



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

“Management Discussion and Analysis for 2nd quarter 2016”



Management's Discussion and Analysis for Quarter 2 2016

Summary

In the second quarter of 2016, the Company had a profit of 9.40 billion baht, compared to a profit of 1.85 billion baht posted in the second quarter of 2015. An important factor in the profit increase was that the Office of Insurance Commission (OIC) appointed a committee to study the impact of low interest rates and to propose measures to cope with the situation. The committee has studied to determine an appropriate discount rate for calculating the adequacy of liabilities. As a consequence of the study result, the Company could release its LAT reserve, which resulted in a 9.52-billion-baht decrease in the reserve for long-term contracts.

In the first half of 2016, the Company posted a profit in a sum of 2.51 billion baht, compared to a profit of 2.61 billion baht in the first half of 2015. Because interest rates decreased by 79 bps year on year, the Company had to set aside an additional LAT reserve in the first half of the year in a sum of 857 million baht. This same amount is also reflected in "life policy reserve increase from prior periods".

If the Company adjusted its investments in bonds and liabilities based on their market value, it would post a net loss of 1.41 billion baht and a net profit of 3.99 billion baht for the second quarter of 2016 and the first half of 2016 respectively.

Regarding the Company's solvency, the Company's capital adequacy ratio (CAR) as of the second quarter of 2016 was 312%, an increase 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).

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Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter			6 months periods					
	2/2016	2/2015	%QoQ	2016		2015		%YoY	
Revenues									
Net premiums earned	7,433	7,195	3%	20,289	100%	22,811	100%	-11%	
Net investment income, Gains on investments and Gains on revaluation	3,928	2,579	52%	7,199	35%	6,101	27%	18%	
Other income	61	74	-18%	195	1%	182	1%	7%	
Total revenues	11,423	9,848	16%	27,683	136%	29,095	128%	-5%	
Expenses									
Underwriting expenses	788	(7,052)	-111%	(23,623)	-116%	(24,944)	-109%	-5%	
Operating expenses	(526)	(550)	-4%	(1,065)	-5%	(1,004)	-4%	6%	
Total expenses	262	(7,602)	-103%	(24,688)	-122%	(25,948)	-114%	-5%	
Earning before tax	11,685	2,246	-420%	2,996	15%	3,147	14%	-5%	
Tax	(2,285)	(400)	471%	(484)	-2%	(535)	-2%	-9%	
NI	9,400	1,846	-409%	2,511	12%	2,612	11%	-4%	

Premium Income

In the second quarter of 2016, net premiums written¹ increased by 3%. They amounted to 7.43 billion baht. Such increase was mainly contributed to by increased first year premiums.

In the second quarter of 2016, first year premiums increased by 26%, amounting to 2.00 billion baht, while in the second quarter of 2015, the Company earned 1.59 billion baht in first year premiums. Popular products in the second quarter of 2016 were long-term protection plans.

The growth rate of renewal year premiums in the second quarter of 2016 dropped by 3% 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 second quarter of 2016. Its total premiums represented 55% of the total premiums earned from all channels, while that of agent channel was 41%. When compared year-on-year, such proportions of premiums were close to the second quarter of 2015. In 2015, the proportions of premiums from bancassurance and agent channels to total premiums were 56% and 39% respectively.

In the first half of 2016, first year premiums amounted to 4.42 billion baht, a 19% increase from 3.70 billion baht in the first half of 2015. Such increase in premiums was because the Company earned more premiums from its business growth in the second quarter of 2016.

Total premiums of the first half of 2016 amounted to 21.04 billion baht, down 10%. The proportions of premiums from bancassurance and agent channels to total premiums were 66% and 30% respectively. When compared year-on-year, such proportion of bancassurance channel premiums decreased. This was because the growth rate of bancassurance first year premiums in 2015 was high, and thus the proportions of premiums from bancassurance and agent channels to total premiums in 2015 were 70% and 26% 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 1	Quarter 2	Total	Quarter 1	Quarter 2	Total	Quarter 1	Quarter 2	Total
Bancassurance channel	1,798	1,472	3,270	1,636	1,231	2,867	10%	20%	14%
Agents and brokers channel	403	458	861	346	298	644	16%	54%	34%
Other channel	216	70	286	125	60	186	72%	16%	54%
Total	2,417	2,000	4,417	2,108	1,589	3,697	15%	26%	19%

Table 3: Total premium by channel

	2016			2015			Increase/Decrease		
	Quarter 1	Quarter 2	Total	Quarter 1	Quarter 2	Total	Quarter 1	Quarter 2	Total
Bancassurance channel	9,551	4,231	13,782	12,276	4,174	16,450	-22%	1%	-16%
Agents and brokers channel	3,199	3,101	6,300	3,237	2,902	6,139	-1%	7%	3%
Other channel	662	297	959	508	318	827	30%	-7%	16%
Total	13,412	7,630	21,042	16,021	7,394	23,416	-16%	3%	-10%

Table 4 : Premium of each channel to total premium ratio

	2016			2015		
	Quarter 1	Quarter 2	Total	Quarter 1	Quarter 2	Total
Bancassurance channel	71%	55%	66%	77%	56%	70%
Agents and brokers channel	24%	41%	30%	20%	39%	26%
Other channel	5%	4%	5%	3%	4%	4%
Total	100%	100%	100%	100%	100%	100%

Investment Income

Table 5: Investment income

Unit : Million	Quarter				6 months periods			
	2/2016	2/2015	Change	%QoQ	2016	2015	Change	%YoY
Net investment income	2,721	2,466	255	10%	5,437	4,978	459	9%
Gain on investment	1,250	80	1,170	1463%	1,874	1,095	779	71%
Gain (loss) on revaluation	(43)	33	(76)	-230%	(112)	28	(140)	-500%
Total	3,928	2,579	1,349	52%	7,199	6,101	1,098	18%

In the second quarter of 2016, net investment income was 2.72 billion baht. Gains on investments were 1.25 billion baht and losses on revaluation were 43 million baht. Therefore, total investment income amounted to 3.92 billion baht, an increase by 1.35 billion baht or 52% from the same period of the previous year.

In the first half of 2016, net investment income was 5.44 billion baht. Gains on investments were 1.87 billion baht and losses on revaluation were 112 million baht. Therefore, total investment income amounted to 7.20 billion baht, an increase by 1.10 billion baht or 18% from the same period of the previous year.

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The rate of return on investment for 2016 increased to 5.89% from 5.55% in 2015. The rates of return on investment including revaluation surplus on available-for-sale securities --consisting of stocks and corporate bonds-- were 5.22% and 8.70% in 2015 and 2016 respectively.

Expenses

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

1. Underwriting expenses in the second quarter of 2016 decreased by 111% or 7.84 billion baht, from 7.05 billion baht in 2015 to (788) million baht in 2016.

1) The item "Life policy reserves increase from prior periods" decreased by 308%. This was because the Office of Insurance Commission (OIC) appointed a committee to study the impact of low interest rates and to propose measures to cope with the situation. The committee has studied to determine an appropriate discount rate for calculating the adequacy of liabilities. As a consequence of the study result, the Company could release its LAT reserve in a sum of 9.52 billion baht. The ratio of life insurance reserve (before LAT reserve²) to net premiums earned in 2016 was 58%, compared to 47% in 2015.

2) Benefit payments under life policies and claims payments increased by 30%. They can be divided into:

- Benefit payments under life policies payments increased by 1.09 billion baht or 35%. The increase was mainly contributed to by an increase in maturity benefits by 851 million baht or 295% and an increase in policy contractual benefits by 83 million baht or 8%.
- Claims and loss adjustment expenses decreased by 74 million baht or 25%.

3) Commissions and brokerage increased by 67 million baht or 11% from 626 million baht in 2015 to 693 million baht in 2016, corresponding to a 26% increase in first year premiums year on year. Such increase in commissions was also because commissions for some products have been revised upward.

2. Operating expenses of the second quarter of 2016 decreased by 4% or 24 million baht from 550 million baht in 2015 to 526 million baht in 2016 due to the Company's cost reduction policy.

The details for the first half of 2016 were as follows:

1. Underwriting expenses in the first half of 2016 decreased by 5% or 1.32 billion baht from 24.94 billion baht in 2015 to 23.62 billion baht in 2016.

1) The item "Life policy reserves increase from prior periods" decreased by 21%. In 2016 premium decreased and maturity and policy benefits payments largely increased, resulting in a decrease in reserve. However, due to lower interest rates year on year, the Company needed to set an additional LAT reserve in a sum of 857 million baht in

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the first half of the year. The ratio of life policy reserve (before LAT reserve²) to net premiums written in 2016 was 54% while that of 2015 was 65%.

- 2) Benefit payments under life policies and claims payments increased by 21%. They can be divided into:
 - Benefit payments under life policies increased by 1.76 billion baht or 23%. The increase was mainly contributed to by an increase in maturity benefits by 905 million baht or 98% and by an increase in surrender benefits by 471 million baht or 17%
 - Claims and loss adjustment expenses decreased by 58 million baht or 9%.
- 3) Commissions and brokerage increased by 153 million baht or 10% from 1.47 billion baht in 2015 to 1.62 billion baht in 2016, corresponding to a 19% increase in first year premiums year on year. Such increase in commissions and brokerage was lower than the increase rate of first year premiums because commissions of the well-selling products in 2016 have been revised
- 4) Operating expenses of the first half of 2016 increased by 6% or 61 million baht from 1.00 billion baht in 2015 to 1.07 billion baht in 2016. Of the items under operating expenses, a major increase was expense incurred to enhance the Company's image.

Profit for the Period for Separate Financial Statement

The Company posted a profit for the second quarter of 2016 in a sum of 9.40 billion baht. This operating result increased by 7.55 billion baht or 409% from 1.85-billion-baht profit posted in the second quarter of 2015. This was because net premiums written increased by 3% while underwriting expenses decreased from prior periods by 111% due to the LAT reserve that was reversed in a sum of 9.52 billion baht. The reserve that was reversed was as a result of the revised discount rate used to calculate the liabilities adequacy test.

The Company posted a profit for the first half of 2016 in a sum of 2.51 billion baht. This operating result decreased by 101 million baht or 4% from 2.61-billion-baht profit posted in the second quarter of 2015. This was because net premiums written decreased by 11% and underwriting expenses decreased by 5%. Such decrease in underwriting expenses was less than the decrease in net premiums written because of the 857-million-baht reserve that was set aside in the current year.

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the second quarter of 2016 posted a profit of 9.39 billion baht. It increased from a 1.84-billion-baht profit posted for the second quarter of 2015 by 7.54 billion baht or 409%, as explained in the separate financial statement part. The consolidated operating result included a 1-million-baht loss and a 12-million-baht loss posted for the second

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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quarter of 2016 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 half year of 2016 posted a profit of 2.50 billion baht. It decreased from a 2.61-billion-baht profit posted for the half year of 2015 by 112 million baht or 4%, as explained in the separate financial statement part. The consolidated operating result included a 1-million-baht loss and 12-million-baht loss posted for the half year of 2016 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 Jun 2016		As at 31 Dec 2015		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	8,780	3%	7,088	3%	1,692	24%
Premiums due and uncollected	2,099	1%	1,717	1%	382	22%
Accrued investment incomes	2,318	1%	2,628	1%	(310)	-12%
Investments	249,637	93%	233,726	94%	15,911	7%
Premises and equipment	1,146	0%	592	0%	554	94%
Other assets	4,215	2%	3,827	2%	388	10%
Total assets	268,194	100%	249,577	100%	18,617	7%
Liabilities and equity						
Life policy reserves	219,120	82%	207,308	83%	11,812	6%
Insurance contract liabilities	9,628	4%	9,543	4%	85	1%
Other liabilities	6,951	3%	5,728	2%	1,223	21%
Total liabilities	235,698	88%	222,579	89%	13,119	6%
Total equity	32,496	12%	26,998	11%	5,498	20%
Total liabilities and equity	268,194	100%	249,577	100%	18,617	7%

Assets

Total assets grew by 7% from 31 December, 2015. Assets growth was mainly due to larger investment assets which increased by 15.91 billion baht.

Liabilities

Total liabilities increased by 6% from 31 December, 2015 mainly from life policy reserve that rose 11.81 billion baht as mentioned in the operating result part.

Shareholders' Equity

Shareholders' equity increased by 5.50 billion baht from 27.00 billion baht as of 31 December, 2015 to 32.50 billion baht as of 30 June, 2016. The increase was mainly contributed to by the operating profit of 2.51 billion baht and gains on fair value of investments in available-for-sale securities net of tax in a sum of 3.49 billion baht. The interim dividend paid during the year amounted to 544 million baht.

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Cash Flows

Table 6: Cash Flows

Unit : Million For the quarter	Statement of cash flows		
	2/2016	2/2015	Change
Source (used) of fund			
Operating activities	2,900	(9,005)	11,905
Investment activities	(702)	(103)	(599)
Financing activities	(506)	3,965	(4,471)
Net increased (decreased) in cash	1,692	(5,143)	6,836
Cash and cash equivalents -beginning	7,088	5,703	1,384
Cash and cash equivalents -ending	8,780	560	8,220

Cash and cash equivalents as of 30 June, 2016 were 8.78 billion baht, a 24% increase or by 1.69 billion baht from 7.09 billion baht as of 31 December, 2015. Cash and cash equivalents as of 30 June, 2015 were 560 million baht, a 90% decrease or by 5.14 billion baht from 5.70 billion baht as of 31 December, 2014. In 2015, there were more uses of fund than sources of fund. In 2016, there were less uses of fund than sources of fund.

Regarding cash flows, the sources of funds of operating activities amounted to 2.90 billion baht in the second quarter of 2016. In the second quarter of 2015, cash flow from operating activities was negative due to the following:

- 1) Net premiums written were in a sum of 21.27 billion baht in 2016, a decrease by 1.68 billion baht from the same period of 2015.
- 2) Interests, dividends, and other investment income amounted to 7.05 billion baht in 2016, an increase by 640 million from the same period of 2015.
- 3) Benefits payments and insurance claims increased by 2.04 billion baht from 8.00 billion baht in 2015 to 10.05 billion baht in 2016.
- 4) Investments in securities and cash deposits at financial institutions amounted to 11.07 billion baht in 2016, a decrease by 15.54 billion baht year on year.

The uses of funds were investment activities which included a purchase of a plot of land for the new head office in a sum of 544 million baht and a major investment in a sum of 108 million baht in Bangkok Life Assurance (Cambodia) Plc which is registered in Cambodia.

The main uses of funds from financing activities in 2016 the Company paid a dividend in a sum of 544 million baht and received cash from exercised warrants in a sum of 38 million baht.

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Key Financial Ratios

Table 7 : Financial Ratios³

Financial ratio	Quarter		6 months periods	
	2/2016	2/2015	2016	2015
NI / Total income	82%	19%	9%	9%
EBIT / Net premium	157%	31%	15%	14%
NI / Net premium	127%	25%	12%	11%
Reserve / Net premium	-81%	40%	58%	65%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as of 30 June, 2016 was 312%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 June 2016 were 278.60 billion baht⁵, a 23.04% increase year on year. They can be divided into first year premiums of 80.70 billion baht, a declining growth of 23.09% and renewal year premiums of 197.90 billion baht, a 22.69% increase. The top six market share companies are as follows:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	11,686.03	43,802.37	55,488.39	19.92%
2	Muang Thai Life Assurance	18,447.33	33,335.62	51,782.96	18.59%
3	Thai Life Insurance	10,086.36	26,901.68	36,988.04	13.28%
4	SCB Life Assurance	7,493.52	21,898.58	29,392.11	10.55%
5	Krungthai-AXA Life	8,240.50	20,484.53	28,725.03	10.31%
6	Bangkok Life Assurance	4,417.41	16,624.89	21,042.30	7.55%

Regarding industry profit for 2016⁶ (January – May, 2016), bancassurance channel's sales continued to grow. The data between January and May 2016 showed that industry's total premiums

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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through bancassurance increased by 7%, compared to the same period of the previous year. Bancassurance premiums represented 45% of total premiums earned from all channels, same as in 2015. Agent channel has also expanded with a 2% increase in total premiums, representing 48% of total premiums earned from all channels in 2016, decreased from 2015 at 49%.

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 10.5 million baht. The Company recorded 6.5 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.