



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

“Management Discussion and Analysis for 1st quarter 2017”



Management's Discussion and Analysis for Quarter 1 2017

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter				
	1/2017		1/2016		%YoY
Revenues					
Net premiums written ⁽¹⁾	12,540	100%	12,856	100%	-2%
Total investment income ⁽²⁾	2,915	23%	3,115	24%	-6%
Other income	149	1%	134	1%	11%
Total revenues	15,604	124%	16,105	125%	-3%
Expenses					
Underwriting expenses	(14,154)	-113%	(24,410)	-190%	-42%
Operating expenses	(396)	-3%	(384)	-3%	3%
Total expenses	(14,550)	-116%	(24,794)	-193%	-41%
Earning (loss) before tax	1,054	8%	(8,689)	-68%	112%
Tax	(126)	-1%	1,801	14%	-107%
NI (loss)	928	7%	(6,888)	-54%	113%

⁽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

Premium Income

In the first quarter of 2017, net premiums written decreased by 2%, amounting to 12.54 billion baht. Such decrease was mainly contributed to by the decrease in renewal year premiums.

In the first quarter of 2017, first year premiums increased by 5%, amounting to 2.53 billion baht while in the first quarter of 2016, the Company earned 2.42 billion baht in first year premiums. In the first quarter of 2017, the Company sold medium-term saving and whole life products via bancassurance channels, and the Company sold short and medium-term saving via agent channels. In addition, whole life products had become more popular. For renewal premiums, the growth rate in the first quarter of 2017 decrease by 3% because there were certain products which became fully paid in 2016 and this resulted in lower renewal premiums in 2017.

Bancassurance channel was the Company's main channel in the first quarter of 2017. Its total premiums represented 68% of the total premiums earned from all channels, while those of the agent channel contributed to 26%. 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 71% and 24%, respectively.

Table 2: First year premiums by channel

	2017	2016	Increase/ decrease ratio
	Quarter 1	Quarter 1	
Bancassurance channel	1,634	1,790	-9%
Agents and brokers channel	642	403	59%
Other channel	257	224	15%
Total	2,533	2,417	5%

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Table 3: Total premium by channel

	2017	2016	Increase/ decrease ratio
	Quarter 1	Quarter 1	
Bancassurance channel	8,940	9,544	-6%
Agents and brokers channel	3,460	3,199	8%
Other channel	747	670	12%
Total	13,148	13,412	-2%

Table 4 : Premium of each channel to total premium ratio

	2017	2016
	Quarter 1	Quarter 1
Bancassurance channel	68%	71%
Agents and brokers channel	26%	24%
Other channel	6%	5%
Total	100%	100%

Investment Income

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

Unit : Million	Quarter			
	1/2560	1/2559	Change	%YoY
Net investment income	2,803	2,560	242	9%
Gain on investment	204	624	(420)	-67%
Loss on revaluation	(92)	(69)	(23)	33%
Total	2,915	3,115	(200)	-6%

In the first quarter of 2017, net investment income was 2.80 billion baht. Gain on investments was 204 million baht and loss on revaluation was 92 million baht. Total investment income amounted to 2.92 billion baht, a decrease by 200 million baht or 6% from the same period of the previous year.

The rate of return on investment decreased from 5.48% in the first quarter of 2016 to 4.47% in the first quarter of 2017. The rates of return on investment including revaluation surplus on available-for-sale securities—consisting of stocks and debt securities—were 13.75% and 4.85% in 2016 and 2017, respectively.

Expenses

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

1. Underwriting expenses in the first quarter of 2017 decreased by 42% or 10.26 billion baht, from 24.41 billion baht in 2016 to 14.15 billion baht in 2017.

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- 1) The item "Life policy reserves increasing from prior period" decreased by 58% or 10.28 billion baht from 17.85 billion baht in the first quarter of 2016 to 7.57 billion baht in the first quarter 2017, causing the Company to set LAT reserve 10.38 billion baht. However, in the first quarter of 2017, the Company was not obliged to set the LAT reserve.
- 2) Benefit payments under life policies and claims payments increased by 2.5%. They can be divided into:
 - Policy benefits payments increased by 114 million baht or 4%. The increase was mainly owing to an increase in benefits payment of 323 million baht or 15%. This is in line with the increase in business size.
 - Claims and loss adjustment expenses increased by 25 million baht or 1%.
- 3) Commissions and brokerage decreased by 93 million baht or 10%, from 926 million baht in the first quarter of 2016 to 833 million baht in the first quarter of 2017. Such decrease in commissions was due to the lower commission rates of short-term saving products via agent channels which were in demand.

2. Operating expenses for the first quarter of 2017 increased by 3% or 12 million baht, from 384 million baht in the first quarter of 2016 to 396 million baht in the first quarter of 2017. This was mainly due to an increase in human resources costs by 6% and bank fees increased due to increasing in credit card payment.

Profit for the Period for Separate Financial Statement

The Company posted a profit for the first quarter of 2017 in a sum of 928 million baht, an increase by 7.82 billion baht from a 6.88-billion-baht net loss posted in the first quarter of 2016. This was because in the first quarter of 2016, the Company was required to set LAT reserve in the sum of 10.38 billion baht and present through income statement. In the first quarter of 2017, however, the Company was not required to set LAT reserve.

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for the first quarter of 2017 posted a profit of 922 million baht, an increase from a 6.88-billion-baht net loss posted in the first quarter of 2016 by 7.81 billion baht or 113%, 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 31 Mar 2017		As at 31 Dec 2016		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	14,737	5%	13,021	5%	1,716	13%
Premiums due and uncollected	3,035	1%	2,200	1%	835	38%
Accrued investment incomes	2,860	1%	2,053	1%	806	39%
Investments	264,582	91%	259,361	92%	5,221	2%
Premises and equipment	1,252	0%	1,192	0%	60	5%
Other assets	4,438	2%	4,532	2%	(94)	-2%
Total assets	290,904	100%	282,359	100%	8,545	3%
Liabilities and equity						
Life policy reserves	240,978	83%	233,412	83%	7,565	3%
Other insurance contract liabilities	10,072	3%	9,686	3%	386	4%
Other liabilities	5,029	2%	5,919	2%	(890)	-15%
Total liabilities	256,079	88%	249,018	88%	7,061	3%
Total equity	34,825	12%	33,341	12%	1,484	4%
Total liabilities and equity	290,904	100%	282,359	100%	8,545	3%

Assets

Total assets grew by 3% from December 31, 2016. Assets growth was mainly due to larger investment assets, which increased by 5.22 billion baht.

Liabilities

Total liabilities increased by 3% from December 31, 2016 mainly from life policy reserve which rose 7.57 billion baht in accordance with increasing life policy reserve of in-force policies in the line with insurance coverage period and new policies received during the period.

Shareholders' Equity

Shareholders' equity increased by 1.48 billion baht, from 33.34 billion baht as of December 31, 2016 to 34.83 billion baht as of March 31, 2017. The increase was mainly contributed to by the operating profit of 928 million baht and gains on valuation of investments in available-for-sale securities net of tax in a sum of 534 million baht.

Cash Flows

Table 7: Cash Flows

Unit : Million	Statement of cash flows			
	For the year	2017	2016	Change
Source (used) of fund				
Operating activities	1,776	(1,483)	3,259	-220%
Investment activities	(81)	(158)	78	-49%
Financing activities	21	21	0	0%
Net increased in cash	1,716	(1,620)	3,336	-206%
Cash and cash equivalents -beginning	13,021	7,088	5,933	84%
Cash and cash equivalents -ending	14,737	5,468	9,270	170%

Cash and cash equivalents as of March 31, 2017 and 2016 were 14.74 billion baht and 5.47 billion baht. The increase in cash and cash equivalent amounted to 13.02 billion baht and 7.09 billion baht for the year ended 2017 and 2016, respectively. Cash and cash equivalents at the end of 2017

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were greater than those in 2016 because of the record-low rate of return on government bonds and also the limited supply of other debt securities. Thus, during 2017, 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 1.78 billion baht in the 1st quarter of 2017. In the year of 2016, cash flows used in operating activities were 1.48 billion baht due to the following entries:

- 1) Net premiums written were in a sum of 12.37 billion baht in 2017, an increase from 12.14 billion baht from the same period of 2016.
- 2) Interests received, dividends, and other investment incomes amounted to 1.16 billion baht in 2017, a decrease by 872 million from the same period of 2016 due to the decrease in other investment incomes.
- 3) Benefits payments under life policies and loss incurred on direct insurance decreased by 144 million baht from 5.59 billion baht in the first quarter of 2016 to 5.45 billion baht in 2017.
- 4) Investments in securities and general investments increased by 4.36 billion baht, causing a decrease in cash flows from operating activities in the same amount. In 2016, there was an increase in investments in securities and general investments by 8.01 billion baht.

Funds were used in investment activities for the 1st quarter of 2017 which included purchases of land, buildings and equipment in the sum of 80 million baht.

For the main source of funds from financing activities in the 1st quarter of 2017, the Company 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 March 31, 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	
	1/2017	1/2016
NI / Total income	5.9%	-42.8%
EBIT / Net premium	8.4%	-67.0%
NI / Net premium	7.4%	-53.2%
Life policy reserve / Net premium	59.9%	137.7%
Investment assets / Total asset	96.0%	94.9%
Investment assets / Life policy reserve	115.9%	112.3%
NI / Average investment assets	4.5%	5.5%
NI / Average equity	10.9%	-107.5%
NI / Average assets	1.3%	-10.7%
Car ratio ¹	253%	329%

Industry Overview

Industry total life insurance premiums as of the end of March 2017 by channel were 149.41 billion baht³, a 5.59% increase year on year. They can be divided into first year premiums of 39.75 billion baht, a declining growth of 2.47% and renewal year premiums of 109.66 billion baht, a 8.85% increase. The top six companies by market share are as follows:

Table 9: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	5,746.47	22,518.24	28,264.71	18.92%
2	Muang Thai Life Assurance	7,321.17	20,296.42	27,617.58	18.48%
3	Thai Life Insurance	4,886.23	13,800.94	18,687.16	12.51%
4	Krungthai-AXA Life	5,025.18	10,825.34	15,850.52	10.61%
5	SCB Life Assurance	2,542.80	10,854.15	13,396.95	8.97%
6	Bangkok Life Assurance	2,532.75	10,615.01	13,147.76	8.80%

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	= net 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 industry production for 2017⁴ by channel(Since January - February, 2017), bancassurance channel's sales continued to grow. The data since January - February 2017 showed that the industry's total premiums through bancassurance increased by 10%, compared to the same period of the previous year. Bancassurance premiums represented 48% of total premiums earned from all channels, similar to the year 2016. Agent channel has also expanded with a 2% increase in total premiums, representing 46% of total premiums earned from all channels in 2017, the same as in 2016.

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 20.02 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.

New Financial Reporting Standards

During the period, TAS 27 (Revised 2019), the Separate Financial Statements, 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