



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

“Management Discussion and Analysis for first quarter 2015”



Management's Discussion and Analysis for Quarter 1 2015

Operating Performance

Table 1: Operating Result Summary

Statement of income	Quarter				
	1/ 2015		1/ 2014		%QoQ
Unit : Million					
Revenues					
Net premiums earned	15,711	100%	26,712	100%	-41%
Net investment income	3,522	22%	2,022	8%	74%
Other income	14	0%	9	0%	61%
Total revenues	19,247	123%	28,742	108%	-33%
Expenses					
Underwriting expenses	(17,849)	-114%	(26,940)	-101%	-34%
Operating expenses	(497)	-3%	(496)	-2%	0%
Total expenses	(18,346)	-117%	(27,436)	-103%	-33%
Tax	(135)	-1%	(211)	-1%	-36%
NI	767	5%	1,096	4%	-30%

Premium Income

In the first quarter of 2015, premium growth had slowed down. First year premiums decreased by 86%, amounting to 2.11 billion baht. In the first quarter of 2014, the Company received a large volume of first year premiums in single-premium or short-term payment mode through bancassurance channel while in the first quarter of 2015, the Company focused on long-term protection products with long premium payment period. As a result, premiums decreased, when compared to 2014.

The growth rate of renewal year premiums was 14% in the first quarter of 2015 because in the past 2-3 years most premiums received were in the first quarter. Therefore, renewal year premiums which were due in the first quarter of 2015 were relatively high, when compared to the other quarters and also increased over the same period of the previous year. Total premiums earned in the first quarter declined by 46%, amounting to 16.02 billion baht. Such decline in premiums was mainly contributed to by lower first year premiums.

Bancassurance channel was the main channel of the Company in the first quarter of 2015. Total premiums from bancassurance channel were 77% of total premiums earned from all channels. That of agent channel was 20%. Compared to the same period of the previous year, such proportion of bancassurance channel premiums decreased. In 2014, the proportions of premiums from bancassurance and agent channels to total premiums were 85% and 13% respectively.

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Table 2: Increase/decrease in first year premium ratio

	Quarter 1		Increase/ decrease ratio
	2015	2014	
Bancassurance channel	1,636.58	13,785.07	-88%
Agents and brokers channel	346.06	884.59	-61%
Other channel	125.47	76.37	64%
Total	2,108.11	14,746.03	-86%

Table 3: Increase/decrease in total premium ratio

	Quarter 1		Increase/ decrease ratio
	2015	2014	
Bancassurance channel	12,276.43	22,852.49	-46%
Agents and brokers channel	3,236.78	3,637.68	-11%
Other channel	508.39	507.16	0%
Total	16,021.61	26,997.33	-41%

Table 4 : Premium of each channel to total premium ratio

	Quarter 1	
	2015	2014
Bancassurance channel	77%	85%
Agents and brokers channel	20%	13%
Other channel	3%	2%
Total	100%	100%

Investment Income

In the first quarter of 2015, the Company earned net investment income of 2.51 billion baht. Gain on investment was 1.02 billion baht, a 71% increase over the previous year. It resulted from an increase in investment income by 25% and an increase in gain on investment by 2103%. The main reason of the increased investment income was from a 19% increase in investment assets over the same period of 2014. Gain on investment considerably increased from selling common stocks; therefore, the rate of return on investment rose from 4.77% in 2014 to 6.62% in 2015. 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, was 6.66% and 4.99% in 2014 and 2015 respectively.

Underwriting Expenses

Underwriting expenses of the first quarter of 2015 decreased from 2014 by 34% or 9.09 billion baht from 26.94 billion baht in 2014 to 17.85 billion baht in 2015.

1. The item "Life policy reserve increase from the previous period" decreased by 46%. This was because single-premium endowment products that were highly popular in the first quarter of 2014 required high reserve levels. On the other hand, during the first quarter of 2015, most of the popular products are of regular premium payment mode. These

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products' ratios of reserve to premium are lower than those of endowment plans with single premium payment mode.

Moreover, because of a considerable decrease in interest rates during the first quarter this year, the value of liabilities calculated under the Gross Premium Valuation GPV¹ method increased and was greater than the life policy reserve recorded under the Net Premium Valuation NPV² method. As a result, the Company had to set aside an additional reserve of 1.73 billion baht, equal to the amount by which GPV was greater than NPV. (2014: 400 million baht)

2. Benefits payments and loss adjustment expenses increased by 47%. The increase in benefits payments was mainly contributed to by surrender expenses which rose 648 million baht or 93% and policy benefit payments which rose 630 million baht or 42%. Such increased expenses were due to a greater number of policies under which benefits payments are payable -- proportionately in line with a greater number of in-force policies.
3. Commissions and brokerage decreased by 185 million baht or 18% from 1.03 billion baht in 2014 to 840 million baht in 2015. This was in line with a 41% decrease in the Company total premiums earned in the first quarter of 2015. The decreased commissions and brokerage were at a lower rate than the decreased premiums because the commission structure varies between each product.

Operating Expenses

Operating expenses of the first quarter of 2015 increased by 0.1% or 0.6 million baht from 426 million baht in 2014 to 497 million baht in 2015.

A major increase in the Company operating expenses was investment tax that rose 29%, in line with a 75% increase in investment income from 2.02 billion baht in 2014 to 3.52 billion baht in 2015. In addition, the increase in operating expenses was also contributed to by an annual employee salary increase. The operating expense items which decreased were contributions to the Office of Insurance Commission and to the Life Insurance Fund, a decrease by 29 million baht or 41%, in line with the rate of premium decrease.

Profit for the Period for Separate Financial Statement

The Company profit for the first quarter of 2015 was 767 million baht. It decreased from 1.10 billion baht in the first quarter of 2014 by 329 million baht or 30% in spite of higher investment gain. This was due to lower premium income and decreasing interest rates that resulted in a greater reserve burden. If the effect of the set aside reserve is excluded, the Company will have its profit for the period (net amount after tax) in a sum of 2.15 billion baht, 52% greater than that of 2014.

¹ Calculation based on current assumptions

² Calculation based on lock-in assumptions

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Profit for the Period for Consolidated Financial Statement

The Company profit for the first quarter of 2015 was 765 million baht. This profit amount was lower than what was reported in the separate financial statement. Because the Company acquired a 99% stake in BLA Insurance Broker Co. Ltd. ("BLAIB") in the third quarter of 2014, BLAIB profit/loss for the period was also included in the consolidated financial statement. In the first quarter of 2015, BLAIB incurred a loss of about 1.3 million baht.

Financial Position Summary

Table 5 : Financial Position Summary

Financial Position	As at 31 Mar 2015		As at 31 Dec 2014		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	1,401	1%	5,703	3%	(4,302)	-75%
Premiums due and uncollected	4,089	2%	1,725	1%	2,364	137%
Investments	217,676	95%	202,977	94%	14,699	7%
Premises and equipment	472	0%	402	0%	70	17%
Other assets	6,422	3%	4,781	2%	1,641	34%
Total assets	230,060	100%	215,588	100%	14,472	7%
Liabilities and equity						
Life policy reserves	189,539	82%	177,435	82%	12,104	7%
Insurance contract liabilities	9,467	4%	9,131	4%	335	4%
Other liabilities	5,282	2%	3,443	2%	1,839	53%
Total liabilities	204,288	89%	190,009	88%	14,279	8%
Total equity	25,772	11%	25,579	12%	193	1%
Total liabilities and equity	230,060	100%	215,588	100%	14,472	7%

Assets

Total assets increased by 7% from 31 December, 2014. The key item that had high growth was investment assets, which increased by 7%. It was a result of 7% growth in 2015 life policy reserve from 177.44 billion baht as at 31 December 2014 to 189.54 billion baht as at 31 March 2015.

Liabilities

Total liabilities increased by 8% from 31 December, 2014. Insurance contractual liabilities increased by 7% because of the 7% increase in life policy reserve, amount of 12.10 billion baht, as mentioned in the operating result section.

Shareholders' Equity

Shareholders' equity increased by 193 million baht from 25.58 billion baht as at 31 December, 2014 to 25.77 billion baht as at 31 March 2015. The increase was from operational gain in the first quarter of 2015 of 767 million baht and from subscriptions received in advance from exercises of warrants Batch no. 2, amounting to 105 million baht. Other components of shareholders' equity decreased due to a loss from the fair value of available-for-sale securities after tax in a sum of 688 million baht because the SET index as at 31 March 2015 fell when compared to 31 December 2014.

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Cash Flows

Table 6 : Cash Flows

Unit : Million For Quarter 1	Statement of cash flows					
	2015		2014		Change	
Source of fund						
Operating	10,148	100%	21,763	100%	(11,615)	-53%
Financing	1,205	12%	-	-	1,205	100%
Net cash provided	11,353	112%	21,763	100%	(10,410)	-48%
Used of fund						
Investment activities	(15,655)	-154%	(20,341)	-93%	4,686	-23%
Financing	-	-	(943)	-4%	2,148	-228%
Net used of fund	(15,655)	-154%	(21,284)	-98%	5,630	-26%
Net increased in cash	(4,302)	-42%	478	2%	(4,781)	-999%

Cash and cash equivalents as at 31 March, 2015 equalled 1.40 billion baht, a 999% decrease or by 4.78 billion baht from 5.70 billion baht as at 31 December, 2014.

The source of funds for 11.35 billion baht was mainly from net premiums written, amount of 13.82 billion baht in 2015. Net premiums written decreased by 11.37 billion baht, compared to 2014. Interests and dividends received increased from the same period of 2014 by 358 million baht. Benefits payments, insurance claims, and loss adjustment expenses increased by 1.38 billion baht from 3.27 billion baht in 2014 to 4.66 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.

Key Financial Ratios

Table 7 : Financial Ratios

Financial ratio	Quarter	
	1/2015	1/2014
NI / Total income	4%	4%
EBIT / Net premium	6%	5%
NI / Net premium	5%	4%
Reserve / Net premium	77%	84%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as at 31 March, 2015 was 407%³. It slightly decreased from 409% as at 31 December, 2014. This ratio was also higher than 140%, the minimum level required by the Office of Insurance Commission (OIC).

³ This ratio has not been audited.

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Industry Overview

Industry total premiums as of February 2015 were 85.2 billion baht⁴, a 7.33% increase over the same period of the previous year. They can be divided into first year premiums of 24.6 billion baht, a 1.48% decrease and renewal year premiums of 60.6 billion baht, an 11.37% increase. The top five market share companies are:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	4,208.85	13,372.01	17,580.86	20.63%
2	Muang Thai Life Assurance	6,084.29	8,139.47	14,223.76	16.69%
3	Bangkok Life Assurance	1,523.23	10,908.02	12,431.26	14.58%
4	Thai Life Insurance	2,214.62	6,794.42	9,009.04	10.57%
5	SCB Life Assurance	2,642.34	5,724.60	8,366.93	9.82%

Industry profit for 2015⁵ (January – February, 2015) decreased by 3.52 billion baht or 34% from 2014. In 2015, profit amounted to 6.94 billion baht while that of 2014 was 10.46 billion baht. The main reason was that life policy reserve in 2015 increased by 2.00 billion baht or 5% from 2014, but premiums earned declined by 20%.

Adoption of new financial reporting standards that became effective during the period

1. TAS 19 (revised 2014) Employee Benefits

The Company and its subsidiary have changed the recognition of actuarial gains and losses in the current period from gradual recognition in profit or loss to immediate recognition in other comprehensive income. The Company adjusted the current period's transactions and restated the prior period's financial statements, presented as comparative information, as if the Company had always applied this accounting policy. However, such change in the accounting policy had no effect on the statement of financial position as at 31 December, 2014 and the statement of comprehensive income for the three-month period ended 31 March, 2014 because there were no actuarial gains or losses.

2. TFRS 10 Consolidated Financial Statements

This standard changes the principles used in considering whether control exists. Under this standard, an investor is deemed to have control over an investee if it has rights, or is exposed, to variable returns from its involvement with the investee, and it has the ability to direct the activities that affect the amount of its returns, even if it holds less than half of the shares or voting rights.

⁴Source: Thai Life Assurance Association

⁵Source: Office of Insurance Commission

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This standard does not have any impact on the financial statements of the Company and its subsidiary.

3. TFRS 12 Disclosure of Interests in Other Entities

This standard stipulates disclosures relating to an entity's interests in subsidiaries, joint arrangements and associates, including structured entities. This standard therefore has no financial impact on the financial statements of the Company and its subsidiary.

4. TFRS 13 Fair Value Measurement

This standard provides guidance on how to measure fair value and stipulates disclosures related to fair value measurement. Entities are to apply the guidance under this standard if they are required by other financial reporting standards to measure their assets or liabilities at fair value. The effects of the adoption of this standard are to be recognised prospectively.

This standard does not have any significant impact on the financial statements of the Company and its subsidiary.