



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

“Management’s Discussion and Analysis for 2nd quarter 2015”



Management's Discussion and Analysis for Quarter 2, 2015

Operating Performance

Table 1: Operating Result Summary

Statement of income Unit : Million	Quarter					Year				
	2/2015		2/2014		%QoQ	2015		2014		%YoY
Revenues										
Net premiums earned	7,252	100%	9,769	100%	-26%	22,963	100%	36,480	100%	-37%
Net investment income	2,579	36%	2,483	25%	4%	6,101	27%	4,505	12%	35%
Other income	16	0%	9	0%	88%	30	0%	17	0%	75%
Total revenues	9,848	136%	12,260	126%	-20%	29,095	127%	41,003	112%	-29%
Expenses										
Underwriting expenses	(7,032)	-97%	(11,596)	-119%	-39%	(24,881)	-108%	(38,536)	-106%	-35%
Operating expenses	(570)	-8%	(501)	-5%	14%	(1,067)	-5%	(997)	-3%	7%
Total expenses	(7,602)	-105%	(12,097)	-124%	-37%	(25,948)	-113%	(39,533)	-108%	-34%
Earning before tax	2,246	31%	163	2%	1275%	3,147	14%	1,470	4%	114%
Tax	(400)	-6%	6	0%	-7356%	(535)	-2%	(205)	-1%	161%
NI	1,846	25%	169	2%	993%	2,612	11%	1,265	3%	107%

Premium Income

In the second quarter of 2015, premium growth had slowed down year over year. First year premiums decreased by 12%, amounting to 1.589 billion baht, while in the second quarter of 2014, the Company received first year premiums of 1.796 billion baht.

The growth rate of renewal year premiums slowed down in the second quarter of 2015 to 28% because there was a product that ended in the second quarter of 2014. Thus, the renewal year premiums decreased.

Net premiums written dropped by 25%. They amounted to 7.252 billion baht. Such decrease was mainly contributed to by lower renewal year premiums.

Bancassurance channel was the Company's main channel in the second quarter of 2015. Its total premiums represented 56% of the total premiums earned from all channels, while that of agent channel was 39%. When compared year over year, such proportion of bancassurance channel premiums decreased. In 2014, the proportions of premiums from bancassurance and agent channels to total premiums were 66% and 31% respectively.

For the first half of 2015, the growth rate of first year premiums decreased by 78%, with first year premiums amounting to 3.697 billion baht, a year-over-year decrease from 16.542 billion baht in the first half of 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 payment period lasts for a number of years. As a result, the premiums decreased when compared with 2014.

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Net premiums written for the first half of 2015 were 23.416 billion baht, a 37% decrease. Total premiums from bancassurance channel to total premiums earned from all channels were 70%, while that of agent channel was 26%. When compared year over year, the proportion of bancassurance premiums to total premiums dropped because of a considerably high growth rate of 2014 bancassurance first year premiums. In 2014, the proportion of bancassurance premiums to total premiums from all channels was 80%, while that of agent channel was 18%.

Table 2: Increase/decrease in first year premium ratio

	2015			2014			Increase/Decrease ratio		
	Q1	Q2	Total	Q1	Q2	Total	Q1	Q2	Total
Bancassurance channel	1,636.6	1,231.1	2,867.7	13,785.1	1,305.0	15,090.1	-88%	-6%	-81%
Agents and brokers channel	346.1	297.7	643.8	884.6	414.6	1,299.2	-61%	-28%	-50%
Other channel	125.5	60.5	185.9	76.4	76.7	153.1	64%	-21%	21%
Total	2,108.1	1,589.3	3,697.4	14,746.0	1,796.3	16,542.4	-86%	-12%	-78%

Table 3: Increase/decrease in total premium ratio

	2015			2014			Increase/Decrease ratio		
	Q1	Q2	Total	Q1	Q2	Total	Q1	Q2	Total
Bancassurance channel	12,276.4	4,174.3	16,450.8	22,852.5	6,565.3	29,417.8	-46%	-36%	-44%
Agents and brokers channel	3,236.8	2,901.9	6,138.6	3,637.7	3,034.2	6,671.9	-11%	-4%	-8%
Other channel	508.4	318.4	826.8	507.2	299.9	807.1	0%	6%	2%
Total	16,021.6	7,394.6	23,416.2	26,997.3	9,899.4	36,896.8	-41%	-25%	-37%

Table 4 : Premium of each channel to total premium ratio

	2015			2014		
	Q1	Q2	Total	Q1	Q2	Total
Bancassurance channel	77%	56%	70%	85%	66%	80%
Agents and brokers channel	20%	39%	26%	13%	31%	18%
Other channel	3%	4%	4%	2%	3%	2%
Total	100%	100%	100%	100%	100%	100%

Investment Income

In the second quarter of 2015, the Company earned net investment income of 2.466 billion baht. Gains on investments were 80 million baht and gains on revaluation 33 million baht, a 4% increase year over year. The increase resulted from a 15% increase in net investment income and a 315% increase in gains on revaluation. Gains on investments dropped by 75%.

Interest income accounted for 92% of net investment income. In the main, interest income came from bonds and debentures in a sum of 313 million baht and higher bank deposit interest rates.

For the first half of 2015, net investment income was 4.978 billion baht. Gains on investments were 1.095 billion baht, and gains on revaluation were 28 million baht, a 35% increase over the previous year. It resulted from a 19% increase in net investment income and a 198% increase in gains on investments. The main reason of the increased investment income was from a 17% increase in investment assets over the same period of 2014. Gains on investments rose considerably due to sell of common stock securities during the beginning of this year.

The rate of return on investment for the first half of the year rose from 5.01% in 2014 to 5.55% in 2015. The comprehensive rate of return on investment, including gain/loss on the fair value of

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investment in available-for-sale securities of which the majority was in equity, was 6.87% and 5.40% in 2014 and 2015 respectively.

Underwriting Expenses

Underwriting expenses of the second quarter of 2015 decreased from 2014 by 39% or by 4.564 billion baht from 11.596 billion baht in 2014 to 7.032 billion baht in 2015.

1. The item "Life policy reserve increase from the previous period" decreased by 64%, mainly because a single-premium whole life product that was popular in the second quarter of 2014 required high reserve levels. On the other hand, during the second quarter of 2015, most of the popular products are of regular premium payment mode. These products' ratios of reserve to premium are lower than those of single-premium whole life plans. Because of the increase in interest rates during the second quarter this year, the value of liabilities calculated under the Gross Premium Valuation GPV¹ method decreased to lower than the life policy reserve recorded under the Net Premium Valuation: NPV² + PAD reserve³ method. The Company, therefore, reversed its LAT reserve⁴ that was set aside in a sum of 1.319 billion baht. (2014: An additional 1.450 billion baht of LAT reserve was set aside.)
2. Benefit payments under life policies and benefit adjustment expenses rose 22%. The increase in benefit payments was mainly contributed to by surrender benefit payments which rose 656 million baht or 91%. On the other hand, maturity benefit decreased by 154 million baht.
3. Commissions and brokerage increased by 32 million baht or 5% from 594 million baht in 2014 to 626 million baht in 2015, going in the opposite direction of the decreasing premiums in the same period. This was because the popular plans sold in the second quarter of 2014 were of single premium payment mode which had lower commission rates than those of regular-premium plans which were popular in the second quarter of 2015.

Underwriting expenses of the first half of 2015 decreased by 35% or 13.655 billion baht, from 38.536 billion baht in 2014 to 24.881 billion baht in 2015.

1. Life policy reserve decreased by 51% mainly because of the interest rate increase mentioned earlier. As a consequence, the Company did not have to set aside an additional LAT reserve. (2014: An additional 1.850 billion baht of LAT reserve was set aside.)
2. Benefit payments under life policies and benefit adjustment expenses increased by 35%. The increase in benefit payments was mainly contributed to by surrender payments which rose 92%.
3. Commissions and brokerage decreased by 153 million baht or 9% from 1.62 billion baht in 2014 to 1.467 billion baht in 2015. The decrease was less than the 37% decrease in net premiums. This was because the popular plans sold in the second quarter of 2014 were of

¹ Calculation based on current assumptions

² Calculation based on lock-in assumption

³ Provision for Adverse Deviation (PAD) (4% of NPV).

⁴ Additional reserve when policy reserve under NPV method lower than GPV method

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single premium payment mode which had lower commission rates than those of regular-premium plans which were popular in the second quarter of 2015.

Operating Expenses

Operating expenses of the second quarter of 2015 increased by 14% or 69 million baht from 501 million baht in 2014 to 570 million baht in 2015.

A major increase in operating expenses was due to a 52% increase in marketing expenses. The expenses were incurred to enhance "Bangkok Life" brand awareness as well as to promote financial planning through various media channels. The Company also promoted its new products i.e. "Whole Life Senior", "Health Plus", and "Super Senior" which involved presenters in boosting awareness of the products.

The Company has also developed human resources in support of its business expansion and competitiveness enhancement which led to a 10% increase in employee expenses. Investment tax increased by 20%, in line with a greater return on investment.

Operating expenses for the first half of 2015 increased by 7% or 70 million baht from 997 million baht in 2014 to 1.067 billion baht in 2015. The major increase was in marketing expenses as mentioned earlier. The operating expense items which decreased were contributions to the Office of Insurance Commission and the Life Insurance Fund. They decreased by 35 million baht or 34%, in line with the decreasing premiums written.

Profit for the Period for Separate Financial Statement

The Company profit for the second quarter of 2015 was 1.846 billion baht. It increased from 169 million baht in the second quarter of 2014 by 1.677 billion baht or 993% as the life policy reserve decreased by 64%. The increase in interest rates in 2015 reduced the Company's reserve burden, while in 2014 the Company's reserve increased as it was impacted by the decrease in interest rates. However, if the effect of the reserve that was released is excluded, the Company will have its profit for the period (net amount after tax) in a sum of 790 million baht, a 41% decrease from 2014 as a result of its decreasing premiums written for the current period.

The Company profit for the first half of 2015 was 2.612 billion baht. It increased from 1.265 million baht in the half of 2014 by 1.347 billion baht or 107% as the life policy reserve decreased by 51%. The decrease in interest rates in 2014 resulted in the Company setting a greater reserve, while in 2015 there was no such impact. If the effect of the reserve that was set aside in 2014 is excluded, the Company will post a 5% decrease in its profit for the period (net amount after tax), compared with 2014.

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Profit for the Period for Consolidated Financial Statement

The Company had a profit of 1.844 billion baht for the second quarter of 2015 and 2.610 billion baht for the six-month period. These amounts were lower than what was reported in the separate financial statement because the Company acquired a 99% stake in BLA Insurance Broker Co. Ltd. ("BLAIB") in the third quarter of 2014. Thus, BLAIB profit/loss for the period was also included in the consolidated financial statement. In the three-month and six-month periods of 2015, BLAIB incurred a loss of about 1.0 million baht and 2.3 million baht respectively.

Financial Position Summary

Table 5 : Financial Position Summary

Financial Position	As at 30 Jun 2015		As at 31 Dec 2014		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	560	0%	5,703	3%	(5,143)	-90%
Premiums due and uncollected	2,180	1%	1,725	1%	454	26%
Investments	229,876	96%	202,977	94%	26,899	13%
Premises and equipment	482	0%	402	0%	80	20%
Other assets	5,463	2%	4,781	2%	683	14%
Total assets	238,561	100%	215,588	100%	22,973	11%
Liabilities and equity						
Life policy reserves	192,445	81%	177,435	82%	15,010	8%
Insurance contract liabilities	9,531	4%	9,131	4%	399	4%
Other liabilities	9,186	4%	3,443	2%	5,743	167%
Total liabilities	211,162	89%	190,009	88%	21,153	11%
Total equity	27,400	11%	25,579	12%	1,820	7%
Total liabilities and equity	238,561	100%	215,588	100%	22,973	11%

Assets

Total assets grew by 11% from 31 December, 2014. The key item that had high growth was investment assets, which grew by 13%. It was a result of 8% growth in 2015 life policy reserve from 177.435 billion baht as at 31 December, 2014 to 192.445 billion baht as at 30 June, 2015.

Liabilities

Total liabilities increased by 11% from 31 December, 2014. Life policy reserve rose 8% or 15.01 billion baht as mentioned in the operating result part. Other liabilities increased by 5.743 billion baht including the securities sold under repurchase agreements worth 4.62 billion baht.

Shareholders' Equity

Shareholders' equity increased by 1.82 billion baht from 25.579 billion baht as at 31 December, 2014 to 27.40 billion baht as at 30 June 2015. The increase was from operational gains in the first half of 2015 in a sum of 2.612 billion baht and from the increased share capital by 105 million baht on exercises of the batch no.2 warrants. Also, shareholders' equity decreased due to the dividend paid for the year of 2014 in a sum of 781 million baht and a loss on the net fair value of investment in available-for-sale securities after tax in a sum of 152 million baht.

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Cash Flows

Table 6 : Cash Flows

Unit : Million For Quarter 2	Statement of cash flows				
	2015		2014		Change
Source of fund					
Operating	17,772	100%	30,711	100%	(12,939)
Financing	3,965	22%	-	-	3,965
Net cash provided	21,737	122%	30,711	100%	(8,974)
Used of fund					
Investment activities	(26,881)	-151%	(27,686)	-90%	805
Financing	-	-	(1,556)	-5%	1,556
Net used of fund	(26,881)	-151%	(29,242)	-95%	2,362
Net increased (decreased) in cash	(5,143)	-29%	1,469	5%	(6,612)

Cash and cash equivalents as at 30 June, 2015 were 560 million baht, a 42% decrease or by 12.94 billion baht from 5.703 billion baht as at 31 December, 2014.

During the second quarter of 2015, the source of funds of 21.737 billion baht was mainly from net premiums written in a sum of 22.77 billion baht, a year-over-year decrease by 12.384 billion baht. Interests and dividends received increased by 867 million baht year over year. Benefits payments, insurance claims, and loss adjustment expenses decreased by 2.028 billion baht from 5.975 billion baht in 2014 to 8.002 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 Ratios

Financial ratio	Quarter		Year	
	2/ 2015	2/ 2014	2015	2014
NI / Total income	19%	1%	9%	3%
EBIT / Net premium	31%	2%	14%	4%
NI / Net premium	25%	2%	11%	3%
Reserve / Net premium	40%	83%	65%	84%

Capital Adequacy under Risk-Based Capital: RBC

The Company capital adequacy ratio as at 30 June, 2015 was 347%. It slightly decreased from 409% as at 31 December, 2014. This ratio was higher than 140%, the minimum level required by the Office of Insurance Commission (OIC).

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Industry Overview

Industry total premiums as of May 2015 were 214,580 million baht⁵, a 2.02% increase year over year. They can be divided into first year premiums of 65,339 million baht, a 15.75% decrease and renewal year premiums of 149,241 million baht, a 12.40% increase. The top six market share companies are as follows:

Table 8: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	10,702.41	34,885.78	45,588.19	21.25%
2	Muang Thai Life Assurance	15,804.79	21,151.03	36,955.81	17.22%
3	Thai Life Insurance	6,531.44	19,451.50	25,982.94	12.11%
4	Krungthai-AXA Life	7,802.33	15,393.58	23,195.91	10.81%
5	SCB Life Assurance	7,478.47	15,244.18	22,722.65	10.59%
6	Bangkok Life Assurance	3,094.65	17,316.01	20,410.66	9.51%

Industry profit for 2015⁶ (January – May, 2015) rose 2.124 billion baht or 11% from 2014. In 2015, profit amounted to 21.3 billion baht while that of 2014 was 19.175 billion baht. The main reason was that life policy reserve decreased in 2015.

Significant Events

Exercises of Warrants Batch No.2

The holders of the warrants batch no.2 exercised their right to purchase 3.6 million units of the Company's ordinary shares at the exercise price of 25.00 baht for the total amount of 125.9 million baht. The Company recorded such amount under the caption of transfer capital reserve for share-based payment transactions to premium on share capital as a result of warrant No.2 exercise amounting to 70 million baht.

⁵ Source: Thai Life Assurance Association

⁶ Source: Office of Insurance Commission