



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

“Management’s Discussion and Analysis for 1st quarter 2016”



Management's Discussion and Analysis for Quarter 1 2016

Summary

In the first quarter of 2016, the Company had a loss of 6.89 billion baht, a decrease from a profit of 767 million baht posted in the first quarter of 2015. The main reason was from decreasing of interest rate in the first quarter of 2016. The company had obligation to set up LAT reserve in a sum of 10.38 billion baht and recognize through to profit and loss.

However, the decreasing of interest rate in the first quarter of 2016, fair value of asset that mostly was long term debt securities increased by 12.17 billion baht. While, investment asset was mostly debt securities that recorded with amortized cost in accordance with Thai Accounting Standard. Thus, increasing of fair value did not recognize through to profit and loss. In the case of fair value of investment asset and life policy reserve was adjusted in accordance with the guidance of financial instrument which present fair value through profit and loss. Profit from operating result was approximately amount 2.74 billion baht in the first quarter of 2016.

For considering the Company's solvency, capital adequacy ratio – CAR as at the first quarter of 2016 increased from 309% at the end of 2015 to 329%. This ratio is higher 2 times than 140%, the minimum level required by the Office of Insurance Commission (OIC).

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter				
	1/ 2016		1/ 2015		%QoQ
Revenues					
Net premiums earned	12,856	100%	15,617	100%	-18%
Net investment income, Gains on investments and Gains on revaluation	3,270	25%	3,522	23%	-7%
Other income	134	1%	108	1%	24%
Total revenues	16,261	126%	19,247	123%	-16%
Expenses					
Underwriting expenses	(24,411)	-190%	(17,891)	-115%	36%
Operating expenses	(539)	-4%	(454)	-3%	19%
Total expenses	(24,950)	-194%	(18,346)	-117%	36%
Earning before tax	(8,689)	-68%	901	6%	1064%
Tax	1,801	14%	(135)	-1%	-1437%
NI	(6,888)	-54%	767	5%	999%

Premium Income

In the first quarter of 2016, net premiums written¹ decreased by 18%. They amounted to 12.86 billion baht. Such decrease was mainly contributed to by decreased renewal year premiums.

In the first quarter of 2016, the premium growth rate declined. First year premiums increased by 15%, amounting to 2.42 billion baht, while in the first quarter of 2015, the Company earned 2.11 billion baht in first year premiums.

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

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The growth rate of renewal year premiums slowed down in the first quarter of 2016 to 21% because there was a product whose premium paying period ended in 2015, resulting in a decrease in renewal year premiums.

Bancassurance channel was the Company's main channel in the first quarter of 2016. Its total premiums represented 71% of the total premiums earned from all channels, while that of agent channel was 24%. When compared year-on-year, such proportion of bancassurance channel premiums decreased. In 2015, the proportions of premiums from bancassurance and agent channels to total premiums were 77% and 20% respectively.

Table 2: First year premiums by channel

	Quarter 1		Increase/ decrease ratio
	2016	2015	
Bancassurance channel	1,797.70	1,636.41	10%
Agents and brokers channel	402.95	346.06	16%
Other channel	215.89	125.47	72%
Total	2,416.55	2,107.94	15%

Table 3: Total premium by channel

	Quarter 1		Increase/ decrease ratio
	2016	2015	
Bancassurance channel	9,551.03	12,276.26	-22%
Agents and brokers channel	3,198.89	3,236.78	-1%
Other channel	662.16	508.39	30%
Total	13,412.08	16,021.43	-16%

Table 4 : Premium of each channel to total premium ratio

	Quarter 1	
	2016	2015
Bancassurance channel	71%	77%
Agents and brokers channel	24%	20%
Other channel	5%	3%
Total	100%	100%

Investment Income

In the first quarter of 2016, net investment income was 2.72 billion baht. Gains on investments were 624 million baht and losses on revaluation were 69 million baht. Altogether, they decreased by 251 million baht or 7% from the same period of the previous year. In the first quarter of 2015, net investment income was 2.51 billion baht. Gains on investments were 1.02 billion baht and losses on revaluation were 5 million baht.

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The decrease in gains on investments was because in the first quarter of 2015 gains on investments were mainly obtained from selling common stocks while in the first quarter of 2016 no assets were sold to realize gains due to the capital market slowdown.

The rate of return on investment for 2016 decreased to 5.48% from 6.62% in 2015. The rates of return on investment including revaluation surplus on available-for-sale securities --consisting of stocks and corporate bonds-- were 4.99% and 13.75% in 2015 and 2016 respectively.

Expenses

1. Underwriting expenses in the first quarter of 2016 increased by 36% or 6.52 billion baht from 17.89 billion baht in 2015 to 24.41 billion baht.

- 1) The item "Life policy reserves increase from prior periods" increased by 47%, in line with greater contractual obligations, number of contracts, and accumulated premiums. There was also an impact from lower interest rates in the current period when compared with the same period of 2015. The ratio of life policy reserve (before LAT reserve²) to net premiums written in 2016 was 58% while that of 2015 was 69%.
- 2) Policy benefits and claims payments rose 14%. Policy benefits payments increased by 664 million baht or 15%. The increase was mainly contributed to by an increase in surrender benefits by 454 million baht or 34% and an increase in claims and loss adjustment expenses by 16 million baht or 5%.
- 3) Commissions and brokerage increased by 86 million baht or 10% from 840 million baht in 2015 to 926 million baht in 2016, corresponding to a 15% increase in first year premiums during the period. Such increase in commissions and brokerage was lower than the increase rate of first year premiums because the well-selling short-term products sold in the first quarter of 2016 had lower commission rates than do long-term products.

2. Operating expenses of the first quarter of 2016 increased by 19% or 85 million baht from 454 million baht in 2015 to 539 million baht in 2016. Of the items under operating expenses, a major increase was in specific business tax which was according to a 146% increase in investment income. In addition, there were also expenses associated with the Company's office buildings in order to enhance the Company's image and brand awareness and to support future business expansion.

Profit for the Period for Separate Financial Statement

The Company posted a loss for the first quarter of 2016 in a sum of 6.89 billion baht. This operating result decreased by 7.66 billion baht or 999% from the 2015 first quarter's profit of 767 million. This was because net premiums written decreased by 18% and life policy reserves increased from prior periods by 47% due to the 10.38-billion-baht LAT reserve that was set aside in the first quarter of 2016. However, if the Company changed its accounting method according to fair value

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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accounting to reflect its profit and loss by recording the reserve for long-term contracts based on GPV and by recording held-to-maturity assets based on their fair value, the Company would post a profit in the first quarter of 2016 in a sum of 2.74 billion baht.

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the first quarter of 2016 posted a loss of 6.89 billion baht. It decreased from the 765-million-baht profit posted for the first quarter of 2015 by 7.65 billion baht or 1000%, as explained in the separate financial statement part. The consolidated operating result included a 0.1-million-baht profit posted for the first quarter of 2016 by BLA Insurance Broker Co., Ltd. ("BLAIB") of which the Company holds a 99% stake.

Financial Position Summary

Table 5 : Financial Position Summary

Financial Position	As at 31 Mar 2016		As at 31 Dec 2015		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	5,468	2%	7,088	3%	(1,620)	-23%
Premiums due and uncollected	3,081	1%	1,717	1%	1,364	79%
Investments	247,257	93%	233,726	94%	13,531	6%
Premises and equipment	624	0%	592	0%	32	5%
Other assets	9,890	4%	6,455	3%	3,435	53%
Total assets	266,319	100%	249,577	100%	16,742	7%
Liabilities and equity						
Life policy reserves	225,157	85%	207,308	83%	17,848	9%
Insurance contract liabilities	9,815	4%	9,543	4%	272	3%
Other liabilities	7,087	3%	5,728	2%	1,359	24%
Total liabilities	242,059	91%	222,579	89%	19,480	9%
Total equity	24,261	9%	26,998	11%	(2,738)	-10%
Total liabilities and equity	266,319	100%	249,577	100%	16,742	7%

Assets

Total assets grew by 7% from 31 December, 2015. The key item with high growth was investment assets, which increased by 6%. It was as a result of 9% growth in life policy reserve from 207.31 billion baht as of 31 December, 2015 to 225.16 billion baht as of 31 March, 2016.

Liabilities

Total liabilities increased by 9 % from 31 December, 2015 as life policy reserve rose 9% or 17.85 billion baht as mentioned in the operating result part. Other liabilities increased by 1.36 billion baht because income tax payable increased by 1.61 billion baht as a result of the add-back item from the increased reserves. Liabilities under foreign exchange contracts decreased by 508 million baht due to exchange rate volatility.

Shareholders' Equity

Shareholders' equity decreased by 2.74 billion baht from 27.00 billion baht as of 31 December, 2015 to 24.26 billion baht as of 31 March, 2016. The decrease was mainly contributed to by the 2016 operating loss result of 6.88 billion baht and there was a loss on the fair value of investments in available-for-sale securities net of tax in a sum of 4.12 billion baht.

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Cash Flows

Table 6: Cash Flows

Unit : Million For the year	Statement of cash flows				
	1/ 2016		1/ 2015		Change
Source of fund					
Financing	21	-1%	1,205	-22%	(1,184)
Net cash provided	21	-1%	1,205	-22%	(1,184)
Used of fund					
Investment activities	(158)	11%	(83)	2%	(75)
Operating	(1,483)	100%	(5,424)	100%	3,941
Net used of fund	(1,641)	111%	(5,507)	102%	3,866
Net increased (decreased) in cash	(1,620)	109%	(4,302)	79%	2,682
Cash and cash equivalents -beginning	7,088	-478%	5,703	-105%	1,384
Cash and cash equivalents -ending	5,468	-369%	1,401	-26%	4,066

Cash and cash equivalents as of 31 March, 2016 were 5.47 billion baht, a 23% decrease or by 1.62 billion baht from 7.09 billion baht as of 31 December, 2015.

Regarding cash flows, the net uses of funds amounted to 1.64 billion baht in the first quarter of 2016. Net premiums written were in a sum of 12.14 billion baht, a decrease by 1.78 billion baht in the same period of 2015. Interests, dividends, and other investment income increased by 6.76 billion baht year-on-year. Benefits payments and insurance claims increased by 936 million baht from 5.50 billion baht in 2015 to 6.50 billion baht in 2016. Investments in securities and cash deposits at financial institutions increased by 162 million baht year-on-year.

The uses of funds were investment activities which included a major investment in a sum of 108 million baht in Bangkok Life Assurance (Cambodia) Plc which is registered in Cambodia.

The main source of funds from financing activities decreased because in 2015 the Company earned cash from selling securities with repurchase agreements in a sum of 1.10 billion baht.

Key Financial Ratios

Table 7 : Financial Ratios³

Financial ratio	Quarter		Year	
	1/ 2016	1/ 2015	2015	2014
NI / Total income	-42%	4%	8%	4%
EBIT / Net premium	-67%	6%	11%	6%
NI / Net premium	-53%	5%	9%	5%
Reserve / Net premium	138%	77%	68%	80%

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

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Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as of 31 March, 2016 was 329%⁴. It increased 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 February 2016 were 89.74 billion baht⁵, a 5.37% increase year-on-year. They can be divided into first year premiums of 25.52 billion baht, a 4.00% increase and renewal year premiums of 64.23 billion baht, a 5.93% increase. The top five market share companies are as follows:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	4,024.90	13,617.42	17,642.32	19.66%
2	Muang Thai Life Assurance	6,177.33	10,484.62	16,661.95	18.57%
3	Thai Life Insurance	2,697.56	8,634.35	11,331.91	12.63%
4	Bangkok Life Assurance	1,716.79	8,135.54	9,852.32	10.98%
5	SCB Life Assurance	2,090.80	6,063.95	8,154.75	9.09%

Regarding industry profit for 2016⁶ (January – February, 2016), bancassurance channel's sales continued to grow. The data between January and February 2016 showed that industry's total premiums through bancassurance increased by 10%, compared to the same period of the previous year. Bancassurance premiums represented 46% of total premiums earned from all channels, same as in 2015. Agent channel has also expanded with a 9% increase in total premiums, representing 47% of total premiums earned from all channels in 2016, same percentage as in 2015.

Significant Events

Exercises of Warrants No.2

The holders of the warrants no.2 exercised their right 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 21.1 million baht. The Company recorded 12 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.

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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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 is currently obtaining 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.