



(Translation)

Ref.BLA 33/2014

August 8, 2014

Dear President,

The Stock Exchange of Thailand

Management Discussion and Analysis for the second quarter of 2014.

Business overview

Total premium of the industry as at May reported 210 Billion Baht¹ increasing from the prior period at 20%. First year premium increased by 77.5 Billion Baht at 29% and renewal year premium increased by 132 Billion Baht at 15.96% with the premium collection ratio at 86%. The top 5 companies which have the highest market shares have 72% of the industry market share and the others 19 companies have the remain 28% of market shares. The top 5 companies included

- AIA Company Limited with 20.82% of market share.
- Bangkok Life Assurance Public Company Limited with 15.57% of market share.
- Muang Thai Life Assurance Public Company Limited with 15.14% of market share.
- Thai Life Insurance Public Company Limited with 11.12% of market share and;
- SCB Life Assurance Public Company Limited with 9.44% of market share.

Based on the production of the industry from January – May 2014, we found that the Bancassurance channel still has the continuous growth with the increasing of total premium at 35%² compare with the prior period. At the percentage of total premium, the premium from bancassurance channel is about 46% with increasing from 2013 which is about 40%. On the other hand, the increasing of premium from agent channel slows down with 6% increase from the prior period. Compare with the total premium, premium from agent channel is about 48% in 2014 and 53% in 2013.

¹ Thai Life Assurance Association

² Office of Insurance Commission



Operating performance

Premium income

In the second quarter of 2014, the growth of first year premium is at 37% while the first quarter, the growth rate is at 200%. The growth rate decelerates from the first quarter. The growth of renewal year premium is at 2% in the second quarter of this year while the first quarter, the growth rate is at 48%. The decreasing of growth rate of renewal year premium is from the reason that the first quarter of 2013, we had the dramatically increasing of first year premium which recorded as renewal year premium in the first quarter of the current year. Therefore, the growth of total premium of this quarter is about 7%.

For the first half year, bancassurance channel is still our main distribution channel with the first year premium at 181% increasing from the prior period. Our main product for bancassurance channel is Gain 1st 116. For agent channel, the growth of first year premium is quite good with 80% increasing. Our main products for agent channel is BLA permpoonsub gain 10/1 with the same volume sale of Huangrak. The growth of all channel is at 166% with first year premium at 16,542 Million Baht which is higher than the growth of the industry at 29%.

Due to the fact that the main portion of our first year premium is from endowment products which cause the high reserve retention and provide the small profit margin, therefore, we will focus on the sale more protection products for the second half year. The more sale on protection products will help us diversify our portfolio.

Considering of the total premium growth which included the first year premium and renewal year premium, the bancassurance growth is quite high by increasing at 84% from the previous period and at 16% for agent channel. The growth of all channels is at 64% with premium at 36,490 Million Baht which is higher than the growth rate of the industry at 20.48%. The performance is in line with total premium plan of the Company. We have the premium collection ratio at 94% which is higher than the industry at 86%.

The percentage of premium from bancassurance to total premium of the second quarter of 2014 is at 66.3% and 79.7% for the first half year while the ratio of 2013 for the second quarter is at 66.8% and 71.1% for the first half year of 2013. From the figures, we found that the production from bancassurance is continuously growth.

Investment income

In the second quarter of 2014, the Company reported the investment income at 2,153 Million Baht and gain on investment at 322 Million Baht which increased from the prior period at 32%. It resulted from the increasing of investment income at 26% and the increasing of gain on investment at 87%. The



main reason of increasing of investment income was from the increasing of investment assets at 25% from the same period of 2013 and the improvement of set index in the second quarter.

For the first half year of 2014, the Company reported the investment income at 4,167 Million Baht and gain on investment at 368 Million Baht which increased from the prior period at 20%. It resulted from the increasing of investment income at 23% while gain on investment slightly decreased from previous period. The main reason of increasing of investment income was from the increasing of investment assets at 25% and the improvement of set index in the second quarter.

Considering the rate of return on investment in the first half year, the ratio decreased slightly from 5.12 percent in 2013 to 5.01 percent in 2014.

Underwriting expense

Underwriting expense of the second quarter of 2014 increased by 31% or 2,886 Million Baht from 9,185 Million Baht in 2013 to 12,071 Million in 2014. The increasing in underwriting expense is higher than the increasing of net premium earned which increased by 7%. The major transaction of underwriting expense is "life policy reserve increase from prior period" which increased by 38% from the impact of the additional reserve totaling 1,450 Million Baht. It was set in the second quarter from the effect of the decreasing of interest rate. The additional reserve is based on the amount of Gross Premium Valuation: GPV³ over the amount of Net Premium Valuation: NPV⁴. Moreover, the benefits payments to policyholders increased by 33% in this quarter from the maturity benefit and surrender benefit.

Underwriting expense of the first half year increased by 72% or 16,556 Million Baht from 22,879 Million Baht in 2013 to 39,435 Million in 2014. The increasing in underwriting expense is higher than the increasing of net premium earned which increased by 64%. The majority increasing resulted from

1. The increasing of life policy reserve increase from prior period which increased by 94% from the additional reserve for the amount of reserve under GPV method over the NPV method as mentioned above.
2. Benefits payments to life policyholder which increased by 41% from the maturity benefit and surrender benefit. The main reason from increasing in maturity 243%.
3. Commission and brokerages which increased by 7% %, or 114 Million Baht from 1,505 Million Baht in 2013 to 1,619 Million Baht in 2014 while premium increase by 64%. The lower increasing rate of commission due to the portion of product sale. We have more endowment sale in the first half year and this product type provided the lower commission rate.
4. Operating expenses increased by 5 %, or 43 Million Baht from 856 Million Baht in 2013 to 899 Million Baht in 2014. The increasing is from the development of the company's human

³ Calculating based on the current assumptions.

⁴ Calculating based on the lock-in assumptions.



resource to support the expansion of insurance industry in the AEC in 2015. In addition, the Company continued its policy of spending in the advertising campaign in 2014 through the integrated marketing communications on television advertising, which is mainly aimed at creating awareness of the brand "Bangkok Life Assurance", as well as encouraging on financial planning, both in Bangkok and other regions in order to educate the public on the importance of a comprehensive financial plan.

Profit for the period

The Company reported profit for the second quarter of 2014 at 169 Million Baht which decreased from the prior period at 1,453 Million Baht amounting to 1,284 Million Baht or 88%. It was from the increasing of total premium income and investment income was lower than the increasing of underwriting expense which mainly from the increasing of life policy reserve. In this quarter, the profit for the period included the additional reserve for the amount of reserve under GPV method over the NPV method amounting to 1,450 Million Baht.

The Company reported profit for the first half of 2014 at 1,265 Million Baht which decreased from the prior period at 2,375 Million Baht amounting to 1,110 Million Baht or 47%. It was from the increasing of total premium income and investment income was lower than the increasing of underwriting expense which mainly from the increasing of life policy reserve. In this half year, the profit for the period included the additional reserve for the amount of reserve under GPV method over the NPV method amounting to 1,850 Million Baht.

Investment assets and insurance liabilities

As of 30 June 2014, the Company had investment assets including the 194,227 Million Baht higher than at 31 December 2013 of 29,064 Million Baht or 18%. The insurance liabilities included the 176,204 Million Baht increase from the 2013 totaling 30,787 Million Baht or 21%. The increasing rate of insurance liabilities over the investment assets is from the additional reserve as mention above.



The capital adequacy under Risk-Based Capital: RBC

The Company had the capital adequacy ratio as at 30 June 2014 at 240% which is higher than the rate required by the Office of Insurance Commission at 140%. This is an unofficial rate because it is under the process of review by our auditors.

Please be informed accordingly.

Sincerely yours,

Mr.Sanor Thampipattanakul

Company Secretary