



**Krungthai-AXA Life Insurance PCL.  
Participating Policy Investment Update  
Year Ended 31 December 2012**

## 1. Krungthai AXA Overview

Krungthai-AXA Life Insurance 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 spanning almost half a century and is determined to become the “Convenience Bank” for the Retail, Corporate, SME, Government and Institutional sectors of the Thai economy. KTB has more than 10 million customers being managed through more than 1,000 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 101 million policyholders in 57 countries worldwide.

Krungthai-AXA Life (KAL) has been the fastest growing insurance company in Thailand over the last 5 years and has over 19,000 distributors nationwide. KAL draws upon the strengths and expertise of its two major shareholders, quality distributors and staff.

KAL 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) "*Preimmature*" 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.

KAL solves these and more.

You can trust in the security of KAL, as it is backed up by the financial strength and discipline of its two major shareholders. In these uncertain economic times the strength of KAL 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 KAL 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. KAL 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 expect 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, KAL declares the 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 forward the expecting gains 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. 2012 Thai Investment Market

**Economy:** In 2012, the Thai economy expanded by 6.4% mainly due to the acceleration in private consumption and government expenditure, as well as private investment. On the supply side, growth was driven by the expansion of non-manufacturing production. By contrast, manufacturing production and export declined because of a high base effect, the delay in the recovery of flood-affected sectors, and the unfavourable global economic condition which increasingly weighted on the Thai economy.

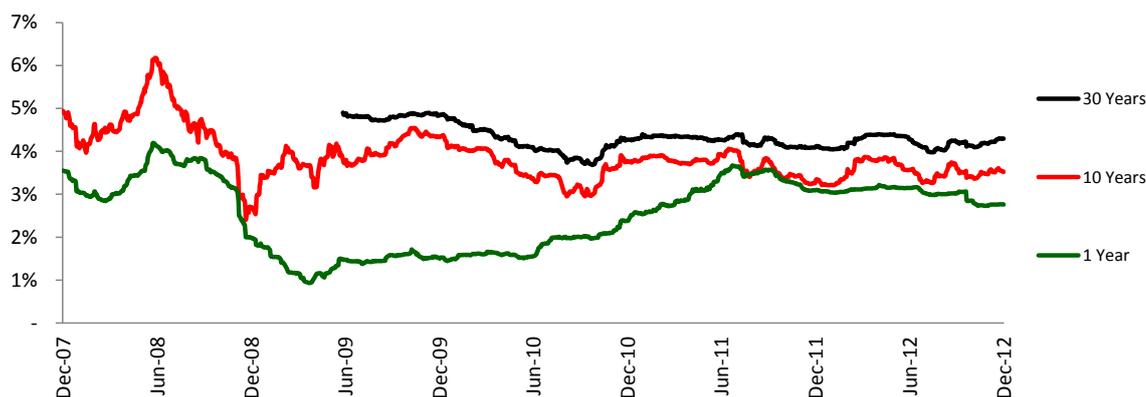
In 2013, Thai economy is expected to grow in the range of 4.7% - 5.7%\*, mainly due to expansion in domestic demand and recovery of industrial production and export.

\*Expected growth rate from Ministry of Finance

**Interest Rates:** Although the interest rates have slightly increased over 2012 (see figure 1), the long term interest rates have decreased over the past five years and this trend may continue in the future. The 2012 movement was mainly driven by the pressure of the long-dated bond supply for fiscal year 2013 that brought the long-dated curve to increase while the short-term rate was lower due to the BoT's policy rate to support economic growth. The future investment returns should be affected by the unfavourable economic environment.

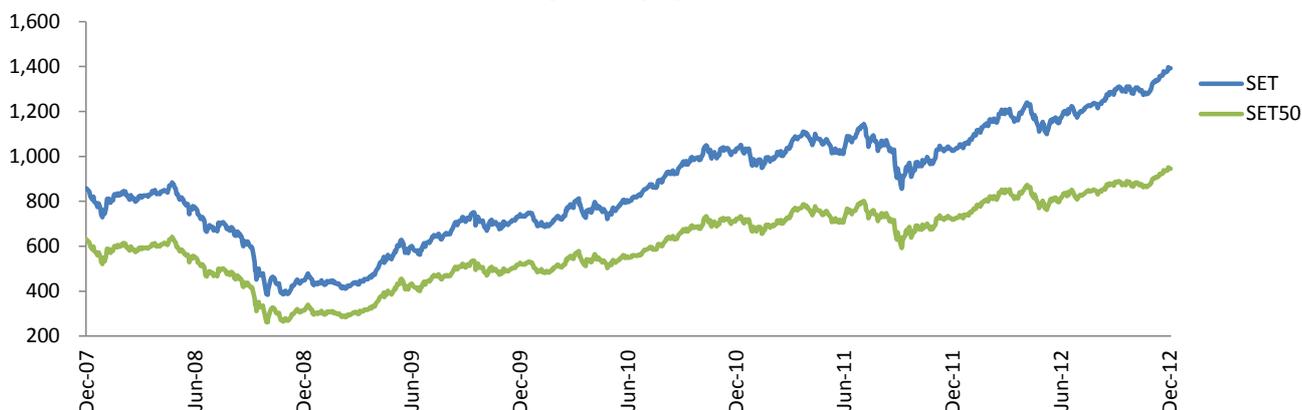
**Equities:** The Thai equity market has increased over the year 2012 (see figure 2), except in May when concerns around the Euro zone have caused a sell-off. The Thai Equity market has reached its highest level of the year at the year-end.

Figure 1: Interest Rates movements



Source: Thai BMA

Figure 2: Equity Indexes



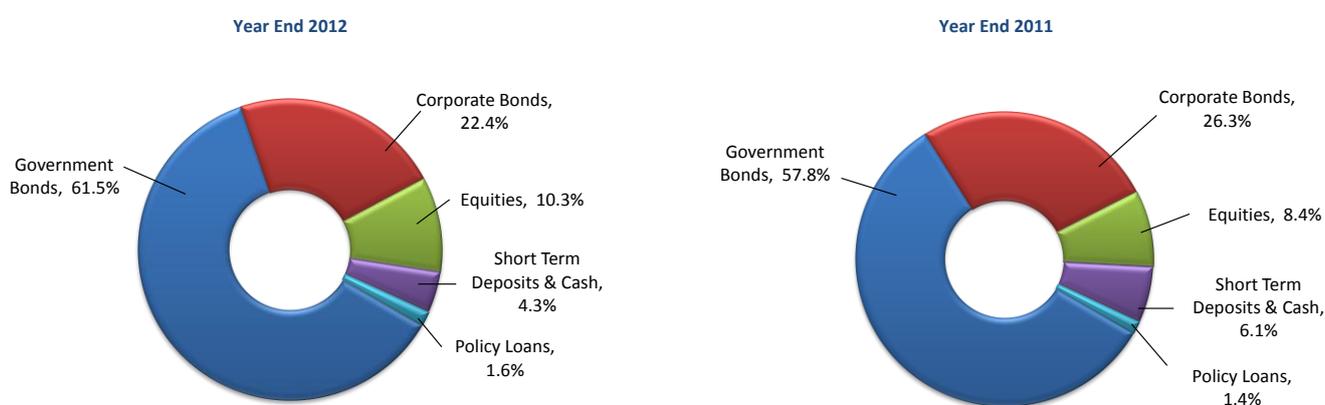
Source: SET

## 5. Our 2012 Investment Portfolio

**Investment philosophy:** KAL 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 KAL'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 secure portfolio.

KAL's current target asset allocation is to invest 87% in fixed income securities, 10% in equities, and 3% in money market instruments. 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 2012 and 2011, the asset mix of KAL's portfolio was:



**Performance:** The overall investment return for 2012 was 5.1% on the statutory basis before the relevant Thai corporate income taxes. The returns over the past 10 years have been as follows:

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	10 Yr Annualised Return
Annual Return (Statutory Basis)	1.8%	2.5%	4.0%	4.8%	4.5%	4.6%	3.8%	4.8%	4.8%	5.1%	4.1%

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

As noted in the Section "2012 Thai Investment Market", the Thai equity market increased dramatically over 2012, with a performance of the SET index of 35.8%. Including market performance, the realised gains and the dividends on equity, the equity portfolios (representing around 10% of KAL's portfolio) contributed 1.2% of the 2012 return. The fixed income portfolio (representing around 87% of KAL's portfolio) contributed 3.9% of 2012 return. The balance of the portfolio (3%) was invested in short-term deposits and held as cash for operational and liquidity purposes.

Despite some positive news in 2012, the global economy is still in crisis, and more importantly the past long term trend of decreasing interest rates has affected negatively the financial environment and investment returns. However, the payment of the guaranteed dividend has never been at risk. Only non-guaranteed dividend can be affected by adverse financial markets.

Should you have any queries regarding your policy please contact the Krungthai AXA Life Customer Call Centre on 02-689-4800.