



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

“Management Discussion and Analysis for fourth quarter 2015”



Management's Discussion and Analysis for Year 2015

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter					Year				
	4/2015		4/2014		%QoQ	2015		2014		%YoY
Revenues										
Net premiums earned	12,844	100%	7,446	100%	72%	44,175	100%	51,172	100%	-14%
Net investment income, Gains on investments and Gains on revaluation	2,507	20%	3,202	43%	-22%	11,414	26%	10,255	20%	11%
Other income	16	0%	19	0%	-17%	58	0%	46	0%	25%
Total revenues	15,367	120%	10,667	143%	44%	55,647	126%	61,473	120%	-9%
Expenses										
Underwriting expenses	(11,992)	-93%	(7,305)	-98%	64%	(48,582)	-110%	(56,347)	-110%	-14%
Operating expenses	(557)	-4%	(553)	-7%	1%	(2,173)	-5%	(2,030)	-4%	7%
Total expenses	(12,550)	-98%	(7,858)	-106%	60%	(50,755)	-115%	(58,377)	-114%	-13%
Earning before tax	2,817	22%	2,809	38%	0%	4,892	11%	3,096	6%	58%
Tax	(531)	-4%	(543)	-7%	-2%	(779)	-2%	(443)	-1%	76%
NI	2,286	18%	2,267	30%	-1%	4,113	9%	2,653	5%	55%

Premium Income

In the fourth quarter of 2015, net premiums written¹ increased by 72%. They amounted to 12.84 billion baht. Such increase was mainly contributed to by increased first year premiums.

In the fourth quarter of 2015, premiums grew considerably compared with the same period of the previous year. First year premiums increased by 431%, amounting to 6.89 billion baht, while in the fourth quarter of 2014, the Company earned 1.30 billion baht in first year premiums.

The growth rate of renewal year premiums slowed down in the fourth quarter of 2015 to 2% because there was a product whose premium paying period ended in the second quarter of 2014, resulting in a decrease in renewal year premiums.

Bancassurance channel was the Company's main channel in the fourth quarter of 2015. Its total premiums represented 59% of the total premiums earned from all channels, while that of agent channel was 39%. When compared year-on-year, such proportion of bancassurance channel premiums increased. In 2014, the proportions of premiums from bancassurance and agent channels to total premiums were 42% and 55% respectively.

In 2015, the growth rate of first year premiums decreased by 35%, with first year premiums amounting to 13.63 billion baht, a decrease from 19.07 billion baht in 2014. This was because in the first quarter of 2014, the Company earned a large volume of single premiums from bancassurance channel, while in 2015 the focus was put on long-term protection plans under which the premium paying period lasts for many years. As a result, first year premiums decreased when compared with 2014.

Net premiums written of 2015 were 44.84 billion baht, a 13% decrease. Total premiums from bancassurance channel to total premiums earned from all channels in 2015 were 65%, while that of agent channel was 32%. When compared year-on-year, the proportion of bancassurance premiums to total premiums declined because of a considerably high growth rate of 2014 first year premiums

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

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through bancassurance. In 2014, the proportion of bancassurance premiums to total premiums from all channels was 71%, while that of agent channel was 27%.

Table 2: First year premiums by channel

	2015		2014		Increase/decrease ratio	
	Quarter 4	Year	Quarter 4	Year	Quarter 4	Year
Bancassurance channel	5,315	10,839	764	16,699	596%	-35%
Agents and brokers channel	1,523	2,488	472	2,081	222%	20%
Other channel	53	299	61	288	-14%	4%
Total	6,890	13,626	1,298	19,069	431%	-29%

Table 3: Total premium by channel

	2015		2014		Increase/decrease ratio	
	Quarter 4	Year	Quarter 4	Year	Quarter 4	Year
Bancassurance channel	7,690	29,296	3,189	36,708	141%	-20%
Agents and brokers channel	5,097	14,291	4,173	13,868	22%	3%
Other channel	201	1,253	176	1,234	14%	2%
Total	12,987	44,840	7,538	51,810	72%	-13%

Table 4 : Premium of each channel to total premium ratio

	2015		2014	
	Quarter 4	Year	Quarter 4	Year
Bancassurance channel	59%	65%	42%	71%
Agents and brokers channel	39%	32%	55%	27%
Other channel	2%	3%	2%	2%
Total	100%	100%	100%	100%

Investment Income

In the fourth quarter of 2015, net investment income was 2.48 billion baht. Gains on investments and gains on revaluation were 14 million baht and 14 million baht respectively. Altogether, they decreased by 695 million baht or 22% from the same period of the previous year. Such decrease resulted from a 99% decrease in gains on investments while net investment income rose 10% and gains on revaluation increased by 227%.

Gains on investments in the fourth quarter of 2015 decreased by 99%. In the fourth quarter of 2014, investments were sold for profit of 940 million baht while in the fourth quarter of 2015 no investments were sold due to the capital market slowdown during that period.

In 2015, net investment income totaled 10.17 billion baht. Gains on investments were 1.16 billion baht and gains on revaluation were 80 million baht. They altogether increased by 11% over the previous year. Such increase resulted from a 15% increase in net investment income and a 211% increase in gains on revaluation, and a 23% decrease in gains on investments. Such increase in net investment income was mainly because of an increase in investment assets during the current year.

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The rate of return on investment for 2015 declined to 5.03% from 5.41% in 2014.

Underwriting Expenses

Underwriting expenses in the fourth quarter of 2015 increased by 64% or 4.69 billion baht from 7.31 billion baht in 2014 to 11.99 billion baht.

1. The item "Life policy reserve increase from the prior year" increased by 139%. The ratio of life policy reserve (before LAT reserve²) to net premiums written in 2015 was 74% while that of 2014 was 69%.
2. Policy benefit payments and benefit adjustment expenses rose 1%. Such increase was mainly contributed to by surrender benefit payments which rose 336 million baht or 37%. Maturity benefits, however, dropped 417 million baht or by 50% because in the fourth quarter of 2014 a large number of policies matured, compared with the fourth quarter of 2015 during which a smaller number of policies were due to maturity.
3. Commissions and brokerage increased by 115 million baht or 19% from 600 million baht in 2014 to 715 million baht in 2015, moving in the same direction of first year premiums which rose 431%. Such increase in commissions and brokerage was lower than the increase rate of premiums earned because the popular short-term products sold in the fourth quarter of 2015 have lower commission rates than do long-term products.

Underwriting expenses for the year 2015 decreased by 14% or 7.77 billion baht, from 56.35 billion baht in 2014 to 48.58 billion baht in 2015. The details were as follows:

1. Life policy reserve decreased by 27% over the previous year. Such decrease was by a greater percentage than the percentage decrease of net premiums because the well-selling products in 2014 were of single premium mode which needed a large amount of reserve to be set aside. Most of the popular products in 2015 were of regular premium mode which needed a lower reserve level. Moreover, in 2014 the Company implemented its PAD reserve³ policy for the first time. The effect from the prior period, therefore, was recorded in the current period.
2. Policy benefit payments and benefit adjustment expenses increased by 28%. Such increase was mainly contributed to by surrender benefit payments which rose 64%.
3. Commissions and brokerage increased by 45 million baht or 2% from 2.81 billion baht in 2014 to 2.85 billion baht in 2015 despite the 14% decrease in net premiums. This was because the top-selling products in 2014 were of single premium mode which have lower commission rates than do long-term products which are the Company's focus in 2015.

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.

³ Provision for adverse deviation (PAD) reserve is set based on a constant 4% of the NPV reserve. (Net Premium Valuation: NPV Calculation based on lock-in assumptions)

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Operating Expenses

Operating expenses of the fourth quarter of 2015 increased by 1% or 4 million baht from 553 million baht in 2014 to 557 million baht in 2015.

Company contributions to the Office of Insurance Commission and the Life Insurance Fund increased by 18 million baht or 91%. This expense was calculated based on premium income so its increase was in line with the increase in premium income in the fourth quarter of 2015.

Operating expenses for the year of 2015 increased by 7% or 144 million baht from 2.03 billion baht in 2014 to 2.17 billion baht in 2015. The major increase was in human resources development cost which was to support the Company's business expansion and competitiveness. It resulted in a 6% increase in employee-related expense. Investment tax increased by 19%, in line with a greater investment income.

Profit for the Period for Separate Financial Statement

The Company posted a profit for the fourth quarter of 2015 in a sum of 2.29 billion baht. It increased by 19 million baht or 1% from the 2014 fourth quarter's profit of 2.27 billion. This was because premiums increased by 72% but gains on investments considerably declined by 99% in the fourth quarter of 2015 compared with 2014. Underwriting expenses also increased by 64%. As a result, profit for the fourth quarter of 2015 only increased by 1%.

The Company's profit for the year of 2015 was 4.11 billion baht. It increased from a 2.65 billion-baht profit for the year of 2014 by 1.46 billion baht or 55%. Even though first year premiums had negative growth of 29% which contributed to a 14% fall in net premiums, gains on investments rose 11%. These resulted in a 9% fall in the Company's total income. However, underwriting expenses decreased by 14%. Life policy reserve in particular declined as much as 27%. Thus, profit for the year of 2015 increased.

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Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the fourth quarter of 2015 posted a profit of 2.29 billion baht. It increased from the 2.27-billion-baht profit posted for the fourth quarter of 2014 by 19 million baht or 1%, as explained in the separate financial statement part. The consolidated profit included a 1.5-million-baht loss posted for the fourth quarter of 2015 by BLA Insurance Broker Co., Ltd. ("BLAIB") of which the Company holds a 99% stake.

The profit reported in the consolidated financial statement for year of 2015 was 5.2 million baht lower than what was posted in the separate financial statement as it included a loss incurred by BLAIB during the year.

Financial Position Summary

Table 5 : Financial Position Summary

Financial Position	As at 31 Dec 2015		As at 31 Dec 2014		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	7,088	3%	5,703	3%	1,384	24%
Premiums due and uncollected	1,717	1%	1,725	1%	(8)	0%
Investments	233,726	94%	202,977	94%	30,749	15%
Premises and equipment	592	0%	402	0%	190	47%
Other assets	6,455	3%	4,781	2%	1,674	35%
Total assets	249,577	100%	215,588	100%	33,989	16%
Liabilities and equity						
Life policy reserves	207,308	83%	177,435	82%	29,874	17%
Insurance contract liabilities	9,450	4%	9,131	4%	319	3%
Other liabilities	5,821	2%	3,443	2%	2,378	69%
Total liabilities	222,579	89%	190,009	88%	32,570	17%
Total equity	26,998	11%	25,579	12%	1,419	6%
Total liabilities and equity	249,577	100%	215,588	100%	33,989	16%

Assets

Total assets grew by 16% from 31 December, 2014. The key item with high growth was investment assets, which increased by 15%. It was as a result of 17% growth in life policy reserve from 177.44 billion baht as of 31 December, 2014 to 207.31 billion baht as of 31 December, 2015.

Liabilities

Total liabilities increased by 17% from 31 December, 2014 as life policy reserve rose 17% or 29.87 billion baht as mentioned in the operating result part. Other liabilities increased by 2.38 billion baht including liabilities under foreign exchange contracts which rose 1.89 billion baht due to exchange rate volatility.

Shareholders' Equity

Shareholders' equity increased by 1.42 billion baht from 25.58 billion baht as of 31 December, 2014 to 27.00 billion baht as of 31 December, 2015. The increase was mainly contributed to by the 2015 operating result of 4.11 billion baht and an increased share capital from warrants no. 2 which had been exercised in a sum of 149 million baht. In 2015, an interim dividend payment of 1.33 billion was made and there was a loss on the fair value of investments in available-for-sale securities net of tax in a sum of 1.55 billion baht.

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Cash Flows

Table 6: Cash Flows

Unit : Million For the year	Statement of cash flows				
	2015		2014		Change
Source of fund					
Operating	34,956	100%	42,382	100%	(7,426)
Net cash provided	34,956	100%	42,382	100%	(7,426)
Used of fund					
Investment activities	(32,407)	-93%	(36,526)	-86%	4,119
Financing	(1,165)	-3%	(1,484)	-4%	319
Net used of fund	(33,572)	-96%	(38,010)	-90%	4,438
Net increased (decreased) in cash	1,384	4%	4,372	10%	(2,988)
Cash and cash equivalents -beginning	5,703	16%	1,331	3%	4,372
Cash and cash equivalents -ending	7,088	20%	5,703	13%	1,384

Cash and cash equivalents as of 31 December, 2015 were 7.09 billion baht, a 24% increase or by 1.38 billion baht from 5.70 billion baht as of 31 December, 2014.

The source of funds of 34.96 billion baht in 2015 was mainly from net premiums written in a sum of 43.90 billion baht, a decrease from 50.65 billion baht in the same period of 2014. Interests and dividends increased by 1.56 billion baht year-on-year. Benefits payments, insurance claims, and loss adjustment expenses increased by 3.07 billion baht from 11.95 billion baht in 2014 to 15.02 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 Ratios⁴

Financial ratio	Quarter		Year	
	4/2015	4/2014	2015	2014
NI / Total income	15%	23%	8%	4%
EBIT / Net premium	22%	38%	11%	6%
NI / Net premium	18%	30%	9%	5%
Reserve / Net premium	59%	43%	68%	80%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as of 31 December, 2015 was 310%⁵. It decreased from 409% as of 31 December, 2014. This ratio is higher than 140%, the minimum level required by the Office of Insurance Commission (OIC).

⁴Calculation 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

⁵ This ratio has not been reviewed by CPA.

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Industry Overview

Industry total life insurance premiums as of December 2015 were 537.51 billion baht⁶, a 6.68% increase year-on-year. They can be divided into first year premiums of 171.43 billion baht, a 0.47% increase and renewal year premiums of 366.08 billion baht, a 9.86% increase. The top six market share companies are as follows:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	26,171.57	93,380.76	119,552.33	22.24%
2	Muang Thai Life Assurance	37,938.07	49,942.28	87,880.36	16.35%
3	Thai Life Insurance	17,617.64	50,758.23	68,375.87	12.72%
4	Krungthai-AXA Life	18,419.94	36,322.97	54,742.91	10.18%
5	SCB Life Assurance	17,507.92	35,464.50	52,972.42	9.86%
6	Bangkok Life Assurance	13,627.20	31,213.02	44,840.22	8.34%

Industry profit for 2015⁷ (January – November, 2015) fell by 13.74 billion baht or 24% from 2014. In 2015, profit amounted to 43.18 billion baht while that of 2014 was 56.93 billion baht. The main reason was that net premiums and other income decreased in 2015. Bancassurance channel's sales continued to grow. The data between January and November 2015 showed that industry's total premiums through bancassurance increased by 9%, compared to the same period of the previous year. Bancassurance premiums represented 43% of total premiums earned from all channels, same as in 2014. Agent channel has also expanded with a 7% increase in total premiums, representing 50% of total premiums earned from all channels in 2015, same percentage as in 2014.

Significant Events

Exercises of Warrants No.2

The holders of the warrants no.2 exercised their right to purchase 4.6 million units of the Company's ordinary shares at the exercise price of 25.00 baht for the total amount of 160.0 million baht. The Company recorded 89 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.

⁶ Source: Thai Life Insurance Association

⁷ Source: Office of Insurance Commission

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Investment in Subsidiary Company (BLA Insurance Broker)

In 2015, the Company acquired additional 1.98 million ordinary shares in BLA Insurance Broker Co., Ltd. at par value of 10 baht per share, total of 19.80 million baht. The subsidiary increased its share capital by 20.00 million baht, resulting in an increase in its registered capital from 4 million baht to 24 million baht. The Company's shareholding equals 99% of the subsidiary's registered and paid up capital.

Investment Property

According to the Thai Accounting Standard No.40, investment property is defined as property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, but not for:

- (a) use in the production or supply of goods or services or for administrative purposes, or
- (b) sale in the ordinary course of business.

During the third quarter of 2015, the Company invested in investment property which is a building worth 21 million baht. The property was recorded at cost including expenditure that is directly attributable to the acquisition less accumulated depreciation over the estimated useful life.

New financial Reporting standards

The Thai Accounting Standard no.19 (revised in 2014) regarding employee benefits requires that the entity recognises actuarial gains and losses immediately in other comprehensive income. This practice is different from the former standard which allowed the entity to recognise such gains and losses immediately in either profit or loss or other comprehensive income, or to recognise them gradually in profit or loss. According to its accounting policy, the Company previously recognised its actuarial gains or losses in the profit and loss statement.

In 2015, the Company and its subsidiary, therefore, revised their financial statements for the year of 2014 which are used for comparison. The revision resulted in a 12-million-baht decrease in 2014 net profit and a 12-million-baht increase in other comprehensive income, compared with the previous version of the financial statements.