



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

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## “Management Discussion and Analysis for third quarter 2017”

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## Management's Discussion and Analysis for Quarter 3 2017

### Summary

In the third quarter of 2017, the Company had a loss of 261 million baht, while in compared to a profit of 615 million baht posted in the third quarter of 2016. Key factor is discount rate decrease so that the Company had to set aside an additional LAT reserve in the third quarter of 2017 in a sum of 1.69 billion baht while in the third quarter of 2016, the Company set aside an additional LAT reserve in a sum of 824 million baht. Additional reserve is reflected in expenses in the statement of income of the Company.

In the 9 month-period of 2017, the Company posted a profit in a sum of 1.90 billion baht, while in compared to a profit of 3.13 billion baht in the 9-month period of 2016. LAT reserve was 1.69 billion baht and 1.68 billion baht in 2017 and 2016 respectively. Although the number of LAT reserves is not very different. However, the Company obtained a more profit from selling its securities in 2016. As a result, the net profit of 2016 is higher than 2017.

Regarding the Company's solvency, the Company's capital adequacy ratio (CAR) as of the third quarter of 2017 was 244%. This ratio is two times greater than 140% which is the minimum level required by the Office of Insurance Commission (OIC).

### Operating Performance

**Table 1:** Operating Result Summary

Statement of income Unit : Million	Quarter			For 9 months		
	3/2017	3/2016	%YoY	2017	2016	%YoY
Revenues						
Net premiums written <sup>(1)</sup>	11,901	9,001	32%	32,362	100%	10%
Total investment income <sup>(2)</sup>	3,319	3,555	-7%	9,518	29%	-10%
Other income	95	82	16%	336	1%	21%
<b>Total revenues</b>	<b>15,315</b>	<b>12,638</b>	<b>21%</b>	<b>42,217</b>	<b>130%</b>	<b>5%</b>
Expenses						
Underwriting expenses	(15,276)	(11,554)	32%	(38,826)	-120%	10%
Operating expenses	(479)	(425)	13%	(1,323)	-4%	4%
<b>Total expenses</b>	<b>(15,755)</b>	<b>(11,979)</b>	<b>32%</b>	<b>(40,149)</b>	<b>-124%</b>	<b>10%</b>
<b>Earning before tax</b>	<b>(440)</b>	<b>659</b>	<b>-167%</b>	<b>2,068</b>	<b>6%</b>	<b>-43%</b>
Tax	179	(44)	-507%	(171)	-1%	-68%
<b>NI (loss)</b>	<b>(261)</b>	<b>615</b>	<b>-142%</b>	<b>1,897</b>	<b>6%</b>	<b>-39%</b>

<sup>(1)</sup> Net premiums written = first year premiums + renewal year premiums - premiums ceded ± unearned premium reserves

<sup>(2)</sup> Total investment income = Net investment income + Gains on investments + Gains on revaluation (Trading securities and Exchange rate)

### Premium Income

In the third quarter of 2017 net premiums written increased by 32% from the same period of the previous year, amounting to 11.91 billion baht. Such an increase was mainly contributed to by the first year premiums growth which increased by 84% from the same period of the previous year.

In the third quarter of 2017, first year premiums increased by 84%, amounting to 4.83 billion baht while in the third quarter of 2016, the Company earned 2.63 billion baht in first year premiums. The increase was due to the increasing popularity of endowment middle-term products via bancassurance. For renewal premiums, the growth rate in the third quarter of 2017 increased by 11%

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due to the popularity of certain products which were launched in the third quarter of 2016 and the expansion of the Company's business size.

Bancassurance channel remained the Company's main distribution channel in the third quarter of 2017. Its total premiums represented 70% of the total premiums earned from all channels, while those of the agent channel contributed to 28%. When comparing to the same period of the previous year, the contribution of premiums via bancassurance and agent channels to total premiums earned from all channels was 61% and 36%, respectively.

First year premiums in the first 9 months of 2017 amounted to 9.24 billion baht, a 31% growth from the same period of the previous year.

Total premiums of the first 9 months of 2017 amounted to 33.32 billion baht, a 10% growth. The proportions of premiums from bancassurance and agent channels to total premiums were 67% and 29% respectively. (2016: 64% and 32%, respectively)

**Table 2:** First year premiums by channel

	2017		2016		Increase/decrease ratio	
	Quarter 3	For 9 months	Quarter 3	For 9 months	Quarter 3	For 9 months
Bancassurance channel	4,274	7,385	2,025	5,295	111%	39%
Agents and brokers channel	472	1,450	542	1,403	-13%	3%
Other channel	85	404	59	345	45%	17%
<b>Total</b>	<b>4,831</b>	<b>9,238</b>	<b>2,626</b>	<b>7,043</b>	<b>84%</b>	<b>31%</b>

**Table 3:** Total premium by channel

	2017		2016		Increase/decrease ratio	
	Quarter 3	For 9 months	Quarter 3	For 9 months	Quarter 3	For 9 months
Bancassurance channel	8,398	22,194	5,604	19,386	50%	14%
Agents and brokers channel	3,349	9,768	3,302	9,602	1%	2%
Other channel	327	1,367	259	1,219	26%	12%
<b>Total</b>	<b>12,075</b>	<b>33,329</b>	<b>9,165</b>	<b>30,207</b>	<b>32%</b>	<b>10%</b>

**Table 4:** Premium of each channel to total premium ratio

	2017		2016	
	Quarter 3	For 9 months	Quarter 3	For 9 months
Bancassurance channel	70%	67%	61%	64%
Agents and brokers channel	28%	29%	36%	32%
Other channel	3%	4%	3%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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### Investment Income

**Table 5:** Investment income gain on investment and loss on revaluation

Unit : Million	Quarter				For 9 months			
	3/2017	3/2016	Change	%YoY	2017	2016	Change	%YoY
Net investment income	2,991	2,797	194	7%	8,651	8,013	638	8%
Gain on investment	353	810	(457)	-56%	1,044	2,684	(1,640)	-61%
Fair value loss								
Trading securities	3	8	(5)	-63%	(7)	31	(38)	-122%
Foreign exchange forward contracts	25	8	17	205%	33	(33)	66	-199%
Foreign exchange rate	(53)	(68)	14	-21%	(202)	(161)	(42)	26%
<b>Total</b>	<b>3,319</b>	<b>3,555</b>	<b>(237)</b>	<b>-7%</b>	<b>9,518</b>	<b>10,533</b>	<b>(1,015)</b>	<b>-10%</b>

In the third quarter of 2017, investment income was 3.32 billion baht. Gain on investments was 353 million baht. A decrease total 237 million baht or 7% from the same period of the previous year was due to a decrease in gain on securities sale.

In the first 9 months of 2017, investment income was 9.52 billion baht, a decrease 1.02 billion baht or 10% from the same period of the previous year due to a decrease in gain on securities sale during the year.

The rate of return on investment decreased from 5.81% in the first 9 months of 2016 to 4.70% in the first 9 months of 2017.

### Expenses

The details of significant changes in expenses for the third quarter of 2017 and 2016 were as follows:

1. Underwriting expenses in the third quarter of 2017 increased by 32% or 3.72 billion baht, from 11.55 billion baht in 2016 to 15.28 billion baht in 2017.

1) The item "life policy reserves increasing from prior period" increased by 32% or 2.02 billion baht from 6.94 billion baht in the third quarter of 2016 to 9.14 billion baht in the third quarter 2017. This was because the Company had to set LAT reserve in a sum of 1.69 billion baht in the third quarter of 2017 due to a decrease in discount rate. (2016: 0.82 billion baht)

2) Benefit payments under life policies and claims payments increased by 32%. They can be divided into:

- Policy benefits payments increased by 1.09 million baht or 35%. The increase was mainly owing to maturity benefit payment which increased by 436 million baht or 101% and contractual benefit payment which increased by 408 million baht or 35%.

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- Claims and loss adjustment expenses increased by 141 million baht or 20%.
- 3) Commissions and brokerage increased by 215 million baht or 30%, from 727 million baht in the third quarter of 2016 to 942 million baht in the third quarter of 2017. This is consistent with the increase in the Company's total premiums.
2. Operating expenses for the third quarter of 2017 increased by 12% or 53 million baht, from 426 million baht in the third quarter of 2016 to 479 million baht in the third quarter of 2017 due to an increase in bank fees which was in line with the increase in the Company's total premiums. However, overall other expenses decreased.

The details of significant changes in expenses for the first 9 months of 2017 and 2016 were as follows:

1. Underwriting expenses in the first 9 months of 2017 increased by 10% or 3.65 billion baht, from 35.18 billion baht in 2016 to 38.83 billion baht in 2017.

1) The item "life policy reserves increasing from prior period" increased by 9% or 1.65 billion baht, from 18.75 billion baht in 2016 to 20.40 billion baht in 2017, close to net premium increasing rate. In 2017, the Company had an obligation to set up LAT reserve in the amount of 1,685 million baht for the current period. (2016: LAT reserve 1,681 million baht).

2) Benefit payments under life policies and claims payments increased by 13%. They can be divided into:

- Policy benefit payments which increased by 1.50 billion baht or 13%. The increase was mainly owing to an increase in contractual benefits payment of 1,095 million baht or 24% and an increase in surrender benefit payment of Baht 339 million or 8%.
- Claims and loss adjustment expenses increased by 280 million baht or 14% from health claims which increased by 166 million baht or 29% and death claims by 143 million baht or 13%.

3) Commissions and brokerage increased by 160 million baht or 7%, from 2.35 billion baht in 2016 to 2.51 billion baht in 2017. This is consistent with the increase in the Company's total premiums.

2. Operating expenses for the first 9 months of 2017 increased by 4% or 52 million baht, from 1.27 billion baht in the first 9 months of 2016 to 1.32 billion baht in the first 9 months of 2017 due to an increase in bank fees in line with an increase in the Company's total premiums. However, overall other expenses decreased.

## **Management's Discussion and Analysis for Quarter 3 2017**

### Profit for the Period for Separate Financial Statement

The Company posted a net loss for the third quarter of 2017 in a sum of 261 million baht, a decrease by 875 million baht from a 615-million-baht net profit posted in the third quarter of 2016. This was because in the third quarter of 2017, the Company was required to set LAT reserve in the sum of 1.69 billion baht. (2016: 824 million baht)

The Company posted a profit for the first 9 months of 2017 in a sum of 1.90 billion baht, a decrease by 1.23 billion baht or 39% from a 3.13-billion-baht net profit posted in the first 9 months of 2016. Although the net premium written increased by 32%, the investment income decreased by 10% due to a decrease in gain from investment and higher underwriting expenses, resulting in lower earnings.

### Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the third quarter of 2017 posted a loss of 260 million baht, a decrease from a 609-million-baht net profit posted in the third quarter of 2016 by 869 million baht or 143%, as explained in the part of separate financial statement. The consolidated operating result included the losses posted by BLA Insurance Broker Co., Ltd. ("BLAIB") of which the Company holds a 99% stake and Bangkok Life Assurance (Cambodia) PLC of which the Company holds a 52% stake, respectively.

The consolidated financial statement for the first 9 months of 2017 posted a profit of 1.88 billion baht, a decrease from a 3.11-billion-baht net profit posted in the first 9 months of 2016 by 1.23 million baht or 39%, as explained in the separate financial statement part. The consolidated operating result included the losses posted by BLA Insurance Broker Co., Ltd. ("BLAIB") of which the Company holds a 99% stake and Bangkok Life Assurance (Cambodia) PLC of which the Company holds a 52% stake, respectively.

## Management's Discussion and Analysis for Quarter 3 2017

### Financial Position Summary

**Table 6:** Financial Position Summary

Financial Position	As at 30 Sep 2017		As at 31 Dec 2016		Change	
Unit : Million						%
<b>Assets</b>						
Cash and cash equivalents	8,177	3%	13,021	5%	(4,843)	-37%
Premiums due and uncollected	1,987	1%	2,200	1%	(213)	-10%
Accrued investment incomes	2,147	1%	2,053	1%	93	5%
Investments	285,731	94%	259,361	92%	26,370	10%
Premises and equipment	1,344	0%	1,192	0%	151	13%
Other assets	5,156	2%	4,532	2%	624	14%
<b>Total assets</b>	<b>304,542</b>	<b>100%</b>	<b>282,359</b>	<b>100%</b>	<b>22,184</b>	<b>8%</b>
<b>Liabilities and equity</b>						
Life policy reserves	253,809	83%	233,412	83%	20,396	9%
Other insurance contract liabilities	9,847	3%	9,686	3%	160	2%
Other liabilities	4,821	2%	5,919	2%	(1,098)	-19%
<b>Total liabilities</b>	<b>268,477</b>	<b>88%</b>	<b>249,018</b>	<b>88%</b>	<b>19,459</b>	<b>8%</b>
<b>Total equity</b>	<b>36,065</b>	<b>12%</b>	<b>33,341</b>	<b>12%</b>	<b>2,725</b>	<b>8%</b>
<b>Total liabilities and equity</b>	<b>304,542</b>	<b>100%</b>	<b>282,359</b>	<b>100%</b>	<b>22,184</b>	<b>8%</b>

\* Include Investment property and Intangible assets

#### Assets

Total assets as of September 30, 2017 grew by 8% from December 31, 2016. Assets growth was mainly due to larger investment assets, which increased by 26.37 billion baht or 10%.

#### Liabilities

Total liabilities as of September 30, 2017 increased by 8% from December 31, 2016 mainly from life policy reserve which rose by 20.40 billion baht or 9% in accordance with the increasing life policy reserve of in-force policies in line with the insurance coverage period and new policies received during the period.

#### Shareholders' Equity

Shareholders' equity increased by 2.73 billion baht, from 33.34 billion baht as of December 31, 2016 to 36.07 billion baht as of September 30, 2017. The increase was mainly contributed to by the operating profit of 1.90 billion baht and gains on valuation of investments in available-for-sale securities net of tax in a sum of 2.08 billion baht and dividend paid in a sum of 1.27 billion baht.

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### Cash Flows

**Table 7:** Cash Flows

Unit : Million For 9 months	Statement of cash flows			
	2017	2016	Change	
Cash flow provided by (used in)				
Operating activities	(3,378)	3,064	(6,442)	-210%
Investment activities	(213)	(734)	521	-71%
Financing activities	(1,252)	(492)	(760)	154%
<b>Net increased (decreased) in cash</b>	<b>(4,843)</b>	<b>1,838</b>	<b>(6,681)</b>	<b>-364%</b>
Cash and cash equivalents -beginning	13,021	7,088	5,933	84%
<b>Cash and cash equivalents -ending</b>	<b>8,177</b>	<b>8,925</b>	<b>(748)</b>	<b>-8%</b>

Cash and cash equivalents as of September 30, 2017 and 2016 were 8.18 billion baht and 8.93 billion baht. The decrease in cash and cash equivalent amounted to 4.84 billion baht and the increase amounted to 1.84 billion baht between the periods of 2017 and 2016, respectively. Cash and cash equivalents at the third quarter end of 2017 were much lower than those in 2016 because of the increase in cash flows spent on operating activities.

Regarding cash flows of the first 9 months of 2017, funds spent on operating activities amounted to 3.38 billion baht whereas in the first 9 months of 2016, cash flows earned from operating activities were 3.06 billion baht due to the following entries:

- 1) Net premiums written were in a sum of 33.63 billion baht in 2017, increasing 3.64 billion baht from 29.99 billion baht from the same period of 2016.
- 2) Interests received, dividends received, and other investment incomes amounted to 6.95 billion baht in the first 9 months of 2017, a decrease by 9.80 billion from the same period of the first 9 months of 2016 due to a decrease in investment profit. In 2016, the profit from sales on investments was 2.68 billion baht whereas in 2017 it was 1.04 billion baht.
- 3) Benefits payments under life policies and loss incurred on direct insurance increased by 1.86 million baht from 13.89 billion baht in the first 9 months of 2016 to 15.74 billion baht in first 9 months of 2017.
- 4) Investments in securities and general investments increased by 6.26 billion baht from 15.82 billion baht in the first 9 months of 2016 to 22.08 billion baht in first 9 months of 2017



## Management's Discussion and Analysis for Quarter 3 2017

### Capital Adequacy under Risk-Based Capital: RBC

As required by laws, the Company maintained capital adequacy ratio as of September 30, 2017 at 244%<sup>1</sup> which decreased from 252% as of December 31, 2016. The ratio is still double the minimum level required by the Office of Insurance Commission (OIC).

### Key Financial Ratios

**Table 8:** Financial Ratios<sup>2</sup>

Financial ratio	Quarter		For 9 months	
	3/2017	3/2016	2017	2016
NI / Total income	-1.7%	4.9%	4.5%	7.8%
EBIT / Net premium	-3.7%	7.3%	6.4%	12.4%
NI / Net premium	-2.2%	6.8%	5.9%	10.6%
Life policy reserve / Net premium	77.0%	77.1%	62.9%	63.8%
Investment assets / Total asset	96.5%	96.5%	96.5%	96.5%
Investment assets / Life policy reserve	115.8%	116.7%	115.8%	116.7%
NI / Average investment assets	4.8%	5.7%	4.7%	5.8%
NI / Average equity	-0.7%	1.9%	7.3%	14.1%
NI / Average assets	-0.1%	0.2%	0.9%	1.6%
Car ratio <sup>1</sup>	244%	284%	244%	284%

### Industry Overview

Industry's total life insurance premiums as of the end of September 2017 amounted to 440.71 billion baht<sup>3</sup>, a 6.39% increase year on year. They can be divided into first year premiums of 123.53 billion baht, a growth of 3.58% and renewal year premiums of 317.18 billion baht, a 7.52% increase. The top six companies by market share are as follows:

<sup>1</sup> This ratio has not been reviewed and audited by CPA.

<sup>2</sup> 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 period/ net premium
Investment assets to total asset ratio	= (cash and cash equivalents & investment assets)/ total asset
Investment assets to life policy reserve ratio	= (cash and cash equivalents & investment assets)/ / life policy reserve
Return on investment	= investment income/ average investment asset
Return on equity	= net income/ average total equity
Return on Asset	= net income/ average total asset

<sup>3</sup> Source: Thai Life Insurance Association

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**Table 9:** Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	18,616.55	69,681.37	88,297.91	20.04%
2	Muang Thai Life Assurance	24,806.32	53,421.88	78,228.20	17.75%
3	Thai Life Insurance	16,226.98	43,695.72	59,922.69	13.60%
4	Krungthai-AXA Life	12,490.15	33,016.26	45,506.41	10.33%
5	SCB Life Assurance	6,538.06	33,310.13	39,848.18	9.04%
6	Bangkok Life Assurance	9,238.94	24,089.62	33,328.56	7.56%

Regarding the industry's production for 2017<sup>4</sup> by channel (January - September, 2017), bancassurance channel's sales continued to grow. The data from January - September 2017 showed that the industry's total premiums through bancassurance increased by 12.23%, compared to the same period of the previous year. Bancassurance premiums represented 45.66% of total premiums earned from all channels, higher than that of the year 2016. Agent channel has also expanded with a 5.92% increase in total premiums, representing 47.94% of total premiums earned from all channels in 2017, lower than that of 2016.

### Significant Events

#### New Financial Reporting Standards

During the period, TAS 27 (revised in 2016) regarding "Separate Financial Statement" took effect. This revised standard provides additional options for recording investments in subsidiaries, investments in joint ventures and investments in associates. In the separate financial statements, the Company can choose to record in accordance with the equity method as described in TAS 28 (revised in 2016) "Investments in Associates and Joint Ventures". In this connection, the Company chose the cost method for the presentation of investment in subsidiaries in the separate financial statement. There was method the Company has been using; therefore, it had no impact on shareholders' equity or profit.

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<sup>4</sup> Source: Office of Insurance Commission