



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

“Management Discussion and Analysis for second quarter 2017”



Management's Discussion and Analysis for Quarter 2 2017

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter					For 6 months				
	2/2017		2/2016		%YoY	2017		2016		%YoY
Revenues										
Net premiums written ⁽¹⁾	7,920	100%	7,433	100%	7%	20,461	100%	20,289	100%	1%
Total investment income ⁽²⁾	3,285	41%	3,863	52%	-15%	6,199	30%	6,978	34%	-11%
Other income	92	1%	61	1%	51%	241	1%	195	1%	23%
Total revenues	11,297	143%	11,357	153%	-1%	26,901	131%	27,463	135%	-2%
Expenses										
Underwriting expenses	(9,395)	-119%	788	11%	-1292%	(23,549)	-115%	(23,623)	-116%	0%
Operating expenses	(448)	-6%	(461)	-6%	-3%	(844)	-4%	(845)	-4%	0%
Total expenses	(9,844)	-124%	327	4%	-3108%	(24,393)	-119%	(24,467)	-121%	0%
Earning before tax	1,454	18%	11,684	157%	88%	2,508	12%	2,996	15%	-16%
Tax	(225)	-3%	(2,284)	-31%	-90%	(351)	-2%	(484)	-2%	-28%
NI	1,229	16%	9,400	126%	87%	2,157	11%	2,511	12%	-14%

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

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

Premium Income

In the second quarter of 2017, net premiums written increased by 7%, amounting to 7.92 billion baht. Such increase was mainly contributed to by the increase in renewal year premiums.

In the second quarter of 2017, first year premiums decreased by 6%, amounting to 1.87 billion baht while in the second quarter of 2016, the Company earned 2.00 billion baht in first year premiums. In the second quarter of 2017, Whole life products became increasingly popular via bancassurance and agent channels. However, due to lower bank lending, credit protection products decreased from the previous year. For renewal premiums, the growth rate in the second quarter of 2017 increased by 11% because there were certain products which became more popular in the second quarter of 2016, including the expansion of the company's business size.

Bancassurance channel was the Company's main channel in the second quarter of 2017. Its total premiums represented 60% of the total premiums earned from all channels, while those of the agent channel contributed to 37%. 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 55% and 41%, respectively.

First year premiums in the first half of 2017 had a similar growth rate as that of the same period of the previous year and amounted to 4.41 billion baht, a decrease from 4.42 billion baht in the same period of 2016.

Total premiums of the first half of 2017 amounted to 21.25 billion baht, a 1% growth. The proportions of premiums from bancassurance and agent channels to total premiums were 65% and 30% respectively. (2016: 66% and 30%, respectively)

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Table 2: First year premiums by channel

	2017		2016		Increase/decrease ratio	
	Quarter 2	For 6 months	Quarter 2	For 6 months	Quarter 2	For 6 months
Bancassurance channel	1,470	3,111	1,472	3,270	0%	-5%
Agents and brokers channel	335	978	458	861	-27%	14%
Other channel	69	319	70	286	-1%	11%
Total	1,874	4,408	2,000	4,417	-6%	0%

Table 3: Total premium by channel

	2017		2016		Increase/decrease ratio	
	Quarter 2	For 6 months	Quarter 2	For 6 months	Quarter 2	For 6 months
Bancassurance channel	4,848	13,795	4,231	13,782	15%	0%
Agents and brokers channel	2,959	6,419	3,101	6,300	-5%	2%
Other channel	299	1,039	297	959	1%	8%
Total	8,106	21,253	7,629	21,041	6%	1%

Table 4: Premium of each channel to total premium ratio

	2017		2016	
	Quarter 2	For 6 months	Quarter 2	For 6 months
Bancassurance channel	60%	65%	55%	66%
Agents and brokers channel	37%	30%	41%	30%
Other channel	4%	5%	4%	5%
Total	100%	100%	100%	100%

Investment Income

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

Unit : Million	Quarter				For 6 months			
	2/2017	2/2016	Change	%YoY	2017	2016	Change	%YoY
Net investment income	2,857	2,656	201	8%	5,660	5,216	443	8%
Gain on investment	487	1,250	(763)	-61%	690	1,874	(1,184)	-63%
Fair value gain								
Trading securities	(7)	5	(12)	-244%	(10)	23	(33)	-144%
Foreign exchange forward contracts	(17)	(33)	16	-48%	8	(42)	50	-120%
Foreign exchange rate	(35)	(15)	(20)	139%	(149)	(93)	(56)	60%
Total	3,285	3,863	(579)	-15%	6,199	6,978	(779)	-11%

In the second quarter of 2017, net investment income was 2.86 billion baht. Gain on investments was 487 million baht and loss on revaluation was 59 million baht. Total investment income amounted to 3.29 billion baht, a decrease by 579 million baht or 15% from the same period of the previous year.

In the first half of 2017, net investment income was 5.66 billion baht. Gain on investments was 691 million baht and loss on revaluation was 151 million baht. Total investment income amounted to 6.20 billion baht, a decrease by 779 million baht or 11% from the same period of the previous year.

The rate of return on investment decreased from 5.89% in the first half of 2016 to 4.67% in the first half of 2017 because of a decrease in realized investment incomes. The rates of return on

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investment including revaluation surplus on available-for-sale securities—consisting of stocks and debt securities—were 9.02% and 4.52% in first half of 2016 and 2017, respectively.

Expenses

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

1. Underwriting expenses in the second quarter of 2017 increased by 1,292% or 10.18 billion baht, from (0.79) billion baht in 2016 to 9.40 billion baht in 2017.

- 1) The item "Life policy reserves increasing from prior period" increased by 161% or 9.73 billion baht from (6.04) billion baht in the second quarter of 2016 to 3.69 billion baht in the second quarter 2017. This was because the Company could release its LAT reserve in a sum of 9.52 billion baht in the second quarter of 2016.
- 2) Benefit payments under life policies and claims payments increased by 9.4%. They can be divided into:
 - Policy benefits payments increased by 426 million baht or 11.2%. The increase was mainly owing to an increase in benefits payment of 363 million baht or 31%. This is in line with the increase in business size. The increase in surrender amounted to 252 million baht or 18.1%.
 - Claims and loss adjustment expenses decreased by 10.5 million baht or 1.8%.
- 3) Commissions and brokerage increased by 39 million baht or 6%, from 693 million baht in the second quarter of 2016 to 732 million baht in the second quarter of 2017. This is consistent with the increase in the company's total premiums.

2. Operating expenses for the second quarter of 2017 decreased by 3% or 13 million baht, from 461 million baht in the second quarter of 2016 to 448 million baht in the second quarter of 2017 due to better management the Company's expenses.

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

1. Underwriting expenses in the first half of 2017 decreased by 0.3% or 73 million baht, from 23.62 billion baht in 2016 to 23.55 billion baht in 2017.

- 1) The item "Life policy reserves increasing from prior period" decreased by 5%. This was because the benefit payments increased. In addition, the increasing proportion in the sales of whole life products also reduced the reserves set. As a result, the Company has no obligation to set up LAT reserve for the current period. (2016: LAT reserve 857 million baht).
- 2) Benefit payments under life policies and claims payments increased by 5.6%. They can be divided into:
 - Policy benefits payments increased by 415 million baht or 4.8%. The increase was mainly owing to an increase in benefits payment of 686 million baht or 21%. The increase in surrender amounted to Baht 128 million or 4%.

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- Claims and loss adjustment expenses increased by 139 million baht or 11% from health claims which increased by 29%.
- 3) Commissions and brokerage decreased by 55 million baht or 3%, from 1.62 billion baht in 2016 to 1.56 billion baht in 2017. Such decrease in commissions was due to the sales of short-term saving products which were popular in the first quarter 2017 and which had low commission rate.
2. Operating expenses for the first half of 2017 decreased by 0.1% or 0.7 million baht, from 845 million baht in the first half of 2016 to 844 million baht in the first half of 2017 due to better management the Company's expenses.

Profit for the Period for Separate Financial Statement

The Company posted a profit for the second quarter of 2017 in a sum of 1.23 billion baht, a decrease by 8.17 billion baht from a 9.40-billion-baht net profit posted in the second quarter of 2016. This was because in the second quarter of 2016, the Company was required to reverse LAT reserve in the sum of 9.52 billion baht and reflect it as an income in profit or loss of the Company.

The Company posted a profit for the first half of 2017 in a sum of 2.16 billion baht, an decrease by 354 million baht or 14% from a 2.51-billion-baht net profit posted in the first half of 2016. Although the net premium written increased by 1%, but the investment income decreased by 11%, as a result of the decline in sales of securities, resulting in lower earnings.

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the second quarter of 2017 posted a profit of 1.22 billion baht, a decrease from a 9.39-billion-baht net profit posted in the second quarter of 2016 by 8.17 billion baht or 87%, 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 half of 2017 posted a profit of 2.14 billion baht, a decrease from a 2.50-billion-baht net profit posted in the first half of 2016 by 357 million baht or 14%, 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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Financial Position Summary

Table 6: Financial Position Summary

Financial Position	As at 30 Jun 2017		As at 31 Dec 2016		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	4,668	2%	13,021	5%	(8,352)	-64%
Premiums due and uncollected	2,637	1%	2,200	1%	437	20%
Accrued investment incomes	2,147	1%	2,053	1%	93	5%
Investments	279,240	95%	259,361	92%	19,879	8%
Premises and equipment	1,293	0%	1,192	0%	100	8%
Other assets	4,312	1%	4,532	2%	(220)	-5%
Total assets	294,297	100%	282,359	100%	11,938	4%
Liabilities and equity						
Life policy reserves	244,672	83%	233,412	83%	11,260	5%
Other insurance contract liabilities	9,792	3%	9,686	3%	106	1%
Other liabilities	4,759	2%	5,920	2%	(1,161)	-20%
Total liabilities	259,223	88%	249,018	88%	10,205	4%
Total equity	35,074	12%	33,341	12%	1,733	5%
Total liabilities and equity	294,297	100%	282,359	100%	11,938	4%

Assets

Total assets grew by 4% from December 31, 2016. Assets growth was mainly due to larger investment assets, which increased by 19.88 billion baht.

Liabilities

Total liabilities increased by 4% from December 31, 2016 mainly from life policy reserve which rose by 11.26 billion baht in accordance with 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 1.73 billion baht, from 33.34 billion baht as of December 31, 2016 to 35.07 billion baht as of June 30, 2017. The increase was mainly contributed to by the operating profit of 2.16 billion baht and gains on valuation of investments in available-for-sale securities net of tax in a sum of 284 million baht and dividend paid in a sum of 730 million baht.

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Cash Flows

Table 7: Cash Flows

Unit : Million For quarter	Statement of cash flows			
	2/2017	2/2016		Change
Source (used) of fund				
Operating activities	(7,873)	2,900	(10,773)	-371%
Investment activities	(142)	(702)	560	-80%
Financing activities	(338)	(506)	168	-33%
Net increased (decreased) in cash	(8,353)	1,692	(10,045)	-594%
Cash and cash equivalents -beginning	13,021	7,088	5,933	84%
Cash and cash equivalents -ending	4,668	8,780	(4,112)	-47%

Cash and cash equivalents as of June 30, 2017 and 2016 were 4.67 billion baht and 8.78 billion baht. The increase (decrease) in cash and cash equivalent amounted to (8.35) billion baht and 1.69 billion baht, respectively. Cash and cash equivalents at the second quarter end of 2017 were much lower than those in 2016 because the Company has increased its long-term investments.

Regarding cash flows of the first half of 2017, the sources of funds from operating activities amounted to 7.87 billion baht. In the first half of 2016, cash flows used in operating activities were 2.90 billion baht due to the following entries:

- 1) Net premiums written were in a sum of 20.80 billion baht in 2017, similar to 21.03 billion baht from the same period of 2016.
- 2) Interests received, dividends, and other investment incomes amounted to 4.91 billion baht in the first half of 2017, a decrease by 2.14 billion from the same period of the first half of 2016 due to a decrease in investment profit. In 2016, the profit from sales on investments was 1.87 billion baht, while in 2017, it was 690 million baht.
- 3) Benefits payments under life policies and loss incurred on direct insurance increased by 534 million baht from 10.05 billion baht in the first half of 2016 to 10.58 billion baht in first half of 2017.
- 4) Investments in securities and general investments increased by 18.99 billion baht. In the first half of 2016, there was an increase in investments in securities and general investments by 11.07 billion baht.

Funds were used in investment activities for the first half of 2017 which included purchases of land, buildings and equipments in the sum of 142 million baht.

The main source of funds was from financing activities. In the first half of 2017, the Company paid dividend in the sum of 395 million baht and received cash from exercised warrants in the sum of 21 million baht.

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Capital Adequacy under Risk-Based Capital: RBC

As required by laws, the Company maintained capital adequacy ratio as of June 30, 2017 at 253%¹ which increased 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 Ratios²

Financial ratio	Quarter		For 6 months	
	2/2017	2/2016	2017	2016
NI / Total income	10.9%	82.8%	8.0%	9.1%
EBIT / Net premium	18.4%	157.4%	12.2%	14.7%
NI / Net premium	15.5%	126.6%	10.5%	12.3%
Life policy reserve / Net premium	46.6%	-81.3%	54.8%	57.9%
Investment assets / Total asset	96.5%	96.5%	96.5%	96.5%
Investment assets / Life policy reserve	116.0%	124.3%	116.0%	124.3%
NI / Average investment assets	4.9%	6.3%	4.7%	5.9%
NI / Average equity	14.1%	132.5%	12.6%	63.2%
NI / Average assets	1.7%	14.1%	1.5%	7.3%
Car ratio ¹	253%	312%	253%	312%

Industry Overview

Industry's total life insurance premiums as of the end of June 2017 were 297.63 billion baht³, a 6.83% increase year on year. They can be divided into first year premiums of 82.96 billion baht, a growth of 2.77% and renewal year premiums of 214.66 billion baht, an 8.48% increase. The top six companies by market share are as follows:

Table 9: Market share

No.	Company	FYP	RYP	TP	Market share
1	Muang Thai Life Assurance	19,122.70	38,772.04	57,894.74	19.45%
2	AIA	12,221.15	45,544.02	57,765.17	19.41%
3	Thai Life Insurance	10,418.99	28,188.56	38,607.55	12.97%
4	Krungthai-AXA Life	8,704.54	23,084.12	31,788.66	10.68%
5	SCB Life Assurance	4,571.00	22,557.36	27,128.36	9.11%
6	Bangkok Life Assurance	4,407.53	16,846.24	21,253.77	7.14%

¹ This ratio has not been reviewed and audited by CPA.

² 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

³ Source: Thai Life Insurance Association

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Regarding the industry's production for 2017⁴ by channel (January - April, 2017), bancassurance channel's sales continued to grow. The data since January - April 2017 showed that the industry's total premiums through bancassurance increased by 0.7%, compared to the same period of the previous year. Bancassurance premiums represented 44% of total premiums earned from all channels, lower than that of the year 2016. Agent channel has also expanded with a 7% increase in total premiums, representing 49% of total premiums earned from all channels in 2017, higher than that of 2016.

Significant Events

Exercises of Warrants No.2

On 31 March 2017, the holders of the warrants no.2 last 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 in the total amount of 20.02 million baht. The Company recorded 12.4 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. The remaining unexercised warrants were 0.04 million units.

New Financial Reporting Standards

During the period, TAS 27 (Revised 2019), the Separate Financial Statements, became in 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 2016) "Investments in Associates and Joint Ventures." However, the Company chose the cost method for presentation of investment in subsidiaries in the separate financial statement. There was no impact on shareholders' equity or profit.

⁴ Source: Office of Insurance Commission