



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

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## “Management Discussion and Analysis for 3<sup>rd</sup> quarter 2016”

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## **Management's Discussion and Analysis for Quarter 3 2016**

### **Summary**

In the third quarter of 2016, the Company had a profit of 615 million baht, compared to a loss of 785 million baht posted in the third quarter of 2015. An important factor in the profit increase was that the Company had to set aside an additional LAT reserve in the third quarter of 2015 the year in a sum of 2.28 billion baht while in the third quarter of 2016, the Company set aside an additional LAT reserve in a sum of 824 million baht.

In the 9 month-period of 2016, the Company posted a profit in a sum of 3.13 billion baht, compared to a profit of 1.83 billion baht in the 9-month period of 2015. LAT reserve was 1.68 billion baht and 2.28 billion baht in 2016 and 2015 respectively. In addition, due to the favorable capital market conditions, the Company obtained a 2.68-billion-baht profit from selling its securities in 2016, compared to 1.15 billion baht in the same period of the previous year.

If the Company adjusted its investments in bonds and contractual liabilities to reflect their market value, it would post a net loss of 901 million baht and a net profit of 3.99 billion baht for the third quarter of 2016 and the 9-month period of 2016 respectively. (2015: 835 million baht and 2.07 billion baht respectively)

Regarding the Company's solvency, the Company's capital adequacy ratio (CAR) as of the third quarter of 2016 was 284%, a decrease from 309% at the end of 2015. This ratio is two times greater than 140% which is the minimum level required by the Office of Insurance Commission (OIC).

## Management's Discussion and Analysis for Quarter 3 2016

### Operating Performance

**Table 1:** Operating Result Summary

Statement of income Unit : Million	Quarter			9 months periods					
	3/2016	3/2015	%YoY	2016		2015		%YoY	
Revenues									
Net premiums earned	9,001	8,315	8%	29,290	100%	31,127	100%	-6%	
Net investment income, Gains on investments and Gains on revaluation	3,555	2,740	30%	10,533	36%	8,715	28%	21%	
Other income	82	64	28%	278	1%	246	1%	13%	
<b>Total revenues</b>	<b>12,639</b>	<b>11,120</b>	<b>14%</b>	<b>40,101</b>	<b>137%</b>	<b>40,088</b>	<b>129%</b>	<b>0%</b>	
Expenses									
Underwriting expenses	(11,554)	(11,733)	-2%	(35,176)	-120%	(36,677)	-118%	-4%	
Operating expenses	(426)	(459)	-7%	(1,270)	-4%	(1,336)	-4%	-5%	
<b>Total expenses</b>	<b>(11,980)</b>	<b>(12,192)</b>	<b>-2%</b>	<b>(36,447)</b>	<b>-124%</b>	<b>(38,013)</b>	<b>-122%</b>	<b>-4%</b>	
<b>Earning before tax</b>	<b>659</b>	<b>(1,072)</b>	<b>161%</b>	<b>3,655</b>	<b>12%</b>	<b>2,075</b>	<b>7%</b>	<b>76%</b>	
Tax	(45)	287	-116%	(529)	-2%	(248)	-1%	114%	
<b>NI</b>	<b>615</b>	<b>(785)</b>	<b>178%</b>	<b>3,126</b>	<b>11%</b>	<b>1,827</b>	<b>6%</b>	<b>71%</b>	

#### Premium Income

In the third quarter of 2016, net premiums written<sup>1</sup> increased by 8%. They amounted to 9.00 billion baht. Such increase was mainly contributed to by increased renewal year premiums.

In the third quarter of 2016, first year premiums decreased by 14%, amounting to 2.63 billion baht, while in the third quarter of 2015, the Company earned 3.04 billion baht in first year premiums. Well-selling products in the third quarter of 2016 were long-term protection plans. Renewal year premiums in the third quarter of 2016 grew by 21%.

Bancassurance channel was the Company's main channel in the third quarter of 2016 and 2015. Its total premiums represented 61% of the total premiums earned from all channels, while that of agent channel was 36%.

First year premiums in the 9-month period of 2016 amounted to 7.04 billion baht, a 5% increase from 6.73 billion baht in same period of 2015.

Total premiums of the 9-month period of 2016 amounted to 30.21 billion baht, down 5%. The proportions of premiums from bancassurance and agent channels to total premiums were 64% and 32% respectively. (2015: 68% and 29% respectively)

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

## Management's Discussion and Analysis for Quarter 3 2016

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

	2016		2015		Increase/Decrease	
	Quarter 3	Jan - Sep	Quarter 3	Jan - Sep	Quarter 3	Jan - Sep
Bancassurance channel	2,025	5,295	2,657	5,524	-24%	-4%
Agents and brokers channel	542	1,403	321	965	69%	45%
Other channel	58	345	58	244	0%	41%
<b>Total</b>	<b>2,626</b>	<b>7,043</b>	<b>3,037</b>	<b>6,734</b>	<b>-14%</b>	<b>5%</b>

**Table 3:** Total premium by channel

	2016		2015		Increase/Decrease	
	Quarter 3	Jan - Sep	Quarter 3	Jan - Sep	Quarter 3	Jan - Sep
Bancassurance channel	5,604	19,386	5,155	21,605	9%	-10%
Agents and brokers channel	3,302	9,602	3,056	9,194	8%	4%
Other channel	259	1,219	224	1,051	16%	16%
<b>Total</b>	<b>9,165</b>	<b>30,207</b>	<b>8,435</b>	<b>31,850</b>	<b>9%</b>	<b>-5%</b>

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

	2016		2015	
	Quarter 3	Jan - Sep	Quarter 3	Jan - Sep
Bancassurance channel	61%	64%	61%	68%
Agents and brokers channel	36%	32%	36%	29%
Other channel	3%	4%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Investment Income

**Table 5:** Investment income

Unit : Million	Quarter				9 months periods			
	3/2016	3/2015	Change	%YoY	2016	2015	Change	%YoY
Net investment income	2,797	2,650	147	6%	8,013	7,501	513	7%
Gain on investment	810	54	756	1410%	2,684	1,149	1,534	134%
Gain (loss) on revaluation	(51)	37	(89)	-239%	(163)	65	(229)	-350%
<b>Total</b>	<b>3,555</b>	<b>2,740</b>	<b>815</b>	<b>30%</b>	<b>10,533</b>	<b>8,715</b>	<b>1,819</b>	<b>21%</b>

In the third quarter of 2016, net investment income was 2.80 billion baht. Gains on investments were 810 million baht and losses on revaluation were 51 million baht. Total investment income amounted to 3.56 billion baht, an increase by 851 million baht or 30% from the same period of the previous year.

## Management's Discussion and Analysis for Quarter 3 2016

In the 9-month period of 2016, net investment income was 8.01 billion baht. Gains on investments were 2.68 billion baht and losses on revaluation were 163 million baht. Total investment income amounted to 10.53 billion baht, an increase by 1.82 billion baht or 21% from the same period of the previous year.

The rate of return on investment for 2016 increased to 5.81% from 5.30% in 2015. The rates of return on investment including revaluation surplus on available-for-sale securities --consisting of stocks and corporate bonds-- were 4.71% and 7.66% in 2015 and 2016 respectively.

### Expenses

The details for the third quarter of 2016 were as follows:

1. Underwriting expenses in the third quarter of 2016 decreased by 2% or 179 million baht, from 11.73 billion baht in 2015 to 11.55 billion baht in 2016.

1) The item "Life policy reserves increase from prior periods" decreased by 4% due to a decrease in LAT reserve<sup>2</sup>. In the third quarter of 2016, the Company recorded an additional LAT reserve in a sum of 824 million baht. (2558: 2.28 billion baht) The ratio of life insurance reserve (before LAT reserve) to net premiums earned in 2016 was 68%, compared to 60% in 2015.

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

- Policy benefits payments increased by 49 million baht or 1%. The increase was mainly contributed to by a 16% increase in benefits payment by 158 million baht and a 3% increase in surrender by 33 million baht. However, maturity benefits decreased by 141 million baht or 20%.
- Claims and loss adjustment expenses increased by 32 million baht or 10%.

3) Commissions and brokerage increased by 59 million baht or 9% from 669 million baht in 2015 to 727 million baht in 2016. Such increase in commissions was also because premium written increased and commissions for some products have been revised upward.

2. Operating expenses of the third quarter of 2016 decreased by 7% or 32 million baht from 458 million baht in 2015 to 426 million baht in 2016 due to the Company's cost reduction policy.

The details for the 9-month period of 2016 were as follows:

1. Underwriting expenses in the 9-month period of 2016 decreased by 4% or 1.50 billion baht from 36.68 billion baht in 2015 to 35.18 billion baht in 2016.

1) The item "Life policy reserves increase from prior periods" decreased by 16%. In 2016 premiums decreased while maturity and policy benefits payments largely increased. As a result, reserves decreased. Moreover, LAT reserve decreased because of the new method that has been implemented since the second quarter. The Company set an additional LAT reserve in a sum of 1.68 billion baht during the 9-month period (2015:

## Management's Discussion and Analysis for Quarter 3 2016

2.28 billion baht). The ratio of life policy reserves (before LAT reserve<sup>2</sup>) to net premiums written in 2016 was 58% while that of 2015 was 64%.

2) Benefit payments under life policies and claims payments increased by 15%. They can be divided into:

- Benefit payments under life policies increased by 1.80 billion baht or 17%. The increase was mainly contributed to by an increase in maturity benefits by 707 million baht or 45% and an increase in surrender benefits by 504 million baht or 13%
- Claims and loss adjustment expenses decreased by 26 million baht or 3%.

3) Commissions and brokerage increased by 211 million baht or 10% from 2.14 billion baht in 2015 to 2.35 billion baht in 2016. Such increase in commissions was because commissions for some products have been revised upward.

2. Operating expenses of the 9-month period of 2016 decreased by 5% or 66 million baht from 1.34 billion baht in 2015 to 1.27 billion baht in 2016 as a result of the Company's cost reduction policy.

### Profit for the Period for Separate Financial Statement

The Company posted a profit for the third quarter of 2016 in a sum of 615 million baht. It increased by 1.40 billion baht or 178% from a 785-million-baht loss posted in the third quarter of 2015. This was contributed to by an 8% increase in net premiums written, a 30% increase in investment income, a 2% decrease in underwriting expenses, a lower amount of LAT reserve, and a 7% decrease in operating expenses according to the cost reduction policy.

The Company posted a profit for the 9-month period of 2016 in a sum of 3.13 billion baht, a 71% or 1.30-billion-baht increase from a 1.83-billion-baht profit posted in the third quarter of 2015. Although net premiums written decreased by 6%, investment income rose by 21% and underwriting expenses decreased by 4%. Such decrease in underwriting expenses was less than the decrease in net premiums written as the amount of reserve recorded this year was 1.68 million baht. Operating expenses decreased by 5% according to the cost reduction plan.

### Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the third quarter of 2016 posted a profit of 609 million baht. It increased from a 786-million-baht loss posted for the third quarter of 2015 by 1.40 billion baht or 177%, 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.

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<sup>2</sup> 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 for liability adequacy test.

## Management's Discussion and Analysis for Quarter 3 2016

The consolidated financial statement for the 9-month period of 2016 posted a profit of 3.11 billion baht. It increased from a 1.82-billion-baht profit posted for the 9-month period of 2015 by 1.28 billion baht or 70%, 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.

### Financial Position Summary

**Table 5** : Financial Position Summary

Financial Position	As at 30 Sep 2016		As at 31 Dec 2015		Change	
Unit : Million						%
<b>Assets</b>						
Cash and cash equivalents	8,925	3%	7,088	3%	1,838	26%
Premiums due and uncollected	1,862	1%	1,717	1%	145	8%
Accrued investment incomes	2,571	1%	2,628	1%	(57)	-2%
Investments	254,231	93%	233,726	94%	20,505	9%
Premises and equipment	1,156	0%	592	0%	564	95%
Other assets	4,436	2%	3,827	2%	609	16%
<b>Total assets</b>	<b>273,181</b>	<b>100%</b>	<b>249,577</b>	<b>100%</b>	<b>23,604</b>	<b>9%</b>
<b>Liabilities and equity</b>						
Life policy reserves	219,120	80%	207,308	83%	11,812	6%
Insurance contract liabilities	16,635	6%	9,543	4%	7,092	74%
Other liabilities	5,258	2%	5,728	2%	(470)	-8%
<b>Total liabilities</b>	<b>241,013</b>	<b>88%</b>	<b>222,579</b>	<b>89%</b>	<b>18,434</b>	<b>8%</b>
<b>Total equity</b>	<b>32,168</b>	<b>12%</b>	<b>26,998</b>	<b>11%</b>	<b>5,170</b>	<b>19%</b>
<b>Total liabilities and equity</b>	<b>273,181</b>	<b>100%</b>	<b>249,577</b>	<b>100%</b>	<b>23,604</b>	<b>9%</b>

#### Assets

Total assets grew by 9% from 31 December, 2015. Assets growth was mainly due to larger investment assets, which increased by 20.51 billion baht.

#### Liabilities

Total liabilities increased by 8% from 31 December, 2015 mainly from life policy reserve which rose 11.81 billion baht according to the details given in the operating result part.

#### Shareholders' Equity

Shareholders' equity increased by 5.17 billion baht, from 27.00 billion baht as of 31 December, 2015 to 32.17 billion baht as of 30 September, 2016. The increase was mainly contributed to by the operating profit of 3.13 billion baht and gains on fair value of investments in available-for-sale securities net of tax in a sum of 3.02 billion baht. The interim dividend paid during the year amounted to 1.09 billion baht.

## Management's Discussion and Analysis for Quarter 3 2016

### Cash Flows

**Table 6:** Cash Flows

Unit : Million For the quarter	Statement of cash flows		
	3/2016	3/2015	Change
Source (used) of fund			
Operating activities	3,064	(6,151)	9,215
Investment activities	(734)	(211)	(523)
Financing activities	(492)	1,114	(1,607)
<b>Net increased (decreased) in cash</b>	<b>1,838</b>	<b>(5,247)</b>	<b>7,085</b>
Cash and cash equivalents -beginning	7,088	5,703	1,384
<b>Cash and cash equivalents -ending</b>	<b>8,925</b>	<b>456</b>	<b>8,469</b>

Cash and cash equivalents as of 30 September, 2016 were 8.93 billion baht, a 26% or a 1.84-billion-baht increase from 7.09 billion baht as of 31 December, 2015. Cash and cash equivalents as of 30 September, 2015 were 456 million baht, a 92% or a 5.25-billion-baht decrease from 5.70 billion baht as of 31 December, 2014. In 2015, there were more uses of fund than sources of fund; the uses of fund were for investments in short-term bank deposit. In 2016, there were less uses of fund than sources of fund.

Regarding cash flows, the sources of funds from operating activities amounted to 3.06 billion baht in the third quarter of 2016. In the third quarter of 2015, cash flows from operating activities were negative due to the following:

- 1) Net premiums written were in a sum of 29.99 billion baht in 2016, a decrease by 1.49 billion baht from the same period of 2015.
- 2) Interests, dividends, and other investment income amounted to 9.80 billion baht in 2016, a decrease by 203 million from the same period of 2015.
- 3) Benefits payments and insurance claims increased by 2.16 billion baht from 11.73 billion baht in 2015 to 13.89 billion baht in 2016.
- 4) Investments in securities and cash deposits with financial institutions amounted to 15.82 billion baht in 2016, an increase by 13.52 billion baht year on year.

The uses of funds were for investment activities which included purchases of land, buildings and equipment in a sum of 625 million baht and an investment in a sum of 108 million baht in Bangkok Life Assurance (Cambodia) Plc which is registered in Cambodia.

For the main uses of funds from financing activities in 2016, the Company paid a dividend in a sum of 544 million baht. The Company received cash from exercised warrants in a sum of 41 million baht.



## Management's Discussion and Analysis for Quarter 3 2016

### Key Financial Ratios

**Table 7** : Financial Ratios<sup>3</sup>

Financial ratio	Quarter		9 months periods	
	3/2016	3/2015	2016	2015
NI / Total income	5%	-7%	8%	5%
EBIT / Net premium	7%	-13%	12%	7%
NI / Net premium	7%	-9%	11%	6%
Reserve / Net premium	77%	88%	64%	71%

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

The Company capital adequacy ratio as of 30 September, 2016 was 284%<sup>4</sup>. It decreased from 309% as of 31 December, 2015. This ratio is higher than 140%, the minimum level required by the Office of Insurance Commission (OIC).

### Industry Overview

Industry total life insurance premiums as of September 2016 were 414.39 billion baht<sup>5</sup>, a 6.01% increase year on year. They can be divided into first year premiums of 119.27 billion baht, a declining growth of 2.81% and renewal year premiums of 295.12 billion baht, a 10.04% increase. The top six market share companies are as follows:

**Table 8**: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	17,662.12	67,205.49	84,867.61	23.21%
2	Muang Thai Life Assurance	25,835.98	47,140.58	72,976.56	19.96%
3	Thai Life Insurance	17,001.31	41,328.02	58,329.34	15.95%
4	SCB Life Assurance	10,084.24	32,565.56	42,649.81	11.66%
5	Krungthai-AXA Life	11,317.09	29,964.42	41,281.51	11.29%
6	Bangkok Life Assurance	7,052.99	23,285.93	30,338.92	8.30%

<sup>3</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 year/ net premium

<sup>4</sup> This ratio has not been audited by CPA.

<sup>5</sup> Source: Thai Life Insurance Association

## Management's Discussion and Analysis for Quarter 3 2016

Regarding industry profit for 2016<sup>6</sup> (January – August, 2016), bancassurance channel's sales continued to grow. The data between January and August 2016 showed that the industry's total premiums through bancassurance increased by 14%, compared to the same period of the previous year. Bancassurance premiums represented 42% of total premiums earned from all channels, same as in 2015. Agent channel has also expanded with a 7% increase in total premiums, representing 51% of total premiums earned from all channels in 2016, a decrease from a 52% share in 2015.

### Significant Events

#### Exercises of Warrants No.2

The holders of the warrants no.2 exercised their right to purchase 0.3 million units of the Company's ordinary shares at the exercise price of 25.00 baht per share for the total amount of 11.4 million baht. The Company recorded 7.0 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.

#### Investment in Subsidiary Company (Bangkok Life Assurance (Cambodia) Plc.

In 2016, the Company invested in Bangkok Life Assurance (Cambodia) Plc. The Subsidiary Company is registered in Cambodia as a life insurer. The proportion of BLA shareholding is 52%. The Subsidiary Company has already been granted its license to operate in Cambodia.

#### New Financial Reporting standards

The Company reclassified certain items in the financial statements in order to conform with the TFRS 4 (Insurance Contracts) standard adopted since 1 January, 2016 and the announcement of the Office of Insurance Commission dated 4 March, 2016. The main requirement of this financial reporting standard was to classify insurance contracts. Under this standard, all of the Company contracts are classified as insurance contracts. No contracts are classified as investment contracts. Therefore, this reclassification practice does not have any impact on the Company profit or shareholders' equity.

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<sup>6</sup> Source: Office of Insurance Commission