

Krungthai-AXA Life Insurance PCL.

Participating Policy Investment Update

Year Ended
31 December 2014



KRUNGTHAI AXA

redefining / life insurance

1. Krungthai-AXA Overview

Krungthai-AXA Life Insurance PCL (KAL) 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 to recruit best talents in order to accomplish these 3 Summits with our belief “Yes, we can”. KTB has more than 14 million customers being managed through more than 1,195 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 102 million policyholders in 56 countries worldwide.

KAL has been one of the fastest growing insurance companies in Thailand over the last year and has over 15,000 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) “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.
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 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, KAL 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. 2014 Thai Investment Market

Economy: In 2014, the Thai economy expanded by 0.7%, due to the following factors: (1) the global economy grew less than expected, especially the US and the Chinese economies, while Japanese and the EU economies remained weak. Agricultural export prices also declined significantly, causing export value to contract; (2) the sales of passenger cars continued to decline, worse than previously anticipated and causing the automobile production to be lower than predicted; (3) the budget disbursement was lower than the target. The disbursement rate for FY2014 stood at 89%, which is lower than the 95% target; and (4) the recovery of tourism remained slow. For other key economic components, it is likely that there will be no growth in export value in US dollars terms and a contraction in total investment. Headline inflation was at 1.91%.

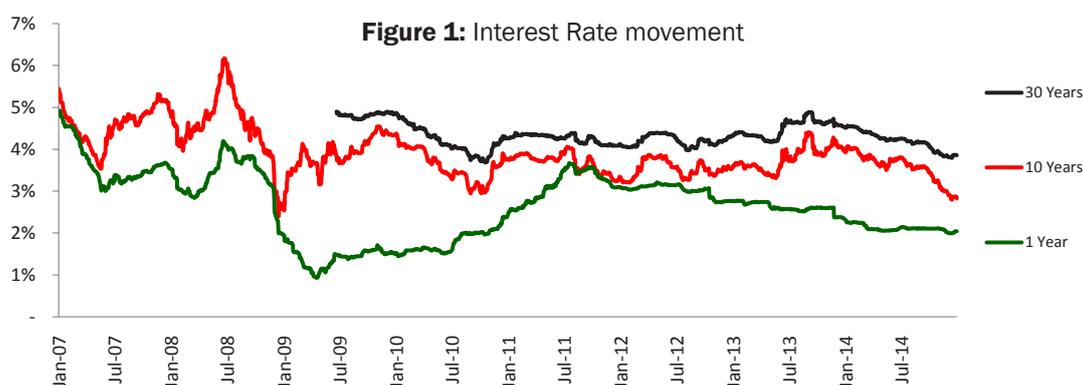
In 2015, the Thai economy is expected to grow at 4.0%*, mainly due to (1) an improvement in export sector in line with further recovery of the global economy, (2) a recovery of tourism sector and investment, (3) an increase in government expenditure, (4) a drop in crude oil prices, and (5) less base effect caused by unusual high volume of car sales and production.

*Expected growth rate from the Bank of Thailand

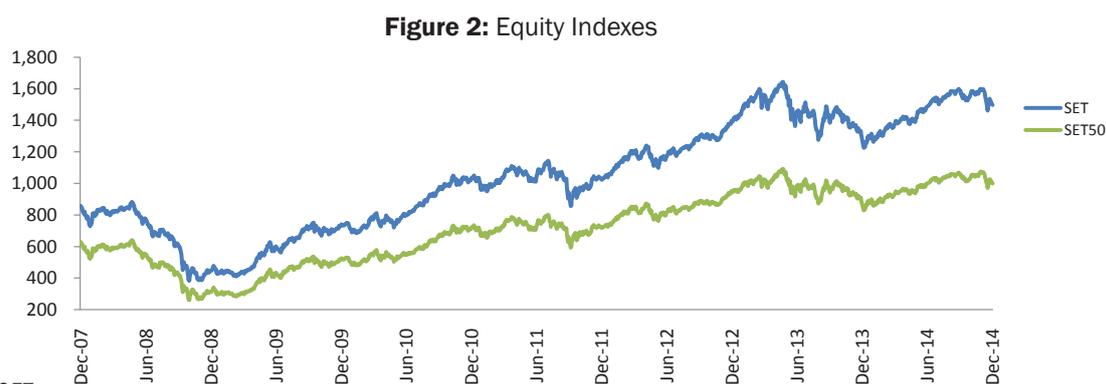
However, there remain some risk factors and limitations which could render the economic growth below its potential level. These include currency movements and economic policies in major economies, the fluctuation of currency and volatile global economy, and dampened household income caused by the slump in agricultural prices. However, encouragingly, an economic stability will remain sound due to lower inflationary pressures and a continual surplus in current account.

Interest Rates: The interest rate trend in 2014 was downward in all tenors especially in the medium to long term (i.e. 5 years and above) from the excess liquidity and demand of the foreign investors which reflects an improvement in investors' confidence after domestic political situation has eased off while market expectation over the FED decision to hold its interest rate unchanged till the latter half of 2015.

Equities: The Thai equity market has increased mostly over the year 2014 (see figure 2) due to the improvement in investor confidences over a recovery of the domestic economy after political tension has eased-off. Moreover, the continuation of expansionary monetary policy in industrialised countries and market expectation over the FED decision to keep its interest rate unchanged until the latter half of 2015 also pushed up investor confidences.



Source: Thai BMA



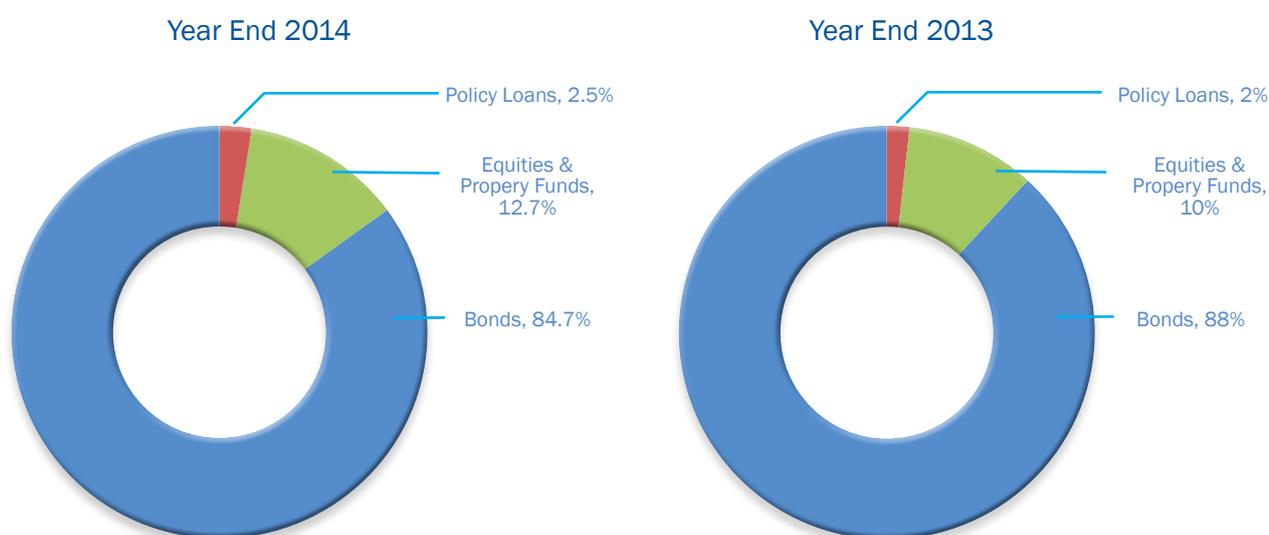
Source: SET

5. Our 2014 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 secured portfolio.

KAL's current target asset allocation is to invest 84% in fixed income securities, 11% in equities, and 5% 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 2014 and 2013, the asset mix of KAL's portfolio was:



Performance: The overall investment return for 2014 was 4.71% on the statutory basis before the relevant Thai corporate income taxes. The returns over the past 10 years have been as follows:

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	10 Yr Annualised Return
Annual Return (Statutory Basis)	4.0%	4.8%	4.5%	4.6%	3.8%	4.8%	4.8%	5.1%	5.3%	4.7%	4.6%

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

As noted in Section 4, "2014 Thai Investment Market", the Thai equity market increased in 2014, with a performance of the SET index of +15.3%. Including market performance, the realised gains and the dividends on equity, the equity & property fund portfolios (representing around 13% of KAL's portfolio) contributed 0.6% of the 2014 return. The fixed income portfolio (representing around 85% of KAL's portfolio) contributed 3.8% of 2014 return.

The Thailand investment market was very challenging during 2014. 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 KAL.

Should you have any queries regarding your policy please contact the Krungthai-AXA Life Customer Call Centre on 0 2689 4800.