



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

“Management Discussion and Analysis for 4th quarter 2016”



Management's Discussion and Analysis for Quarter 4 2016

Summary

In the fourth quarter of 2016, the Company had a profit of 1,997 million baht, compared to a profit of 2,286 million baht posted in the fourth quarter of 2015, a 290 million baht decrease. In the fourth quarter of 2016, the Company reversed LAT reserve in a sum of 2,026 million baht while in the fourth quarter of 2015, LAT reserve was reversed in a sum of 1,939 million baht.

In the year of 2016, the Company posted a profit in a sum of 5.12 billion baht, compared to a profit of 4.11 billion baht in the year of 2015. LAT reserve was reversed in a sum of 345 million baht in 2016 while in 2015, recorded LAT reserve was 345 million baht. In addition, the Company obtained a 2.32-billion-baht profit from selling its securities in 2016, compared to 1.16 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 values, it would post a net loss of 3.13 billion baht and a net profit of 858 million baht for the fourth quarter of 2016 and the year of 2016 respectively. (2015: Net profit 1.78 billion baht and 3.86 billion baht respectively) The reason for the lower net profit in 2016 when compared to that of 2015 was the rise in interest rate which caused the market value of bonds to decline. The market value of contractual liabilities decreased in a lesser proportion because the yields of risk-free government bonds over the preceding eight quarters were applied in the calculation, compared to the calculation of the market value of bonds which requires the application of the interest rate as of the measurement date.

Regarding the Company's solvency, the Company's capital adequacy ratio (CAR) as of the fourth quarter of 2016 was 252%, a decrease from 309% at the end of 2015. However, this ratio is still two times greater than the minimum level required by the Office of Insurance Commission (OIC).

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Operating Performance

Table 1: Operating Result Summary

Statement of income	Quarter					Year				
Unit : Million	4/2016		4/2015		%YoY	2016		2015		%YoY
Revenues										
Net premiums earned	12,991	100%	12,803	100%	1%	42,282	100%	43,930	100%	-4%
Total investment income*	2,338	18%	2,441	19%	-4%	12,872	30%	11,156	25%	15%
Other income	51	0%	57	0%	-10%	329	1%	303	1%	8%
Total revenues	15,381	118%	15,302	120%	1%	55,482	131%	55,389	126%	0%
Expenses										
Underwriting expenses	(12,457)	-96%	(12,030)	-94%	4%	(47,634)	-113%	(48,708)	-111%	-2%
Operating expenses	(480)	-4%	(454)	-4%	6%	(1,751)	-4%	(1,790)	-4%	-2%
Total expenses	(12,938)	-100%	(12,484)	-98%	4%	(49,384)	-117%	(50,497)	-115%	-2%
Earning before tax	2,443	19%	2,817	22%	13%	6,098	14%	4,892	11%	25%
Tax	(447)	-3%	(531)	-4%	-16%	(976)	-2%	(779)	-2%	25%
NI	1,997	15%	2,286	18%	13%	5,122	12%	4,113	9%	25%

*Total investment income = Net investment income + Gains on investments + Gains on revaluation

Premium Income

In the fourth quarter of 2016, net premiums written¹ increased by 1%. They amounted to 12.99 billion baht. Such increase was mainly contributed to by increased renewal year premiums.

In the fourth quarter of 2016, first year premiums decreased by 40%, amounted to 4.11 billion baht while in the fourth quarter of 2015, the Company earned 6.89 billion baht in first year premiums. In the fourth quarter of 2015, the Company sold medium-term saving product via bancassurance channel, resulting in higher first year premiums than those of the current year. For renewal premiums, the growth rate in the fourth quarter of 2016 was at 48% because of the higher first year premiums of 2015.

Bancassurance channel was the Company's main channel in the fourth quarter of 2016 and 2015. Its total premiums represented 57% of the total premiums earned from all channels, while those of the agent channel were 42%.

First year premiums in the year of 2016 amounted to 11.15 billion baht, an 18% decrease from 13.63 billion baht in the same period of 2015.

Total premiums of the year of 2016 amounted to 43.33 billion baht, down 3%. The proportions of premiums from bancassurance and agent channels to total premiums were 62% and 35% respectively. (2015: 65% and 32%, respectively)

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

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Table 2: First year premiums by channel

	2016		2015		Increase/Decrease	
	Quarter 4	Jan - Dec	Quarter 4	Jan - Dec	Quarter 4	Jan - Dec
Bancassurance channel	2,904	8,199	5,316	10,841	-45%	-24%
Agents and brokers channel	1,137	2,541	1,523	2,488	-25%	2%
Other channel	64	409	53	299	22%	37%
Total	4,106	11,149	6,892	13,627	-40%	-18%

Table 3: Total premium by channel

	2016		2015		Increase/Decrease	
	Quarter 4	Jan - Dec	Quarter 4	Jan - Dec	Quarter 4	Jan - Dec
Bancassurance channel	7,492	26,879	7,691	29,296	-3%	-8%
Agents and brokers channel	5,463	15,065	5,097	14,291	7%	5%
Other channel	169	1,388	201	1,253	-16%	11%
Total	13,125	43,332	12,989	44,840	1%	-3%

Table 4 : Premium of each channel to total premium ratio

	2016		2015	
	Quarter 4	Jan - Dec	Quarter 4	Jan - Dec
Bancassurance channel	57%	62%	59%	65%
Agents and brokers channel	42%	35%	39%	32%
Other channel	1%	3%	2%	3%
Total	100%	100%	100%	100%

Investment Income Gain on investment and Gain on revaluation

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

Unit : Million	Quarter				Year			
	4/2016	4/2015	Change	%YoY	2016	2015	Change	%YoY
Net investment income	2,619	2,413	206	9%	10,632	9,913	719	7%
Gain (loss) on investment	(364)	14	(378)	-2686%	2,320	1,163	1,157	99%
Gain (loss) on revaluation	83	15	69	470%	(80)	80	(160)	-200%
Total	2,338	2,441	(103)	-4%	12,872	11,156	1,716	15%

In the fourth quarter of 2016, net investment income was 2.62 billion baht. Loss on investments was 364 million baht and gain on revaluation was 83 million baht. Total investment income amounted to 2.34 billion baht, a decrease by 103 million baht or 4% from the same period of the previous year.

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In the year of 2016, net investment income was 10.63 billion baht. Gains on investments were 2.32 billion baht and losses on revaluation were 80 million baht. Total investment income amounted to 12.87 billion baht, an increase by 1.72 billion baht or 15% from the same period of the previous year.

The rate of return on investment for 2016 increased to 5.20% from 5.03% in 2015. The rates of return on investment including revaluation surplus on available-for-sale securities—consisting of stocks and corporate bonds—were 4.27% and 6.26% in 2015 and 2016 respectively.

Expenses

The details of significant expenses for the fourth quarter of 2016 and 2015 were as follows:

1. Underwriting expenses in the fourth quarter of 2016 increased by 4% or 427 million baht, from 12.03 billion baht in 2015 to 12.46 billion baht in 2016.

1) The item "Life policy reserves increased from prior year" decreased by 3% due to a decrease in LAT reserve². In the fourth quarter of 2016, the Company reversed LAT reserve in a sum of 2.03 billion baht. (2558: 1.94 billion baht reversed)

2) Benefit payments under life policies and claims payments increased by 17%. They can be divided into:

- Policy benefits payments increased by 575 million baht or 18%. The increase was mainly contributed to by a 30% increase in benefits payment of 342 million baht and a 24% increase in surrender of 302 million baht. However, maturity benefits decreased by 57 million baht or 13%.
- Claims and loss adjustment expenses increased by 29 million baht or 10%.

3) Commissions and brokerage increased by 98 million baht or 14%, from 715 million baht in 2015 to 813 million baht in 2016. Such increase in commissions was also due to increased premium written and commissions for some products which have been revised upwards.

2. Operating expenses of the fourth quarter of 2016 increased by 6% or 27 million baht, from 454 million baht in 2015 to 480 million baht in 2016. This was mainly due to fees from policy holders' using credit cards to pay for premiums, especially at the end of the year for tax benefits.

The details of significant changes in expenses for the year of 2016 and 2015 can be summarized as follows:

1. Underwriting expenses in year of 2016 decreased by 2% or 1.70 billion baht from 48.71 billion baht in 2015 to 47.63 billion baht in 2016.

1) The item "Life policy reserves increased from prior year" decreased by 13% due to the decrease in premiums and the increase in maturity and policy benefits payments in 2016. These cause reserves to decrease. Moreover, LAT reserve decreased because of

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 for liability adequacy test.

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the increase in discount rate in life policy reserves calculation method. The Company reversed LAT reserve in a sum of 345 million baht during the year (2015: 345 million baht set aside).

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

- Benefit payments under life policies increased by 2.38 billion baht or 17%. The increase was mainly contributed to by an increase in surrender benefits by 806 million baht or 15%, an increase in maturity benefits by 650 million baht or 33% and an increase in benefit payments by 626 million baht or 12%.
- Claims and loss adjustment expenses increased by 3 million baht or 0.3%.

3) Commissions and brokerage increased by 309 million baht or 11% from 2.85 billion baht in 2015 to 3.16 billion baht in 2016. Such an increase was caused by the Company's concentrating on long-term products which had higher commission rate than short-term products. It was also because commissions for some products have been revised upwards.

2. Operating expenses of the year of 2016 decreased by 2% or 39 million baht from 1.79 billion baht in 2015 to 1.75 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 fourth quarter of 2016 in a sum of 2.0 billion baht. It decreased by 290 million baht or 13% from a 2.29-billion-baht posted in the fourth quarter of 2015. This was contributed to by a 1% increase in net premiums written, a 4% decrease in investment income, a 4% increase in underwriting expenses from the increase in benefit payments under life policies and claims payments, and a 6% increase in operating expenses.

The Company posted a profit for the year of 2016 in a sum of 5.12 billion baht, a 25% or 1.01-billion-baht increase from the 4.11-billion-baht profit posted in the year of 2015. Although net premiums written decreased by 4%, investment income rose by 15% and underwriting expenses decreased by 2%. Operating expenses decreased by 2% in accordance with the cost reduction plan. As of December 31, 2016, the Company had no LAT reserve balance in the Statements of Financial Position

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the fourth quarter of 2016 posted a profit of 1.99 billion baht, a decrease from a 2.29-billion-baht posted for the fourth quarter of 2015 by 292 million baht or 13%, 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.

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The consolidated financial statement for the year of 2016 posted a profit of 5.10 billion baht, an increase of 992 million baht or 24% from a 4.11-billion-baht profit posted for the year of 2015, 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 6: Financial Position Summary

Financial Position	As at 31 Dec 2016		As at 31 Dec 2015		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	13,021	5%	7,087	3%	5,934	84%
Premiums due and uncollected	2,200	1%	1,717	1%	482	28%
Accrued investment incomes	2,053	1%	2,628	1%	(575)	-22%
Investments	259,361	92%	233,726	94%	25,635	11%
Premises and equipment*	1,192	0%	592	0%	600	101%
Other assets	4,532	2%	3,827	2%	704	18%
Total assets	282,359	100%	249,577	100%	32,781	13%
Liabilities and equity						
Life policy reserves	233,412	83%	207,308	83%	26,104	13%
Insurance contract liabilities	9,686	3%	9,543	4%	144	2%
Other liabilities	5,919	2%	5,728	2%	191	3%
Total liabilities	249,018	88%	222,579	89%	26,439	12%
Total equity	33,341	12%	26,998	11%	6,343	23%
Total liabilities and equity	282,359	100%	249,577	100%	32,781	13%

* Include Investment property and Intangible assets

Assets

Total assets grew by 13% from December 31, 2015. Assets growth was mainly due to larger investment assets, which increased by 25.64 billion baht.

Liabilities

Total liabilities increased by 12% from December 31, 2015 mainly from life policy reserve which rose 26.10 billion baht according to the details given in the operating result part.

Shareholders' Equity

Shareholders' equity increased by 6.34 billion baht, from 27.00 billion baht as of December 31, 2015 to 33.34 billion baht as of December 31, 2016. The increase was mainly contributed to by the operating profit of 5.12 billion baht and gains on valuation of investments in available-for-sale securities net of tax in a sum of 2.23 billion baht. The interim dividend paid during the year amounted to 1.09 billion baht.

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Cash Flows

Table 7: Cash Flows

Unit : Million For the year	Statement of cash flows			
	2016	2015	Change	
Source (used) of fund				
Operating activities	7,737	2,791	4,946	177%
Investment activities	(789)	(242)	(547)	227%
Financing activities	(1,015)	(1,165)	151	-13%
Net increased in cash	5,933	1,384	4,549	329%
Cash and cash equivalents -beginning	7,088	5,703	1,384	24%
Cash and cash equivalents -ending	13,021	7,088	5,933	84%

Cash and cash equivalents as of December 31, 2016 and 2015 were 13.02 billion baht and 7.09 billion baht. The increase in cash and cash equivalent amounted to 5.93 - billion-baht and 1.38-billion-baht for the year ended 2016 and 2015, respectively. Cash and cash equivalents at the end of 2016 were greater than those in 2015 because of the record low rate of return of government bonds and also the limited supply of other debt securities. Thus, during 2016, the Company increased its short-term investments to hold for an opportunity to invest.

Regarding cash flows, the sources of funds from operating activities amounted to 7.74 billion baht in the year of 2016. In the year of 2015, cash flows from operating activities were 2.79 billion baht due to the following entries:

- 1) Net premiums written were in a sum of 42.70 billion baht in 2016, a decrease by 1.85 billion baht from the same period of 2015.
- 2) Interests, dividends, and other investment incomes amounted to 13.36 billion baht in 2016, an increase by 487 million from the same period of 2015.
- 3) Benefits payments under life policies and loss incurred on direct insurance increased by 2.79 billion baht from 15.02 billion baht in 2015 to 17.82 billion baht in 2016.
- 4) Investments in securities and general investments increased by 21.23 billion baht, causing a decrease in cash flows from operating activities in the same amount. In 2015, there was an increase in investments in securities and general investments by 31.13 billion baht.

Funds were used in investment activities which included purchases of land, buildings and equipments in the sum of 680 million baht and an investment in the sum of 108 million baht in Bangkok Life Assurance (Cambodia) PLC which is registered in Cambodia.

For the main use of funds from financing activities in 2016, the Company paid a dividend in the sum of 1.09 billion baht. The Company received cash from exercised warrants in the sum of 54 million baht.

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Key Financial Ratios

Table 8: Financial Ratios³

Financial ratio	Quarter		Year	
	4/2016	4/2015	2016	2015
NI / Total income	13%	15%	9%	7%
EBIT / Net premium	19%	22%	14%	11%
NI / Net premium	15%	18%	12%	9%
Reserve / Net premium	57%	60%	62%	68%

Capital Adequacy under Risk-Based Capital: RBC

As required by laws, the Company maintained capital adequacy ratio as of December 31, 2016 at 252%⁴ which decreased from 309% as of December 31, 2015. However, the ratio is still double the minimum level required by the Office of Insurance Commission (OIC).

Industry Overview

Industry total life insurance premiums as of December 2016 were 568.26 billion baht⁵, a 5.72% increase year on year. They can be divided into first year premiums of 161.57 billion baht, a declining growth of 5.75% and renewal year premiums of 406.69 billion baht, an 11.09% increase. The top six companies by market share are as follows:

Table 9: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	24,463.62	96,790.77	121,254.39	21.34%
2	Muang Thai Life Assurance	33,815.23	63,197.30	97,012.53	17.07%
3	Thai Life Insurance	23,070.81	57,451.95	80,522.76	14.17%
4	Krungthai-AXA Life	14,938.04	40,936.97	55,875.02	9.83%
5	SCB Life Assurance	12,232.51	40,488.24	52,720.75	9.28%
6	Bangkok Life Assurance	11,149.50	32,183.42	43,332.92	7.63%

Regarding industry profit for 2016⁶ (January – November, 2016), bancassurance channel's sales continued to grow. The data between January and November 2016 showed that the industry's total premiums through bancassurance increased by 7%, compared to the same period of the previous year. Bancassurance premiums represented 44% of total premiums earned from all channels, similar to the year 2015. Agent channel has also expanded with a 4% increase in total

³ 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

⁴ This ratio has not been audited by CPA.

⁵ Source: Thai Life Insurance Association

⁶ Source: Office of Insurance Commission

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premiums, representing 50% of total premiums earned from all channels in 2016, the same as in 2015.

Significant Events

Exercises of Warrants No.2

The holders of the warrants no.2 exercised their rights to purchase 0.6 million units of the Company's ordinary shares at the exercise price of 25.00 baht per share for the total amount of 20.3 million baht. The Company recorded 12.6 million baht under the caption of transferred capital reserve for share-based payment transactions to premiums 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 January 1, 2016 and the announcement of the Office of Insurance Commission dated March 4, 2016. The main requirement of this financial reporting standard was the classification of 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 reported.