

## 1. Krungthai-AXA Overview

Krungthai-AXA Life Insurance PCL. (KTAXA) 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 which established over 50 years. In year 2017, “Your Trusted Banking Partner” is this year goal. At December 31st, 2016 KTB has more than 22 million customers being managed through 1,214 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 64 countries worldwide.

KTAXA has been one of the fastest growing insurance companies in Thailand over the last year and has around 13,900 distributors nationwide. KTAXA draws upon the

strengths and expertise of its two major shareholders, quality distributors and staff.

KTAXA 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 KTAXA, as it is backed up by the financial strength and discipline of its two major shareholders. In these uncertain economic times the strength of KTAXA 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 KTAXA that bundles both savings and life insurance protection.

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. KTAXA 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, KTAXA 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. 2016 Thai Investment Market

**Economy:** In 2016, the Thai economy grew by 3.2% Year-on-Year. The major growth drivers are the growth in private consumption and strong government investment. In 2017, the Thai economy is expected to grow at 3.2%\*, mainly due to (1) the recovery of the export sector; (2) the stronger expansion of agricultural production; (3) the growth contribution from the public investment expansion; and (4) tourism sector is still likely to grow favourably. However, the risks from the volatility in the global economy and financial system should be closely monitored.

\*Expected growth rate from the Bank of Thailand

**Interest Rates:** During early-2016, the yield curve shifted down significantly. The yield curve then gradually rebounded after April-2016, and kept volatile during 2Q-3Q-2016 due to major risk events. During 4Q-2016, the yield curve jumped rapidly and ended up much higher than the year-end 2015's level in response to the

anticipation of a Fed rate hike, Trump's presidential victory and his pro-growth policies, and the OPEC and Non-OPEC agreement to cut production. The MPC maintained the policy rate at 1.5% throughout the year.

For 2017, despite expectations of a Fed rate hike by at least 2 times which will cause capital outflow from EM countries including Thailand, the Thai yield curve is expected to shift up at the lower extent than the Fed Fund rate increases, thanks to existing excess liquidity in the local market, limited upside in oil price, and low foreign holding in Thai Government bonds.

**Equities:** In 2016, the Thai equity market surged sharply by 20% YoY. This was driven by better-than-expected earnings of listed companies, increase in oil prices, accelerating GDP growth, and foreign fund inflows. Moreover, there was only a one-time FED rate hike which was less than the expectation of investors.

## 5. Our 2016 Investment Portfolio

Investment philosophy: KTAXA 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 your savings being pooled with those of other policyholders thus allowing a wider range of investments, and hence a more diversified and secured portfolio.

KTAXA'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 may 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.

**Performance:** The overall investment return for 2016 was 4.4% on the statutory basis before the relevant Thai corporate income taxes. The returns over the past 10 years have been as follows:

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	10 Yr Annualised Return
Annual Return (Statutory Basis)	4.5%	4.6%	3.8%	4.8%	4.8%	5.1%	5.3%	4.7%	4.6%	4.4%	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, "2016 Thai Investment Market", the Thai equity market increased in 2016. However, the overweighed portion of bonds in the portfolio which aimed to reduce the impact on the overall portfolio return from the volatility of the Thai equity market made the 2016 investment return lower than 2015. This was also based on the fact that the interest rate level in 2016 was lower than 2015 almost through the year.

The Thailand investment market was very challenging during 2016. 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 KTAXA.

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