



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

“Management Discussion and Analysis for third quarter 2015”



Management's Discussion and Analysis for Quarter 3 2015

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter					Year				
	3/2015		3/2014		%QoQ	2015		2014		%YoY
Revenues										
Net premiums earned	8,368	100%	7,245	100%	15%	31,331	100%	43,726	100%	-28%
Net investment income, Gains on investments and Gains on revaluation	2,806	34%	2,548	35%	10%	8,907	28%	7,053	16%	26%
Other income	12	0%	10	0%	21%	42	0%	27	0%	56%
Total revenues	11,186	134%	9,803	135%	14%	40,280	129%	50,806	116%	-21%
Expenses										
Underwriting expenses	(11,709)	-140%	(10,506)	-145%	11%	(36,590)	-117%	(49,042)	-112%	-25%
Operating expenses	(549)	-7%	(480)	-7%	14%	(1,616)	-5%	(1,477)	-3%	9%
Total expenses	(12,258)	-146%	(10,986)	-152%	12%	(38,206)	-122%	(50,519)	-116%	-24%
Earning before tax	(1,072)	-13%	(1,183)	-16%	9%	2,075	7%	287	1%	623%
Tax	287	3%	304	4%	-6%	(248)	-1%	99	0%	-350%
NI	(785)	-9%	(879)	-12%	11%	1,827	6%	386	1%	373%

Premium Income

Net premiums written¹ increased by 15%. They amounted to 8.37 billion baht. Such increase was mainly contributed to by increased first year premiums.

In the third quarter of 2015, premiums grew considerably compared with the same period of the previous year. First year premiums increased by 147%, amounting to 3.04 billion baht, while in the third quarter of 2014, the Company received 1.23 billion baht in first year premiums.

The growth rate of renewal year premiums slowed down in the third quarter of 2015 to 12% because there was a product whose premium paying period ended in the second quarter of 2014, resulting in a decrease in renewal year premiums.

Bancassurance channel was the Company's main channel in the third quarter of 2015. Its total premiums represented 61% of the total premiums earned from all channels, while that of agent channel was 36%. When compared year-on-year, such proportion of bancassurance channel premiums increased. In 2014, the proportions of premiums from bancassurance and agent channels to total premiums were 56% and 41% respectively.

For the first nine-months of 2015, the growth rate of first year premiums decreased by 62%, with first year premiums amounting to 6.74 billion baht, a decrease from 17.77 billion baht in the nine-month

¹ Net premiums written = first year premium + renewal year premiums - premium ceded ± unearned premium reserves

Management's Discussion and Analysis for Quarter 3 2015

period of 2014. This was because in the first quarter of 2014, the Company earned a large volume of single premiums from bancassurance channel, while in 2015 the focus was put on long-term protection plans under which the premium paying period lasts for many years. As a result, premiums decreased when compared with 2014.

Net premiums written for the first nine-months of 2015 were 31.85 billion baht, a 28% decrease. Total premiums from bancassurance channel to total premiums earned from all channels in 2015 were 68%, while that of agent channel was 29%. When compared year-on-year, the proportion of bancassurance premiums to total premiums fell because of a considerably high growth rate of 2014 first year premiums through bancassurance. In 2014, the proportion of bancassurance premiums to total premiums from all channels was 76%, while that of agent channel was 22%.

Table 2: Increase/decrease in first year premium ratio

	2015		2014		Increase/decrease ratio	
	Quarter 3	Year	Quarter 3	Year	Quarter 3	Year
Bancassurance channel	2,658	5,525	846	15,936	214%	-65%
Agents and brokers channel	322	965	310	1,609	4%	-40%
Other channel	60	246	73	226	-19%	9%
Total	3,039	6,736	1,229	17,771	147%	-62%

Table 3: Increase/decrease in total premium ratio

	2015		2014		Increase/decrease ratio	
	Quarter 3	Year	Quarter 3	Year	Quarter 3	Year
Bancassurance channel	5,155	21,606	4,102	33,520	26%	-36%
Agents and brokers channel	3,056	9,195	3,024	9,695	1%	-5%
Other channel	225	1,052	250	1,057	-10%	-1%
Total	8,437	31,853	7,376	44,272	14%	-28%

Table 4 : Premium of each channel to total premium ratio

	2015		2014	
	Quarter 3	Year	Quarter 3	Year
Bancassurance channel	61%	68%	56%	76%
Agents and brokers channel	36%	29%	41%	22%
Other channel	3%	3%	3%	2%
Total	100%	100%	100%	100%

Management's Discussion and Analysis for Quarter 3 2015

Investment Income

In the third quarter of 2015, net investment income was 2.72 billion baht. Gains on investments were 54 million baht and gains on revaluation were 37 million baht. Altogether, they increased by 258 million baht or 10% from the same period of the previous year. Such increase resulted from a 14% increase in net investment income and a 224% increase in gains on revaluation. Gains on investments, however, dropped by 72%.

Interest income accounted for 86% of net investment income. It mainly came from bonds and debentures in a sum of 1.92 billion baht and higher bank deposit interest rates. On the other hand, gains on investments dropped by 139 million baht.

For the nine-month period of 2015, net investment income was 7.69 billion baht. Gains on investments were 1.15 billion baht and gains on revaluation were 65 million baht. They altogether increased by 26% over the previous year. Such increase resulted from a 17% increase in net investment income, a 105% increase in gains on investments, and a 208% increase in gains on revaluation. The main reason of the increased investment income was from a 14% increase in investment assets over the same period of 2014. Gains on investments rose considerably due to the sale of common stock at the beginning of the year.

The rate of return on investment for the first nine-months rose from 5.08% in 2014 to 5.30% in 2015.

Underwriting Expenses

Underwriting expenses of the third quarter of 2015 increased from 2014 by 11% or by 1.20 billion baht from 10.51 billion baht in 2014 to 11.71 billion baht in 2015.

1. The item "Life policy reserve increase from the previous period" increased by 2%. Such increase was lower than a 15% in net premiums written. The ratio of life policy reserve (before LAT reserve²) to net premiums written in 2015 was 59% while that of 2014 was 67%.

² LAT reserve is an additional reserve which is set aside in the event that the life policy reserve recorded in the financial statements is lower than the reserve calculated under the GPV method.

Management's Discussion and Analysis for Quarter 3 2015

The decline in interest rates during this year's third quarter caused policy liabilities calculated under the Gross Premiums Valuation GPV³ method to increase to greater than life policy reserve recorded under Net Premium Valuation: NPV⁴ + PAD reserve⁵ method. The Company, therefore, had to record an additional 2.28 billion baht under the LAT reserve during this year's third quarter.

(In 2014, the additional LAT reserve set aside was 2.24 billion baht.)

2. Policy benefit payments and benefit adjustment expenses rose 37%. Such increase was mainly contributed to by surrender benefit payments which rose 417 million baht or 47% and maturity benefits which rose 464 million baht or 276%.
3. Commissions and brokerage increased by 83 million baht or 14% from 586 million baht in 2014 to 669 million baht in 2015, moving in the same direction of the increased premiums during the same period. Despite the fact that the popular products sold in the third quarter of 2015 had lower commission rates due to their short-term feature, commissions and brokerage increased when compared with the same period of the previous year due to a large volume of premiums earned.

Underwriting expenses of the nine-month period of 2015 decreased by 30% or 14.74 billion baht, from 49.04 billion baht in 2014 to 36.59 billion baht in 2015. The details were as follows:

1. Life policy reserve decreased by 41% from the previous year, largely because the well selling products in 2014 were of single premium mode which required a high reserve, while the popular products in 2015 were of regular premium mode which required a lower reserve level. In addition, the Company had to set aside greater PAD and LAT reserves in 2014 than in 2015.
2. Policy benefit payments and benefit adjustment expenses increased by 33%. Such increase was mainly contributed to by surrender benefit payments which rose 74%.
3. Commissions and brokerage decreased by 70 million baht or 3% from 2.21 billion baht in 2014 to 2.14 billion baht in 2015. Such decrease percentage was not as low as a 28% decrease in total premiums because the popular products sold in 2014 were of single-premium mode which had lower commission rates than those of regular-premium plans which were highly sold in 2015.

³ Calculation based on current assumptions

⁴ Calculation based on lock-in assumptions

⁵ Provision for adverse deviation (PAD) reserve is set based on a constant 4% of the NPV reserve.

Management's Discussion and Analysis for Quarter 3 2015

Operating Expenses

Operating expenses of the third quarter of 2015 increased by 14% or 69 million baht from 480 million baht in 2014 to 549 million baht in 2015.

A major increase in operating expenses was a 34% increase in marketing expenses as they were incurred to enhance "Bangkok Life" brand awareness as well as to promote financial planning through various media channels. The Company also promoted its new products i.e. "Sungwai Berkdai", "Health Plus", and "Super Senior" which involved presenters in building customer recognition of the products.

The Company has also developed human resources in support of its business expansion and competitiveness enhancement which led to an 8% increase in employee expenses. Investment tax increased by 18%, in line with a greater return on investment.

Operating expenses for the nine-month period of 2015 increased by 9% or 139 million baht from 1.48 billion baht in 2014 to 1.62 billion baht in 2015. The major increase was the aforementioned marketing expenses. The operating expense items which decreased were contributions to the Office of Insurance Commission and the Life Insurance Fund. They decreased by 30 million baht or 24%, in line with the decrease in premiums written.

Profit for the Period for Separate Financial Statement

The Company posted a loss for the third quarter of 2015 in a sum of 785 million baht. Such loss decreased by 94 million baht or 11% from the 2014 third quarter's loss of 879 million. This was because premiums increased by 15% while underwriting expenses only increased by 11%.

The Company's profit for the first nine-months of 2015 was 1.83 billion baht. It increased from a 386-million-baht profit in the first nine-months of 2014 by 1.44 billion baht or 373%. First year premiums had negative growth of 62%, contributing to a 28% decrease in net premiums. Investment income, however, rose 26%. Therefore, the Company's total income fell by 21%. Underwriting expenses decreased by 25%; life policy reserve in particular fell as much as 41%. Thus, profit for the first nine months of 2015 increased as expenses decreased by more than income.

Management's Discussion and Analysis for Quarter 3 2015

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the third quarter of 2015 posted a loss of 786 million baht. It decreased from the 881-million-baht loss posted for the third quarter of 2014 by 94 million baht or 11%, as explained in the separate financial statement part. Such loss included a 1.3-million-baht loss posted for the third quarter of 2015 by BLA Insurance Broker Co., Ltd. ("BLAIB") of which the Company holds a 99% stake.

The profit reported in the consolidated financial statement for the nine-month period of 2015 was 3.6 million baht lower than what was posted in the separate financial statement as it incorporated a loss incurred by BLAIB during the first nine months.

Financial Position Summary

Table 5 : Financial Position Summary

Financial Position	As at 30 Sep 2015		As at 31 Dec 2014		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	456	0%	5,703	3%	(5,247)	-92%
Premiums due and uncollected	1,895	1%	1,725	1%	170	10%
Investments	232,230	96%	202,977	94%	29,254	14%
Premises and equipment	576	0%	402	0%	174	43%
Other assets	7,161	3%	4,781	2%	2,380	50%
Total assets	242,318	100%	215,588	100%	26,730	12%
Liabilities and equity						
Life policy reserves	199,686	82%	177,435	82%	22,252	13%
Insurance contract liabilities	9,428	4%	9,131	4%	297	3%
Other liabilities	7,925	3%	3,443	2%	4,482	130%
Total liabilities	217,039	90%	190,009	88%	27,031	14%
Total equity	25,279	10%	25,579	12%	(301)	-1%
Total liabilities and equity	242,318	100%	215,588	100%	26,730	12%

Assets

Total assets grew by 12% from 31 December, 2014. The key item that had high growth was investment assets, 14% growth. It was a result of 13% growth in 2015 life policy reserve from 177.44 billion baht as of 31 December, 2014 to 199.69 billion baht as of 30 September, 2015.

Liabilities

Total liabilities increased by 14% from 31 December, 2014. Life policy reserve rose 13% or 22.25 billion baht as mentioned in the operating result part. Other liabilities increased by 4.48 billion baht including the securities sold under repurchase agreements in a sum of 2.29 billion baht and liabilities under foreign exchange contracts which rose 2.09 billion baht due to exchange rate volatility.

Management's Discussion and Analysis for Quarter 3 2015

Shareholders' Equity

Shareholders' equity decreased by 301 million baht from 25.58 billion baht as of 31 December, 2014 to 25.28 billion baht as of 30 September, 2015. The decrease was from the operating result in 2015, an interim dividend payment in a sum of 1.33 billion baht, and a loss on the fair value of investment in available-for-sale securities net of tax in a sum of 972 million baht. In addition, the Company had an increased share capital in a sum of 126 million baht as a result of the batch no. 2 warrant exercises.

Cash Flows

Table 6: Cash Flows

Unit : Million For Quarter 3	Statement of cash flows				
	2015		2014		Change
Source of fund					
Operating	23,873	100%	35,410	100%	(11,537)
Financing	1,114	5%	-	-	1,114
Net cash provided	24,988	105%	35,410	100%	(10,423)
Used of fund					
Investment activities	(30,235)	-127%	(33,009)	-93%	2,774
Financing	-	-	(1,553)	-4%	1,553
Net used of fund	(30,235)	-127%	(34,562)	-98%	4,327
Net increased (decreased) in cash	(5,247)	-22%	849	2%	(6,096)
Cash and cash equivalents -beginning	5,703	0.24	1,331	4%	4,372
Cash and cash equivalents -ending	456	2%	2,180	6%	(1,724)

Cash and cash equivalents as of 30 September, 2015 were 456 million baht, a 92% decrease or by 5.25 billion baht from 5.70 billion baht as of 31 December, 2014.

During the third quarter of 2015, the source of funds of 24.99 billion baht was mainly from net premiums written in a sum of 31.25 billion baht, a year-on-year decrease by 11.94 billion baht. Interests and dividends increased by 1.11 billion baht year-on-year. Benefits payments, insurance claims, and loss adjustment expenses increased by 3.06 billion baht from 8.51 billion baht in 2014 to 11.56 billion baht in 2015.

The main uses of funds were investment activities which are done to manage risks and ensure that policy obligations will be met.

Management's Discussion and Analysis for Quarter 3 2015

Key Financial Ratios

Table 7 : Financial Ratios⁶

Financial ratio	Quarter		Year	
	3/2015	3/2014	2015	2014
NI / Total income	-7%	-9%	5%	1%
EBIT / Net premium	-13%	-16%	7%	1%
NI / Net premium	-9%	-12%	6%	1%
Reserve / Net premium	87%	98%	71%	86%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as of 30 September, 2015 was 309%⁷. It decreased from 409% as of 31 December, 2014. This ratio was higher than 140%, the minimum level required by the Office of Insurance Commission (OIC).

⁶ Calculation formulas:

Net income ratio = net income/ total income

EBIT to net premium ratio = net income before tax/ net premium

Net income to net premium ratio = net income/ net premium

Reserve to net premium ratio = increase in policy reserve over the previous year/ net premium

⁷ This ratio has not been reviewed by CPA.

⁸ Source: Thai Life Insurance Association

Management's Discussion and Analysis for Quarter 3 2015

Industry Overview

Industry total life insurance premiums as of August 2015 were 346.42 billion baht⁹, a 4.61% increase year-on-year. They can be divided into first year premiums of 109.43 billion baht, a 6.09% decrease and renewal year premiums of 236.994 billion baht, a 10.42% increase. The top six market share companies are as follows:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	16,870.74	57,561.00	74,431.74	21.49%
2	Muang Thai Life Assurance	24,857.15	33,690.39	58,547.54	16.90%
3	Thai Life Insurance	11,345.53	31,706.65	43,052.18	12.43%
4	SCB Life Assurance	13,532.84	24,156.99	37,689.83	10.88%
5	Krungthai-AXA Life	12,473.24	23,273.96	35,747.19	10.32%
6	Bangkok Life Assurance	6,185.51	23,181.09	29,366.59	8.48%

Industry profit for 2015⁹ (January – August, 2015) fell by 11.90 billion baht or 26% from 2014. In 2015, profit amounted to 34.44 billion baht while that of 2014 was 46.35 billion baht. The main reason was that net premiums and other income decreased in 2015. Bancassurance channel has continued to grow. The data between January and July 2015 showed that industry's total premiums through bancassurance increased by 3%, compared to the same period of the previous year. Bancassurance premiums represented 44% of total premiums earned from all channels, same as in 2014. Agent channel has expanded with a 6% increase in total premiums, representing 49% of total premiums earned from all channels in 2015, same percentage as in 2014.

Significant Events

Exercises of Batch No.2 Warrants

The holders of the batch no.2 warrants exercised their right to purchase 4.3 million units of the Company's ordinary shares at the exercise price of 25.00 baht for the total amount of 149.0 million baht. The Company recorded 83 million baht under the caption of transfer capital reserve for share-based payment transactions to premium on share capital as a result of the warrant No.2 exercises.

⁹ Source: Office of Insurance Commission

Management's Discussion and Analysis for Quarter 3 2015

Investment Property

According to the Thai Accounting Standard No.40, investment property is defined as property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, but not for:

- (a) use in the production or supply of goods or services or for administrative purposes, or
- (b) sale in the ordinary course of business.

During the third quarter of 2015, the Company invested in investment property which is a building worth 21 million baht. The property was recorded at cost including expenditure that is directly attributable to the acquisition less accumulated depreciation over the estimated useful life.