

Krungthai-AXA Life Insurance PCL.

# Participating Policy Investment Update

Year Ended  
31 December 2015

## 1. Krungthai-AXA Overview

Krungthai-AXA Life Insurance PCL. draws on the strength of its two major shareholders, Krungthai Bank PCL and the AXA Group.

Krungthai Bank PCL. (KTB) is the premier government bank in Thailand in 2015, KTB launches 7-year strategic plan called “3 Summits” consisting of

- (1) Solid foundation of KTB,
- (2) Wide-range development to implement all gaps comparing to competitors, and
- (3) To be the best organisation, the pillar of Thailand and the 2<sup>nd</sup> home for employees in order to accomplish these 3 Summits with our belief “Growing together”. KTB has more than 20.6 million customers being managed through more than 1,215 branches nationwide.

The AXA Group is one of the world’s leading insurance, financial protection and asset management groups as listed in the Fortune Global 500. AXA has more than 103 million policyholders in 59 countries worldwide.

Krungthai-AXA Life has been one of the fastest growing insurance companies in Thailand over the last year and has around 15,000 distributors nationwide. Krungthai-AXA Life draws upon the strengths and expertise of its two major shareholders, quality distributors and staff.

Krungthai-AXA Life provides solutions to our customers’ financial needs. Our customers’ major financial concerns are:

- a) “Living too long” and not being able to enjoy retirement to the style they embraced during their working life.
- b) “Dying too young” and not being able to deliver all the plans they have for their families.
- c) “Getting sick” and not being able to afford the medical expenses associated with getting well.
- d) “Short-term cash” to get their children educated.

Krungthai-AXA Life solves these and more.

You can trust in the security of Krungthai-AXA Life, as it is backed up by the financial strength and discipline of its two major shareholders. In these uncertain economic times the strength of Krungthai-AXA Life provides important security and stability to our policyholders.

## 2. Features of Participating Products

A participating life insurance policy is a type of insurance contract issued to a policyholder by Krungthai-AXA Life that bundles both savings and life insurance protection, where the savings feature gradually increases in value and typically also pays regular dividends. The life insurance feature pays a lump sum cash benefit if the policyholder dies while the policy is in force, to provide financial protection to the policyholders’ family.

Dividends are split into two types: Guaranteed and Non-Guaranteed of which both may include annual payments (in the form of cash drops) and/or a terminal payment at contract maturity.

Guaranteed dividends are defined at the onset of the contract. Krungthai-AXA Life stands behind its guarantees through its own financial strength and that of its shareholders.

Non-Guaranteed dividends are paid if the company has earned and/or expects to earn in the future a surplus due to operational and/or investment performance. These may be higher or lower than illustrated.

## 3. Dividend Management Strategy

On top of the guaranteed dividends, Krungthai-AXA Life declares non-guaranteed dividends that are ‘smoothed’ over time, to provide a stable long term return. Smoothing is unique to participating policies for ensuring steadier returns with less volatility. Smoothing is a process that takes a long term view on investment returns by looking at expected returns in the future, and by keeping back some of the gains earned in good years and using them to help pay bonuses in poor investment years. So this means that returns on a participating product will typically be greater than market returns in years of poor investment market performance, but lower than market returns in years of very good market performance, due to the smoothing mechanism.

## 4. 2015 Thai Investment Market

**Economy:** In 2015, the Thai economy grew by 2.8%YoY, up from 0.8%YoY in 2014. Private consumption grew by 2.1%, while total investment grew by 4.7%YoY, mainly driven by strong government investment growth of 29.8%YoY but with contraction in private investment by 2%YoY. 4Q-2015 GDP was slightly weaker to 2.8%YoY, from 2.9%YoY in 3Q-2015. On the expenditure side, major growth drivers include export of services and public investment. Private and public consumption expenditure continued to grow while export of goods was hit hard by the global economic slowdown. On the production side: hotel and restaurants and construction sectors expanded well. The manufacturing sector started to grow after experiencing contraction in previous quarter while the agricultural sector was severely affected by the drought.

In 2016, the Thai economy is expected to grow at 2.8% - 3.8%\*, mainly due to

- (1) the government expenditure and investment;
  - (2) the positive contribution from economic stimulus;
  - (3) the gradual recovery of the global economy and the export prices;
  - (4) the depreciation of Thai baht which will help improve export value in baht term, and enhance income and liquidity for exporters;
  - (5) the gradual recovery of agricultural prices;
  - (6) low oil price;
  - (7) the continual expansion of the tourism sector.
- Growth forecast is then revised down from previous forecast of 3.0%-4.0%

Risk Factors and limitations to the economic growth include

- (1) The slowdown of the Chinese economy and countries with weak economic fundamental,

- (2) Depreciation of trade partners' and competitors' currencies in particular Chinese RMB, Euro and Japanese Yen, and the currency of countries in the region which adopted the monetary policy with exchange rate target, and
- (3) The impact of drought which cause rice farmers to postpone their off-season rice production in the crop year 2016.

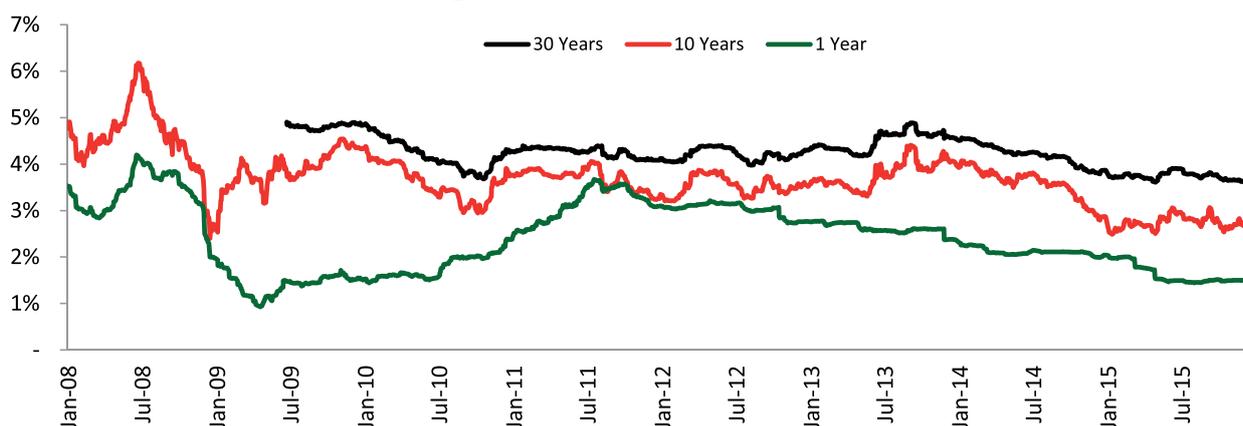
**Interest Rates:** Yield curve in 2015 shifted down in all tenors, according to MPC rate cut by 2 times totally 50 bps, excess liquidity in local market in particular from insurance companies, and slowdown global economic outlook. Front end and long end dropped by the greater magnitude than belly due to policy rate cut and less new supply & strong demand from insurance companies for long end.

For 2016, despite of expected Fed rate hike by at least 2 times which will cause capital outflow from EM countries including Thailand, we expect Thai yield curve cannot shift up so much. This is due to ongoing excess liquidity in local market, continued sluggish economic growth with several downside risks from both internal and external and lower oil price & inflation.

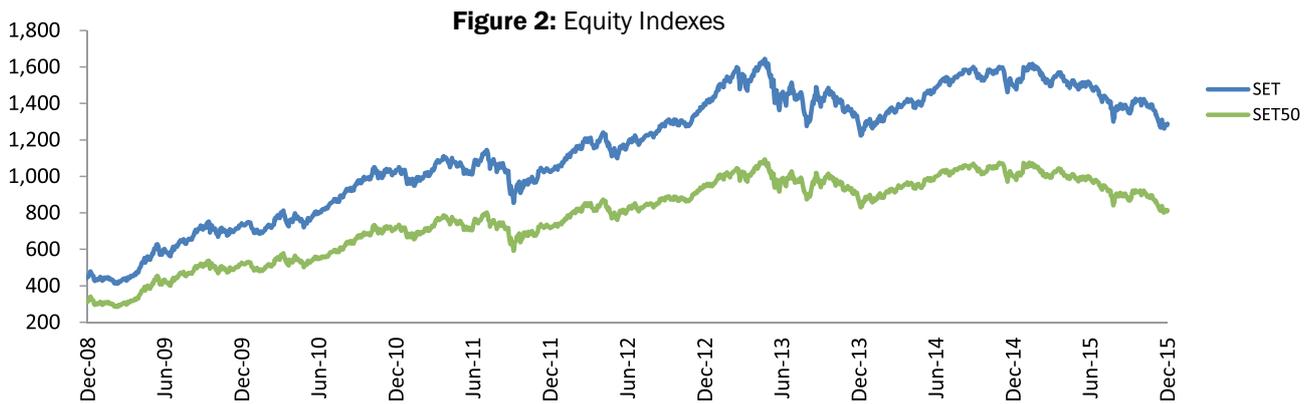
**Equities:** The Thai equity market has declined continuously since the beginning of year 2015 and it ended up at 1,288, down by 14%YoY. This is owing to the worse-than-expected earnings of listed companies, slowdown GDP growth, spill-over impact from China's equity market and the risk-off mode in most equity market around the world. Moreover, the market expectation over the FED decision to hike its policy interest rate also dampen investor confidences.

\*Expected growth rate from the Bank of Thailand

**Figure 1:** Interest Rate movement



Source: Thai BMA



Source: SET

## 5. Our 2015 Investment Portfolio

**Investment philosophy:** Krungthai-AXA Life invests in a wide range of high quality assets, and aims to provide stable returns over the long term. By investing in a participating product you will benefit from Krungthai-AXA Life’s investment expertise, and your savings will be pooled with those of other policyholders thus allowing a wider range of investment, and hence a more diversified and secured portfolio.

Krungthai-AXA Life’s current target asset allocation for the PAR portfolio is to invest 78% in fixed income securities, 15% in equities, and 7% in property & infrastructure funds. The actual asset allocation at any time will vary due to market movements. For fixed income securities the major portion will be in government or state enterprise bonds, and corporate bonds with quality credit ratings. This asset allocation is revisited on an annual basis.

**Asset Mix:** As of 2015 and 2014, the asset mix of Krungthai-AXA Life’s portfolio was:



**Performance:** The overall investment return for 2015 was 4.57% on the statutory basis before the relevant Thai corporate income taxes. The returns over the past 10 years have been as follows:

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	10 Yr Annualised Return
Annual Return (Statutory Basis)	4.8%	4.5%	4.6%	3.8%	4.8%	4.8%	5.1%	5.3%	4.7%	4.6%	4.7%

Note: Past performance is not an indicator of future performance. The returns are calculated on a statutory basis.

As noted in Section 4, “2015 Thai Investment Market”, the Thai equity market continuously decreased in 2015. However, the overweighed portion of bonds in the portfolio reduced the impact on the overall portfolio return from the volatility of Thai equity market.

The Thailand investment market was very challenging during 2015. However, the payment of the guaranteed dividends has never been at risk. Only non-guaranteed dividends can be affected by adverse financial markets. The low interest rates environment will negatively impact the annual return due to less attractive return for the new funds received by Krungthai-AXA Life.

**Should you have any queries regarding your policy please contact  
the Krungthai-AXA Life Customer Call Centre on 1159.**