473)	38%
Net increased in cash	4,372	10%	465	1%	3,907	840%

Cash and cash equivalents as at 31 December, 2014 equalled 5.70 billion baht, a 328% increase or by 4.37 billion baht from 1.33 billion baht as at 31 December, 2013. The source of funds for 42.53 billion baht was mainly from net premiums written, amount of 50.65 billion baht in 2014. Net premiums written increased by 12.84 billion baht, compared to 2013. Interests and dividends received increased from 2013 by 1.64 billion baht. Benefits payments to life policyholders and insurance claims and loss adjustment expenses increased by 1.29 billion baht from 10.50 billion baht in 2013 to 11.78 billion baht in 2014.

The main uses of funds were investment activities, which are done to manage risks and ensure that policy obligations will be met, and dividend payments for the operating results of 2013 and the first six months of 2014.

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Key Financial Ratios

Financial ratio	Quarter		Year	
	4/ 2014	3/ 2014	2014	2013
NI / Total income	23%	-9%	4%	10%
EBIT / Net premium	38%	-16%	6%	14%
NI / Net premium	31%	-12%	5%	11%
Reserve / Net premium	43%	98%	80%	65%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as at 31 December, 2014 was 410%.⁴ It increased from 281% as at 30 September, 2014. This ratio was also higher than 140%, the minimum level required by the Office of Insurance Commission (OIC). The ratio increased because of the interest rate decrease, which caused value of assets to increase, and the annual assumption review, which caused the reserve to decrease.

⁴ This ratio has not been audited. It is expected to be finished by April 2015.