



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

“Management Discussion and Analysis for 4th quarter 2017”



Management's Discussion and Analysis for Quarter 4 2017

Summary

In Q4/2017, the Company had a net profit of Baht 1,749 million, compared to a net profit of Baht 1,997 million posted in Q4/2016, a decrease of Baht 248 million. In Q4/2017, the Company reversed LAT reserve in a sum of Baht 1,025 million while in Q4/2016, LAT reserve was reversed in a sum of Baht 2,026 million.

In the year 2017, the Company posted a profit in a sum of Baht 3,645 million, compared to a profit of Baht 5,122 million in 2016. LAT reserve was Baht 660 million in 2017 while in 2016 LAT reserve was reversed in a sum of Baht 345 million. In Addition, the Company obtained a profit in the amount of Baht 1,362 million from selling its securities in 2017, compared to Baht 2,320 million in the same period of the previous year.

Regarding the Company's solvency, the Company's capital adequacy ratio (CAR) as of Q4/2017 was at 252% which is two times greater than the minimum level required by the Office of Insurance Commission (OIC).

Operating Performance

Table1: Operating Result Summary

Statement of income Unit : Million	Quarter					Yearly				
	4/ 2017		4/ 2016		%YoY	2017		2016		%YoY
Revenues										
Net premiums written ⁽¹⁾	10,553	100%	12,991	100%	-19%	42,915	100%	42,282	100%	1%
Total investment income ⁽²⁾	3,548	34%	2,338	18%	52%	13,066	30%	12,872	30%	2%
Other income	48	0%	51	0%	-7%	384	1%	329	1%	17%
Total revenues	14,149	134%	15,381	118%	-8%	56,365	131%	55,482	131%	2%
Expenses										
Underwriting expenses	(11,663)	-111%	(12,484)	-96%	-7%	(50,488)	-118%	(47,660)	-113%	6%
Operating expenses	(393)	-4%	(454)	-3%	-13%	(1,716)	-4%	(1,724)	-4%	0%
Total expenses	(12,056)	-114%	(12,938)	-100%	-7%	(52,204)	-122%	(49,384)	-117%	6%
Earning before tax	2,093	20%	2,443	19%	-14%	4,161	10%	6,098	14%	-32%
Tax	(344)	-3%	(447)	-3%	-23%	(516)	-1%	(976)	-2%	-47%
NI (loss)	1,749	17%	1,997	15%	-12%	3,645	8%	5,122	12%	-29%

⁽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 (Trading securities and Exchange rate)

Premium Income

In Q4/2017, net premiums written amounted to Baht 10.55 billion, a 19% decrease from the same period of the previous year. Such a decrease was mainly contributed to by a decrease in first year premiums and renewal year premiums.

In Q4/2017, first year premiums amounted to Baht 2.71 billion, a 34% decrease, while in Q4/2016, the Company earned Baht 4.11 billion in first year premiums. This was due to the fact that, for Q4/2016, there were significant sales of short-term single-premium endowment products. For renewal year premiums, the growth rate in Q4/2017 decreased by 11% due to the paid-up policies in bancassurance channel.

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Bancassurance channel remained the Company's main distribution channel in Q4/2017. Its total premiums represented 57% of the total premiums earned from all channels, while those of the agent channel contributed to 41%. (2016: Bancassurance and agent channel contributions were 57% and 42%, respectively.)

First year premiums in the year 2017 amounted to Baht 11.95 billion, a 7% growth from the same period of the previous year in which FYP amounted to Baht 11.15 billion. In the year 2017, the Company concentrated on the sale of products with longer coverage which had high profit margin and which offered high coverage for the insureds. As a result, the Company's first year premiums increased.

Total premiums of the year 2017 amounted to Baht 44.04 billion, a 2% growth. The proportions of premiums from bancassurance and agent channels to total premiums were 64% and 32% respectively. (2016: 62% and 35%, respectively)

Table2: First year premiums by channel

	2017		2016		Increase/decrease ratio	
	Quarter 4	Jan-Dec	Quarter 4	Jan-Dec	Quarter 4	Jan-Dec
Bancassurance channel	1,852	9,237	2,875	8,169	-36%	13%
Agents and brokers channel	747	2,197	1,137	2,541	-34%	-14%
Other channel	110	513	95	439	16%	17%
Total	2,708	11,947	4,107	11,149	-34%	7%

Table 3: Total premium by channel

	2017		2016		Increase/decrease ratio	
	Quarter 4	Jan-Dec	Quarter 4	Jan-Dec	Quarter 4	Jan-Dec
Bancassurance channel	6,057	28,250	7,463	26,849	-19%	5%
Agents and brokers channel	4,412	14,181	5,463	15,065	-19%	-6%
Other channel	242	1,609	200	1,418	21%	13%
Total	10,711	44,039	13,126	43,333	-18%	2%

Table 4: Premium of each channel to total premium ratio

	2017		2016	
	Quarter 4	Jan-Dec	Quarter 4	Jan-Dec
Bancassurance channel	57%	64%	57%	62%
Agents and brokers channel	41%	32%	42%	35%
Other channel	2%	4%	2%	3%
Total	100%	100%	100%	100%

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Investment Income

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

Unit : Million	Quarter				For 6 months			
	4/2017	4/2016	Change	%YoY	2017	2016	Change	%YoY
Net investment income	2,952	2,619	333	13%	11,603	10,632	971	9%
Gain on investment	318	(364)	682	187%	1,362	2,320	(958)	-41%
Fair value gain								
Trading securities	(8)	(22)	14	63%	(15)	9	(24)	-278%
Foreign exchange forward contracts	21	45	(24)	-53%	54	11	43	386%
Foreign exchange rate	265	61	204	333%	63	(100)	162	163%
Total	3,548	2,338	1,209	52%	13,066	12,872	194	2%

In Q4/2017, total investment income increased by 52% or Baht 1.21 billion from the same period of the previous year, amounting to Baht 3.55 billion. Net investment income was Baht 2.95 billion. Gain on investments was Baht 318 million, an increase of 187% from the same period of the previous year and gain on revaluation was Baht 278 million.

In the year 2017, net investment income was Bath 11.60 billion. Gain on investments was Baht 1.36 billion and gain on revaluation was Baht 101 million causing total investment income to amount to Baht 13.07 billion, an increase of Baht 194 million or 2% from the same period of the previous year.

The rate of return on investment decreased from 5.20% in the year 2016 to 4.65% in the year 2017.

Expenses

The details of significant changes in expenses for the Q4/2017 and Q4/2016 can be summarized as follows:

1. Underwriting expenses in the Q4/2017 decreased by 7% or Baht 821 million, from Baht 12.48 billion in 2016 to Baht 11.66 billion in 2017.

1) The item "life policy reserves increasing from prior period" decreased by 62% or Baht 4.57 billion from Baht 7.36 billion in Q4/2016 to Baht 2.79 billion in Q4/2017. In Q4/2017, many policies matured, causing life policy reserves to decrease even if the Company had to reverse LAT reserve in a sum of Baht 1.03 billion in Q4/2017. (2016: LAT reserve reversed was Baht 2.03 billion)

2) Benefit payments under life policies and claim payments increased by 79%. They can be divided into:

- Policy benefit payments increased by Baht 3.12 billion or 89%. The increase was mainly owing to maturity benefit payment which increased by Baht 1.93 billion or 533% and contractual benefit payment which increased by Baht 885 million or 60%.

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- Claims and loss adjustment expenses increased by Baht 158 million or 25%.
- 3) Commissions and brokerage increased by Baht 180 million or 22%, from Baht 813 million in the Q4/2016 to Baht 993 million in the Q4/2017. There was such an increase despite a decrease in earned premium due to the company's concentrating on long-term products which had higher commission rate than short-term products. It was also due to commissions for some products which had been revised upwards.
2. Operating expenses for the Q4/2017 decreased by 13% or Baht 61 million, from Baht 454 million in the Q4/2016 to Baht 393 million in Q4/2017 as a result of the Company's cost reduction policy. The details of significant changes in expenses for the years 2017 and 2016 were as follows:
1. Underwriting expenses in the year 2017 increased by 6% or Baht 2.83 billion, from Baht 47.66 billion in 2016 to Baht 50.49 billion in 2017.
 - 1) The item "life policy reserves increasing from prior period" decreased by 11% or Baht 2.92 billion due to the increase in maturity and policy benefits payments in 2017. These caused reserves to decrease although the Company recorded LAT reserve in a sum of Baht 660 million for the period. (2016: LAT reserve reversed was Baht 345 million).
 - 2) Benefit payments under life policies and claim payments increased by 28%. They can be divided into:
 - Policy benefit payments increased by Baht 4.62 billion or 30% which was mainly owing to an increase in contractual benefits payment of Baht 1.98 billion or 33% and an increase in maturity benefit payment of Baht 1.92 billion or 73%.
 - Claims and loss adjustment expenses increased by Baht 437 million or 17% from death claims which increased by Baht 239 million or 17% and health claims by Baht 226 million or 28%.
 - 3) Commissions and brokerage increased by Baht 340 million or 11%, from Baht 3.16 billion in 2016 to Baht 3.50 billion in 2017. Such an increase occurred, despite the premium decrease, due to the company's concentrating on the sales of long-term products which had higher commission rate than short-term products. It was also because commissions for some products had been revised upwards.
 2. Operating expenses for the year 2017 decreased by 0.5% or Baht 8 million, from Baht 1.72 billion in the year 2016 to Baht 1.72 billion in the year 2017 as a result of the Company's cost reduction policy.

Profit for the Period for Separate Financial Statement

The Company posted a profit for Q4/2017 in a sum of Baht 1.75 billion, a decrease by Baht 248 million or 12% from a net profit of Baht 2.00 billion posted in Q4/2016. This was contributed to by a 19% decrease in net premium written.

The Company posted a net profit for the year 2017 in a sum of Baht 3.65 billion, a decrease by Baht 1.48 billion or 29% from a net profit of Baht 5.12 billion posted in the year 2016. Although net

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premium written increased by 1% and investment income increased by 2%, underwriting expenses increased by 6% and operating expenses increased by 9%. In addition, a decrease in the rate of return on investment also contributed to lower earnings.

Profit for the Period for Consolidated Financial Statement

The consolidated financial statement for Q4/2017 posted a profit of Baht 1.75 billion, a decrease from a net profit of Baht 1.99 billion posted in Q4/2016 by Baht 248 million or 12%, from the reasons given in the part of separate financial statement. The consolidated operating result also 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.

The consolidated financial statement for the year 2017 recorded a profit of Baht 3.63 billion, a decrease from a net profit of Baht 5.10 billion recorded in the year 2016 by Baht 1.47 billion or 29%, from the reasons given in the part of separate financial statement. 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.

Financial Position Summary

Table 6: Financial Position Summary

Financial Position	As at 31 Dec 2017		As at 31 Dec 2016		Change	
Unit : Million						%
Assets						
Cash and cash equivalents	3,877	1%	13,021	5%	(9,144)	-70%
Premiums due and uncollected	1,910	1%	2,200	1%	(289)	-13%
Accrued investment incomes	2,458	1%	2,053	1%	404	20%
Investments	295,169	96%	259,361	92%	35,807	14%
Premises and equipment	1,341	0%	1,192	0%	149	13%
Other assets	3,974	1%	4,532	2%	(558)	-12%
Total assets	308,729	100%	282,359	100%	26,370	9%
Liabilities and equity						
Life policy reserves	256,959	83%	233,412	83%	23,547	10%
Other insurance contract liabilities	9,019	3%	9,686	3%	(667)	-7%
Other liabilities	3,964	1%	5,919	2%	(1,955)	-33%
Total liabilities	269,943	87%	249,018	88%	20,925	8%
Total equity	38,786	13%	33,341	12%	5,445	16%
Total liabilities and equity	308,729	100%	282,359	100%	26,370	9%

* Include Investment property and Intangible assets

Assets

Total assets as of December 31, 2017 grew by 9% from December 31, 2016. Assets growth was mainly due to larger investment assets which increased by Baht 35.81 billion or 14%.

Liabilities

Total liabilities as of December 31, 2017 increased by 8% from December 31, 2016 mainly from life policy reserve which rose by Baht 23.55 billion or 10% in accordance with the increasing life policy

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reserve of in-force policies in line with the insurance coverage period and new policies received during the period.

Shareholders' Equity

Shareholders' equity increased by Baht 5.45 billion, from Baht 33.34 billion as of December 31, 2016 to Baht 38.79 billion as of December 31, 2017. The increase was mainly contributed to by the operating profit of Baht 3.65 billion and gains on valuation of investments in available-for-sale securities net of tax in a sum of Baht 3.05 billion and dividend paid during the reporting period in a sum of Baht 1.27 billion.

Cash Flows

Table 7: Cash Flows

Unit : Million For the year	Statement of cash flows			
	2017	2016		Change
Source (used) of fund				
Operating activities	(7,626)	7,737	(15,363)	-199%
Investment activities	(265)	(789)	524	-66%
Financing activities	(1,252)	(1,015)	(238)	23%
Net increased (decreased) in cash	(9,144)	5,933	(15,077)	-254%
Cash and cash equivalents -beginning	13,021	7,088	5,933	84%
Cash and cash equivalents -ending	3,877	13,021	(9,144)	-70%

Cash and cash equivalents as of December 31, 2017 and 2016 were Baht 3.88 billion and Baht 13.02 billion. The decrease in cash and cash equivalent amounted to Baht 9.14 billion and the increase amounted to Baht 5.93 billion between the periods of 2017 and 2016, respectively. This was primarily owing to cash flows from operating activities.

Regarding cash flows of the year 2017, funds spent on operating activities amounted to Baht 7.63 billion whereas in the year 2016, cash flows earned from operating activities amounted to Baht 7.74 billion due to the following entries:

- 1) Net premiums written were in a sum of Baht 43.82 billion in 2017, increasing by Baht 1.12 billion from Baht 42.70 billion from the same period of 2016.
- 2) Interests received, dividends received, and other investment incomes amounted to Baht 13.03 billion in the year 2017, a decrease by Baht 333 million from the same period of the year 2016 due to a decrease in investment profit. In 2016, the profit from sales on investments was Baht 2.32 billion whereas in 2017, it was Baht 1.36 billion.
- 3) Benefits payments under life policies and loss incurred on direct insurance increased by Baht 5.46 billion from Baht 17.82 billion in the year 2016 to Baht 23.27 billion in the year 2017.

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- 4) Investments in securities and general investments increased by Baht 12.04 billion from Baht 21.23 billion in the year 2016 to Baht 33.27 billion in year 2017.

Capital Adequacy under Risk-Based Capital: RBC

As required by laws, the Company maintained capital adequacy ratio as of December 31, 2017 at 252%¹ which decreased 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		For the year	
	4/2017	4/2016	2017	2016
NI / Total income	12.4%	13.0%	6.5%	9.2%
NI / Net premium	16.6%	15.4%	8.5%	12.1%
Life policy reserve / Net premium	26.5%	56.7%	54.0%	61.6%
Underwriting expenses / Net premium	110.7%	96.2%	117.6%	112.5%
Operating expenses / Net premium	3.7%	3.5%	4.0%	4.1%
Investment assets / Total asset	96.9%	96.5%	96.9%	96.5%
Investment assets / Life policy reserve	116.4%	116.7%	116.4%	116.7%
NI / Average investment assets	4.5%	3.5%	4.7%	5.2%
NI / Average equity	18.7%	24.4%	10.1%	17.0%
NI / Average assets	2.3%	2.9%	1.2%	1.9%
Car ratio ¹	252%	252%	252%	252%

Industry Overview

Industry's total life insurance premiums as of the end of December, 2017 amounted to Baht 601.73 billion³, a 5.89% increase year on year. They can be divided into first year premiums of Baht 167.83 billion, a growth of 3.87% and renewal year premiums of Baht 433.90 billion, a 6.69% increase. Top six companies by market share are as follows:

¹This ratio has not been reviewed and audited by CPA.

²Calculation formulas:

Net income ratio	= net income/ total income
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
Underwriting expenses to net premium ratio	= Underwriting expenses/ net premium
Operating expenses to net premium ratio	= Operating expenses/ 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	= investment income/ average investment asset
Return on equity	= net income/ average total equity
Return on Asset	= net income/ average total asset

³Source: Thai Life Insurance Association

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Table9: Market share

No.	Company	FYP	RYP	TP	Market share
1	AIA	25,892.57	100,390.93	126,283.50	20.99%
2	Muang Thai Life Assurance	31,066.41	71,614.96	102,681.37	17.06%
3	Thai Life Insurance	22,760.39	59,766.47	82,526.86	13.72%
4	Krungthai-AXA Life	18,450.56	44,920.05	63,370.60	10.53%
5	SCB Life Assurance	8,340.00	41,195.15	49,535.14	8.23%
6	Bangkok Life Assurance	11,946.53	32,092.68	44,039.21	7.32%

Regarding the industry's production for 2017⁴ by channel (January - December, 2017), bancassurance channel's sales continued to grow. The data from January - December 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 44% of total premiums earned from all channels, similar to that of the year 2016. Agent channel also expanded with a 5% increase in total premiums, representing 50% of total premiums earned from all channels in 2017, similar to that of 2016.

Significant Events

New Financial Reporting Standards

During the reporting period, TAS 27 (revised in 2016) regarding "Separate Financial Statement" took effect. This revised standard provides additional options for recording investments in subsidiaries, investments in joint ventures, and investments in associates. In the separate financial statements, companies may choose to record in accordance with the equity method as described in TAS 28 (revised in 2016) "Investments in Associates and Joint Ventures". In this connection, the Company chose the cost method for the presentation of investment in subsidiaries in the separate financial statement. This was the method the Company has been using; therefore, it had no impact on shareholders' equity or profit.

Investment in Subsidiary Company (Bangkok Life Assurance (Cambodia) PLC

In 2017, the Company additional invested in Bangkok Life Assurance (Cambodia) PLC which is incorporated in Cambodia as a life insurance provider. The proportion of BLA shareholding is 52%, investment during the year amounted to Baht 19 million.

⁴Source: Office of Insurance Commission