

**(Translation)**

**Opinion of Independent Financial Advisor  
On the Acquisition of Assets from Connected Persons**

**for**

**Sri Ayudhya Capital Public Company Limited**



**ศรีอยุธยา แคปปิตอล**  
**SRI AYUDHYA CAPITAL**

**Prepared by**

**Asia Plus Advisory Company Limited**



**5 October 2018**

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*Important Note:*

*This report was prepared in Thai and this English version is a translation of the Thai report. While every effort was made to ensure the accuracy of the translation, there could be some inconsistency between the Thai report and the English translation. In any case, the Thai report shall take precedence and be considered the official IFA report over its English translation.*

## Executive Summary

Pursuant to the resolutions of the Board of Directors' meeting of Sri Ayudhya Capital Public Company Limited (the "**Company**" or "**AYUD**") No. 5/2018 held on 24 September 2018, the Board considered the potential cooperation in insurance business in Thailand between the Company and the Allianz Group between the Company and the Allianz Group. The Board deemed fit to enhance the cooperation between the Company and the Allianz Group by reducing non-life insurance business overlap, increasing the Company's shareholding in life insurance under Allianz Group, and increasing Allianz Group's shareholding in the Company. This enhanced cooperation will improve management efficiency, competitiveness, and collaboration in insurance business with Allianz Group with more than 128 years of experience.

The Allianz Group's and Company's subsidiaries that will be involved in the transaction to enhance the cooperation are:

### The Company's subsidiary

- Sri Ayudhya General Insurance Public Company Limited ("**SAGI**") is in non-life insurance business and held 99.99% by the Company

### The Allianz Group's subsidiaries

- Allianz General Insurance Public Company Limited ("**AZTH**") is also in non-life insurance business
- Allianz Ayudhya Assurance Public Company Limited ("**AZAY**") is in life insurance business
- Allianz SE
- CPRN (Thailand) Limited ("**CPRNT**"), Allianz Group's JV in Thailand

The Board approved to propose to the Extraordinary General Meeting of Shareholders No. 2/2018 on 13 November 2018 (the "**EGM**") for consideration and approval of the following agenda:

1. The approval for Sri Ayudhya General Insurance Public Company Limited ("**SAGI**") to purchase and accept the transfer of the entire business of Allianz General Insurance Public Company Limited ("**AZTH**") which includes all of AZTH's assets, liabilities, employees, agents, brokers, accounts receivable, account payable,

non-life insurance reserves, contracts, and insurance policies at the total price of THB 748,800,000 (**“Acceptance of the EBT from AZTH”**);

2. The approval for the Company to purchase additional 34,810,000 ordinary shares of Allianz Ayudhya Assurance Public Company Limited (**“AZAY”**) at the price 114.000745763 Baht per share, equivalent to total value of THB 3,968,599,600 or approximately 11.80% of the total shares sold in AZAY from Allianz SE and CPRN (Thailand) Limited (**“CPRNT”**) (**“Purchase of AZAY Shares”**). It will cause the Company’s shareholding in AZAY to increase from approximately 20.17% to approximately 31.97% of the total voting shares of AZAY;

The total value of the assets received from the above two transactions are THB 4,717,399,600

3. The increase of registered capital of the Company from THB 375,000,000 to THB 463,473,361 by issuing 88,473,361 new ordinary shares with a par value of THB 1 each (the **“Newly Issued Shares”**), representing 23.1% of the total voting shares in the Company after completion of the registration of the increase of paid-up capital (the **“Capital Increase Registration”**) which does not take into account the shares from the exercise of the remaining warrants to purchase ordinary shares in the Company No. 1 (**“AYUD-W1”**) of 81,094,582 units as well as the allocation and offering for sale of the Newly Issued Shares to Allianz SE and CPRNT as follows:

- 3.1. The allocation and offering for sale of 14,043,511 Newly Issued Shares to CPRNT (the **“Newly Issued Shares for EBT Acceptance”**) at the offering price of THB 53.32 per share, totaling approximately THB 748,800,000 or 3.7% of the Company’s total voting shares, inclusive of the Newly Issued Shares but not including the shares from exercising the remaining Company’s warrant, AYUD-W1

In this regard, CPRNT will make the payment for such shares in cash and the Company will use the entire proceeds from this portion to purchase newly issued shares in SAGI, in order to provide SAGI with the funds for the Acceptance of the EBT from AZTH. (**“Share Allocation for EBT Acceptance”**). SAGI’s registered capital will increase from THB 1,800.0 million to THB 2,548.8 million

- 3.2. The allocation and offering for sale of 74,429,850 of Newly Issued Shares or 19.5% of of the Company’s total voting shares, inclusive of the Newly Issued Shares but not including the shares from exercising the remaining Company’s warrant, AYUD-W1, to Allianz SE and CPRNT (the **“Newly Issued Shares for AZAY Share Purchase”**) at the offering price of THB 53.32 per share, totaling approximately THB 3,968,599,600 as the consideration to Allianz SE and CPRNT for the Purchase of AZAY Shares.

In this regard, Allianz SE and CPRNT will transfer 34,810,000 shares in AZAY, representing approximately 11.80% of the total share sold in AZAY, at the price of THB 114.000745763 per

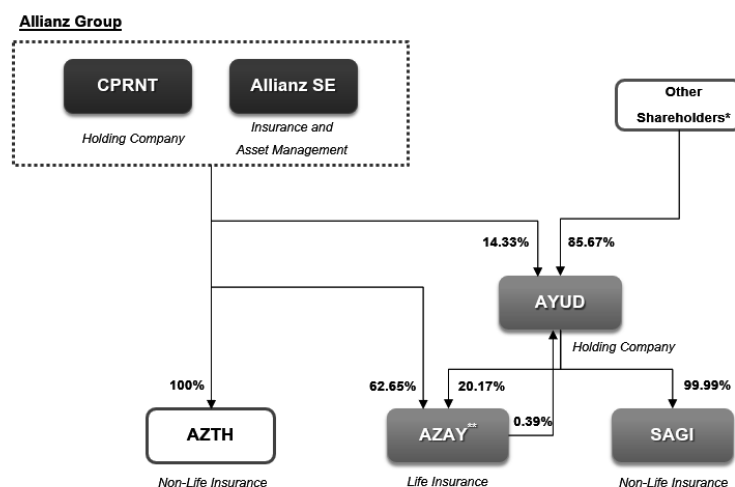
share, totaling THB 3,968,599,600 to the Company for the payment of the Newly Issued Shares for AZAY Share Purchase in lieu of cash payment (“**Share Allocation for AZAY Share Purchase**”). The Company’s shareholding in AZAY will increase from 59,500,280 shares, or approximately 20.17% of the total shares sold in AZAY, to 94,310,280 shares, or approximately 31.97% of the total shares sold in AZAY.

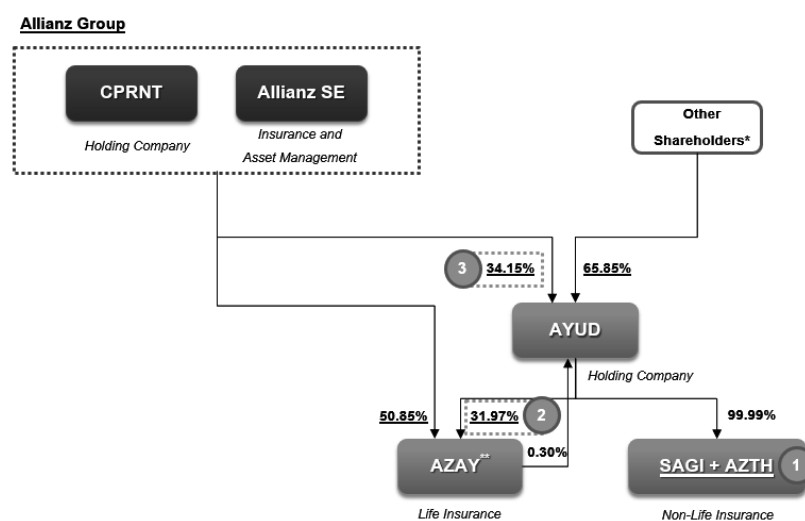
The Share Allocation for EBT Acceptance and the Share Allocation for AZAY Share Purchase are collectively referred to as the “**Share Allocations**”.

4. The grant of consent for Allianz SE and/or its affiliate, who is a member of the Allianz Group which may be designated by Allianz SE as co-offeror (the “**Designated Person**”) to make a voluntary partial tender offer.

The objectives of entering into these Transactions are mainly for enhancing business co-operation between AYUD and Allianz Group including improving operational efficiency and minimizing repetitive costs and expenses. All conditions and timeframe have to be fulfilled within 30 June 2019 or the date all parties agreed in written. The shareholding of the Company, its subsidiary, and related companies before and after entering into these Transactions are illustrated below.

**Before the Transactions**



**After the Transactions**

1. Acceptance of the EBT from AZTH
2. Purchase of AZAY Shares
3. Share Allocations

Remarks \* Details of other shareholders of AYUD before and after the Transactions are shown on 1.3.2. The main shareholders are Ratanarak Group, Thongthai Group, and Bank of Ayudhya PCL

\*\* Details of other shareholders of AZAY before and after the Transactions are shown on 1.2.2.2

\*\*\* The shareholding percentage above does not take into account the shares to be acquired by Allianz SE and/or the Designated Person in the Partial Tender Offer and also does not take into account the shares from the exercise of the remaining AYUD-W1 of 81,094,582 units

The Acceptance of the EBT from AZTH and the Purchase of AZAY Shares are the assets acquisition transactions under the Notification of the Capital Market Supervisory Board No. TorJor. 20/2551 re: Rules on Entering into Material Transactions Deemed as Acquisition or Disposal of Assets, dated 31 August 2008 (as amended) and the Notification of the Board of Governors of the Stock Exchange of Thailand re: Disclosure of Information and Other Acts of Listed Companies Concerning the Acquisition or Disposal of Assets, 2004, dated 29 October 2004 (as amended) (collectively referred to as the “**Notifications on Acquisition or Disposal of Assets**”). The total size of these Transactions, based on the Company’s consolidated financial statements as of 30 June 2018, and AZTH’s and AZAY’s financial statements as of 30 June 2018, as reviewed by their respective auditors, is equivalent to 46.24%. These Transactions are categorized as Type 2 transactions. In addition, AZTH, Allianz SE and CPRNT are considered connected persons of the Company. Therefore, the Acceptance of the EBT from AZTH, the Purchase of AZAY Share, and the Share Allocations are connected transactions under the Notification of the Capital Market Supervisory Board No. TorJor. 21/2551 re: Rules on Connected Transactions, dated 31 August 2008 (as amended) and the Notification of the Board of Governors of the Stock Exchange of Thailand re: Disclosure of Information and Other Acts of Listed Companies Concerning Connected Transactions, 2003, dated 19 November 2003 (as amended) (collectively referred to as the “**Notifications on Connected Transactions**”). The total size of these Transactions is equivalent to 63.36% of the Company’s net tangible assets (the “**NTA**”) based on its consolidated financial statements as of 30 June 2018, as reviewed by the Company’s auditor, which is more than 3% of the Company’s NTA.

Even though the Acceptance of the EBT from AZTH and the Purchase of AZAY are Type 2 transactions under the Notifications on Acquisition or Disposal of Assets, the Company will propose the Transactions to the EGM for consideration and approval in the same way as Type 1 transaction. The Company, therefore, needs to disclose the Information Memorandum regarding the Transactions to the Stock Exchange of Thailand (the “**SET**”). To be approved, the Transactions need a vote of not less than three-fourths of the total number of votes of the shareholders attending the meeting and having the rights to vote, excluding the votes of the shareholders who have interest on the matter. The Company needs to send the invitation letter, stating the names and the number of shares of the shareholders who have no right to vote, to its shareholders no less than 14 days prior to the meeting. In addition, the Company is required to arrange for an Independent Financial Advisor to provide the opinion on the reasonableness of the Transactions and the fairness of the Transactions prices to the Audit Committee and send the IFA opinion to the SET and the shareholders.

The offering for sale of the newly issued ordinary shares to Allianz SE and CPRNT are considered private placement according to the Notification of the Capital Market Supervisory Board No. TorJor. 72/2558 re: Approval for Private Placement of Newly Issued Shares by a Listed Company dated 28 October 2558 (as amended). As such, the Company must seek and obtain approval from the Office of the Securities and Exchange Commission (the “**SEC**”). In this regard, the Company will seek a waiver of the prescribed period for the offering of the newly issued shares from the SEC so that the Company can offer for sale of the newly issued shares to Allianz SE and CPRNT at the offering price of THB 53.32 per share after the three-month period from the date of the EGM approving the offering for sale of the newly issued ordinary shares.

In addition, Allianz SE and/or the Designated Person wish to make a voluntary partial tender offer to purchase the Company’s shares. In this regard, Allianz SE and/or the Designated Person wish to seek a waiver from the SEC in order to make a partial tender offer with an exemption from the requirement to make subsequent tender offer for all securities of the Company under the Notification of the Capital Market Supervisory Board No. TorJor. 12/2554 re: Rules, Conditions, and Procedures for the Acquisition of Securities for Business Takeovers, dated 13 May 2011 (as amended) (the “**PTO Waiver**”). In order to seek this waiver, the offerors as those who seek a waiver must provide and certify to the SEC that the Company’s shareholders meeting has resolved to grant consent for those who seek waiver to make a partial tender offer for the Company’s shares.

The Company’s Board of Directors meeting no. 5/2018 on 24 September 2018 also organize the EGM no. 2/2018 on 13 November 2018 to consider and approve the Transactions. The meeting resolved to appoint Asia Plus Advisory Company Limited (the “**Independent Financial Advisor**” or the “**IFA**”) as the Independent Financial Advisor to provide opinions on the Transactions to comply with Corporate Governance principles regarding transparency and information disclosure so that the Company’s shareholders have sufficient information to decide on the matter put to vote. The Independent Financial Advisor prepared this report to provide our opinions on the asset acquisition, the Transactions with connected parties, the reasonableness of the Transactions, and the fairness of the Transactions prices and conditions.



The IFA is a qualified Financial Advisor under the supervision of the SEC and has no relationship with either the Company or any of the related parties in the Transactions.

In preparing the report, the IFA relied on the information and document provided by the Company, interviews with the management of the Company, SAGI, AZTH, and AZAY, information in the Information Memorandum regarding the Transactions including the capital increase form (collectively called “**IM**”), the Share Subscription and Purchase Agreement between Allianz SE, CPRNT, and the Company (“**Share Subscription and Purchase Agreement**” or “**SPA**”), the Entire Business Transfer Agreement between SAGI and AZTH (“**EBT Agreement**”), the Appraisal reports of SAGI, AZTH, and AZAY, publicly available information on SAGI, AZTH, AZAY, and the Company, as well as other information from public sources. The IFA properly conducted the due diligence of information with due care in accordance with professional practice for this report. However, the IFA cannot give any representation or warranty on the accuracy or the completeness of the information obtained from the Company and/or the management of the Company. Additionally, the report was prepared based on the current information obtainable during the preparation of this report in order to provide opinions relating to the acquisition of assets from connected persons. All the assumptions found in this report were based on the possibility of occurrence during the time this report was prepared. Therefore, should there be any changes in the future which have the impact on the Company’s operations; both the Company and the shareholders could be affected.

The sole purpose of this report is to provide opinions to the Company’s shareholders on the acquisition of assets from connected persons. Nevertheless, the final decision rests with the individual shareholders. The shareholders should study the information contained in this report along with other related information provided and use his/her own judgment in making the final decision.

After reviewing the relevant information, the IFA was able to obtain and analyzing the conditions of the Transactions, advantages and disadvantages from entering into the Transactions, and potential risks from the Transactions, the IFA opinion can be summarized as follows:

Entering into the Transactions is **reasonable**. The advantages are the additional sales channels and expansion of customer base, the synergy benefits to the business of the Company, the increase non-life insurance market share including revenues and financial strength, and the increase return on investment by increase shareholding in AZAY. Even though entering into the Transactions has some disadvantages such as the net loss of AZTH, the dilution effect on the existing shareholders, and the potential risk of lower checks & balances and control over the business by minority shareholders. The IFA is of an opinion that the advantages from the Transactions outweigh the disadvantages when considering the co-operation and synergy obtained from Allianz Group. Therefore, the IFA deems the Transactions as reasonable. Regarding the key conditions of the Transactions, the IFA is of an opinion that the conditions are reasonable as they were set in relevant to the related rules and regulations and to meet the objectives of entering into the Transactions.

For the fairness of Transactions price, the IFA estimated the appropriate price for the Transactions as follows:

1. Acceptance of the EBT from AZTH: The estimated value range of AZTH is **THB 755 – 936 million** based on the actuarial valuation approach.
2. Purchase of AZAY Shares: The estimated value range of the Transaction is **THB 3,181 – 3,752 million** based on the actuarial valuation approach, of which represent the 11.8% total paid-up shares of AZAY.

The total value of the assets received from the above two transactions as estimated by the IFA is **THB 3,936 - 4,689 million**.

3. Share Allocations: The estimated value range of AYUD's share is **THB 18,341 – 19,995 million** or **THB 48.91 – 53.32 per share** based on the sum of the parts approach.

Due to the acquisition of assets agenda, connected transaction agenda, and the share allocation agenda are related to, and conditional upon, each other. Therefore, if any of these items is not approved the EGM, the other related items will not be proposed to the EGM for its consideration, and the items that have already been approved shall be deemed cancelled. For that reason, IFA considers the aggregate value of the related Transactions, totaling THB 3,936 – 4,689 million, and the reasonable value of the Company, THB 18,341 - 19,995 million. The swap ratio is considered as follows:

Swap Ratio		Aggregate Value of the Assets to be Acquired estimated by the IFA (AZTH + 11.8%AZAY) (THB million)	
		3,936	4,689
Estimated Value of AYUD (THB million)	18,341	0.2146	<u>0.2556</u>
	19,995	<u>0.1969</u>	0.2345

From the table above, the appropriate swap ratio is **0.1969 - 0.2556 times** of the value of the Company. Comparing to the Transactions value of THB 4,717.4 million, consisting of value of Acceptance of the EBT from AZTH of THB 748.8 million, and value of Purchase of AZAY shares of THB 3,968.6 million, and the value of the Company's shares determined by the Board of Directors of the Company at the price of THB 19,995 million or THB 53.32 per share, the swap ratio for the Transactions is 0.2359 times of the Company equity

value, which falls in the reasonable range that the IFA estimated. Ergo, the IFA holds the opinion that the aggregate Transactions values are reasonable. The details of each Transactions are as follows:

1. The Acceptance of the EBT from AZTH: The price of this transaction is THB 748.8 million, which is THB 6.2 - 187.2 million lower than the estimated value range. The IFA deems the transaction price as reasonable.
2. The Purchase of AZAY Shares: The price of this transaction is THB 3,968.6 million, which is THB 216.6 - 787.6 million higher than the estimated value range. However, the estimated values suffer the discount for lack of marketability of AZAY's shares because AZAY is not a listed company. After the purchase of AZAY shares, the values of AZAY shares that are reflected in the Company's share value will not suffer from the discount for lack of marketability because AYUD is a listed company. Considering the value of 11.8% shares of AZAY before applying the liquidity discount was THB 4,241 - 5,003 million, the transaction price is THB 272.6 - 1,034.3 million lower than the values before the discount. Even though the transaction price is higher than the estimated values, the values of AZAY stock reflected in the Company's share value will be higher than the transaction price. Thus, the IFA opines the transaction price as reasonable.
3. The Share Allocations: The share price of this transaction is THB 53.32 per share, which is in the range of appropriate value and equals to the highest value of the range. The IFA deems the share price for the share allocation as reasonable.

**The IFA is of an opinion that the shareholders should vote in favor of approving the Transactions. Nevertheless, the final decision rests primarily with the individual shareholders. The shareholders should study the information contained in this report along with other related information provided and use his/her own judgment in making the final decision.**

## 1. Opinion on the Acquisition of Assets from Connected Persons

### 1.1. Nature and Details of the Transactions

#### 1.1.1. Nature of the Transactions

Pursuant to the resolutions of the Board of Directors' meeting of the Company No. 5/2018 held on 24 September 2018 has considered the potential cooperation in insurance business in Thailand between the Company and the Allianz Group and approved to propose to the Extraordinary General Meeting of Shareholders for consideration and approval of the following agenda:

1. Acceptance of the EBT from AZTH;
2. Purchase of AZAY Shares;
3. The increase of registered capital from THB 375,000,000 to THB 463,473,361 by Share Allocations; and
4. The grant of consent for Allianz SE and/or the Designated Person to make a voluntary partial tender offer

In this regard, the Company has disclosed the details of the Transactions on 25 September 2018 to the SET. Those Transactions must be approved by the Shareholders' Meeting, of which the Board of Directors of the Company has approved the convening of the Extraordinary General Meeting of the Shareholders No. 2/2018 on 13 November 2018.

#### 1.1.2. Date of the Transactions

The Company will proceed with the aforementioned Transactions after the conditions precedent specified in the SPA and/or the EBT Agreement are satisfied or are waived as provided for thereunder. The conditions precedent include:

- 1) The receipt of letter from the Office of Insurance Commission ("**OIC**") notifying the approval of the Insurance Commission for AZTH and SAGI to proceed with the transfer and acceptance of transfer of the entire business ("**OIC Approval**")
- 2) The receipt of the following approvals and waiver from the SEC (the "**SEC Approvals**")
  - a. The approval for the private placement of the New Shares by the Company
  - b. The waiver of the prescribed period for the offering for sale of the New Shares so that the Company can offer for sale of the New Shares to Allianz SE and CPRNT after the three-month period from the date of an EGM approving the offering for sale of the newly issued shares (if required); and
  - c. The PTO Waiver for Allianz SE and/or the Designated Person; and

- 3) Allianz SE and/or the Designated Person acquire a total number of 56,930,000 shares in the Company in the partial tender offer of the Company's shares (" **Receipt of Shares from Partial Tender Offer**")
- 4) The approval being granted by the shareholders' meeting(s) of the Company and SAGI with respect to the relevant matters

The Transaction and the conditions precedent must be fulfilled by 30 June 2019 or the date all parties agreed in writing. Otherwise, the Company and the Allianz Group will cancel the Transaction. (Additional information is under 1.6.1 Conditions of the Transactions.)

### 1.1.3. Relevant Parties

#### Transaction no. 1 : The Acceptance of the EBT from AZTH

Purchaser : SAGI  
Seller : AZTH  
  
Nature of relationship :

SAGI is the subsidiary of the Company with 99.99% of its total shares held by the Company.

Regarding AZTH, Allianz SE and CPRNT hold about 25% and 75% of its total shares, respectively. In this regard, Allianz SE is one of the major shareholders of the Company, holding 42,104,000 shares, or approximately 14.33% of the total voting shares of the Company as of 27 August 2018 which is the latest book closing date of the Company. In addition, CPRNT is also the person under section 258 (6) of Allianz SE pursuant to the SEC Act; therefore, AZTH is a related person of the Company.

#### Transaction no. 2 : Purchase of AZAY Shares

Purchaser : AYUD  
Seller : Allianz SE and CPRNT  
  
Nature of relationship :

As mentioned earlier, Allianz SE is one of the major shareholders of the Company and CPRNT is the person under section 258 (6) of Allianz SE; therefore, Allianz SE and CPRNT are related persons of the Company.

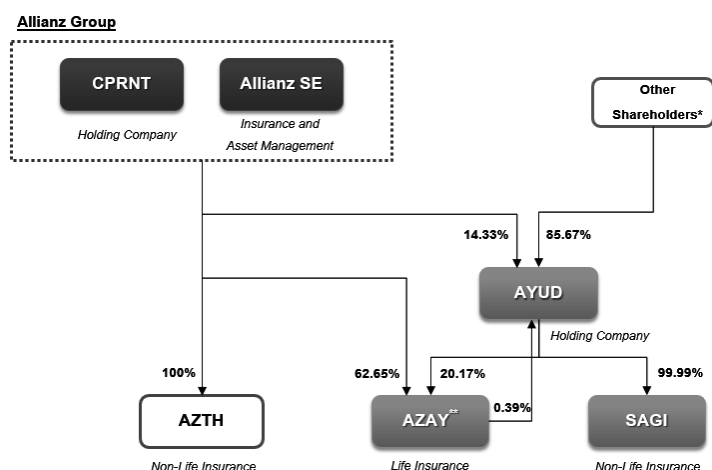
Transaction no. 3 : To consider and approve the Company to offer and allocate the newly issued shares to Allianz Group

Issuer : AYUD  
 Subscriber : Allianz SE and CPRNT  
 Nature of relationship :

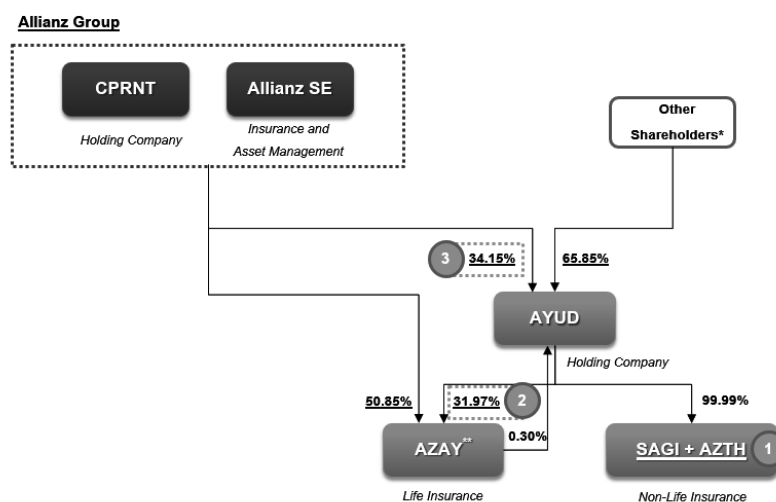
As mentioned earlier, Allianz SE is one of the major shareholders of the Company and CPRNT is the person under section 258 (6) of Allianz SE; therefore, Allianz SE and CPRNT are related persons of the Company.

In summary, the shareholding of the Company, its subsidiary, and related companies before and after entering into these Transactions are illustrated below:

**Before the Transactions**



**After the Transactions**



1. Acceptance of the EBT from AZTH
2. Purchase of AZAY Shares

### 3. Share Allocations

- Remarks \* Details of other shareholders of AYUD before and after the Transactions are shown on 1.3.2. The main shareholders are Ratanarak Group, Thongthai Group, and Bank of Ayudhya PCL
- \*\* Details of other shareholders of AZAY before and after the Transactions are shown on 1.2.2.2
- \*\*\* The shareholding percentage above does not take into account the shares to be acquired by Allianz SE and/or the Designated Person in the Partial Tender Offer and also does not take into account the shares from the exercise of the remaining AYUD-W1 of 81,094,582 units

#### 1.1.4. Details of Assets to be Acquired or Disposed

Details of acquired assets are as follows:

1. The entire business of AZTH which includes all of AZTH's assets, liabilities, employees, agents, brokers, accounts receivable, account payable, non-life insurance reserves, contracts and insurance policies as of the date the Acceptance of the EBT from AZTH is completed. Therefore, the total value of consideration for the Acceptance of the EBT from AZTH is the value payable by SAGI to AZTH for the purchase and acceptance of the transfer of the entire business of AZTH, totaling of THB 748,800,000.
2. The 34,810,000 ordinary shares of AZAY with a par value of THB 10 each, representing 11.80% of the total issued and paid-up shares of AZAY. Therefore, the total value of consideration for the purchase of 34,810,000 shares of AZAY is the offering price THB 114.000745763 per share, totaling of approximately THB 3,968,599,600.

In this connection, AYUD will increase its registered capital from THB 375,000,000 to THB 463,473,361 by issuing 88,473,361 of new ordinary shares of with a par value of THB 1, representing approximately 23.1% of total voting shares after the completion of Capital Increase Registration which does not take into account the shares from the exercise of the remaining warrants to purchase ordinary shares in the Company No. 1 ("AYUD-W1") of 81,094,582 units and allocating such shares as follows:

1. The allocation of 14,043,511 of newly issued shares of AYUD to CPRNT at the offering price of THB 53.32 per share, totaling approximately THB 748,800,000. In this regard, CPRNT will make the payment for such shares in cash, and the Company will use the proceeds derived from this portion to purchase newly issued shares in SAGI, in order to provide SAGI with funds for the Acceptance of the EBT from AZTH.

2. The allocation of 74,429,850 of newly issued shares of AYUD to Allianz SE and CPRNT at the offering price of THB 53.32 per share, totaling approximately THB 3,968,599,600 as the consideration for the Purchase of AZAY Shares from Allianz SE and CPRNT.

### 1.1.5. Type and Size of the Transactions

The Acceptance of the EBT from AZTH and the Purchase of AZAY Shares are deemed an acquisition of assets pursuant to the Notifications on Acquisition or Disposal of Assets. In addition, Allianz SE and CPRNT are the connected persons of the Company; therefore, the Acceptance of the EBT from AZTH, the Purchase of AZAY Shares, and Share Allocations are deemed connected transactions pursuant to the Notifications on Connected Transactions. Details of the size calculation are as follows:

#### 1.1.5.1. Size of the Assets Acquisition Transactions

##### 1.1.5.1.1. The Acceptance of the EBT from AZTH

The size of the transaction, based on the Company's consolidated financial statements as of 30 June 2018, and AZTH's financial statements as of 30 June 2018, as reviewed by their respective auditors is as follows:

Criteria	Calculation	Transaction Size
Value of Assets	$= \frac{\% \text{Shareholding} \times \text{NTA}}{\text{NTA of the Company}}$ $= \frac{366.32}{8,627.58}$	4.25%
Net Profit	- N/A since AZTH realized net loss -	
Value of Total Consideration	$= \frac{\text{Amount of Total Consideration}}{\text{Total Assets of the Company}}$ $= \frac{748.80}{12,556.41}$	5.96%
Value of Securities Issued in Consideration of the Acquisition of Assets	-No capital shares will be issued-	

From the table above, the size of the transaction calculated according to the Value of Total Consideration criteria is 5.96%.



## 1.1.5.1.2. The Purchase of AZAY Shares

The size of the transaction, based on the Company's consolidated financial statements as of 30 June 2018, and AZAY's financial statements as of 30 June 2018, as reviewed by their respective auditors is as follows:

Criteria	Calculation	Transaction Size
Value of Assets	$= \frac{\% \text{Shareholding} \times \text{NTA}}{\text{NTA of the Company}}$ $= \frac{11.80\% \times 12,568.47}{8,627.58}$	17.19%
Net Profit*	$= \frac{\% \text{Shareholding} \times \text{Net Profit}}{\text{Net Profit of the Company}}$ $= \frac{11.80\% \times 1,711.43}{501.43}$	40.27%
Value of Total Consideration	$= \frac{\text{Amount of Total Consideration}}{\text{Total Assets of the Company}}$ $= \frac{3,968.60}{12,556.41}$	31.61%
Value of Securities Issued in Consideration of the Acquisition of Assets	$= \frac{\text{Total shares issued for assets acquisition}}{\text{Total issued and paid-up shares of the Company}}$ $= \frac{74.43}{293.91}$	25.32%

From the table above, the size of the transaction calculated according to the Net Profit criteria is 40.27%.

As a result, the total size of these Transactions is 46.23%. These Transactions are categorized as Type 2 transactions pursuant to the Notifications on Acquisition or Disposal of Assets.

## 1.1.5.2. Size of the Connected Transaction

The size of the Transactions, based on the Company's consolidated financial statements as of 30 June 2018 as reviewed by the auditor is as follows:

$$\text{Size of the Transaction} = \frac{\text{Amount of Total Consideration}}{\text{NTA of the Company}} = \frac{748.80 + 3,968.60 + 748.80}{8,627.58} = 63.36\%$$

As a result, the Transactions are classified as a connected Transaction of listed companies regarding assets and services that needs to be approved by the general meeting of the

shareholders pursuant to the Notifications on Connected Transactions as the Transactions value is more than THB 20 million or 3% of NTA, whichever is greater.

#### **1.1.6. Total Value of Consideration**

The total values of consideration of each Transactions are as follows:

1. The total value of consideration for the Acceptance of the EBT from AZTH is the value payable by SAGI to AZTH for the purchase and acceptance of the transfer of the entire business of AZTH, totaling of THB 748,800,000.
2. The total value of consideration for the purchase of 34,810,000 shares of AZAY is the offering price of the Newly Issued Shares for AZAY Share Purchase, totaling of approximately THB 3,968,599,600, of which will be paid by SAGI from the proceeds from its capital increase.
3. The total value of consideration for the Share Allocations is the offering price of 88,473,361 newly issued shares at THB 53.32 per share, totaling approximately THB 4,717,399,600.

#### **1.1.7. Shareholders with No Right to Vote on the Transaction**

Allianz SE who is one of the major shareholders of the Company and AZAY who is the related party of Allianz SE collectively holding of 43,263,000 shares in the Company, or representing approximately 14.3% of total voting shares of the Company as of the latest book closing date (27 August 2018), have no right to vote on the Transaction.

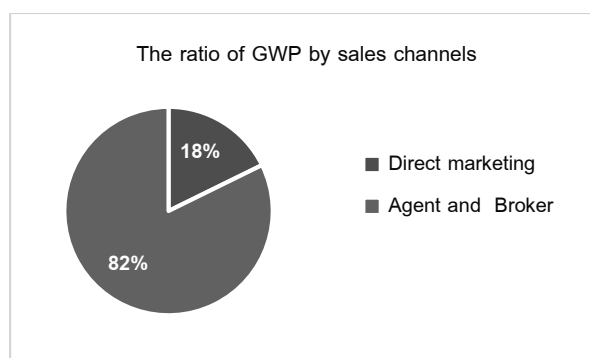
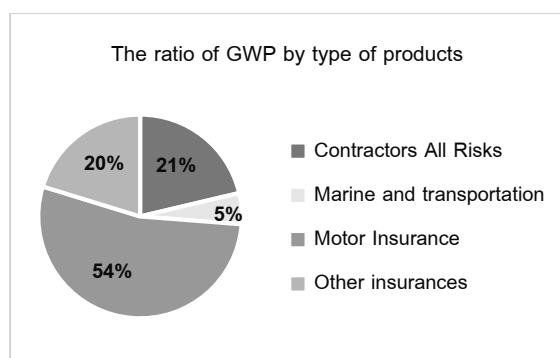
### **1.2. Details of Target Companies**

Target companies consist of AZTH and AZAY. Details are as follows:

#### **1.2.1. Allianz General Insurance Public Company Limited (“AZTH”)**

##### **1.2.1.1. Nature of Business Operations**

AZTH was founded on 4 June 1997 by an investment between Allianz Group which is the one of leading insurance companies in Europe and Charoen Pokphand Group. AZTH has been operating non-life insurance businesses for more than 17 years, including motor insurance, personal accident insurance, personal property insurance, burglary insurance, contractors all risks, liability insurance, transportation insurance and credit insurance that sell products through direct marketing channel and agent and broker channel. The break-down ratio of gross written premium classified by type of products and sales channels for 6 months period of 2018 are as follows:



### 1.2.1.2. List of Shareholders

AZTH has the total issued and paid-up capital of THB 830 million comprised of 83 million ordinary shares at the par value of THB 10 per share. The list of shareholders of AZTH before entering into the Transactions is as follows:

No.	Shareholder Names	Before Transactions*	
		No. of shares	No. of shares
1	Allianz SE	20,749,999	25.00
2	CPRN (Thailand) Co., Ltd.	62,250,001	75.00
<b>Total</b>		<b>83,000,000</b>	<b>100.00</b>

Remark \* Shareholder list as of the book closing date, 3 July 2018

\*\* The ultimate shareholder of CPRNT is Allianz SE

### 1.2.1.3. Board of Directors

As of 10 July 2018 the board of AZTH consists of the following 7 directors:

No.	Name	Position
1	Miss Sirinthip Chotithammaporn	President and Chief Executive Officer
2	Mrs. Napaporn Landy	Independent Director and Member of Audit Committee
3	Mr. Zakri Mohd Khir	Chairman and Member of Audit Committee
4	Mr. Narong Chulajata	Independent Director and Chairman of the Audit Committee
5	Miss Orawan Tejapaibul	Director
6	Mr. Apichati Sivayathorn	Independent Director
7	Mr. Montri Puangpool	Director

### 1.2.1.4. Revenue Breakdown

Unit: THB million	2015	%	2016	%	2017	%	Jan – Jun 2018	%
Net earned premium	1,191.9	77.40	1,203.2	77.64	1,495.4	82.90	871.4	83.55
Fees and commission income	272.6	17.70	272.8	17.60	223.1	12.37	134.5	12.89
Net investment income	58.5	3.80	45.2	2.92	37.4	2.07	17.2	1.65
Gain (losses) on investment	0.2	0.01	(2.6)	(0.17)	0.0	0.00	0.0	0.00
Other income	16.8	1.09	31.1	2.01	48.0	2.66	19.9	1.91
<b>Total revenues</b>	<b>1,540.0</b>	<b>100.00</b>	<b>1,549.7</b>	<b>100.00</b>	<b>1,803.9</b>	<b>100.00</b>	<b>1,043.0</b>	<b>100.00</b>

### 1.2.1.5. Operating Results and Financial Position

#### 1.2.1.5.1. Summary of financial statement

Summary of Statements of financial position, Statements of comprehensive income, Statements of cash flows, and Financial ratios for the years ending 31 December 2015 to 31 December 2017 and six-month periods ended 30 June 2018 are as shown below:

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 June
		2015	2016	2017	2018
<b>Statement of Financial Position</b>					
<b>Asset</b>					
Cash and cash equivalents	MB	653.9	633.0	598.5	646.2
Accrued investment income	MB	15.5	8.3	7.2	7.2
Premium receivable, net	MB	239.6	279.8	331.6	418.9
Reinsurance assets	MB	1,844.2	1,404.6	1,410.1	1,610.4
Amount due from reinsurance, net	MB	279.0	165.8	147.7	162.7
Investments assets	MB	1,757.3	1,722.7	1,532.5	1,545.6
Leasehold improvements and equipment, net	MB	22.6	37.4	29.4	30.0
Intangible assets, net	MB	9.7	25.1	80.7	113.8
Deferred tax assets	MB	92.8	135.1	175.0	211.2
Other assets	MB	50.3	73.5	114.5	153.3
<b>Total assets</b>	<b>MB</b>	<b>4,964.9</b>	<b>4,485.4</b>	<b>4,427.2</b>	<b>4,899.3</b>
<b>Liability and Equity</b>					
<b>Liability</b>					
Income tax payable	MB	5.1	-	-	-
Amount due to reinsurance	MB	868.3	815.7	720.9	700.9
Insurance liabilities	MB	2,935.3	2,563.4	2,702.7	3,184.0
Employee benefit obligations	MB	21.9	21.2	27.2	28.8
Other liabilities	MB	164.6	274.3	321.3	294.2
<b>Total Liabilities</b>	<b>MB</b>	<b>3,995.3</b>	<b>3,674.6</b>	<b>3,772.1</b>	<b>4,207.9</b>
<b>Shareholder's equity</b>					
Authorized share capital	MB	650.0	650.0	650.0	830.0

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 June
		2015	2016	2017	2018
Issued and paid-up share capital	MB	650.0	650.0	650.0	830.0
Retained earnings	MB	306.4	146.0	(11.8)	(150.7)
Other component of equity	MB	13.3	14.9	16.9	12.0
<b>Total shareholder's equity</b>	<b>MB</b>	<b>969.7</b>	<b>810.8</b>	<b>655.1</b>	<b>691.3</b>
<b>Liabilities and total shareholder's equity</b>	<b>MB</b>	<b>4,964.9</b>	<b>4,485.4</b>	<b>4,427.2</b>	<b>4,899.3</b>

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun	30 Jun
		2015	2016	2017	2017	2018
<b>Statement of comprehensive income</b>						
<b>Revenues</b>						
Gross written premiums	MB	2,657.3	2,857.4	3,186.8	1,484.6	1,631.1
<u>Less</u> premiums ceded to reinsurers	MB	(1,500.2)	(1,547.4)	(1,513.8)	(584.1)	(639.2)
Net premiums written	MB	1,157.1	1,310.0	1,673.0	900.5	991.9
<u>Add (less)</u> Change and Reinsurers' share of change in unearned premium reserve	MB	34.8	(106.8)	(177.6)	(194.0)	(120.5)
Net earned premium	MB	1,191.9	1,203.2	1,495.4	706.5	871.4
Fee and commission income	MB	272.6	272.8	223.1	124.7	134.5
<b>Total underwriting revenues</b>	<b>MB</b>	<b>1,464.5</b>	<b>1,476.0</b>	<b>1,718.5</b>	<b>831.2</b>	<b>1,005.9</b>
<b>Expenses</b>						
Gross claim	MB	1,480.3	1,195.2	1,256.1	561.9	1,227.4
<u>Less</u> Claim recoverd from reinsurers	MB	(766.6)	(489.4)	(430.0)	(194.9)	(576.4)
Net claim	MB	713.7	705.8	826.1	367.0	651.0
Commissions and brokerages	MB	306.0	334.8	358.4	184.4	194.5
Other underwriting expenses	MB	190.9	329.9	381.0	185.1	160.9
Operating expense	MB	308.5	372.6	431.7	201.9	209.0
<b>Total underwriting expenses</b>	<b>MB</b>	<b>1,519.0</b>	<b>1,743.2</b>	<b>1,997.2</b>	<b>938.4</b>	<b>1,215.4</b>
Net investment income	MB	58.5	45.2	37.4	19.7	17.2
Gains (losses) on investment	MB	0.2	(2.6)	0.0	0.0	0.0
Other income	MB	16.8	31.1	48.0	23.5	19.9
Other expenses	MB	(0.2)	(6.4)	(5.7)	(2.8)	(1.5)
<b>Profit (loss) before income tax expense</b>	<b>MB</b>	<b>20.8</b>	<b>(199.8)</b>	<b>(199.0)</b>	<b>(66.8)</b>	<b>(173.9)</b>
Income tax expense	MB	(1.1)	41.0	40.5	13.6	35.0
<b>Net profit (loss)</b>	<b>MB</b>	<b>19.7</b>	<b>(158.9)</b>	<b>(158.5)</b>	<b>(53.2)</b>	<b>(138.9)</b>
<b>Cash flows statement</b>						
Net cash provided for (used in) operating activities	MB	(63.2)	19.8	1.8	59.3	(100.8)
Net cash used in investing activities	MB	(6.9)	(40.7)	(36.3)	(14.4)	(31.4)
Net cash used in financing activities	MB	(74.8)	-	-	-	180.0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>MB</b>	<b>(144.9)</b>	<b>(20.9)</b>	<b>(34.5)</b>	<b>44.9</b>	<b>47.8</b>

Financial information	Unit	31 Dec 2015	31 Dec 2016	31 Dec 2017	30 June 2018
<b>Financial ratios</b>					
Premium receivable turnover	Days	32	33	35	41
<b>Profitability ratio</b>					
Retention rate	%	43.55	45.84	52.50	60.81
Loss ratio	%	59.87	58.66	55.24	74.70
Investment yield	%	2.44	1.81	1.75	1.59
Net Retention Premium to Capital Fund	Times	1.17	1.47	2.28	2.55
Net Profit Margin	%	1.28	(10.25)	(8.79)	(13.32)
Return on equity	%	1.99	(17.84)	(21.63)	(35.33)
<b>Efficiency ratio</b>					
Return on Total Asset	%	0.38	(3.36)	(3.56)	(4.99)
<b>Financial ratio</b>					
Debt to Equity	Times	4.12	4.53	5.8	6.1
Policy Reserve to Capital Fund	Times	1.28	1.76	2.4	2.2
Policy Reserve to Total Asset	%	24.93	31.82	36.05	31.50
Dividend Payout Ratio	%	379.42	-	-	-

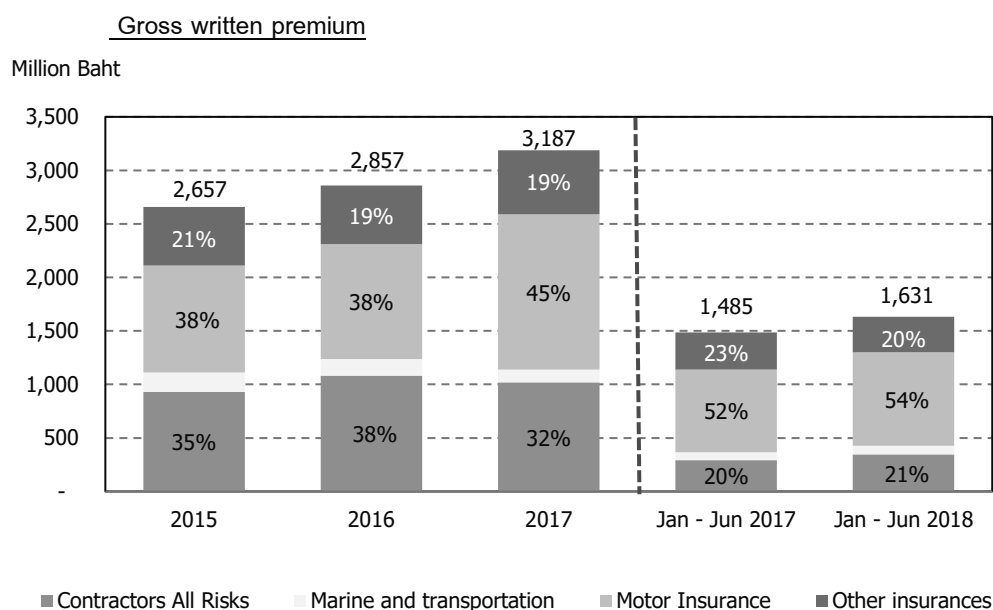
**Remark:** The financial statement for year end 2015, 2016 and 2017 were audited by KPMG Phoomchai Audit Ltd.

The financial statement for six-month periods ended 30 June 2018 was reviewed by PricewaterhouseCoopers ABAS Ltd.

#### 1.2.1.5.2. Analysis of Operating Results

AZTH's mainly incomes were underwriting revenue, which comprised of net earned premium and fee and commission income, totaled THB 1,464.5 million, THB 1,476.0 million and THB 1,718.5 million in 2015 - 2017 respectively, represented 0.79% and 16.43% growth. AZTH's total revenue for 2015 - 2017 was THB 1,540.0 million, THB 1,549.7 million and THB 1,803.9 million respectively. The average proportion of underwriting revenue was 95% of total revenues.

For six-month periods ended 30 June 2018, total revenue was THB 1,043.0 million, while total revenue for the same period of the previous year was THB 874.4 million, increased by THB 168.6 million or 19.28% compared to the same period of the previous year. Underwriting revenue was THB 1,005.9 million, increased by THB 174.7 million or 21.02% compared to the same period of the previous year.



Gross written premiums were THB 2,657.3 million, THB 2,857.4 million and THB 3,186.8 million in 2015 - 2017 respectively that comprised of motor insurance premium 38 - 45% of gross written premium, contractors all risks premium 32 - 38% of gross written premium, marine premium 4 - 7% of gross written premium and other premiums 19 - 21% of gross written premium which consist of Public liability insurance premium, Engineering insurance premium, Personal accident premium and other premium.

Gross written premium for 2016 increased by THB 200.1 million, or 7.53% versus last year mainly due to an increase in contractors all risks premium and motor insurance premium. For 2017, gross written premium increased by THB 329.3 million, or 11.53% versus last year mainly due to an increase in motor insurance premium from 3 new contracts with motor insurance brokers in 2017.

For six-month periods ended 30 June 2018, gross written premium was THB 1,631.2 million, increased by THB 146.6 million or 9.87% compared to the same period of the previous year due to higher contractors all risks premium and voluntary car insurance premium from new contracts with motor insurance brokers in 2017 and higher car insurance premium rate in 2018.

#### Premiums ceded to reinsurers

Premiums ceded to reinsurers were THB 1,500.2 million, THB 1,547.4 million and THB 1,513.8 million in 2015 - 2017 respectively. Premiums ceded to reinsurers for 2016 increased by THB 47.3 million, or 3.15% versus last year mainly due to an increase in contractors all risks premium ceded to reinsurers was THB 150.3 million as the result of a higher gross written premium. While a decrease in motor insurance premium ceded to

reinsurers was THB 68.4 million because AZTH has policy to retain more risk of motor insurance. The Retention rates of motor insurance for 2015 and 2016 were 92.89% and 99.76% respectively. Moreover, marine premium ceded to reinsurers decreased by THB 36.5 million as the result of a lower gross written premium. For 2017, premiums ceded to reinsurers decreased by THB 33.7 million, or 2.17% versus last year mainly due to a decrease in contractors all risks premium ceded to reinsurers as the result of a lower gross written premium.

For six-month periods ended 30 June 2018, premiums ceded to reinsurers was THB 639.2 million, increased by THB 55.1 million or 9.44% compared to the same period of the previous year mainly due to an increase in contractors all risks premium ceded to reinsurers as the result of a higher gross written premium.

Therefore, net earned premiums were THB 1,191.9 million, THB 1,203.2 million and THB 1,495.4 million in 2015 - 2017 respectively and the six-month periods ended 30 June 2018 was THB 871.4 million.

#### Fee and commission incomes

Fee and commission incomes are commission income from reinsurance and commission rates are calculated by sliding scale method that depend on claim expenses recognized in each year. Fee and commission incomes were THB 272.6 million, THB 272.8 million and THB 223.1 million in 2015 - 2017 respectively. For 2017, Fee and commission incomes were down by THB 49.8 million, or 18.24% from the previous year that mainly due to reduction of contractors all risks commission income. For six-month periods ended 30 June 2018, fee and commission income was THB 134.5 million, increased by THB 9.8 million or 7.84% compared to the same period of the previous year that mainly due to an increase of contractors all risks premium ceded to reinsurers.

#### Underwriting expenses

Underwriting expenses comprised of net claims, commissions and brokerages, other underwriting expenses and operating expenses.

Net claims are the actual claim cost and the costs are associated in handling and adjusting claims, after deducting reinsurance recoveries. Net claims were THB 713.7 million, THB 705.8 million and THB 826.1 million in 2015 - 2017 respectively. For 2017, net claims increased by THB 120.3 million, or 17.04% from the previous year that mainly due to higher motor insurance claim expense as the result of a higher gross written premium. For six-month periods ended 30 June 2018, fee and commission income was THB 651.0 million, increased by THB 284.0 million or 77.40% compared to the same period of the previous year due to



higher voluntary car insurance claim expense and contractors all risks claim expense as the result of fire attack at customer's establishment. Moreover, loss ratio in 2015-2017 and six-month periods ended 30 June 2018 equaled 59.87%, 58.66%, 55.24% and 74.70% respectively.

Commissions and brokerages are fee paid to agents or brokers as a percentage of net earned premiums, were THB 306.0 million, THB 334.8 million and THB 358.4 million in 2015-2017 respectively. For 2016 and 2017, commissions and brokerages increased by THB 28.9 million and THB 23.6 million respectively mainly due to an increase of motor insurance commissions and brokerages, resulting from higher motor insurance premium. For six-month periods ended 30 June 2018, commissions and brokerages was THB 194.5 million, increased by THB 10.0 million or 5.44% compared to the same period of the previous year that mainly due to higher of motor insurance commissions and brokerages, resulting from an increase of motor insurance premium.

Other underwriting expenses comprised of underwriting employee expenses, marketing expenses, contribution to Office of Insurance Commission, contribution to Non-Life Insurance Fund and contribution to Road Victims Protection Fund. Other underwriting expenses were THB 190.9 million, THB 329.9 million and THB 381.0 million in 2015 - 2017 respectively, growth by 72.78% and 15.49% in 2016 and 2017 that had continually increased because of higher contribution to Road Victims Protection Fund, resulting from an increase of compulsory motor insurance premium, and higher marketing expense. For six-month periods ended 30 June 2018, other underwriting expense was THB 160.9 million, decreased by THB 24.2 million or 13.05% compared to the same period of the previous year due to a decrease of service fee to compulsory motor insurance broker that resulted from a lower of compulsory motor insurance premium.

Operating expenses comprised of employee expenses, utility expenses, premises and equipment expenses, and tax expenses. Operating expenses were THB 308.5 million, THB 372.6 million and THB 431.7 million in 2015 - 2017 respectively, growth by 20.80% and 15.87% in 2016 and 2017 mainly due to higher employee expenses. For six-month periods ended 30 June 2018, operating expense was THB 209.0 million, increased by THB 7.1 million or 3.53% compared to the same period of the previous year due to an increase of professional fee that paid to Allianz groups THB 11.4 million, an increase of allowance for doubtful accounts THB 3.3 million and an increase of software maintenance expense THB 5.5 million. While employee expenses decreased THB 14.7 million that resulted from reduced number of branches and employees.

### Net profit

Net profit was THB 19.7 million in 2015 and net losses were THB 158.9 million and THB 158.5 million in 2016 and 2017 respectively; a decrease of profit of 2016 and 2017 were mainly due to the increase of contribution to Road Victims Protection Fund, marketing expenses and employee expense.

For six-month periods ended 30 June 2018, net loss was THB 138.9 million, while net loss was THB 53.2 million in the same period of the previous year. An increase of loss of THB 85.8 million was due to the increase of voluntary car insurance claim expense and contractors all risks claim expense as the result of fire attack at customer's premises in overseas.

#### 1.2.1.5.3. Analysis of Financial position

### Assets

As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, total assets of AZTH amounted to THB 4,964.9 million, THB 4,485.4 million, THB 4,427.2 million, and THB 4,899.3 million respectively. The mainly assets comprised of eninsurance assets and investments assets.

Reinsurance assets are insurance reserve refundable from reinsurers comprising loss reserves and unearned premium reserve. As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, reinsurance assets of AZTH amounted to THB 1,844.2 million, THB 1,404.6 million, THB 1,410.1 million, and THB 1,610.4 million, representing 37.14%, 31.32%, 31.85%, and 32.87% of total assets respectively. For 2016, reinsurance assets dropped by THB 439.5 million due to the reduction of loss reserves from reinsurance that resulted from lower contractors all risks claim expenses. For six-month periods ended 30 June 2018, reinsurance assets increased by THB 205.7 million that mainly due to the increase of loss reserves from reinsurance that resulted from higher contractors all risks claim expenses.

Investments assets as of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018 amounted to THB 1,757.3 million, THB 1,722.7 million, THB 1,532.5 million, and THB 1,545.6 million, representing 35.39%, 38.41%, 34.62% and 31.55% of total assets respectively. AZTH mainly invested in deposits at financial institutions and debt securities for both government securities and private debt securities, representing 93.69%, 93.94%, 93.24% and 92.85% of investment assets respectively while invested in equity securities and unit trusts in limited amounts. For 2017, investments assets decreased by THB 190.2 million from previous year due to the reduction of government securities, private and

foreign debt securities, and deposits at financial institutions amounted THB 125.5 million, THB 38.7 million and THB 25.3 million respectively.

#### Liabilities

As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, total liabilities of AZTH amounted to THB 3,995.3 million, THB 3,674.6 million, THB 3,772.1 million and THB 4,207.9 million respectively and more than 70% of liabilities was insurance liabilities.

Insurance liabilities consist of loss reserves and unearned premium reserves. As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, insurance liabilities of AZTH amounted to THB 2,935.3 million, THB 2,563.4 million, THB 2,702.7 million and THB 3,184.0 million respectively. For 2016, insurance liabilities decreased by THB 371.9 million due to a reduction of loss reserves that resulted from loss paid and lower loss incurred during the year.

For six-month periods ended 30 June 2018, an increase of insurance liabilities amounted THB 481.2 million was due to an increase of loss reserves that resulted from high loss incurred during six-month periods.

#### Shareholders' Equity

As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, total shareholders' equity of AZTH amounted to THB 969.7 million, THB 810.8 million, THB 655.1 million, and THB 691.3 million respectively. As of 31 December 2016, a decrease of THB 158.9 million, or 16.38% from the end of previous year was resulted from net loss for 2016. As of 31 December 2017, a decrease of THB 155.7 million, or 19.21% from the end of previous year was mainly resulted from net loss for 2017.

As of 30 June 2018, an increase of THB 36.3 million, or 5.54% from the end of previous year was due to increase in share capital THB 180.0 million in June 2018, while net loss for six-month periods ended 30 June 2018 was THB 138.9 million.

#### Cash flows

Net cash provided for (used in) operating activities were THB (63.2) million, THB 19.8 million and THB 1.8 million in 2015 - 2017 respectively. For 2016, net cash increased by THB 83.0 million from last year due to a decrease of claim payment. For six-month periods ended 30 June 2018, net cash used in operating activities was THB 100.8 million, an increase of cash used THB 160.1 million compared with the same period of the previous year due to

payment for investment assets was THB 347.2 million, while an increase of premium received from direct insurance was THB 195.4 million.

Net cash used in investing activity were THB 6.9 million, THB 40.7 million and THB 36.3 million in 2015-2017 respectively. For 2016, net cash increased by THB 33.8 million that mainly due to payment of leasehold improvements, equipment and computer software. For six-month periods ended 30 June 2018, net cash used was THB 31.4 million, increased by THB 17.0 million the same period of the previous year due to higher payment of computer software.

Net cash used in financing activities for 2015 was THB 74.8 million resulting from dividend payment. For six-month periods ended 30 June 2018, net cash provided was THB 180.0 million due to increase in share capital in June 2018.

### **Financial ratios**

#### Liquidity ratios

As of 31 December 2015, 31 December 2016, 31 December 2017, and 30 June 2018, AZTH's premium receivable turnovers were 32 days, 33 days, 35 days and 41 days respectively, complying with AZTH's policy that allowed credit term for 15-60 days.

#### Profitability ratio

Retention rate were 43.55%, 45.84%, 52.50% and 60.81% for 2015-2017 and the six-month periods ended 30 June 2018 respectively that were continually increasing due to AZTH has policy for retain more risks for compulsory and voluntary motor insurances. Retention rate for motor insurance were 92.89%, 99.76%, 99.74% and 99.99% for 2015-2017 and the six-month periods ended 30 June 2018 respectively.

Net profit margins were 1.28%, (10.25)% and (8.79)% for 2015-2017 respectively that a decrease of net profit margin in 2016 was due to an increase of other underwriting expenses and operating expenses. For 2017, profitability of AZTH increased due to lower commissions and brokerages ratio. For six-month periods ended 30 June 2018, net profit margin was (13.32)%, representing lower profit efficiency that resulted from an significantly increase of loss ratio.

## 1.2.2. Allianz Ayudhya Assurance Public Company Limited (“AZAY”)

### 1.2.2.1. Nature of Business Operations

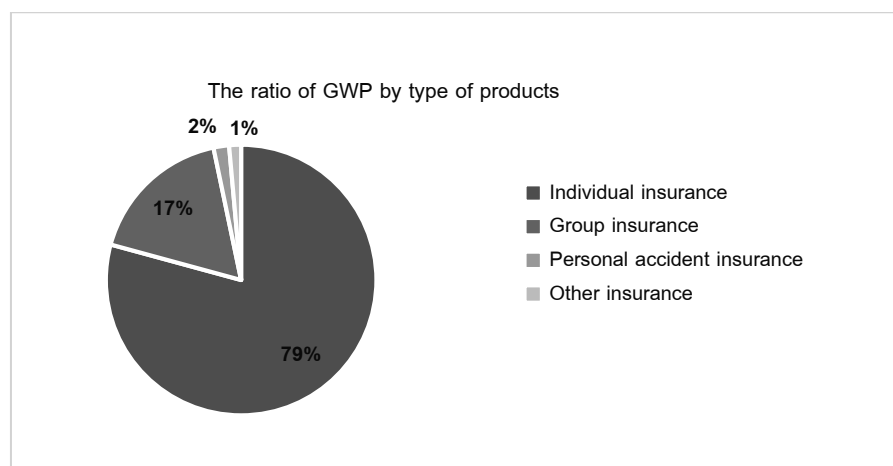
AZAY was founded on 20 April 1951 and has been operating life insurance business that provides excellent products and services to customers through all of life's most important moment. The mainly type of products are life protection insurance and saving money insurance.

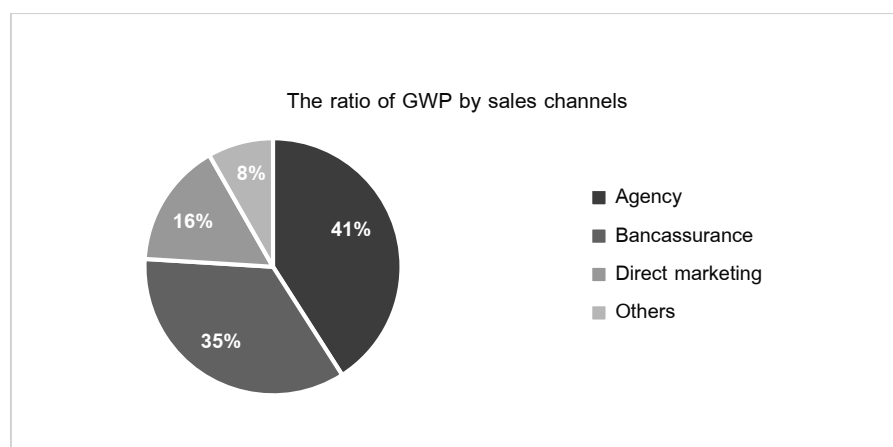
- 1) Life protection insurance : individual life insurance, personal accident insurance, and riders and endorsements
- 2) Saving money insurance : insurance for education and insurance for retirement

Moreover, AZAY has various distribution channels as below:

- 1) Agency channel
- 2) Bancassurance channel : cooperated with Bank of Ayudhya Public Company Limited
- 3) Direct channel: such as Telesales

The break-down ratio of gross written premium classified by type of products and sales channels for 6 months period of 2018 are as follows:





### 1.2.2.2. List of Shareholders

AZAY has the total issued and paid-up capital of THB 2,950 million comprised of 295 million ordinary shares at the par value of THB 10 per share. AZAY had the top 10 shareholders before and after entering into the Transactions as follows:

No.	Shareholder Names	Before Transactions*		After Transactions	
		No. of shares	% owner ship	No. of shares	% owner ship
1	CPRNT	111,097,214	37.66	**please see at remark	
2	Allianz SE	73,711,193	24.99	**please see at remark	
	<b>Total</b>	<b>184,808,407</b>	<b>62.65</b>	<b>149,998,407</b>	<b>50.85</b>
3	Sri Ayudhya Capital Plc.	59,500,280	20.17	94,310,280	31.97
4	Great Luck Equity Co., Ltd.****	30,960,728	10.50	30,960,728	10.50
5	Great Fortune Equity Co., Ltd.****	8,320,180	2.82	8,320,180	2.82
6	Bangkok Broadcasting & TV Co., Ltd.****	8,218,212	2.79	8,218,212	2.79
7	Super Assets Co., Ltd.****	2,418,436	0.82	2,418,436	0.82
8	Mr. Pisit Pruekphiboon	96,583	0.03	96,583	0.03
9	Mr. Somsak Panichsiri	80,572	0.03	80,572	0.03
10	Mr. Chai Tongtai	60,000	0.02	60,000	0.02
11	Other minor shareholders	536,602	0.18	536,602	0.18
	<b>Total</b>	<b>295,000,000</b>	<b>100.00</b>	<b>295,000,000</b>	<b>100.00</b>

Remark \* List of shareholders as of the book closing date, 9 April 2018.

\*\* According to IM, Allianz SE and CPRNT shall determine the proportion of the AZAY share that each party will sell to the Company with respect to the foreign availability of the Company in order to ensure that the total shareholding of non-Thais in the Company shall not exceed 49% of its total issued and paid-up capital after the capital increase.

\*\*\* The ultimate shareholder of CPRNT is Allianz SE

\*\*\*\* The ultimate shareholder of Great Luck Equity Co., Ltd., Great Fortune Equity Co., Ltd., Bangkok Broadcasting & TV Co., Ltd., and Super Assets Co., Ltd. is Ratanarak Group.

### 1.2.2.3. Board of Directors

As of 15 June 2018 the board of AZAY consists of the following 11 directors:

No.	Name	Position
1	Mr. Rowan D'Arcy	Chairman
2	Mr. Bryan James Smith	Director
3	Mr. Narong Chulajata	Independent director, Vice chairman, and Chairman of audit committee
4	Mr. Puchai Satayaporn	Director
5	Mr. Pongpinit Tejagupta	Director and Member of Audit committee
6	Mr. Titiwut Soukpornchaikul	Director and Member of Audit committee
7	Mr. Virojn Srethapramotaya	Director and Member of Audit committee
8	Mrs. Wanna Thamsirisup	Independent director and Member of Audit committee
9	Miss Orawan Tejapaibul	Director
10	Mrs. Napaporn Landy	Independent director and Member of Audit committee
11	Mr. Apichati Sivayathorn	Independent director

### 1.2.2.4. Revenue Breakdown

Unit: THB Million	2015	%	2016	%	2017	%	Jan – Jun 2018	%
Net earned premium	28,009.1	81.61	30,031.0	81.97	31,210.8	82.05	15,016.1	79.61
Fees and commission income	184.2	0.54	115.0	0.31	152.9	0.40	78.0	0.41
Net investment income	5,999.5	17.48	6,350.9	17.33	6,395.5	16.81	3,337.5	17.70
Gain (losses) on investment	76.4	0.22	91.1	0.25	229.6	0.60	420.7	2.23
Other income	52.2	0.15	49.9	0.14	51.0	0.13	8.9	0.05
<b>Total revenues</b>	<b>34,321.4</b>	<b>100.00</b>	<b>36,637.9</b>	<b>100.00</b>	<b>38,039.8</b>	<b>100.00</b>	<b>18,861.2</b>	<b>100.00</b>

### 1.2.2.5. Operating Results and Financial Position

#### 1.2.2.5.1. Summary of financial statement

Summary of Statements of financial position, Statements of comprehensive income, Statements of cash flows, and Financial ratios for the years ending 31 December 2015 to 31 December 2017 and six-month periods ended 30 June 2018 are as shown below:

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun
		2015	2016	2017	2018
<b>Statement of Financial Position</b>					
<b>Assets</b>					
Cash and cash equivalents	MB	6,890.1	11,174.0	5,181.6	5,453.7
Accrued investment income	MB	4,990.0	2,516.9	2,758.8	2,910.6
Premium receivable, net	MB	1,714.2	1,703.6	1,637.0	1,975.4
Reinsurance assets	MB	234.9	380.8	313.1	370.8
Investment receivables	MB	-	144.1	9.8	177.7
Derivative assets	MB	289.4	5.8	217.9	234.4
Investments assets	MB	130,067.4	144,196.8	166,686.8	167,510.8
Premises and equipment, net	MB	602.7	590.7	603.4	570.6
Intangible assets, net	MB	93.8	174.8	283.0	600.5
Other assets	MB	271.4	208.1	218.8	443.7
<b>Total assets</b>	<b>MB</b>	<b>145,153.9</b>	<b>161,095.5</b>	<b>177,910.2</b>	<b>180,248.2</b>
<b>Liability and Equity</b>					
<b>Liability</b>					
Insurance and investment contract liabilities	MB	127,195.1	142,590.0	156,522.8	163,211.3
Reinsurance payables	MB	377.4	640.1	525.9	596.8
Derivative liabilities	MB	1.8	-	33.5	358.2
Investment payables	MB	179.6	1,296.7	541.1	259.6
Income tax payable	MB	203.1	128.8	184.9	116.5
Accrued expenses	MB	1,694.7	1,726.3	1,836.0	1,818.6
Employee benefit obligations	MB	160.2	194.6	434.5	406.7
Provisions	MB	266.0	173.7	196.0	134.4
Deferred tax liabilities	MB	716.0	551.9	1,241.5	485.3
<b>Total Liabilities</b>	<b>MB</b>	<b>130,793.8</b>	<b>147,302.1</b>	<b>161,516.2</b>	<b>167,387.6</b>
<b>Shareholder's equity</b>					
Authorized share capital	MB	4,000.0	4,000.0	4,000.0	4,000.0
Issued and paid-up share capital	MB	2,950.0	2,950.0	2,950.0	2,950.0
Retained earnings	MB	6,882.3	6,938.8	6,653.5	6,363.3
Other component of equity	MB	4,527.8	3,904.6	6,790.5	3,547.3
<b>Total shareholder's equity</b>	<b>MB</b>	<b>14,360.1</b>	<b>13,793.4</b>	<b>16,394.0</b>	<b>12,860.6</b>
<b>Liabilities and total shareholder's equity</b>	<b>MB</b>	<b>145,153.9</b>	<b>161,095.5</b>	<b>177,910.2</b>	<b>180,248.2</b>

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun	30 Jun
		2015	2016	2017	2017	2018
<b>Revenues</b>						
Gross written premiums	MB	28,715.7	30,915.9	32,002.4	15,355.4	15,866.5
<u>Less</u> premiums ceded to reinsurers	MB	(585.1)	(709.7)	(663.7)	(385.5)	(389.2)
Net premiums written	MB	28,130.6	30,206.2	31,338.7	14,969.9	15,477.3



Financial information	Unit	31 Dec 2015	31 Dec 2016	31 Dec 2017	30 Jun 2017	30 Jun 2018
Add (less) Change and Reinsurers' share of change in unearned premium reserve	MB	(121.5)	(175.2)	(127.9)	(311.3)	(461.2)
Net earned premium	MB	28,009.1	30,031.0	31,210.8	14,658.6	15,016.1
Fee and commission income	MB	184.2	115.0	152.9	80.0	78.0
<b>Total underwriting revenues</b>	<b>MB</b>	<b>28,193.3</b>	<b>30,146.0</b>	<b>31,363.7</b>	<b>14,738.6</b>	<b>15,094.1</b>
<b>Expenses</b>						
Long-term technical reserve increased from last year	MB	12,931.4	14,556.0	13,106.6	6,558.1	6,059.3
Net benefits payments and insurance claims expenses	MB	12,177.0	12,347.6	15,213.5	6,486.5	7,634.3
Commissions and brokerages	MB	3,497.0	3,595.5	3,603.9	1,692.0	1,707.7
Other underwriting expenses	MB	712.0	759.1	982.1	687.0	793.6
Operating expense	MB	2,624.1	2,969.2	3,107.4	1,342.8	1,249.1
<b>Total underwriting expenses</b>	<b>MB</b>	<b>31,941.5</b>	<b>34,227.4</b>	<b>36,013.5</b>	<b>16,766.4</b>	<b>17,444.0</b>
Net investment income	MB	5,999.5	6,350.9	6,395.5	3,120.7	3,337.5
Gains (losses) on investment	MB	76.4	91.1	229.6	218.6	420.7
Other income	MB	52.2	49.9	51.0	23.7	8.9
Other expenses	MB	(0.3)	(54.7)	(18.1)	(0.5)	(0.0)
<b>Profit (loss) before income tax expense</b>	<b>MB</b>	<b>2,379.6</b>	<b>2,355.8</b>	<b>2,008.2</b>	<b>1,334.7</b>	<b>1,417.2</b>
Income tax expense	MB	(432.4)	(429.8)	(363.8)	(256.9)	(272.4)
<b>Net profit (loss)</b>	<b>MB</b>	<b>1,947.2</b>	<b>1,926.0</b>	<b>1,644.4</b>	<b>1,077.8</b>	<b>1,144.8</b>
<b>Cash flows statement</b>						
Net cash provided for (used in) operating activities	MB	7,859.2	6,303.2	(3,830.0)	(3,473.8)	2,114.7
Net cash used in investing activities	MB	(76.6)	(163.8)	(239.0)	(68.5)	(414.8)
Net cash used in financing activities	MB	(2,569.5)	(1,855.6)	(1,923.4)	-	(1,427.8)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>MB</b>	<b>5,213.1</b>	<b>4,283.8</b>	<b>(5,992.4)</b>	<b>(3,542.3)</b>	<b>272.1</b>

Financial information	Unit	31 Dec 2015	31 Dec 2016	31 Dec 2017	30 Jun 2018
<b>Financial ratios</b>					
Premium receivable turnover	Days	21	20	19	20
<b>Profitability ratio</b>					
Gross Profit Margin	%	10.36	10.41	9.26	8.81
Net Profit Margin	%	5.67	5.26	4.32	6.07
Investment yield	%	4.37	4.09	3.72	3.82
Net Premium Written Per Equity	Times	2.04	2.15	2.08	2.48
Return on equity	%	14.11	13.68	10.89	0.13
Underwriting Expense Per Earned Premium	%	24.40	24.39	24.65	24.98
<b>Efficiency ratio</b>					
Return on Total Asset	%	1.42	1.26	0.97	0.95
Assets Turnover	Times	0.25	0.24	0.22	0.22
<b>Financial ratio</b>					
Debt to Equity	Times	9.11	10.68	9.85	13.02
Policy Reserve to Capital Fund	Times	8.26	9.66	8.97	11.98

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun
		2015	2016	2017	2018
Policy Reserve to Total Asset	%	81.73	82.70	82.62	85.46
Dividend Payout Ratio	%	131.95	96.34	116.96	124.72

**Remark** The financial statement for year end 2015, 2016 and 2017 were audited by KPMG Phoomchai Audit Ltd.

The financial statement for the six-month periods ended 30 June 2018 was reviewed by PricewaterhouseCoopers ABAS Ltd.

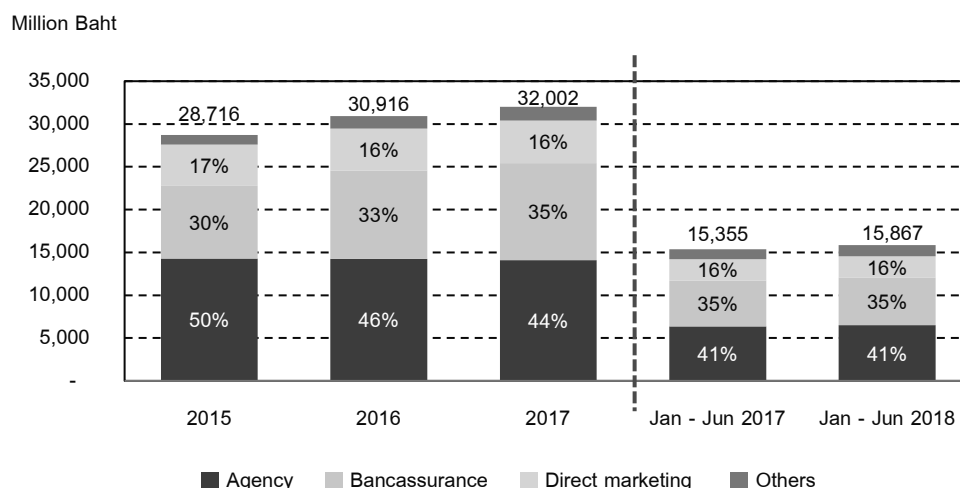
#### 1.2.2.5.2. Analysis of Operating Results

AZAY's mainly incomes comprised of net earned premium and net investment income, totaled THB 34,321.4 million, THB 36,637.9 million and THB 38,039.8 million in 2015-2017 respectively, represented 6.75% and 3.83% growth. The average proportion of net earned premium was 82% of total revenues.

For six-month periods ended 30 June 2018, total revenue was THB 18,861.2 million versus THB 18,101.6 million in the same period of the previous year, increased by THB 759.6 million or 4.20%.

AZAY's mainly incomes comprised of net earned premium and net investment income as follows:

#### Gross written premium



Gross written premiums were THB 28,715.7 million, THB 30,915.9 million and THB 32,002.4 million in 2015, 2016, and 2017 respectively that comprised of agency channel 44 - 50% of gross written premium, bancassurance 30 - 35% of gross written premium and direct marketing 16-17% of gross written premium. For 2016 and 2017, gross written premiums increased from previous year by THB 2,200.2 million and THB 1,086.5 million, respectively

which represent growth rates as 7.66% and 3.51%, respectively due to AZAY was focusing on selling through bancassurance especially life and health protection products. In addition, digital tools have been integrated in marketing, as well as, platforms have been developed to serve the customers, employee, and business partners for faster and more effective process.

For the six-month periods ended 30 June 2018, AZAY had gross written premium of THB 15,866.5 million, increased by THB 511.1 million, 3.33% from the same period of the previous year mainly due to the increase in agent channel and bancassurance. In addition, AZAY launched new health protection product in Q2' 2018 that worked with its partner Bangkok Hospital Group and got good feedback from customers.

#### Net investment income

Apart from net earned premium, AZAY has investment income, which is comprised of investment in government bonds, debt securities, equities, and loans consisting of interest income, dividend income, and such. AZAY had net investment income of THB 5,999.5 million, THB 6,350.9 million, and THB 6,395.5 million in 2015, 2016, and 2017, respectively; representing 5.86% and 0.70% increase in 2016 and 2017, respectively. For the six-month periods ended 30 June 2018, net investment income was THB 3,337.5 million, representing 6.95% increase when compared with the same period of the previous year. The increase of net investment was attributable to the expansion of investment assets over the past years, consistent with the business expansion. The investment assets grew by 10.86%, 15.60% and 0.49% in 2016, 2017 and six-month periods ended 30 June 2018, respectively.

The returns on investment were 4.37%, 4.09%, 3.72%, and 3.82% in 2015, 2016, 2017, and the six-month periods ended 30 June 2018, respectively. The decreasing return on investment in 2016 and 2017 was due to the more focusing on the fixed-income and lower risk securities, which is government securities, representing 64.08%, 75.45% and 74.12% of its total investment assets in 2015, 2016 and 2017, respectively. For the six-month periods ended 30 June 2018, an increase of the returns on investment from 2017 was due to a reduction of investment in government securities, while an increase of investment in private debt securities and equity securities that provide higher investment income.

#### Underwriting expenses

Underwriting expenses consisted of 4 core expenses, which are long-term technical reserve increased (decreased) from previous year, net benefits payments and insurance claims expenses (net of benefits payments and insurance claims expenses recovered from reinsurers), and commissions and brokerages.

Long-term technical reserve increased (decreased) from previous year is the difference between the insurance technical reserves in the previous year and the insurance technical reserves in the current year. The insurance technical reserve is the accumulated reserve from the beginning of the policy to the end of reporting period for the claims and benefits which are expected to be incurred in the future according to the total in-force policies. AZAY had the expenses related to the insurance technical reserve of THB 12,931.4 million, THB 14,556.0 million, and THB 13,106.6 million, and THB 6,059.3 million in 2015, 2016, 2017, and the six-month periods ended 30 June 2018, respectively, representing the increase in the reserve resulting from the new insurance policy each year. In addition, the ratio of such expenses to the net premium earned were 46.17%, 48.47%, 41.99%, and 40.35%, respectively.

Net benefits payments and insurance claims expenses were THB 12,177.0 million, THB 12,347.6 million and THB 15,213.5 million in 2015, 2016 and 2017, respectively. For 2017, the expenses increased THB 2,865.9 million or 23.21% from previous year because of the increase in maturity payments. In addition, the ratio of such expenses to the net premium earned in 2015, 2016, and 2017 were 43.48%, 41.12% and 48.74%, respectively. For the six-month periods ended 30 June 2018, net benefits payments and insurance claims expenses was THB 7,634.3 million, increased by THB 1,147.8 million or 17.70% from the same period of the previous year that mainly due to the increase in claim payments, surrender payments and maturity payments.

Commissions and brokerages include commissions and brokerages payable to agents and call center officers, and brokerages paid to the bank in case of bancassurance. AZAY had total commissions and brokerages of THB 3,497.0 million, THB 3,595.5 million, and THB 3,603.9 million in 2015, 2016, and 2017, respectively. For 2016, an increase of THB 98.5 million or 2.82% from previous year was mainly due to the increase of the brokerages through bancassurance as a result of higher premium from bancassurance. For the six-month periods ended 30 June 2018, commissions and brokerages was THB 1,707.7 million, THB 15.7 million or 0.93% decrease from the same period of the previous year due to the increase of the brokerages through agents as a result of higher premium from agents. In addition, the ratio of such expenses to the net premium earned 2015, 2016, 2017 and the six-month periods ended 30 June 2018 were 12.49%, 11.97%, 11.55% and 11.37% respectively.

Operating expenses consists of personnel expense, selling expense, equipment expense, and such. The total operating expenses were THB 2,624.1 million, THB 2,969.2 million, and THB 3,107.4 million in 2015, 2016 and 2017 respectively, representing the growth rate of 13.15% and 4.66% in 2016 and 2017 respectively. In 2016, the operating expenses increased from expenses related to business development and specific business tax of interest income from investment. For the six-month periods ended 30 June 2018, the

operating expenses were THB 1,249.1 million, THB 93.7 million or 6.98% decrease from the same period of the previous year mainly from the reversal of unused litigation provision, therefore the operating expenses decreased.

#### Net profit

For 2016, AZAY's net profit was THB 1,926.0 million; while the net profit was THB 1,947.2 million in 2015. THB 21.2 million or 1.09% decrease in net profit was because the underwriting expenses increased THB 2,285.9 million mainly from the increase in the reserve resulting from the new insurance policy each year. In addition, AZAY had incurred loss from foreign exchange of THB 26.7 million, and interest expense from secured short-term loan of THB 28.0 million while the underwriting revenues increased THB 1,952.6 million which mainly from bancassurance channel and the investment income increased THB 351.3 million because of the expansion of investment assets.

For 2017, AZAY's net profit was THB 1,644.4 million, about THB 281.6 million or 14.62% decrease from the previous year because the underwriting expenses increased THB 1,786.2 million because of an increase in maturity payments while underwriting revenues increased THB 1,217.8 million which mainly from bancassurance channel, net investment incomes increased THB 44.7 million and gain on investment increased THB 138.5 million from selling equity securities.

For the six-month periods ended 30 June 2018, AZAY's net profit was THB 1,144.8 million, THB 67.0 million or 6.21% increase from the same period of previous year because the underwriting revenues increased THB 355.6 million which mainly from agent and bancassurance channels, net investment incomes increased THB 216.8 million and gain on investment increased THB 202.1 million because of the expansion of investment assets while the underwriting expenses increased THB 677.6 million due to the increase in claim payments, surrender payments and maturity payments. The net profit margins were 5.67%, 5.26%, 4.32%, 6.07% in 2015, 2016, 2017, and the six-month periods ended 30 June 2018, respectively.

#### 1.2.2.5.3. Analysis of Financial position

##### Assets

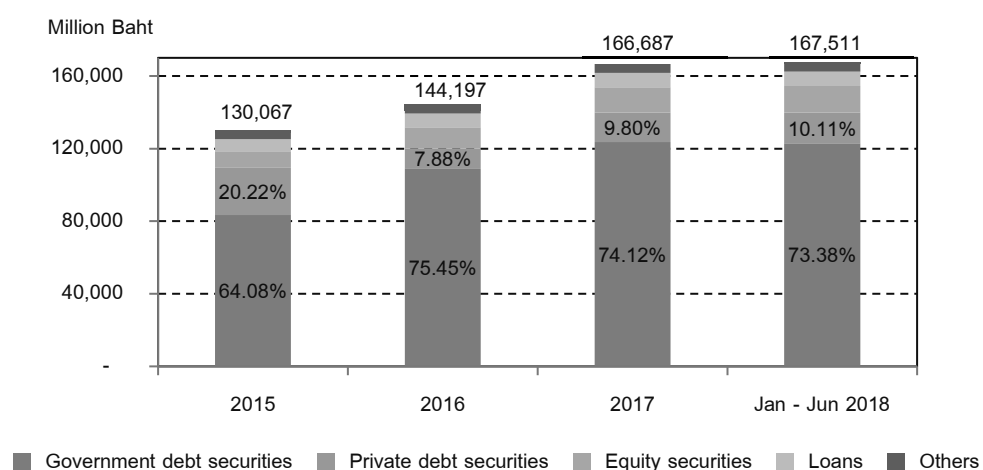
Total assets at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 145,153.9 million, THB 161,095.5 million, THB 177,910.2 million, THB 180,248.2 million, respectively. The core assets were comprised of investment assets, cash and cash equivalents, accrued investment income, and net premium receivable.

### Investment assets

Investment assets at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 130,067.4 million, THB 144,196.8 million, THB 166,686.8 million, and THB 167,510.8 million respectively, representing 89.61%, 89.51%, 93.69%, 92.93% of total assets respectively. AZAY allocated a large portion of its investment in debt securities, of which were mostly long-term government bonds to be consistent with the liabilities to the policyholders. Private debts instruments were invested to increase the return on investment with an acceptable level of risk. The portion of investment in debt securities to investment assets were 84.29%, 83.33%, 83.91%, and 83.49%, respectively while there were small portion of investment in equity and loan.

For 2016, investment assets increased THB 14,129.4 million or 10.86% from previous year because government debt securities increased THB 25,456.5 million and equity securities increased THB 3,048.3 million while private debt securities decreased THB 14,936.0 million. For 2017, investment assets increased THB 22,490.0 million or 15.60% from previous year because government debt securities, private debt securities and equity securities increased THB 14,741.1 million, THB 4,972.3 million and THB 2,392.3 million, respectively. For the six-month periods ended 30 June 2018, investment assets increased THB 824.1 million or 0.49% from previous year because private debt securities and equity securities increased THB 609.6 million and THB 604.8 million, respectively while government debt securities decreased THB 620.6 million

**Graph depicts the proportion of investment assets**



### Cash and cash equivalents

Cash and cash equivalents at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 6,890.1 million, THB 11,174.0 million, THB 5,181.6 million, and THB 5,453.7 million respectively, representing 4.75%, 6.94%, 2.91%, 3.03% of total assets respectively. For 2016,

cash and cash equivalents increased THB 4,283.9 million from previous year that mainly due to cash flows from operating.

#### Accrued investment income

Accrued investment income at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 4,990.0 million, THB 2,516.9 million, THB 2,758.8 million, and THB 2,910.6 million respectively, representing 3.44%, 1.56%, 1.55%, and 1.61% of total assets respectively. In 2016, the accrued investment income decreased THB 2,473.1 million, equivalent to 49.56%, because of the decrease of accrued interest income from investment in private debt securities that resulted from the decrease of investment in private debt securities. For 2017 and the six-month periods ended 30 June 2018, the accrued investment income increased THB 241.9 million and THB 151.8 million, respectively as a result of higher investment assets.

#### Net premium receivable

Net premium receivable at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 1,714.2 million, THB 1,703.6 million, THB 1,637.0 million, and THB 1,975.4 million respectively, representing 1.18%, 1.06%, 0.92%, and 1.10% of total assets respectively. Net premium receivable was comprised of unpaid premiums from the insured or agents or brokers. The large portion of receivable was within credit terms of 30 days for individual insurance and 90 days for group insurance, of which the receivable within credit terms account for 91.25%, 95.97%, 97.87%, and 97.22% of net premium receivable, respectively.

#### Liabilities

Total liabilities at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 130,793.8 million, THB 147,302.1 million, THB 161,516.2 million, and THB 167,387.6 million, respectively. The increase of total liabilities was mainly from the increase of Insurance and investment contract liabilities consisting of long-term technical reserves, loss reserves and outstanding claims, unearned premium reserves, unpaid policy benefits and due to insured. The increase of such items was the result of the growth of business operation of AZAY over the past 3 years.

#### Equity

Equity at the end of 2015, 2016, 2017, and as at 30 June 2018 were THB 14,360.1 million, THB 13,793.4 million, THB 16,394.0 million, THB 12,860.6 million, respectively. In 2016, the equity decreased THB 566.6 million, or 3.95% from the interim dividend payment of THB 1,855.6 million, net loss from change in fair value of available-for-sale securities and

derivatives investments of THB 623.2 million, and the defined benefit plan actuarial loss of THB 17.4 million, while net profit in 2016 was THB 1,926.0 million.

For 2017, the equity increased THB 2,600.6 million, or 18.85% from net profit in 2017 was THB 1,644.4 million and other comprehensive income in 2017 was THB 2,879.5 million which mainly resulted from net change in fair value of available-for-sale investments, while dividend payment for shaeholders was THB 1,923.4 million.

For the six-month periods ended 30 June 2018, equity decreased THB 3,533.4 million, or 21.55% from the accumulated 6-month periods of other comprehensive loss ending 30 June 2018 of THB 3,250.4 million which mainly resulted from net change in fair value of available-for-sale investments and dividend payment for shaeholders of THB 1,427.8 million, while the accumulated 6-month periods of net profit ending 30 June 2018 of THB 1,144.8 million.

#### Cash flows

Net cash provided for (used in) operating activities in 2015, 2016, 2017 were THB 7,859.2 million, THB 6,303.2 million, and THB (3,830.0) million respectively. The decrease of THB 1,556.0 million in 2016 was because of deposits at financial institution of THB 5,735.0 million in 2015 but there was no this transaction in 2016, while cash received from premiums written and interest increased THB 2,206.1 million and THB 2,443.7 million respectively. For 2017, Net cash used in operating activities increased THB 10,133.2 million from previous year due to the increase of investment in securities, and benefits payments and insurance claims expenses THB 8,777.5 million and THB 2,574.9 million, respectively. Net cash provided for operating activities for the six-month periods ended 30 June 2018 was THB 2,114.7 million that increased THB 5,588.5 million from the same period of previous year due to the reduction in cash paid for purchasing investment in securities of THB 10,268.2 million, while the reduction in cash receive from selling and redeeming investment in securities of THB 3,512.3 million.

Net cash used in investing activities in in 2015, 2016 and 2017 were THB 76.6 million, THB 163.8 million and THB 239.0 million respectively, of which mainly were cash paid for equipment and computer software. For the six-month periods ended 30 June 2018, Net cash used in investing activities was THB 414.8 million that increased THB 346.3 million from the same period of previous year due to there was cash paid for 3-years upfront fee of bancassurance.

For financing activities, there were dividend payments of THB 2,569.5 million, THB 1,855.6 million THB 1,923.4 million and THB 1,427.8 million in 2015, 2016, and the six-month periods ended 30 June 2018, respectively.



### Financial ratio

#### Liquidity ratio

AZAY has premium receivable turnover in 2015 – 2017 of 21 days, 20 days, and 19 days, respectively. However, the premium receivable turnover was still lower than the policy of AZAY which grants the credit term of 30 days. In addition, the premium receivable turnover was decreasing in each year reflecting that AZAY can collect premiums faster and more efficient. For the six-month periods ended 30 June 2018, the premium receivable turnover was 20 days.

#### Profitability ratio

Gross profit margins in 2015 – 2017 were 10.36%, 10.41%, 9.26%, respectively. In 2017, gross profit margin decreased from the previous year due to an increase of net benefits payments and insurance claims expenses ratio. For the six-month periods ended 30 June 2018, gross profit margin was 8.81% that decreased from the previous year due to an increase of net benefits payments and insurance claims expenses ratio.

Net profit margins in 2015 – 2017 were 5.67%, 5.26%, and 4.32% respectively. The decrease of net profit margin in 2017 was in line with the decrease of gross profit margin. For the six-month periods ended 30 June 2018, AZAY has gross profit margin of 6.07% that increased from the previous year due to the increase of investment income and gain on investment.

## **1.3. Profile of the Company**

### **1.3.1. Nature of Business Operation**

Sri Ayudhaya Capital Public Company Limited (the “Company”) formally known as Sri Ayudhaya Insurance Public Company Limited (“Ayudhya Insurance”) which is the leading insurance company in Thailand. The Ayudhya Insurance was founded on 7 October 1950 with the registered capital of THB 2 million to operate non-life insurance business, including fire, marine, motor insurance and other non-life insurance products. In 1994, the Company transformed to a public company and became publicly listed company in the SET.

The major transformation of the Company started on 15 March 2010 when the Ayudhya Insurance and CIMB Thai Bank Public Company Limited (“CIMB”) have entered into an agreement for the Ayudhya Insurance to acquire a 99.99% stake in BT Insurance Company Limited (“BTI”) from CIMB Thai at an initial reference price of THB 392 million.

The purchase became final after the approval by the Office of Insurance Commission (OIC) in November of the same year. AYUD then changed BT Insurance name to Sri Ayudhya General Insurance Public Company Limited (SAGI) to be in alignment with AYUD brand and the capital of SAGI was increased to THB 1.2 billion to gear up for expansion as well as to be in line with the OIC's Risk-Based Capital (RBC) criteria. With the insurance business transfer from AYUD to SAGI completed, the company then moved ahead with its plan to finally transform itself into an investment holding company. The company has nearly THB 6 billion for investment in the insurance sector. Its financial strength is attributable to the long term strategic conservatism and sound financial management. SAGI maintains one of the highest solvency ratios in the insurance industry.

November 2010, the Ayudhya Insurance received the approval from the OIC for the purchase of BTI, and also obtain the approval of the business merging plan to transfer and receive the non-life insurance business of the Company

February 2011, AYUD changed BTI name to Sri Ayudhya General Insurance Company Limited ("Ayudhya General Insurance") to be in alignment with AYUD brand and the capital of Ayudhya General Insurance was increased to THB 1,200 million and then THB 1,800 million to gear up for expansion as well as to be in line with the OIC's Risk-Based Capital (RBC) criteria.

June 2011, the Company transformed SAGI into Public Company and changed its name to Sri Ayudhya General Insurance Public Company Limited ("**SAGI**")

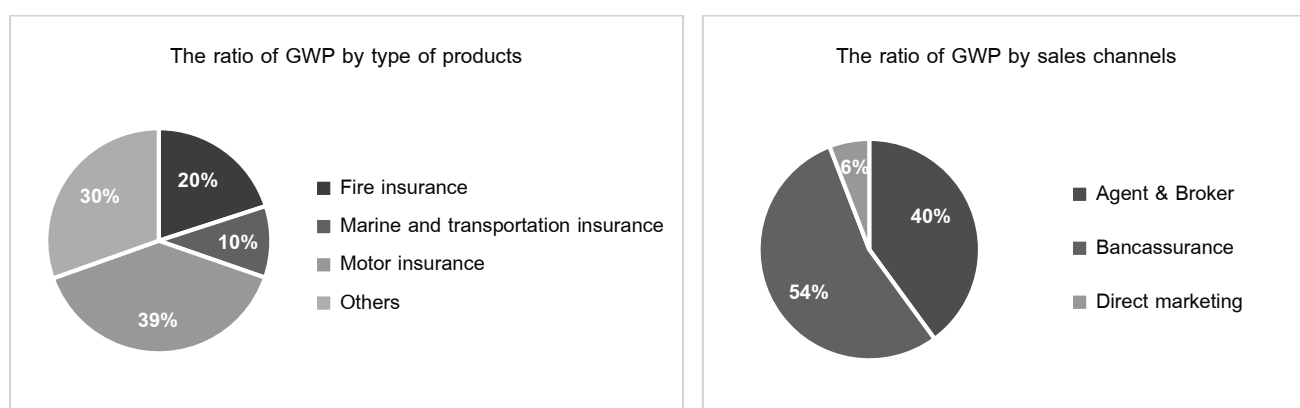
November 2011, with the insurance business transfer from AYUD to SAGI completed, the Company then returned its insurance license to the OIC and move its non-life insurance business to be operated under SAGI and changed its company status to 'investment holding company' with the purpose of investing in other businesses under the new name of "Sri Ayudhya Capital Public Company Limited" and continued to maintain the listed status under ticker "AYUD"

The Company is holding company and there is no revenue from insurance business. Total insurance revenue was from a subsidiary and core company which is SAGI. SAGI engages in all classes of non-life insurance business since 24 September 1982 as follows:

- 1. Fire Insurance** Coverage is available throughout Thailand for buildings, houses, residences, commercial buildings and factories goods held in storage, as well as machinery and raw materials at industrial plants within Thailand territory limit.
- 2. Marine Insurance** The Company offers coverage on goods transported by sea and by river both internationally and within Thailand. Coverage is also provided on good transported overland by truck or by train, as well as by air and parcel post.

3. **Motor Insurance** Cover the risk of losses due to automotive and motorcycle accidents divided into Compulsory insurance and Voluntary insurance.
4. **Miscellaneous Insurance** Numerous types of insurance coverage are available, including Personal and group accident insurance, Travel insurance, Money insurance, Burglary insurance, Machinery insurance, Erection all risks insurance, Contractor's all risks insurance, Workmen's compensation insurance, Electronic equipment insurance, Public liability insurance, All risks insurance, Credit card insurance, Plate glass insurance, Contractor's plant and machinery insurance and Leasehold insurance.

The break-down ratio of gross written premium classified by type of products and sales channels for 6 months period of 2018 are as follows.



Apart from direct acceptance of risks, the Company accepts reinsurance from domestic and overseas insurance companies, balancing the risks to increase financial security.

In addition, the Company also has an associated company, Allianz Ayudhya Assurance Public Company Limited ("**AZAY**"), which has its core business in life insurance and the Company currently holds 20.17% of the total issued shares in AZAY.

For investment policy, the Company focuses on investment in low-risk assets and generate suitable returns. The Company has the Corporate Investment Committee for setting investment guideline and the Company' investment assets are deposit with bank, government bond, equity and unit trust which generate investment return as interest and dividend.

### 1.3.2. List of Shareholders

As of the book closing date, 27 August 2018, the Company has the top 10 major shareholders as follows:

No.	Shareholder Names	Before transaction <sup>/4</sup>		After transaction <sup>/4</sup>	
		No. of shares	% ownership	No. of shares	% ownership
1	Deutsche Bank AG, Frankfurt A/C Clients Account-DCS <sup>/1</sup>	42,104,000	14.33	please see at remark <sup>/2</sup>	
	CPRNT <sup>/3</sup>	-	-	please see at remark <sup>/2</sup>	
	<b>Total</b>	<b>42,104,000</b>	<b>14.33</b>	<b>130,577,361</b>	<b>34.15</b>
2	BBTV Equity Company Limited <sup>/5</sup>	35,809,350	12.18	35,809,350	9.36
3	Great Luck Equity Company Limited <sup>/5</sup>	30,233,175	10.29	30,233,175	7.91
4	Bangkok Broadcasting & Television Company Limited <sup>/5</sup>	28,802,500	9.80	28,802,500	7.53
5	Triple Prime Team Holdings Company Limited	25,238,750	8.59	25,238,750	6.60
6	Bank of Ayudhya Public Company Limited	21,250,800	7.23	21,250,800	5.56
7	Mr. Krit Ratanarak	14,867,700	5.06	14,867,700	3.89
8	Thongthai (1965) Company Limited	9,610,000	3.27	9,610,000	2.51
9	Miss Sudthida Ratanarak	8,694,970	2.96	8,694,970	2.27
10	UBS AG London Branch	7,364,700	2.51	7,364,700	1.93
11	Other minorities	77,293,980	26.30	77,293,980	20.21
	<b>รวม</b>	<b>293,905,025</b>	<b>100.00</b>	<b>382,378,586</b>	<b>100.00</b>

Remark /1 Deutsche Bank AG, Frankfurt A/C Clients Account-DCS is the custodian for Allianz SE

/2 According to IM, Allianz SE and CPRNT shall determine the proportion of the AZAY share that each party will sell to the Company with respect to the foreign availability of the Company in order to ensure that the allocation of newly issued shares of AYUD to Allianz SE and CPRNT for the purchase of AZAY 3,4810,000 shares shall not lead the total shareholding of non-Thais in the Company to exceed 49% of its total issued and paid-up capital after the capital increase.

/3 The ultimate shareholder of CPRNT is Allianz SE

/4 The number of shares in the table does not take into account the shares to be acquired by Allianz SE and/or its Designated Person in the Partial Tender Offer, and also does not take into account the shares from the exercise of remaining AYUD-W1 of 81,094,582 units.

/5 The ultimate shareholder of BBTV Equity Company Limited, Great Luck Equity Company Limited and Bangkok Broadcasting & Television Company Limited is Ratanarak Group.

### 1.3.3. Board of Directors

As of 25 June 2018, the board of directors of the Company consists of the following 11 directors:

No.	Name	Position
1	Mr. Veraphan Teepsuwan	Chairman
2	Mr. Virojn Srethapramotaya	Director / President and CEO

No.	Name	Position
3	Mr. Chusak Salee	Director
4	Mr. Laksna Thongthai	Director
5	Mr. Orathai Rongthongaram	Director
6	Miss Nopporn Tirawattanagool	Director
7	Mr. Bryan James Smith	Director
8	Mr. Suwat Suksongkroh	Independent Director
9	Mr. Sorasit Soontornkes	Chairman of Audit Committees / Independent Director
10	Mr. Suwat Laicharoensup	Member of Audit Committees / Independent Director
11	Mr. Vichit Kornvityakoon	Member of Audit Committees / Independent Director

### 1.3.4. Revenue Breakdown

The revenue structure of the Company consists of 2 core items which are premium income and investment income. Details are as follows:

Unit : THB million	2015	%	2016	%	2017	%	Jan – Jun 2018	%
Net premium earned	1,872.7	65.98	1,892.5	66.12	1,655.2	65.86	845.5	63.42
Fee and commission income	388.3	13.68	323.3	11.30	368.0	14.64	194.9	14.62
Net investment income	120.7	4.25	104.8	3.66	99.2	3.95	62.7	4.71
Gain on investment in securities	58.9	2.07	48.7	1.70	55.0	2.19	(1.3)	(0.10)
Share of profit of investment in an associated company	392.7	13.84	388.5	13.57	331.7	13.20	230.9	17.32
Other income	5.1	0.18	104.3	3.64	3.9	0.16	0.4	0.04
<b>Total revenue</b>	<b>2,838.4</b>	<b>100.00</b>	<b>2,862.1</b>	<b>100.00</b>	<b>2,513.0</b>	<b>100.00</b>	<b>1,333.1</b>	<b>100.00</b>

### 1.3.5. Operating Results and Financial Position

#### 1.3.5.1. Summary of financial statement

Summary of Statements of financial position, Statements of comprehensive income, Statements of cash flows, and Financial ratios for the years ending 31 December 2015 to 31 December 2017 and six-month periods ended 30 June 2018 are as shown below:

Financial information	Unit	31 Dec 2015	31 Dec 2016	31 Dec 2017	30 Jun 2018
<b>Statements of Financial Position</b>					
<b>Assets</b>					
Cash and cash equivalents	MB	1,065.2	1,417.1	1,401.9	1,511.4

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun
		2015	2016	2017	2018
Premium due and uncollected - net	MB	287.0	217.4	238.1	240.9
Accrued investment income	MB	13.6	10.0	7.0	7.7
Reinsurance assets	MB	992.2	1,050.3	892.1	1,057.2
Due from reinsurers	MB	193.1	58.6	55.8	53.0
Investment in securities	MB	4,656.6	4,594.3	4,655.9	6,602.3
Investment in an associate	MB	2,944.8	2,830.5	3,355.0	2,642.3
Premises and equipment	MB	75.3	60.5	53.2	44.9
Intangible assets	MB	83.7	75.2	67.0	59.7
Deferred tax assets	MB	225.9	186.0	167.2	209.1
Deferred commissions expenses	MB	55.6	63.4	62.3	63.6
Other assets	MB	68.3	53.4	99.5	64.3
<b>Total assets</b>	<b>MB</b>	<b>10,661.3</b>	<b>10,616.7</b>	<b>11,055.0</b>	<b>12,556.4</b>
<b>Liabilities and Equity</b>					
<b>Liabilities</b>					
Insurance contract liabilities	MB	2,401.1	2,249.9	2,069.0	2,301.4
Due to reinsurers	MB	633.3	705.7	667.9	680.8
Income tax payable	MB	20.1	0.7	3.6	20.9
Employee benefit obligations	MB	72.8	79.1	86.8	91.6
Premium written received in advance	MB	305.3	338.0	348.3	355.4
Commissions and brokerages payables	MB	61.6	51.0	46.3	50.7
Accrued expenses	MB	66.4	62.1	50.5	41.5
Other liabilities	MB	71.0	87.9	88.6	77.6
<b>Total liabilities</b>	<b>MB</b>	<b>3,631.6</b>	<b>3,574.4</b>	<b>3,361.0</b>	<b>3,619.9</b>
<b>Equity</b>					
Authorized share capital	MB	500.0	500.0	500.0	375.0
Issued and paid-up share capital	MB	250.0	250.0	250.0	293.9
Premium on share capital	MB	3,512.2	3,512.2	3,512.2	5,180.6
Retained earnings	MB	2,569.2	2,680.2	2,700.8	3,009.8
Other components of equity	MB	698.3	599.9	1,231.0	452.2
<b>Total equity</b>	<b>MB</b>	<b>7,029.7</b>	<b>7,042.3</b>	<b>7,694.0</b>	<b>8,936.5</b>
<b>Total liabilities and equity</b>	<b>MB</b>	<b>10,661.3</b>	<b>10,616.7</b>	<b>11,055.0</b>	<b>12,556.4</b>

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun	30 Jun
		2015	2016	2017	2017	2018
<b>Statements of Comprehensive Income</b>						
<b>Revenues</b>						
Gross written premium	MB	3,137.8	3,082.4	2,953.6	1,437.4	1,543.2
<u>Less</u> Premium ceded	MB	(1,239.5)	(1,286.5)	(1,266.3)	(598.3)	(654.1)
Net premium written	MB	1,898.3	1,795.9	1,687.3	839.1	889.1
<u>Less</u> Unearned premium reserve increase (decrease)	MB	(25.6)	96.6	(32.1)	2.5	(43.6)
Net premium earned	MB	1,872.7	1,892.5	1,655.2	841.6	845.5
Fee and commission income	MB	388.3	323.3	368.0	182.5	194.9

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun	30 Jun
		2015	2016	2017	2017	2018
<b>Total underwriting revenues</b>	MB	2,261.0	2,215.8	2,023.2	1,024.1	1,040.4
<b>Expenses</b>						
Loss incurred	MB	1,433.0	1,413.4	1,388.6	788.9	854.0
<u>Less</u> Loss refundable from reinsurers	MB	(580.2)	(498.3)	(600.0)	(364.4)	(477.4)
Net loss incurred	MB	852.8	915.1	788.6	424.5	376.6
Commissions and brokerages expenses	MB	466.3	455.7	415.1	210.5	222.0
Other underwriting expenses	MB	424.4	473.3	476.4	228.4	244.7
Operating expenses	MB	357.0	357.7	348.0	169.2	165.1
<b>Total underwriting expenses</b>	<b>MB</b>	<b>2,100.5</b>	<b>2,201.8</b>	<b>2,028.1</b>	<b>1,032.6</b>	<b>1,008.4</b>
Net investment income	MB	120.7	104.8	99.2	46.9	62.7
Gain on investment in securities	MB	58.9	48.7	55.0	23.5	(1.3)
Share of profit of investment in an associate	MB	392.7	388.5	331.7	217.4	230.9
Other income	MB	5.1	104.3	3.9	2.2	0.4
<b>Income before tax expense</b>	<b>MB</b>	<b>737.9</b>	<b>660.3</b>	<b>484.9</b>	<b>281.5</b>	<b>324.7</b>
Income tax expense	MB	(61.0)	(45.1)	(22.0)	(9.6)	(14.3)
<b>Net income</b>	<b>MB</b>	<b>676.9</b>	<b>615.2</b>	<b>462.9</b>	<b>271.9</b>	<b>310.4</b>
<b>Cash flows statement</b>						
Net cash provided by (used in) operating activities	MB	371.3	862.0	437.9	162.7	(1,600.6)
Net cash used in investing activities	MB	(50.0)	(10.2)	(15.6)	(5.2)	(2.3)
Net cash used in financing activities	MB	(625.0)	(500.0)	(437.5)	(250.0)	1,712.3
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>MB</b>	<b>(303.7)</b>	<b>351.8</b>	<b>(15.2)</b>	<b>(92.5)</b>	<b>109.4</b>

Financial information	Unit	31 Dec	31 Dec	31 Dec	30 Jun
		2015	2016	2017	2018
<b>Financial ratios</b>					
Premium receivable turnover	Days	34	30	28	29
<b>Profitability ratio</b>					
Retention rate	%	60.50	58.26	57.13	57.61
Loss incurred per earned premium	%	45.54	48.35	47.64	44.54
Investment yield	%	6.60	6.13	5.16	4.56
Underwriting expense per earned premium*	%	66.62	67.99	74.89	74.73
Net premium written per equity	Times	0.27	0.26	0.23	0.21
Net profit margin	%	23.85	21.49	18.42	23.29
Return on equity	%	9.81	8.74	6.28	6.03
<b>Efficiency ratio</b>					
Return on total assets	%	6.24	5.78	4.27	4.25
<b>Financial policy ratio</b>					
Debt to Equity ratio	Times	0.52	0.51	0.4	0.41
Unearned premium reserve to equity ratio	Times	0.21	0.20	0.2	0.16
Unearned premium reserve to total assets ratio	%	13.81	13.48	12.59	11.48
Dividend payout ratio	%	73.80	81.30	40.50	-**

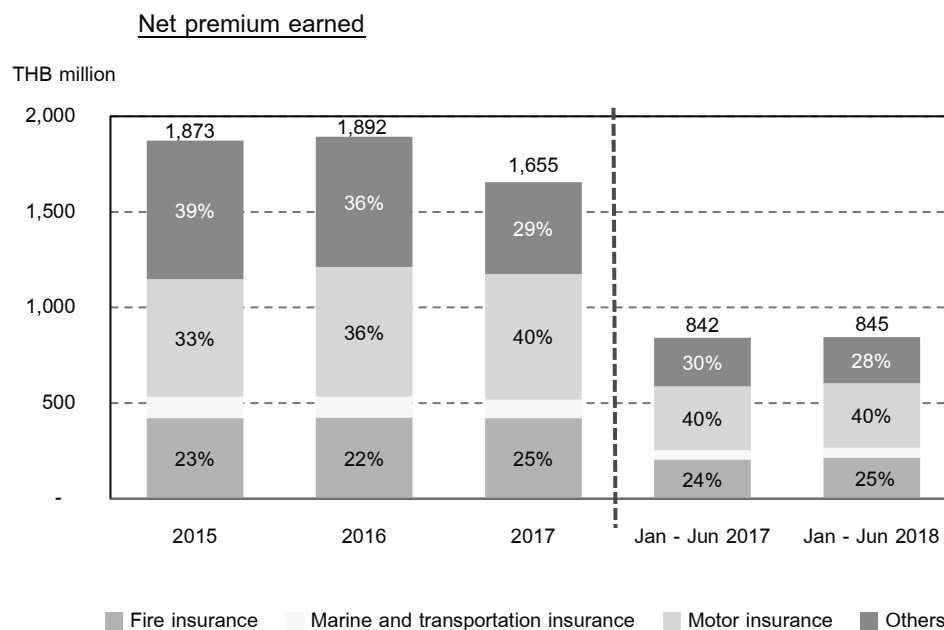
**Remark** The financial statement for year end 2015, 2016, 2017 and end 30 June 2018 were audited by Deloitte Touche Tohmatsu Jaiyos Audit Company Limited.

\* Underwriting expense per earned premium is calculated by the summary of commissions and brokerages expenses, other underwriting expenses and operating expenses divided by net earned premium.

\*\* The Company had dividend payment for the six-months performance of 2018 at September 7, 2018 amount THB 220.4 million, representing the dividend payout ratio of 71.00%

### 1.3.5.2. Analysis of Operating Results

The Company's core revenues comprised of net premium earned, fee and commission income and share of profit of investment in an associate. In 2015, 2016 and 2017, total revenues of the Company were THB 2,838.4 million, THB 2,862.1 million, and THB 2,513.0 million respectively. Net premium earned were 65.98%, 66.12% and 65.86% of total revenues in 2015-2017 respectively. For the six-month periods ended 30 June 2018, The Company's total revenues were THB 1,333.1 million and net premium earned was 63.42% of total revenues.



The Company's net premium earned were THB 1,872.7 million, THB 1,892.5 million, and THB 1,655.2 million in 2015, 2016 and 2017, respectively. Net premium earned comprised of motor insurance representing 33-40% of net premium earned, fire insurance representing 22-25% of net premium earned, marine and transportation insurance representing 6% of net premium earned, and other insurance representing 29-39% of net premium earned.

In 2016, the net premium earned increased THB 19.8 million, or 1.06% due to the increase of motor insurance premium THB 63.7 million, while other insurance premium dropped THB 44.1 million. For 2017, the net premium earned decreased THB 237.3 million,



or 12.54% due to other insurance premium and motor insurance premium dropped THB 200.6 million and THB 22.8 million, respectively because the Company tried to reduce high claimed insurance products.

For the six-month periods ended 30 June 2018, the Company had the net premium earned of THB 845.5 million increasing THB 3.8 million, or 0.46%, from the same period of previous year because net premium written increased THB 50.0 million which mainly from an increase of motor insurance premium, while unearned premium reserve increased THB 46.2 million.

#### Fee and commission income

Fee and commission incomes are commission income from reinsurance and commission rates are calculated by sliding scale method that depend on claim expenses recognized in each year. Fee and commission incomes were THB 388.3 million, THB 323.3 million and THB 368.0 million in 2015-2017 respectively. In 2016, fee and commission incomes decreased THB 65.0 million, or 16.73%, from the previous year since the reduction of sliding scale rate. In 2017, fee and commission incomes increased THB 44.7 million, or 13.83%, from the previous year because the sliding scale rate of fire reinsurance, other reinsurance and motor reinsurance increased from prior year.

For the six-month periods ended 30 June 2018, the Company had fee and commission incomes of THB 194.9 million, THB 12.4 million, or 6.79%, increase from the same period of the previous year due to the increasing of commission income of motor reinsurance.

#### Share of profit of investment in an associate

The Company has investment in AZAY which is associated company for 20.17% accounted for under equity method in the consolidated financial statements and recognize profit of AZAY as investment portion. Share of profit of investment in an associate were THB 392.7 million, THB 388.5 million, THB 331.7 million and THB 230.9 million in 2015, 2016, 2017 and the six-month periods ended 30 June 2018, respectively.

#### Underwriting expenses

Underwriting expenses comprised of 4 main expenses which are net loss incurred, commissions and brokerages expenses other underwriting expenses, and operating expenses. Commissions and brokerages expenses and other underwriting expenses were variable costs in relation to underwriting revenues, while net loss incurred was in relation to the loss incurred to the insured during the year.

Net loss incurred were THB 852.8 million, THB 915.1 million, and THB 788.6 million in 2015, 2016 and 2017, respectively. In addition, loss incurred per net premium earned in 2015, 2016 and 2017 were 45.54%, 48.35% and 47.64% respectively. In 2016, net loss incurred rose THB 62.3 million, or 7.30%, from the prior year due to the increase of loss incurred in motor insurance and other insurance. For 2017, net loss incurred dropped THB 126.5 million, or 13.82%, from the prior year that mainly due to the reduction of loss incurred in other insurance. For the six-month periods ended 30 June 2018, the Company had net loss incurred of THB 376.6 million, dropping THB 47.9 million, 11.29%, from the same period of the previous year because the Company tried to reduce high claimed insurance products.

Commissions and brokerages expense were expenses payable to agents or insurance brokers for soliciting a person to enter into the insurance policy with the Company. The Company's commissions and brokerages expense were THB 466.3 million, THB 455.7 million, and THB 415.1 million in 2015, 2016 and 2017, respectively. The decreased THB 10.6 million and THB 40.6 million in 2016 and 2017 in relation to the change of gross written premium in each year. For the six-month periods ended 30 June 2018, the Company had commissions and brokerages expenses of THB 222.0 million, THB 11.5 million or 5.48% increase from the same period of the prior year as a result of the increase of gross written premium.

Other underwriting expenses comprised of personnel expenses related to underwriting activities, expenses related to underwriting activities, contribution to the OIC, contribution to non-life guarantee fund, and contribution to road victims protection fund. The Company had other underwriting expenses of THB 424.4 million, THB 473.3 million, and THB 476.4 million in 2015, 2016 and 2017 respectively, representing the growth rate of 11.53% and 0.66% in 2016 and 2017 respectively. The growth was due to the rising of expenses involving with fire insurance and motor insurance. For the six-month periods ended 30 June 2018, the Company had other underwriting expenses of THB 244.7 million, increasing THB 16.3 million, or 7.15% from the same period of the previous year due to the increase of expense involving with motor insurance.

The operating expenses were THB 357.0 million, THB 357.7 million, and THB 348.0 million in 2015, 2016 and 2017 respectively. In 2017, the expense decreased THB 9.7 million, or 2.70%, from the prior year mainly due to the decrease of personnel expenses that resulted from retirement of senior managements. For the six-month periods ended 30 June 2018, the operating expenses were THB 165.1 million, THB 4.1 million or 2.40% decrease from the prior year.

### Net profit

The Company had net profit of THB 676.9 million, THB 615.2 million and THB 462.9 million in 2015, 2016 and 2017 respectively. In 2016, net profit decreased THB 61.7 million from the prior year, resulting from the increase of underwriting expenses of THB 101.3 million due to the increase of loss incurred in motor insurance and other insurance, and the decrease of fee and commission income of THB 65.0 million due to the decrease of the sliding scale rate. In contrast, the other income increased THB 99.2 million because the Company recognized the reversal of insurance contract liability of THB 98.0 million resulting from the lawsuit filed against the Company from the insured since 24 September 1997. On 15 March 2016, the Supreme Court dismissed the case causing the Company to reverse the liability to other income in 2016.

For 2017, net profit decreased THB 152.3 million or 24.75% from the prior year because other incomes decreased THB 100.4 million since, as aforementioned, the Company recognized income from the reversal of liability of THB 98.0 million in 2016. In addition, the share of profit of investment in an associate decreased THB 56.8 million as a result of the reduction of AZAY's net profit.

For the six-month periods ended 30 June 2018, The Company had net profit of THB 310.4 million while the same period of the previous year, net profit was THB 271.9 million. The increase of THB 38.5 million or 14.16% was from fee and commission incomes increased THB 12.4 million due to the increasing of commission income of motor reinsurance, and the decreasing of underwriting expenses of THB 24.1 million from the increase of loss incurred in motor insurance and other insurance because the Company tried to reduce high claimed insurance products.

#### 1.3.5.3 Analysis of Financial position

### Assets

Total assets at the end of 2015, 2016 and 2017, and as at 30 June 2018 were THB 10,661.3 million, THB 10,616.7 million, THB 11,055.0 million, and 12,556.4 million, respectively. The core assets were comprised investment in securities, investment in associate and reinsurance assets.

Investment in securities at the end of 2015, 2016 and 2017, and as at 30 June 2018 were THB 4,656.6 million, THB 4,594.3 million, THB 4,655.9 million, and THB 6,602.3 million, respectively. They represent 43.68%, 43.27%, 42.12%, and 52.58% of total assets respectively. The key items are investment in government bonds, Bank of Thailand bonds, treasury bills, shares, debentures, and units in mutual funds. For the six-month periods ended

30 June 2018, investment in securities increased THB 1,946.4 million from prior year that mainly due to the increase of available-for-sale of equity securities.

Investment in associate at the end of 2015, 2016 and 2017, and as at 30 June 2018 were THB 2,944.8 million, THB 2,830.5 million, THB 3,355.0 million, and THB 2,642.3 million, respectively; representing 27.62%, 26.66%, 30.35%, and 21.04% of total assets respectively. The Company had investment in AZAY for 20.17% shareholding; therefore, the Company had classified such investment as investment in associate and represented using the equity method, of which the value of investment will change based on the net asset value of the associated company.

Reinsurance assets are insurance reserve refundable from reinsurers comprising loss reserves and unearned premium reserve. At the end of 2015, 2016 and 2017, and as at 30 June 2018, reinsurance assets were THB 992.2 million, THB 1,050.3 million, THB 892.1 million, and THB 1,057.2 million, respectively; representing 9.31%, 9.89%, 8.07%, and 8.42% of total assets respectively. For 2016, reinsurance assets increased THB 58.1 million from prior year that mainly due to the increase of unearned reinsurance premium reserve. For 2017, reinsurance assets decreased THB 158.2 million from prior year because loss reserves and unearned reinsurance premium reserve decreased THB 87.1 million and THB 71.1 million, respectively. For the six-month periods ended 30 June 2018, reinsurance assets increased THB 165.2 million from the same period of previous year that mainly due to the increase of loss reserve.

#### Liabilities

Liabilities of the Company were the liabilities resulting from the business operation. They were insurance contract liabilities consisting of loss reserve and unearned premium reserve, due to reinsurers, premium written received in advance, commissions and brokerages payables, employee benefit obligations. Total liabilities at the end of 2015, 2016 and 2017, and as at 30 June 2018 were THB 3,631.6 million, THB 3,574.4 million, THB 3,361.0 million, and THB 3,619.9 million, respectively. At the end of 2016, total liabilities decrease THB 57.3 million due to the decrease of insurance contract liabilities of THB 151.2 million that mainly resulted from the reduction loss reserve, while the due to reinsurers increased THB 72.3 million.

For 2017, liabilities decreased THB 213.3 million which mainly due to the reduction of loss reserve and unearned premium reserve.

For the six-month periods ended 30 June 2018, liabilities increased THB 258.9 million which mainly due to the increase of insurance contract liabilities as a result of the increase of loss reserve and unearned premium reserve.

### Equity

Equity as at the end of 2015, 2016 and 2017, and as at 30 June 2018 were THB 7,029.7 million, THB 7,042.3 million, THB 7,694.0 million, and THB 8,936.5 million, respectively. In 2016, total equity increased THB 12.7 million resulting from the net profit of THB 615.2 million, while there was dividend payment of THB 500.0 million, and other comprehensive loss for the year THB 102.5 million that mainly resulted from share of other comprehensive loss in an associate.

For 2017, total equity increased THB 651.7 million resulting from the net profit of THB 462.9 million and other comprehensive income of THB 626.2 million that mainly resulted from share of other comprehensive income in an associate, while there was dividend payment of THB 437.5 million.

For the six-month periods ended 30 June 2018, total equity increased THB 1,242.6 million due to the six-month periods net profit of THB 310.4 million and the increase of issued and paid-up share capital THB 43.9 million which from THB 250.0 million to THB 293.9 million as a result of the exercises of the warrants (AYUD-W1), and resulting in an increase in total share premium to THB 1,668.4 million. In contrast, there was the six-month periods other comprehensive loss THB 780.2 million that mainly resulted from share of other comprehensive loss in an associate.

### Cash flows

Net cash provided by operating activities in 2015, 2016 and 2017 were THB 371.3 million, THB 862.0 million, and THB 437.9 million, respectively. In 2016, net cash provided by operating activities increased THB 490.7 million because of the decrease of cash paid to reinsurance of THB 120.9 million, the decrease of income tax paid of THB 244.0 million, and cash received from investment in securities of THB 359.4 million, while there was the decrease of dividend received from the associate of THB 144.0 million and the deposits at bank as collateral decreased THB 101.3 million. For 2017, net cash provided by operating activities decreased THB 424.1 million because direct premium received decreased THB 241.3 million and cash paid for loss incurred increased THB 183.6 million. For the six-month periods ended 30 June 2018, net cash used in operating activities was THB 1,600.6 million, increasing THB 1,763.3 million from the prior year due to there was payment for investment in securities of THB 2,107.0 million in six-month periods of 2018.

Net cash used in investing activities in 2015, 2016 and 2017 were THB 50.0 million, THB 10.2 million, and THB 15.6 million, respectively. For the six-month periods ended 30 June 2018, it was THB 2.3 million. They are due to cash paid for equipment, fixtures, computer software, and vehicles.

For net cash used in financing activities, the Company paid dividend of THB 625.0 million, THB 500.0 million, and THB 437.5 million in 2015, 2016 and 2017, respectively. For the six-month periods ended 30 June 2018, net cash used in financing activities was THB 1,712.3 million from the increase of issued and paid-up share capital as a result of the exercises of the warrants (AYUD-W1).

### **Financial ratios**

#### **Liquidity ratio**

The Company had premium receivable turnover in 2015 to 2017 and the six-month periods ended 30 June 2018 of 34 days, 30 days, 28 days, and 29 days, respectively. The Company had credit term policy for individual insurance of about 30 days. For other type of insurance apart from motor insurance, customers have to follow the principle of “Cash before cover”, that is, the insured will have to pay premium before the beginning of insurance policy.

#### **Profitability ratio**

Loss incurred per earned premium in 2015 to 2017 and the six-month periods ended 30 June 2018 were 45.54%, 48.35%, 47.64% and 44.54% respectively. The significant decrease in six-month periods of 2018 was due to the Company tried to reduce high claimed insurance products.

Net profit margins in 2015 to 2017 and the six-month periods ended 30 June 2018 were 23.85%, 21.49%, 18.42%, and 23.29%, respectively. The net profit margin in 2016 and 2017 decreased from 2015 because underwriting expense per earned premium increased from 66.62% in 2015 to 67.99% and 74.89% in 2016 and 2017 respectively. For the six-month periods ended 30 June 2018, net profit margins increased from previous year due to the decrease of loss incurred per earned premium and underwriting expense per earned premium.

### **1.3.6. Industry Overview**

Insurance industry is still growing along with the Thai economy. The Office of Insurance Commission (OIC) announced the direct insurance premiums of overall insurance industry in 2017 (Jan-Dec) totaled THB 827,598 million, increasing 6.41% YoY from 2016. Life insurance premiums contributed THB 608,666 million, 7.23% increase YoY and non-life insurance premium were 218,932 million, 3.20% growth YoY. The premium growth was in line with Thai economy that had GDP growth of 3.9%.

In 2017, life insurance premiums growth was driven by the government policy and tax measure that encourage customers to appreciate the importance of savings, investments, and health. As a result, relevant life insurance product categories have significantly gained more premiums. Insurance premiums of unit linked products soared 104.16% YoY while annuity insurance premiums grew 27.91% YoY. In addition, premiums of life insurance with health riders expanded 8.41%. Agents were still the most important life insurance sales channel, contributing 49.68% of overall premiums. However, agency channel premiums only grew 5.32% YoY, slower than bancassurance's premium growth. Bancassurance was the second largest channel, contributing 44.12% of overall life premiums and grew 10.12% YoY.

Thai Life Assurance Association estimated direct life insurance premiums to increase 4 - 6% in 2018 due to improving domestic and international economic situations and expected stronger GDP growth at 4.2%. Tax allowance measure for life and health insurance premiums and continuous insurance product development to meet everchanging customer needs also contribute to the premium growth. Unit linked products is expected to continue rapid premium gains. In the first half of 2018, direct life insurance premiums totaled THB 311,772 million, 4.53% increase YoY. Bancassurance has outpaced agency channel and produced greater premium share at 47.72%.

For non-life insurance, growth in 2017 was supported by automobile and parts export slow down to support domestic automobile production. Consequentially, motor insurance premiums grew 5.11% and miscellaneous insurance premiums grew 6.98%. Maritime and transport insurance premiums continued to expand, especially, hull insurance which grew 6.40%. Insurance brokers were still the most important channels, representing 57.80% of premiums and grew 7.42% YoY. Agency and bancassurance channels contributed 14.47% and 13.17% of premiums but agency channel declined 8.75% YoY and bancassurance grew 4.15% while agency channel's premium share ws only 45.17%.

The OIC expected non-life insurance premiums to climb 3.5-4.5% in 2018, estimating direct non-life insurance premium to be THB 226,079 - 228,258 million. Construction insurance for infrastructure projects and travel insurance surge are predicted to uplift direct premiums in addition to economic growth and tax scheme. Motor insurance still makes up the majority of premium but intensifying competition has eroded motor insurance premium rate. In the first half of 2018, non-life insurance has accumulated THB 114,302 million direct premiums, increasing 5.19% YoY.

## **1.4. Reasonableness of the Transaction**

### **1.4.1. Objectives and Rationale of Entering into the Transaction**

The AYUD Board of Directors Meeting No. 5/2018 on 24 September 2018 resolved to approve the proposal to hold Extraordinary Meeting of Shareholders for approval of entire business transfer of AZTH, acquisition of AZAY's shares and issuing new shares for the purpose of enhancing business co-operation between AYUD and Allianz Group including improving operational efficiency and optimizing repetitive costs and expenses.

### **1.4.2. Advantages and Disadvantages of Entering and not Entering into the Transaction**

#### **1.4.2.1. Advantages of Entering into the Transaction**

##### **1. Increase sales channels and expand customer base**

According to the 2017 annual report of SAGI, AYUD's subsidiary, its main sales channels are the related financial institutions and companies, Bank of Ayudhya PCL, and agency channel. They produced 50.59% and 40.74% of SAGI's premiums in 2017, respectively. The target customers of SAGI are medium-size businesses and SMEs, which differ from AZTH whose main channel is brokerage and have large corporates as the main customer base.

After completing the Transaction, the Company will gain additional sales channels through brokers of AZTH. In comparison to other channels, the advantage of brokerage channel is the ability to reach and access potential customers. With professional skills and customer familiarity, brokers can recommend the right insurance products to match the needs of their customers, becoming the largest sales channel for non-life insurance. According to OIC, brokerage channel produced 57.80% of premiums in 2017, which is greater than the combined premiums from the second and third largest channels: agency and bancassurance. Moreover, the Acceptance of the EBT from AZTH will expand the Company's customer to cover every customer base.

##### **2. Create synergies to the main business operation of the Company**

Both AZTH and SAGI have extensive experiences in non-life insurance in Thailand and have the same main products: fire, marine, miscellaneous and motor insurance. There will be synergies after the Acceptance of the EBT from AZTH in operations improvement, customer services, product development, personnel empowerment, and technology development from the expertise of the two companies. Such synergies are in line with the



current business strategies of SAGI. Furthermore, after the transaction, combining SAGI and AZTH will lead to economy of scale and more efficient use of resources.

**3. Increase non-life insurance market share including revenues and financial strength of SAGI**

From latest information during January – December 2017 published by the OIC, SAGI had 1.33% market share, ranking 20<sup>th</sup> out of 60 non-life insurance companies in Thailand. AZTH had 1.23% market share, ranking 25<sup>th</sup>. SAGI will immediately capture more market share after the Acceptance of the EBT from AZTH. Based on 2017 data, SAGI would have THB 5.6 billion direct premiums, THB 2.9 billion from SAGI and THB 2.7 billion from AZTH, leaping to the 12<sup>th</sup> rank. The transaction will open new opportunities for SAGI to increase core revenue from expanding to AZTH's customer base and reducing reliance on the existing major customer, Bank of Ayudhya PCL and its customers, the main base for Fire and Miscellaneous insurance.

In the Company's 2017 annual report, industry competition section described customers as concerning about the insurer's financial stability and customer service quality. After the transaction, SAGI will benefit from both aspects. SAGI will gain more capital from increase revenue and be able to invest and earn higher returns, increasing financial liquidity and stability. SAGI will also take AZTH's 6 branches which will enhance service quality and coverage to customers.

**4. Increase return on investment by increase shareholding in AZAY**

After the transaction, AYUD will increase its investment in AZAY, which has consistently performed well in terms of revenues and net profits. AZAY's total revenue of 2015 – 2017 and the first 6 months of 2018 are THB 34,322 million, THB 36,611 million, THB 38,022 million and THB 18,861 million respectively. AZAY's net profit of 2015 – 2017 and the first 6 months of 2018 are THB 1,947 million, THB 1,926 million, THB1,644 million and THB 1,145 million respectively. AZAY has a strong financial position and has maintained key financial ratios relating to relevant rules and regulations such as Capital Adequacy Ratio (CAR), which is required to be not less than 140%, whereby AZAY's CAR of 2015-2017 and 6 months of 2018 are 423%, 385%, 353% and 340% respectively, which are much higher than the requirement. AZAY's investment assets to insurance reserve ratio of 2015 – 2017 are 123%, 122% and 119% respectively, which are higher than the standard at 100%. Thus, this additional investment in AZAY is a good opportunity for the Company to receive good return from AZAY's performance which is in line with the Company's investment strategies to invest in insurance business and generate returns to shareholders.

### 1.4.2.2. Disadvantages of Entering into the Transaction

#### 1. AZTH had net loss in 2016 - 2017 and the first 6 months of 2018

AZTH had net loss in 2016 - 2017 and the first 6 months of 2018 due to its continuing increase in underwriting and operating expenses. In contrast, net premium earned during the same period increased at a slower rate because of price competition in insurance industry. After the Transaction, if AZTH's performances still incur net loss, this may directly affect the performance of the Company shown in consolidated financial statements. However, the Company expects to gain benefits from the synergies of the Acceptance of the EBT from AZTH which will support overall operation performance and financial status of the Company.

#### 2. Dilution effect on the existing shareholders

If the EGM resolves to approve the Transaction, dilution effect on existing shareholders other than Allianz Group can be summarized as follows:

##### Control Dilution

$$\text{Control Dilution} = Q_{\text{new}} / (Q_{\text{old}} + Q_{\text{new}})$$

whereas

$$Q_{\text{new}} = 88,473,361 \text{ newly issued shares}$$

$$Q_{\text{old}} = 293,905,225 \text{ paid-up shares}$$

$$\text{Control Dilution} = 23.1\%$$

The Company still has 81,094,582 outstanding AYUD-W1, which have not been exercised. Assuming every AYUD-W1 holder exercise their rights to purchase AYUD's shares, the dilution effect can be summarized as follows:

##### Control Dilution

$$\text{Control Dilution} = Q_{\text{new}} / (Q_{\text{old}} + Q_{\text{new}})$$

whereas

$$Q_{\text{new}} = 88,473,361 \text{ newly issued shares}$$

$$Q_{\text{old}} = 374,999,807 \text{ paid-up shares}$$

$$\text{Control Dilution} = 19.1\%$$

Earnings Dilution

$$\text{Earnings Dilution} = (\text{EPS}_O - \text{EPS}_N) / \text{EPS}_O$$

whereas

$\text{EPS}_O$  = THB 1.71 per share, which is calculated from THB 501.43 million of basic net profit from the last four quarters (the 3<sup>rd</sup> quarter of 2017 to the 2<sup>nd</sup> quarter of 2018) divided by 293,905,225 paid-up shares.

$\text{EPS}_N$  = THB 1.31 per share, which is calculated from THB 501.43 million of basic net profit from the last four quarters (the 3<sup>rd</sup> quarter of 2017 to the 2<sup>nd</sup> quarter of 2018) divided by 382,378,586 shares (293,905,225 paid-up shares and 88,473,361 newly issued shares)

$$\text{Earnings Dilution} = 23.1\%$$

Considering the outstanding warrants, the earning dilution can be summarized as below:

$$\text{Earnings Dilution} = (\text{EPS}_O - \text{EPS}_N) / \text{EPS}_O$$

whereas

$\text{EPS}_O$  = THB 1.34 per share, which is calculated from THB 501.43 million of basic net profit from the last four quarters (the 3<sup>rd</sup> quarter of 2017 to the 2<sup>nd</sup> quarter of 2018) divided by 374,999,807 paid-up shares.

$\text{EPS}_N$  = THB 1.08 per share, which is calculated from THB 501.43 million of basic net profit from the last four quarters (the 3<sup>rd</sup> quarter of 2017 to the 2<sup>nd</sup> quarter of 2018) divided by 463,473,168 shares (293,905,225 paid-up shares, 81,094,582 warrants, and 88,473,361 newly issued shares)

$$\text{Earnings Dilution} = 19.1\%$$

Price Dilution

$$\text{Price Dilution} = (P_O - P_N) / P_O$$

$$P_N = [(P_O \times Q_O) + (P_{New} \times Q_{New})] / (Q_O + Q_{New})$$

whereas

$$Q_O = 293,905,225 \text{ paid-up shares}$$

$Q_{New}$	=	88,473,361 newly issued shares
$P_O$	=	THB 38.57 per share, which is the weighted average market price of the Company's shares over the period of fourteen working days prior to 24 September 2018, which is the date the Board of Directors Meeting resolved to propose to the EGM for consideration and approval of the capital increase.
$P_{New}$	=	THB 53.32 per share, which is the offering price of the newly issued shares.
Price Dilution	=	- 8.85%

Since the offer price of newly issued shares is higher than the market price, there is no price dilution.

When including warrants, the price dilution can be summarized as below:

$$\text{Price Dilution} = (P_O - P_N) / P_O$$

$$P_N = [(P_O \times Q_O) + (P_{New} \times Q_{New})] / (Q_O + Q_{New})$$

whereas

$Q_O$	=	374,999,807 shares from 293,905,225 paid-up shares and 81,094,582 warrants
$Q_{New}$	=	88,473,361 newly issued shares
$P_O$	=	THB 38.57 per share, which is the weighted average market price of the Company's shares over the period of fourteen working days prior to 24 September 2018, which is the date the Board of Directors Meeting resolved to propose to the EGM for consideration and approval of the capital increase.
$P_{New}$	=	THB 53.32 per share, which is the offering price of the newly issued shares.
Price Dilution	=	- 7.30%

Since the offer price of newly issued shares is higher than the market price, there is no price dilution.

### **3. Potential risk of lower checks & balances and control over the Business by minority shareholders**

As of 27 August 2018 (the latest book closing date) Allianz SE holds AYUD's shares of 42,104,000 shares representing 14.33% of total voting rights. After issuing new shares and

Allianz SE and CPRNT subscribe those shares, Allianz SE and CPRNT will hold 130,577,361 shares representing 34.15% of total voting rights (not including addition shares from the Partial Tender Offer and the shares from the exercise of remaining AYUD-W1 of 81,094,582 units). Such shareholding of higher than one-fourths of the total voting rights will enable Allianz Group to block the voting on significant matters that requires not less than three-fourths of total voting shares of the Company such as capital increase, and capital decrease. However, Allianz Group still cannot fully control the outcome of the voting on the matters which needs more than half or three-fourths of total shares for approval. In addition, minority shareholders can still gather votes to exercise veto rights for significant matters which allow veto from minority shareholders according to the SEC's rules and regulations.

#### **1.4.2.3. Advantages of Not Entering into the Transaction**

##### **1. No impact from net loss performance of AZTH**

In case of not entering into the Transaction, the Company will not have to consolidate AZTH's performance, which may continue to make net losses, into consolidated financial statements. Therefore, the Company will still maintain its good performance and profitability from its current structure.

##### **2. No dilution effect on the existing shareholders**

If the Company does not enter into the Transaction, there will not be dilution effects on the existing shareholders.

##### **3. Retention of checks and balances and control over the business by minority shareholders**

If the EGM does not approve the Transaction, Allianz Group will not acquire the Company's newly issued shares. As such, Allianz Group's shareholding in the Company remains the same. Then, Allianz Group will not be able to object any matters which need not less than three-fourths of total shares of the Company for approval.

#### **1.4.2.4. Disadvantages of Not Entering into the Transaction**

##### **1. Lose the business opportunity to expand sales channels and customer base**

If the Company does not enter into the Transaction, the Company still has to rely on the base customers of Bank of Ayudhya PCL. The Company will lose the opportunity to gain benefits from using broker as additional sales channel which is the most popular and effective channel for non-life insurance industry in Thailand (according to OIC's information).

Moreover, the Company will lose the opportunity to expand its customer base to large business sector which is AZTH's target customer group and will need to contend with the existing customer base. Then, the Company will not be able to diversify its risk on income because its existing customers are mostly SME which have more risks than the large business sector.

**2. Lose the synergies on the Company's main business**

If the Company does not enter into the Transaction, it will not gain benefits from expected business synergies by entire business transfer of AZTH to SAGI. This will slow down the Company's business development plan.

**3. Lose the opportunity to increase SAGI's market share and revenues**

If the Company does not enter into the Transaction, SAGI will lose opportunity to increase its market share and revenues from insurance premium and investment gain from AZTH. The additional revenues could enhance SAGI's financial standing and liquidity.

**4. Lose the opportunity of returns on investment in AZAY**

If the Company does not enter into the Transaction, the Company will lose the opportunity to gain additional shareholding in AZAY which has good performances and strong financial position.

**1.4.3. Risks from Entering into the Transactions**

**1. Risk from the actual performance would not be as expected**

AZTH's and AZAY's performances can fall short of expectations. Many factors such as business competition, economic factors, change of customers' behaviors, and risks from severe natural disasters due to environmental and earth's temperature change, can undermine the performances of AZTH and AZAY. Moreover, the revenues from investments of the Company may be affected by the fluctuation of interest rates and stock exchange index which may be caused by political status, Thai and global economy. Those risks have direct impacts on the Company's revenues, both insurance premiums and investments, and to the Company's cash flow, liquidity, and other obligations.

Nevertheless, the Company also has strategical and operational risk management guidelines. The Company's Risk Management Committee and senior managements are responsible for regularly monitoring and analyzing risk factors which may have business impacts. Then, they need to set up appropriated action plans to match each situation and change. For operational aspect, the Company has set up policies and guidelines of

operational risk management for the Company's staffs. The management and directors of the Company are responsible for monitoring and managing the business operations follow the policies and guidelines. In addition, Allianz Group, the globally leading non-life and life insurance company, is one of major shareholders of the Company and will co-operate and help the Company in planning, management and operations including related technology development to support the Company's stable growth with strong financial position.

## **2. Risk from managing changes after entire business transfer**

After the Acceptance of the EBT from AZTH, the Company may need time to adjust internal management due to the differences in managing principles and company cultures. This may include the adjustments in human resource management such as titles, levels, compensation packages, etc. This adjustment may cause additional expenses for the early period after business transfer.

## **3. Potential Risk of Maintaining Listing Status**

According to the IM, the SPA, and the EBT Agreement, the conditions precedent relating to change of management structure are as follows:

- The resignation of 3 AYUD's directors and 4 SAGI's directors;
- The increase of the total number of AYUD's directors from 11 to 15 directors and the appointment of persons nominated by Allianz SE and CPRNT as AYUD's directors, with effect on the closing date.

The list of AYUD's 3 directors to resign has not been finalized. If Allianz Group nominates 3 substitute directors, the additional number of directors representing Allianz Group will be 7 directors after the Transaction. Increasing the number of directors to 15, AYUD needs to have independent directors not less than one-thirds of total directors to maintain its listing status. Therefore, AYUD needs to appoint at least 5 independent directors.

However, from interviewing the Company's management, the Company knows the criteria to maintain its listing status and is aware of this issue. Thus, the Company plans to seek and appoint an additional independent director to reach 5 independent directors (from currently 4 independent directors), which is one-thirds of total directors after the Transaction.

#### **1.4.4. Advantages and Disadvantages of Entering into the Transaction with a Connected Persons**

##### **1.4.4.1. Advantages of Entering into the Transaction with a Connected Persons**

###### **1. Increase the Company's insurance business efficiency**

Allianz Group is one of the leading financial service groups with 128 years of experiences in insurance business (non-life and life insurance). It has developed various products to cover the needs from all customer groups (retails and corporates) in more than 70 countries around the world. Allianz Group has strong financial status, granted strong credit rating by accredited credit rating agencies. Allianz Group's expertise in insurance business will be passed on to the Company as the Company's major shareholder. This will strengthen the Company's leadership position with capabilities in business operations and asset management and elevate the Company's image with credibility and trust.

###### **2. Appropriate Investment for the Company's goal within short period of time**

AZAY is the life insurance company with consistently good performances and strong financial position. Therefore, the increasing stakes in AZAY fit the Company's investment plan to generate returns on investment in selected insurance companies. AYUD and Allianz Group have been AZAY shareholders before the Transaction. Such relationship facilitates and shortens the discussion and negotiation between both parties. Currently, AYUD holds 20.17% of AZAY shares and has participated in business management with good understanding and familiarity with AZAY's business.

##### **1.4.4.2. Disadvantages of Entering into the Transaction with a Connected Persons**

###### **1. Duty Regarding Information Disclosure and the Compliance to Regulations Governing Connected Transaction**

Allianz SE and CPRNT are considered as connected persons of the Company because they are major shareholders. The Transaction is deemed a connected transaction of a listed company. To enter into the Transaction, the Company has to submit the Information Memorandum regarding the Transaction to the SET and to convene a meeting of shareholders to approve the Transaction. The invitation letter to the shareholders meeting must be sent out not less than 14 days prior to the shareholders meeting. The Company is also required to arrange for an Independent Financial Advisor to provide the opinion on the reasonableness of the Transaction and the fairness of the Transaction price for the Audit Committee, SET and shareholders.



## **2. Suspicion on the Reasonableness of the Transaction and the Fairness of the Transaction Price**

Entering into the connected transaction may bring questions on the transparency, the fairness of the transaction price and the reasonableness of the transaction conditions if the connected transaction will optimally benefit the Company as the transaction with non-connected persons. However, for connected transactions, the Company has followed its connected transaction policy, which complies with the rules, practices and disclosure of information guidelines of the SET. This includes disclosure of information and other acts concerning the acquisition and disposition of assets. Moreover, the Company arranges for an Independent Financial Advisor to provide an opinion on the reasonableness of the transaction, the fairness of the transaction price for shareholders' consideration for the approval of the transaction.

### **1.4.5. Necessity of Entering into the Transaction with a Connected Persons and Reason the Company Does Not Enter into the Transaction with an Unrelated Party**

The Acceptance of the EBT from AZTH and the Purchase of AZAY shares are in line with the Company's vision to be one of the leading companies in insurance business investment. Both AZTH and AZAY, including the Company, have Allianz Group as a major shareholder. Therefore, it is convenient to coordinate, exchange information, negotiate price and conclude other agreement within a short period of time. Issuing new shares to Allianz Group will mutually benefit both parties. The Company does not have to use cash for entire business transfer execution and Allianz Group can accomplish its objective of investing in insurance business in Thailand without complicated holding structure. Allianz Group will have more management flexibility due to fewer number of companies held by Allianz Group. Moreover, after the Transaction, Allianz Group will leverage its capability and long experiences in insurance business with customers in over 70 countries around the world to enhance the Company's image, credibility and trust from customers. The mentioned advantages reasonably support the Company to enter into the Transaction with Allianz Group as connected person.

## **1.5. The Fairness of the Transaction Price**

This part of the report explains how the IFA derives the opinion regarding the fairness of the price in this Transaction. For the valuation of AZTH and AZAY, the IFA used several valuation approaches, which are Market Comparable approach, Book Value approach, and Actuarial Valuation approach. For the valuation of AYUD, the IFA used several valuation approaches, which are Market Comparable approach, Book Value approach, Historical Traded Price Approach, and Actuarial Valuation approach as AYUD is the listed company in the SET, of which its core business is to invest in other companies and its major investment are the investment in SAGI, AZAY and other securities. The details of the valuation are as follows:

## 1.5.1. The Valuation of AZTH and AZAY

### 1.5.1.1. Market Comparable Approach

Market Comparable approach compares key trading multiples of the company with those of its listed comparable peers in the SET operating in the same business of AZTH and AZAY.

For AZTH, the IFA selected the following 11 listed companies operating in direct non-life insurance business as comparable peers:

Company	Ticker
Sri Ayudhya Capital Public Company Limited	AYUD
Bangkok Insurance Public Company Limited	BKI
Charan Insurance Public Company Limited	CHARAN
Muang Thai Insurance Public Company Limited	MTI
The Navakij Insurance Public Company Limited	NKI
Nam Seng Insurance Public Company Limited	NSI
Syn Mun Kong Insurance Public Company Limited	SMK
The Thai Insurance Public Company Limited	TIC
Dhipaya Insurance Public Company Limited	TIP
The Thai Setakij Insurance Public Company Limited	TSI
Thaivivat Insurance Public Company Limited	TVI

For AZAY, the IFA selected the following 1 listed company operating in life insurance business as comparable peers:

Company	Ticker
Bangkok Life Assurance Public Company Limited	BLA

The IFA has chosen 2 valuation methodologies strongly supported by financial theories as follows

#### 1.5.1.1.1. Price to Earnings Ratio Methodology (P/E)

This methodology reflects the profitability of company without taking the assets value into consideration. The valuation by this methodology was calculated by multiplying the trailing 12-month net profit of the company (July 2017 to June 2018) to the average price to earnings (P/E) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

Historical P/E Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
AZTH's peers				
AYUD	22.75*	22.43*	21.95*	22.53*
BKI	15.43	15.14	15.15	15.36
CHARAN	27.90*	27.54*	27.91*	29.13*
MTI	12.76	12.72	12.89	12.83
NKI	16.16	15.96	16.11	16.54
NSI	11.89	9.98	9.31	9.28
SMK	9.57	9.47	9.50	9.50
TIC	20.38	16.13	14.61	13.53
TIP	8.78	8.54	8.64	8.76
TSI	N/A*	N/A*	N/A*	N/A*
TVI	18.66	17.72	17.50	20.97
Average	14.20	13.21	12.96	13.34
AZAY's peers				
BLA	12.24	12.19	12.48	13.18
Average	12.24	12.19	12.48	13.18

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/E multiples of the peers above, the IFA estimates the value as follows:

Company	Trailing 12-month net profit (THB million)	Average P/E (times)	Estimated value (THB million)
AZTH	(244.2)	12.96 – 14.20	N/A*
AZAY	1,711.4	12.19 – 13.18	20,855.3 – 22,554.6

Remark: \*N/A since the AZTH realized net loss.

**1.5.1.1.2. Price to Book Value Ratio Methodology (P/BV)**

Although reflecting the book value, the methodology ignores the profitability. The valuation by this methodology was calculated by multiplying its book value (as of 30 June 2018) by the average closing price to book value (P/BV) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

Historical P/BV Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
AZTH's peers				
AYUD	1.28	1.38	1.39	1.41
BKI	1.14	1.07	1.05	1.06
CHARAN	0.69	0.68	0.69	0.70
MTI	1.26	1.28	1.31	1.34
NKI	0.85	0.84	0.86	0.87
NSI	0.86	0.87	0.87	0.86
SMK	1.39	1.37	1.37	1.39
TIC	1.54	1.36	1.30	1.26
TIP	1.96	1.86	1.86	1.90
TSI	2.67*	2.79*	2.89*	2.97*
TVI	0.92	0.92	0.92	0.92
Average	1.19	1.16	1.16	1.17
AZAY's peers				
BLA	1.43	1.40	1.42	1.43
Average	1.43	1.40	1.42	1.43

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/BV multiples of the peers above, the IFA estimates the value as follows:

Company	Book Value (THB million)	Average P/BV (times)	Estimated value (THB million)
AZTH	691.3	1.16 - 1.19	803.4 - 821.9
AZAY	12,860.6	1.40 – 1.43	18,007.0 – 18,434.6

**1.5.1.2. Book Value Approach**

Book Value Methodology takes in to account neither the future profitability nor market value of assets. It only reflects the book value of the net asset at a point in time. Using this methodology, each company was valued at its net asset values (total assets minus total liabilities), equivalent to its shareholders' equity, from the financial statements for the year ending 30 June 2018. Details are as follows:

Items as of 30 June 2018	Amount (THB million)
<b>AZTH</b>	
Total Assets	4,899.3
<u>Less</u> Total Liabilities	4,207.9
<b>Net Asset Value</b>	<b>691.3</b>
<b>AZAY</b>	
Total Assets	180,248.2
<u>Less</u> Total Liabilities	167,387.6
<b>Net Asset Value</b>	<b>12,860.6</b>

From the table above, the net asset value can be summarized as follows:

Company	Book Value
AZTH	691.3
AZAY	12,860.6

#### **1.5.1.3. Actuarial Valuation Approach**

By using Actuarial Valuation Approach, the IFA refers to the appraisal value report prepared by Milliman Limited (“**Independent Actuarial Consultant**” or “**IAC**”) which was appointed by AYUD for the purpose of a potential transaction and IAC allows the IFA to refer their report in the IFA report which was distributed to public. IAC is among the world’s largest providers of actuarial related products and services with its office located in major cities in various regions over the world including North America, Latin America, Asia Pacific, Europe, Africa, and Middle East. IAC principals have served in leadership roles in several actuarial related institutions including the American Academy of Actuaries, the Casualty Actuarial Society, the Institute and Faculty of Actuaries, the Society of Actuaries, and such. In addition, they are also board members of various foundations institutions including The Actuarial Foundation, the Actuarial Standards Board, and such. Detailed valuation of AZTH and AZAY can be summarized as follows:

#### **The Valuation of AZTH**

The IFA has referred to the appraisal value of AZTH as at 31 March 2018 dated 26 September 2018 prepared by the IAC which was appointed by AYUD for the purpose of a potential transaction. According to the IAC Report, the IAC Report has been prepared for the exclusive use and benefit of the Company and solely for the purpose for which it is provided. Unless the IAC provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any third party. The IAC do not accept any liability if the IAC Report is used for any purpose other than which it is intended, nor to any third party in respect of the IAC Report. Nonetheless, the IAC allows the IFA

to refer to information disclosed in their report in the IFA report which was distributed to public. The IAC has appraised the value of AZTH by calculating the sum of following items:

1. Net asset value
2. Value of existing business
3. Value of future business less the cost of capital
4. Terminal value

Although the appraisal value report is the appraised value as of 31 March 2018, the IFA has asked the IAC for the key assumptions that have material impact to the valuation, and compared them with the business plan and the actual data occurred during the second quarter of 2018. Those key assumptions were not significantly different; therefore, the IFA uses the appraisal value report as the reference for this valuation. For the appraisal value of AZTH, the IAC has set out several key assumptions which can be summarized as follows:

#### Net asset value

The IAC has conducted the reserve review and estimated the claim liabilities which are lower than that booked by AZTH of approximately THB 53 million (after adjusting for tax) because there are incurred but not reported reserves (IBNR) prudently set in the financial statement of AZTH. However, the IAC has adjusted any prudence built into the reserve to appropriate level. In addition, there is an adjustment of THB 176 million for the present value of capital injection in June 2018. As a result, the IAC adjusted the net asset value of AZTH to be increased as follows:

Items as at 31 March 2018	Amount (THB million)
Total Assets	4,729.0
<u>Less</u> Total Liabilities	4,189.8
<b>Net Asset Value</b>	<b>539.3</b>
Adjustment to the claim liabilities	53.5
Adjustment for Capital Injection in June 2018	175.6
<b>Adjusted Net Asset Value</b>	<b>768.3</b>

However, the capital injection occurred in June 2018; therefore, the IFA has made about THB 4.4 million adjustment to such item to remove the discounting factor. In addition, certain items in the financial statement are not transferred under this Transaction, which are loss carried forward, and prepaid withholding tax. As a result, the IFA adjusted the net asset value of AZTH further as follows:

	Amount (THB million)
Adjusted Net Asset Value according to the IAC	768.3
Adjustment for the Capital Increase	4.4

	Amount (THB million)
<u>Less</u> Loss carried forward*	41.3
<u>Less</u> Prepaid Withholding Tax*	31.9
<b>Adjusted Net Asset Value</b>	<b>699.5</b>

Remark \* Those items are referred from the financial statement of AZTH as of 31 March 2018

#### Key assumptions regarding the business operation

##### 1. Gross Written Premium (GWP)

The IAC projected the growth rate of GWP for each line of business of AZTH such as voluntary motor, compulsory motor, industrial all risk, personal accident, etc. The overall growth rate of GWP can be summarized as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GWP growth (p.a.)	(6.9%)	7.5%	11.5%	23.2%	17.3%	13.0%	10.6%	8.4%	6.0%	6.0%	6.0%	6.0%	6.0%

In the past 3 years, the average growth rate was 4.1%. The forecasted growth rate during the first few years referred from the business plan of AZTH. AZTH's management has set business strategies to focus growth for voluntary motor line of business, which is the largest line of business within AZTH's portfolio. The high growth during the first few years was from the three new accounts under such line of business signed in 2017, of which the GWP was expected to increase significantly in 2018. Furthermore, AZTH has signed the Memorandum of Understanding with brokers to increase its target GWP. For compulsory motor line of business, the GWP is projected to shrink due to the loss of one large broker. In addition, AZTH also expects to launch a new travel insurance product in 4<sup>th</sup> quarter of 2018. In the long run, the IAC refer to the average industry growth rate of approximately 6% p.a. The GWP growth of AZTH during the first 6-month in 2018 is around 9.9% from the same period in the previous year. In addition, the third quarter of each year will generally have GWP higher than other quarters of the year, and the GWP received from the new accounts and Memorandum of Understanding with brokers during the first 6-month of the year are still in line with the target. Therefore, the IFA deems the GWP growth tht the IAC set out in 2018 is possible.

##### 2. Ceded Ratio

The IAC projected the ceded ratio for each line of business of AZTH by referring to the AZTH's business plan which was set by AZTH's managements. The plan contains the changing of business mix, especially motor; of which AZTH mostly retain this line of business. Therefore, the overall projected ceded ratio slightly decreased from the

average ratio during 2015 – 2017 as equal 52.7%. In case of excluding the motor line of business, the average ceded ratio is 51.7%. With the higher concentration in the motor line of business, the ceded ratio will decrease significantly. The ratio can be summarized as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Ceded ratio (%GWP)	56.5%	54.2%	47.5%	42.6%	39.8%	38.6%	38.1%	37.8%	37.8%	37.8%	37.8%	37.8%	37.8%

### 3. Loss Ratio

The IAC projected the loss ratio for each line of business of AZTH based on IAC's actuarial analysis of the past claim experience with reference to AZTH's business plan and market expectations. For voluntary motor, the loss ratio is expected to decrease on average due to the increase of premium rate and the further rate increase during the second half of year 2018, of which the IAC has modelled the impact to be fully reflected in 2019 and 2020. For compulsory motor, the loss ratio is expected to increase from the increases in statutory benefit limits. For personal accident, the loss ratio is expected to decrease because the pricing in the past was outdated which cause the high loss ratio. The average loss ratio in the past 3 years is about 57.9%. The IAC has projected the loss to Net Earned Premium (NEP) ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Loss ratio (%NEP)	59.9%	58.7%	55.2%	61.6%	58.2%	57.7%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%	57.8%

### 4. Direct Commission

The IAC projected the direct commission for each line of business in consistent with AZTH's business plan as well as the historical experience of each line of business, which has average of 21.7% in the past 3 years. The reducing commission rates take into consideration the two new accounts under voluntary motor line of business which acquired with low commissions and one account with high commission has stopped. The IAC projected the direct commission ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Direct Commission ratio (%GWP)	18.7%	23.3%	23.2%	21.6%	21.8%	21.6%	21.6%	21.6%	21.5%	21.4%	21.3%	21.3%	21.1%



## 5. Reinsurance Commission

The IAC projected the reinsurance commission for each line of business based on the past experience which has an average of the past 3 years as 16.8%. The IAC projected the reinsurance commission to ceded premium ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Reinsurance commission ratio (%Ceded Premium)	18.2%	17.6%	14.7%	17.6%	17.6%	17.7%	17.7%	17.7%	17.7%	17.7%	17.7%	17.7%	17.7%

## 6. Operating Expense

The IAC projected the operating expense by referencing to AZTH's business plan but adjusted expense for the line of business which growth rate is revised. The past 3 years historical average operating expense ratio is 11.8%. For the projection of long term operating expenses, the IAC has assumed that the operating expenses will increase at 4.5% p.a., i.e. 1.5% points lower than the long term GWP growth rate resulting from improving economies of scale over time. The IAC projected the operating expense ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating expense ratio (%GWP)	11.0%	12.2%	12.2%	11.5%	10.7%	10.8%	10.5%	10.4%	10.2%	10.0%	9.8%	9.7%	9.5%

## 7. Investment Return

The IAC projected the investment return assumption of 2.0% p.a. by taking into consideration AZTH's historical investment performance and expected investment yields on different asset classes going forward. The investment return of 2015 - 2017 were 2.6%, 2.0% and 2.1% respectively, of which the average is 2.2%.

## 8. Other Assumptions

- The IAC has assumed the capital required for AZTH to achieve a 175% target capital adequacy ratio (CAR), which is higher than the minimum solvency CAR of 140%. The average CAR of 2015 - 2017 was around 328%. Based on the interview, the IAC explained that such CAR complies with the current Thai RBC Framework, and in line with the target of AZTH; therefore, the IAC deems such CAR is reasonable. Additionally, if the CAR is set too high, the appraisal value will not reflect the market value.

- The IAC has assumed AZTH's terminal value growth rate of 2.0% p.a., which, based on the interview with IAC, the IAC explained that such growth rate is equivalent to P/E ratio of 10.7 – 13.6 times, which the IAC deemed appropriate. In addition, the IFA considered that the growth rate is close to the average 10-year inflation rate.
- The IAC used the risk discount rate (RDR) at 9.5% 10.5% and 11.5% p.a.. Based on the interview with IAC, the IAC explained that the RDR is in line with market benchmarks for life insurance company in Thailand by taking into account the size of the business and risk profile resulting in the central RDR of 9.5% and the IAC show the illustrative results at an RDR of increase/decrease 1% of the central rate, which is the typical market practice. Therefore, the appropriate RDR for life insurance business are at 8.5% 9.5% and 10.5% p.a. For non-life insurance, the IAC deemed the RDR should be higher; therefore, the IAC set the RDR to be 1% higher.

However, the IFA has calculated the discount rate based on the Capital Asset Pricing Model (CAPM) as follows:

$$K_e = R_f + \beta * \text{Market Premium}$$

whereas		Assumption
Rf <sup>1</sup>	Risk-free rate	3.23%
Market Premium <sup>2</sup>	Excess return over the risk-free rate for investing in the market	8.66%
β <sup>3</sup>	The sensitivity of stock price to market returns	0.76

- Remark:
1. 15-year government bond yield as of 24 September 2018 (Source: www.thaibma.or.th)
  2. 15-year market return of the SET (Source: SETSMART)
  3. The average β of non-life insurance companies (Source: Bloomberg as of 24 September 2018)

Based on the assumptions above, the discount rate (Ke) was calculated to be approximately 9.8%; therefore, the IFA is of the opinion that the discount rate of AZTH should be at 9.5% and 10.5%.

The future profit and loss of AZTH can be summarized as follows:

Unit : THB million	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Premium Income</b>										
Gross written premium	4,030	4,726	5,340	5,907	6,402	6,788	7,196	7,628	8,085	8,570
Reinsurance Premium	1,716	1,880	2,061	2,249	2,418	2,563	2,716	2,879	3,052	3,235
Unearned premium reserves @ BOY	871	1,237	1,521	1,753	1,956	2,130	2,259	2,394	2,538	2,690
Unearned premium reserves @ EOY	1,237	1,521	1,753	1,956	2,130	2,259	2,394	2,538	2,690	2,852
<b>Net earned premium</b>	<b>1,949</b>	<b>2,562</b>	<b>3,048</b>	<b>3,456</b>	<b>3,810</b>	<b>4,097</b>	<b>4,344</b>	<b>4,604</b>	<b>4,881</b>	<b>5,173</b>
Net claim incurred	1,200	1,502	1,773	2,009	2,213	2,377	2,519	2,670	2,830	3,000
<b>Net Commissions</b>										
Estimated total acquisitions cost	870	1,031	1,154	1,276	1,382	1,459	1,541	1,627	1,718	1,812
Net reinsurance commission	(302)	(331)	(364)	(397)	(428)	(453)	(481)	(510)	(540)	(573)
Change in deferred acquisition costs	(31)	(39)	(32)	(28)	(24)	(18)	(19)	(20)	(21)	(22)
<b>Total net commissions</b>	<b>537</b>	<b>661</b>	<b>758</b>	<b>850</b>	<b>930</b>	<b>988</b>	<b>1,041</b>	<b>1,098</b>	<b>1,157</b>	<b>1,217</b>
Operating expenses	465	503	574	622	663	691	721	751	783	812
<b>Underwriting profit (loss)</b>	<b>(254)</b>	<b>(104)</b>	<b>(58)</b>	<b>(26)</b>	<b>4</b>	<b>40</b>	<b>63</b>	<b>86</b>	<b>111</b>	<b>144</b>
Tax	(51)	(21)	(12)	(5)	1	8	13	17	22	29
Investment income*	9	12	15	17	19	21	22	24	25	27
<b>Net profit (loss)</b>	<b>(194)</b>	<b>(71)</b>	<b>(31)</b>	<b>(4)</b>	<b>23</b>	<b>53</b>	<b>72</b>	<b>92</b>	<b>114</b>	<b>142</b>

**Remark** \* The investment income above is only from from insurance cash flow, and excludes income from the target level capital of 175% CAR.

The summary value of AZTH from IAC's report at the following discounted rates:

Unit : THB million

Items	RDR		
	9.5%	10.5%	11.5%
1. Net asset value with the aforementioned adjustment	768.7	768.3	767.9

Items	RDR		
	9.5%	10.5%	11.5%
2. Value of existing business <sup>1</sup>	195.5	193.5	191.5
3. Value of future business (net of cost of capital) including terminal value <sup>2</sup>	41.5	(137.7)	(273.7)
<b>Appraisal value of AZTH from IAC's report</b>	<b>1,005.6</b>	<b>824.1</b>	<b>685.7</b>

- Remark 1. Such value is calculated from the sum of the present value of after-tax unearned premium reserves net of estimated claim payments, loss adjustment expenses, and investment income earned on reserves held and cash flows; and the present value of after-tax outstanding claims reserves net of estimated claim payments, loss adjustment expenses, and investment income earned on reserves held and cash flows.
2. Such value is calculated from the present value of projected future net-of tax distributable profits, including the terminal value, and net of cost of capital, of which the cost of capital is calculated from the difference between the present value impact of the risk discount rate and the net investment return earned on shareholders' assets covering the solvency capital.

Nonetheless, the IFA adjusted the net asset value and deemed the discount rate of AZTH should be at 9.5% and 10.5% as aforementioned. Therefore, the value of AZTH from the IFA will be as follows:

Unit : THB million

Items	RDR	
	9.5%	10.5%
1. Net asset value adjusted as aforementioned	699.5	699.5
2. Value of existing business	195.5	193.5
3. Value of future business (net of cost of capital) including terminal value	41.5	(137.7)
<b>Appraisal value of AZTH</b>	<b>936.5</b>	<b>755.3</b>

As a result, the IFA is of the opinion that the value of AZTH should be **THB 755.3 – 936.5 million**.

#### The Valuation of AZAY

The IFA has referred to the appraisal value of AZAY as at 31 March 2018 dated 31 August 2018 prepared by the IAC which was appointed by AYUD for the purpose of a potential transaction. According to the IAC Report, the IAC Report has been prepared for the exclusive use and benefit of the Company and solely for the purpose for which it is provided. Unless the IAC provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any third party. The IAC do not accept any liability if the IAC Report is used for any purpose other than which it is intended, nor to any third party in respect of the IAC Report. Nonetheless, the IAC allows the IFA

to refer to information disclosed in their report in the IFA report which was distributed to public. The IAC has appraised the value of AZAY by calculating the summary of following items:

1. Embedded value (EV) calculating from the sum of
  - 1.1. Adjusted net worth (ANW) and
  - 1.2. Value of in-force business (VIF)
$$EV = ANW + VIF$$
2. Value of new business (VNB) calculated from the product of
  - 2.1. Value of one year's new business (VONB) and
  - 2.2. New business multiplier (NBM)
$$VNB = VONB \times NBM$$
3. Value of expense overrun (expressed as a negative amount)

The IFA has asked the IAC for the key assumptions that have material impact to the valuation, and compared them with the actual data occurred during the second quarter of 2018. Those key assumptions were not significantly different from the actual outcome; therefore, the IFA uses the appraisal value report as the reference for this valuation. For the appraisal value of AZAY, the IAC Report sets out several key components which can be summarized as follows:

1. Embedded value (EV)

- 1.1 Adjusted Net Worth (ANW)

In the IAC Report, the value of assets and liabilities have been adjusted to reflect market value with the adjusted items comprised of

- (1) Net premium valuation reserving basis (NPV) to Gross premium valuation reserving basis (GPV) adjustment

The difference between reserves at 31 March 2018 calculated using NPV reserving basis represented in AZAY's financial statement and those using AZAY's GPV reserving basis.

- (2) Revaluation of available-for-sale bonds and bills of exchange to book value

The difference between book value and market value at 31 March 2018 in respect to available-for-sale bonds and bills of exchange.

- (3) Mark-to-market adjustment on policy loans

The difference between book value and market value in respect to policy loan

- (4) Adjustment for unrealized gain (loss) on equities and real estate investment trust (REIT)

The unrealized gain (loss) on equities and REIT as of 31 March 2018 on participating business

- (5) Adjustment for corporate tax applied on the aforementioned revaluation adjustment (except NPV to GPV adjustment) and
- (6) Elimination of net intangible assets in relation to bancassurance agreement and computer software.

Details are as follows:

Items as at 31 March 2018	Amount (THB million)
Shareholder equity on statutory basis	15,777.8
NPV-to-GPV reserve adjustment	3,780.9
Revaluation of available-for-sale bonds and bills of exchange to book value	(4,893.2)
Mark-to-market adjustment on policy loans	910.1
Adjustment for unrealized gain (loss) on equities and REIT on participating business	(407.9)
Adjustment for corporate tax applied on the revaluation adjustment	878.2
Elimination of net intangible assets	(625.6)
<b>Adjusted Net Worth</b>	<b>15,420.3</b>

However, as at 20 June 2018, AZAY has paid dividend of THB 4.84 per share on 295 million shares, amounting to THB 1,427.8 million. Therefore, the IFA has further adjusted the ANW with the dividend payment as follows:

Items as at 31 March 2018	Amount (THB million)
Adjusted Net Worth according to IAC's report	15,420.3
<u>Less</u> Dividend Paid	1,427.8
<b>Adjusted Net Worth</b>	<b>13,992.5</b>

#### 1.2. Value of in-force business (VIF)

VIF is the present value of projected future net of tax statutory profits on AZAY's in-force business as of 31 March 2018 less the cost of capital associated with this business. The IAC Report is based on the following key assumptions.

## **1. Mortality**

The mortality assumptions reference the past 3-year mortality experience studied by AZAY in 2016 which is the latest experience study as at the valuation date, and the trend of the past year experience. The experience study of mortality of AZAY is based on Thailand mortality table for ordinary life 2008 and Thailand mortality table for industrial life 2008. Even though the OIC has release Thailand mortality table 2017 dated 31 August 2017. At the time of producing the IAC Report, AZAY has not yet incorporated the new mortality table into their experience study, which generally take time to incorporate the new mortality table. It is considered that recalculating the statistics based on the new mortality table should not have any material effect to the appraisal value of AZAY. The IAC uses the mortality rates in the range of 30% - 65% depending on the various factors such as type of policy, gender, age of the insured, term of the policy, etc.

## **2. Loss ratios**

The morbidity loss ratio refers to the 5-year loss ratio statistics studied by AZAY in 2016 which is the latest experience study as at the valuation date. The IAC uses the loss ratio in the range of 15% - 150% depending on the type of the policy.

## **3. Lapse rate**

The lapse rate reference the 15-year lapse rate statistics studied by AZAY in 2016 which is the latest experience study as at the valuation date. The IAC uses the lapse rates in the range of 0% - 55% depending on the various factors such as type of policy, term of the policy, distribution channel etc.

## **4. Charges payable to the Office of Insurance Commission (OIC) and Policyholder Protection Fund (PPF)**

The IAC has set out the OIC charges by referencing to the related regulations as follows:

- Single premium plans – 0.15% of the first year premium
- Personal accident – 0.30% of the premium in each year
- Unit-linked - 0.10% of the premium in each year
- Others - 0.30% of the first year premium and 0.15% of the premium in the following year

For the PPF, the IAC has set out by referencing the related regulations of life insurance company to contribute to PPF at 0.1% of the premium received in each year.

## 5. Investment return

The investment return assumed for the assets held at 31 March 2018 is 4.20% p.a. and the new money yield for the future investment is assumed to be 3.43% with the assumption to maintain the strategic asset allocation along the projected period, of which the fixed-income securities are about 85% of the total investment assets, and other investments are equities, property, and cash reflecting the lower amount than fixed-income securities. For the existing fixed interest assets at 31 March 2018, the cash flow from the assets is projected. The new investment fixed-income securities are assumed to earn the new money yields set with reference to Thai government bonds and Thai corporate bonds, of which their term to maturity is close to those invested by AZAY as at 31 March 2017.

## 6. Inflation rate

A rate of 3% has been used to inflate per policy expense. This rate is the expected long-term inflation of per policy expenses of AZAY which has been set by reference to external forecasts of long term inflation rate in Thailand from sources such as Asian Development Bank, Bank of Thailand, and such. Such rate is also in the range of target inflation rate set by the Bank of Thailand.

## 7. Risk Discount Rate (RDR)

The IAC report shows appraisal value results using illustrative risk discount rate (RDR) at 9.5% 10.5% and 11.5% p.a. respectively. These illustrative RDRs are based on market benchmarks for life insurance companies in Thailand taking into account the of the size of the business and risk profile.

However, the IFA has calculated the discount rate based on the Capital Asset Pricing Model (CAPM). However, there is only 1 listed companies in the SET operating in the life insurance business; therefore, the IFA uses the listed companies in the SET operating in the non-life insurance business as comparable peers. Details are as follows:

$$K_e = R_f + \beta * \text{Market Premium}$$

whereas		Assumption
R <sub>f</sub> <sup>1</sup>	Risk-free rate	3.23%
Market Premium <sup>2</sup>	Excess return over the risk-free rate for investing in the market	8.66%
β <sup>3</sup>	The sensitivity of stock price to market returns	0.76



- Remark:
1. 15-year government bond yield as of 24 September 2018 (Source: www.thaibma.or.th)
  2. 15-year market return of the SET (Source: SETSMART)
  3. The average  $\beta$  of Insurance sector peers (Source: Bloomberg as of 24 September 2018)

Based on the assumptions above, the discount rate (Ke) was calculated to be approximately 9.8%. As aforementioned in the valuation of AZTH, the RDRs for non-life insurance business should be higher than those for life insurance; therefore, the RDRs are set to be 1% higher for non-life insurance business. As a result, the IFA is of the opinion that the discount rate of AZAY, operating in life insurance business, should be in the range of 8.5% and 9.5%.

## 8. Required capital

A capital required of 220% has been used to determine the cost of capital, which is based on the target CAR ratio determined by the risk management committee of AZAY and is also higher than the minimum solvency CAR of 140%.

The IFA deems such ratio complies with the the current Thai RBC Framework, and in line with the target set out by the risk management committee of AZAY. Additionally, if the CAR is set too high, the appraisal value will not reflect the market value.

Based on the assumptions above, the value of in-force business as at 31 March 2018 can be summarized as follows:

Unit : THB million

RDR	8.5%	9.5%	10.5%
VIF before cost of capital <sup>1</sup>	16,675.1	15,725.9	14,879.5
<u>Less</u> Cost of capital <sup>2</sup>	5,936.3	6,649.5	7,289.0
<b>VIF after cost of capital</b>	<b>10,738.7</b>	<b>9,076.5</b>	<b>7,590.5</b>

- Remark
1. Such value is calculated from the present value of projected future net of tax statutory profits on in-force business as of 31 March 2018.
  2. Such value is calculated from the difference between the present value impact of the risk discount rate and the net investment return earned on shareholders' assets covering the solvency capital

## 2. Value of new business (VNB)

### 2.1 Value of one year's new business (VONB)

VONB is the present value of projected future net of tax statutory profits less cost of capital obtained from policies sold within the 12-month period ending on 31 March 2018. a year. The

IAC appraised VONB based on the same set of assumptions set out for VIF. The VONB can be summarized as follows:

Unit : THB million

<b>RDR</b>	<b>8.5%</b>	<b>9.5%</b>	<b>10.5%</b>
VONB before cost of capital <sup>1</sup>	1,900.2	1,793.5	1,702.2
<u>Less</u> Cost of capital <sup>2</sup>	426.5	463.0	492.6
<b>VONB after cost of capital</b>	<b>1,473.8</b>	<b>1,330.5</b>	<b>1,209.6</b>

- Remark**
- Such value is calculated from the present value of projected future net of tax statutory profits less cost of capital obtained from policies sold within the 12-month period ending on 31 March 2018.
  - Such value is calculated from the difference between the present value impact of the risk discount rate and the net investment return earned on shareholders' assets covering the solvency capital

## 2.2 New business multiplier (NBM)

New business multiplier is used for multiplying with VONB to find the value of new business. The IAC Report sets out the following key assumptions:

### 1. **Number of years of new business**

15 years of future new business is assumed, which is considered the typical number of years used in recent transactions in Thailand and in other markets in Asia.

### 2. **New business growth rate**

The growth rate for new business is as follows:

<b>Year</b>	<b>1</b>	<b>2 – 3</b>	<b>4 – 5</b>	<b>6 – 15</b>
Growth rate	5%	10%	8%	5%

Such growth rates are based on the historical and expected future growth of the Thai life insurance industry and on the historical and future growth of AZAY given its business plans and business strategies provided to the IAC. During the first projected year, the growth rate is not high which is in line with the business plan of AZAY and the industrial growth rate, which is also not so high during year 2016 – 2017. The growth rate for following years are slightly higher due to the expected recovery of the industry and will taper down to the long-term growth rate of 5%.

### 3. Risk Discount Rate (RDR)

The RDR used for the valuation of new business may be different from those used for the valuation of VIF to reflect the higher uncertainty and risk regarding than the value of in-force business. It is a common market practice in appraisals to use a higher RDR for the calculation of new business; therefore, the IAC Report uses a higher RDR of 0.5% - 1% from the RDR used to calculate VIF and VONB (8.5%, 9.5%, and 10.5%) to determine the new business multiplier. As a result, the RDRs used to determine the new business multiplier are as follows:

RDRs	RDRs used to determine the NBM	
	Additional 0.5%	Additional 1.0%
8.5%	9.0%	9.5%
9.5%	10.0%	10.5%
10.5%	11.0%	11.5%

As a result, the RDRs used to determine the new business multiplier are set out at 9.0%, 9.5%, 10%, 10.5%, 11.0%, 11.5% p.a.

### 4. Reduction factor

Based on the high-level analysis provided to the IAC showing the VONB margin by product type and the difference in VONB margins between using a blended yield basis and a market yield basis across the product groups, a 5% and 15% multiplicative reduction factor is determined to reflect the average reduction in VONB margins by using different yield basis.

Based on the assumptions above, the new business multiplier of AZAY are as follows:

RDRs	9.0%	9.5%	10.0%	10.5%	11.0%	11.5%
NBM based on 5% multiplicative reduction factor	12.1	11.7	11.3	10.9	10.6	10.3
NBM based on 10% multiplicative reduction factor	10.8	10.5	10.1	9.8	9.5	9.2

Therefore, the new business multiplier of AZAY are in the range of 9.2 to 12.1.

Nonetheless, as aforementioned, the IFA is of the opinion that the appropriate discount rates for AZAY operating in life insurance business are 8.5% and 9.5%. If the new business

multiplier is recalculated using the higher RDR of 0.5% - 1% as above, the IFA will arrive at the new business multiplier of AZAY of 9.8 – 12.1.

### 3. Value of expense overrun

The VIF and VONB have been determined based on the expenses consisting of commissions expenses, brokerage expenses, and operating expenses that are expected to occur in the long run. Based on the business plan provided by AZAY, AZAY's budgeted expenses are expected to exceed the projected expenses based on these long-term expenses for a period of time i.e. there are expense overruns. Allowance is made in the IAC Report for the value of expense overrun, calculated as the present value, net of tax, of the expense overruns. The expense overruns are projected to clear by year 2020. The estimations in each period are as follows:

Unit : THB million	Apr – Dec 2018	2019	2020
Projected expense overrun	152.3	67.0	-

Value of expense overrun of each RDR can be summarized as follows:

	Unit : THB million		
RDR	8.5%	9.5%	10.5%
Value of expense overrun	(166.5)	(165.6)	(164.6)

From the aforementioned information, the valuation of AZAY can be summarized as follows:

Unit : THB million	RDR	8.5%		9.5%		10.5%	
	NBM	9.2	12.1	9.2	12.1	9.2	12.1
(1)	ANW	15,420.3	15,420.3	15,420.3	15,420.3	15,420.3	15,420.3
(2)	VIF	10,738.7	10,738.7	9,076.5	9,076.5	7,590.5	7,590.5
<b>(3)=(1)+(2)</b>	<b>EV</b>	<b>26,159.1</b>	<b>26,159.1</b>	<b>24,496.8</b>	<b>24,496.8</b>	<b>23,010.9</b>	<b>23,010.9</b>
(4)	VONB	1,473.8	1,473.8	1,330.5	1,330.5	1,209.6	1,209.6
(5)=(4) x NBM	VNB	13,558.8	17,832.8	12,240.3	16,098.6	11,127.9	14,635.6
(6)	Value of expense overrun	(166.5)	(166.5)	(165.6)	(165.6)	(164.6)	(164.6)
<b>(3)+(5)+(6)</b>	<b>Appraisal Value of AZAY from IAC Report</b>	<b>39,551.4</b>	<b>43,825.4</b>	<b>36,571.5</b>	<b>40,429.8</b>	<b>33,974.1</b>	<b>37,481.8</b>

Nonetheless, the IFA has adjusted the ANW with the dividend payment made after the valuation date, and also deemed the discount rate of AZTH should be at 8.5% and 9.5% and the

new business multiplier should be at 9.8 and 12.1, as aforementioned. Therefore, the valuation can be summarized as follows:

Unit : THB million	RDR NBM	8.5%		9.5%	
		9.8	12.1	9.8	12.1
(1)	ANW	13,992.5	13,992.5	13,992.5	13,992.5
(2)	VIF	10,738.7	10,738.7	9,076.5	9,076.5
<b>(3)=(1)+(2)</b>	<b>EV</b>	<b>26,159.1</b>	<b>26,159.1</b>	<b>24,496.8</b>	<b>24,496.8</b>
(4)	VONB	1,473.8	1,473.8	1,330.5	1,330.5
(5)=(4) x NBM	VNB	14,443.1	17,832.8	13,038.5	16,098.6
(6)	Value of expense overrun	(166.5)	(166.5)	(165.6)	(165.6)
<b>(3)+(5)+(6)</b>	<b>Estimated Value of AZAY</b>	<b>39,007.9</b>	<b>42,397.6</b>	<b>35,941.9</b>	<b>39,002.0</b>

As a result, the IFA is of an opinion that the value of AZAY should be **THB 35,941.9 – 42,397.6 million**.

#### **Summary of Valuation of AZTH and AZAY**

##### **AZTH**

The IFA considers the suitable valuation approach and regards that market comparable approach by P/E methodology unsuitable since the historical earnings of AZTH does not reflect the profit-generating capacities in the future. The IFA also regards P/BV methodology and book value approach unsuitable since it does not reflect the profit-generating capacities and cash-generating capacities of AZTH.

The IFA is of an opinion that actuarial valuation approach is the appropriate valuation approach since it reflect the fundamental value and it is also the generally accepted approach

##### **AZAY**

The IFA considers the suitable valuation approach and regards that market comparable approach unsuitable since there is only 1 comparable peer operating in life insurance business. The IFA also regards book value approach unsuitable since it does not reflect the profit-generating capacities and cash-generating capacities of AZAY.

The IFA is of an opinion that actuarial valuation approach is the appropriate valuation approach since it reflect the fundamental value and it is also the generally accepted approach

As a result, the estimated value of AZTH and AZAY can be summarized as follows:

	AZTH	AZAY
Estimated Value (THB million)	755 – 936	35,942 – 42,398

### 1.5.2. The Valuation of AYUD

As aforementioned, AYUD is the listed company in the SET, of which its core business is to invest in other companies and its major investment are the investment in SAGI, AZAY and other securities. Therefore, the IFA used several valuation approaches, which are Market Comparable approach, Book Value approach, Historical Traded Price Approach, and Actuarial Valuation approach with the following details.

#### 1.5.2.1. Market Comparable Approach

Market Comparable approach compares key trading multiples of the Company with those of its listed comparable peers in the SET operating in the same business of AYUD, which is the investment holding company mainly investing in non-life insurance business. In this regard, the IFA selected the following 10 listed companies operating in non-life insurance business as comparable peers:

Company	Ticker
Bangkok Insurance Public Company Limited	BKI
Charan Insurance Public Company Limited	CHARAN
Muang Thai Insurance Public Company Limited	MTI
The Navakij Insurance Public Company Limited	NKI
Nam Seng Insurance Public Company Limited	NSI
Syn Mun Kong Insurance Public Company Limited	SMK
The Thai Insurance Public Company Limited	TIC
Dhipaya Insurance Public Company Limited	TIP
The Thai Setakij Insurance Public Company Limited	TSI
Thaivivat Insurance Public Company Limited	TVI

The IFA has chosen 2 valuation methodologies strongly supported by financial theories as follows:

##### 1.5.2.1.1. Price to Earnings Ratio Methodology (P/E)

This methodology reflects the profitability of the company without taking the assets value into consideration. The valuation by this methodology was calculated by multiplying the trailing 12-month net profit of the company (July 2017 to June 2018) to the average price to earnings (P/E) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

Historical P/E Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
BKI	15.43	15.14	15.15	15.36
CHARAN	27.90*	27.54*	27.91*	29.13*
MTI	12.76	12.72	12.89	12.83
NKI	16.16	15.96	16.11	16.54
NSI	11.89	9.98	9.31	9.28
SMK	9.57	9.47	9.50	9.50
TIC	20.38	16.13	14.61	13.53
TIP	8.78	8.54	8.64	8.76
TSI	N/A*	N/A*	N/A*	N/A*
TVI	18.66	17.72	17.50	20.97
Average	14.20	13.21	12.96	13.34

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/E multiples of the peers above, the IFA estimates the value of AYUD to arrive at **THB 6,500.9 – 7,122.8 million.**

**1.5.2.1.2. Price to Book Value Ratio Methodology (P/BV)**

Although reflecting the book value, the methodology ignores the profitability. The valuation by this methodology was calculated by multiplying its book value (as of 30 June 2018) by the average closing price to book value (P/BV) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

Historical P/BV Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
BKI	1.14	1.07	1.05	1.06
CHARAN	0.69	0.68	0.69	0.70
MTI	1.26	1.28	1.31	1.34
NKI	0.85	0.84	0.86	0.87
NSI	0.86	0.87	0.87	0.86
SMK	1.39	1.37	1.37	1.39
TIC	1.54	1.36	1.30	1.26
TIP	1.96	1.86	1.86	1.90
TSI	2.67*	2.79*	2.89*	2.97*
TVI	0.92	0.92	0.92	0.92

Company	30 days prior	60 days prior	90 days prior	120 days prior
Average	1.18	1.14	1.14	1.14

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/BV multiples of the peers above, the IFA estimates the value of AYUD to arrive at **THB 10,159.3 – 10,529.9 million.**

### 1.5.2.2. Book Value Approach

Book Value Methodology takes in to account neither the future profitability nor market value of assets. It only reflects the book value of the net asset at a point in time. Using this methodology, each company was valued at its net asset values (total assets minus total liabilities), equivalent to its shareholders' equity, from the financial statements for the year ending 30 June 2018. Details are as follows:

Items as of 30 June 2018	Amount (THB million)
Total Assets	12,556.4
<u>Less Total Liabilities</u>	3,619.9
<b>Net Asset Value</b>	<b>8,936.5</b>

From the table above, the net asset value of AYUD is **THB 8,936.5 million**

### 1.5.2.3. Historical Traded Price Approach

Historical Traded Price Approach reflects the value of the Company according to the demand of general investors on the potential and growth of the Company in a particular period. The value is determined by demand and supply of investors. By this approach, the value was calculated based on the Volume Weighted Average Price (VWAP) of AYUD over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018, the date which the board of directors of the Company approved to propose to shareholders' meeting for consideration and approval of the Transaction. Details are as follows:

Unit : THB per share

Period	Lowest Closing Price	Highest Closing Price	Average Closing Price	VWAP
30 days	38.00	40.00	38.81	38.81
60 days	38.00	41.75	39.19	39.25
90 days	38.00	44.00	40.37	41.93
120 days	38.00	47.75	41.60	44.12



From the details above, the value of AYUD's share is **THB 38.81 – 44.12 per share or THB 11,407.5 – 12,966.3 million**

#### 1.5.2.4. Sum of the Parts (SOTP)

By this approach, IFA finds the value of AYUD by calculating the sum of the following items:

1. Net asset value of AYUD (excluding the investment in SAGI and AZAY)  
The value was based on the company's only financial statement of AYUD as of 30 June 2018 less the dividend payment made according to the resolution of the Board of Directors Meeting No. 4/2018 of AYUD held on 10 August 2018 which resolved to distribute the interim dividend for the first half of year 2018 to 293,905,225 shares at the rate of THB 0.75 per share, of which the payment was made on 7 September 2018.
2. Value of investment in SAGI (100% investment proportion)
3. Value of investment in AZAY (20.17% investment proportion) with referencing to the appraisal value of AZAY stipulated above
4. Net present value of on-going operational income and expense of AYUD as an investment company

#### The Valuation of SAGI

For valuation of fair value of SAGI, IFA uses various valuation methods such as Market Comparable Approach, Book Value Approach and Actuarial Valuation Approach. Details are follows:

##### 1) Market Comparable Approach

For SAGI, the IFA selected the following 10 listed companies operating in direct non-life insurance business as comparable peers:

Company	Ticker
Bangkok Insurance Public Company Limited	BKI
Charan Insurance Public Company Limited	CHARAN
Muang Thai Insurance Public Company Limited	MTI
The Navakij Insurance Public Company Limited	NKI
Nam Seng Insurance Public Company Limited	NSI
Syn Mun Kong Insurance Public Company Limited	SMK
The Thai Insurance Public Company Limited	TIC
Dhipaya Insurance Public Company Limited	TIP
The Thai Setakij Insurance Public Company Limited	TSI

Company	Ticker
Thaivivat Insurance Public Company Limited	TVI

### 1.1) Price to Earnings Ratio Methodology : P/E

This methodology reflects the profitability of company without taking the assets value into consideration. The valuation by this methodology was calculated by multiplying the trailing 12-month net profit of the company (July 2017 to June 2018) to the average price to earnings (P/E) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

#### Historical P/E Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
BKI	15.43	15.14	15.15	15.36
CHARAN	27.90*	27.54*	27.91*	29.13*
MTI	12.76	12.72	12.89	12.83
NKI	16.16	15.96	16.11	16.54
NSI	11.89	9.98	9.31	9.28
SMK	9.57	9.47	9.50	9.50
TIC	20.38	16.13	14.61	13.53
TIP	8.78	8.54	8.64	8.76
TSI	N/A*	N/A*	N/A*	N/A*
TVI	18.66	17.72	17.50	20.97
Average	14.20	13.21	12.96	13.34

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/E multiples of the peers above, the IFA calculates SAGI's value is **THB 1,355.9 – 1,485.6 million**.

### 1.2) Price to Book Value Ratio Methodology : P/BV

Although reflecting the book value, the methodology ignores the profitability. The valuation by this methodology was calculated by multiplying its book value (as of 30 June 2018) by the average closing price to book value (P/BV) multiples of its peers over the periods of 30 days, 60 days, 90 days, and 120 days prior to 24 September 2018. Details are as follows:

Historical P/BV Multiples

Company	30 days prior	60 days prior	90 days prior	120 days prior
BKI	1.14	1.07	1.05	1.06
CHARAN	0.69	0.68	0.69	0.70
MTI	1.26	1.28	1.31	1.34
NKI	0.85	0.84	0.86	0.87
NSI	0.86	0.87	0.87	0.86
SMK	1.39	1.37	1.37	1.39
TIC	1.54	1.36	1.30	1.26
TIP	1.96	1.86	1.86	1.90
TSI	2.67*	2.79*	2.89*	2.97*
TVI	0.92	0.92	0.92	0.92
Average	1.18	1.14	1.14	1.14

Remark: \*The outliers were not included in the calculation of the average.

Source: SETSMART

From the average P/BV multiples of the peers above, the IFA calculates SAGI's value is **THB 2,164.3 – 2,243.2 million.**

## 2) Book Value Approach

Book Value Methodology takes in to account neither the future profitability nor market value of assets. It only reflects the book value of the net asset at a point in time. Using this methodology, each company was valued at its net asset values (total assets minus total liabilities), equivalent to its shareholders' equity, from the financial statements for the year ending 30 June 2018. Details are as follows:

Items as of 30 June 2018	Amount (THB million)
Total Assets	5,500.78
<u>Less</u> Total Liabilities	(3,596.98)
<b>Net Asset Value</b>	<b>1,903.80</b>

From the table above, the net asset value of SAGI is **THB 1,903.80 million.**

## 3) Actuarial Valuation Approach

By using Actuarial Valuation Approach, the IFA refers to the appraisal value report prepared by the IAC who is the same party valuing AZTH and AZAY. Detailed valuation of SAGI can be summarized as follows:

The IFA has referred to the appraisal value of SAGI as at 31 March 2018 dated 26 September 2018 prepared by IAC which was appointed by AYUD for the purpose of a potential transaction. According to the IAC Report, the IAC Report has been prepared for the exclusive use and benefit of the Company and solely for the purpose for which it is provided. Unless the IAC provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any third party. The IAC do not accept any liability if the IAC Report is used for an alternative purpose from which it is intended, nor to any third party in respect of the IAC Report. Nonetheless, the IAC allows the IFA to refer to information disclosed in their report in the IFA report which was distributed to public. The IAC has appraised the value of SAGI by considering the following items:

1. Net asset value
2. Value of existing business
3. Value of future business less the cost of capital
4. Terminal value

Although the appraisal value report is the appraised value as of 31 March 2018, the IFA has asked the IAC for the key assumptions that have material impact to the valuation, and compared them with the business plan and the actual data occurred during the second quarter of 2018. Those key assumptions were not significantly different; therefore, the IFA uses the appraisal value report as the reference for this valuation. For the appraisal value of SAGI, the IAC has set out several key assumptions which can be summarized as follows:

#### Net asset value

The IAC has conducted the reserve review and estimated the claim liabilities which are lower than that booked by SAGI of approximately THB 24 million (after adjusting for tax) because there are incurred but not reported reserves (IBNR) prudently set in the financial statement of SAGI. However, the IAC has adjusted any prudence built into the reserve to appropriate level. In addition, On 8 April 2018, SAGI has made the dividend payment to 180 million shares at the rate of THB 0.30 per share, amounting to THB 54 million. Therefore, the IAC adjusted the net asset value of SAGI to be decreased as follows:

Items as at 31 March 2018	Amount (THB million)
Total Assets	5,356
<u>Less</u> Total Liabilities	3,425
<b>Net Asset Value</b>	<b>1,931</b>
Adjustment to the claim liabilities	24
Adjustment for Dividend Payment after 31 March 2018	(54)
<b>Adjusted Net Asset Value</b>	<b>1,901</b>

Key assumptions regarding the business operation**1. Gross Written Premium (GWP)**

The IAC projected the growth rate of GWP for each line of business of SAGI such as voluntary motor, compulsory motor, fire, industrial all risk, personal accident, etc. The overall growth rate of GWP can be summarized as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GWP growth (p.a.)	1.6%	(1.8%)	(4.2%)	13.6%	12.8%	3.9%	(0.5%)	5.8%	5.7%	5.2%	4.6%	5.2%	5.4%

From the past three years, the average growth rate was (1.4%). For the first few projection years, the IAC has projected quite high growth rate because according to the business plan, SAGI will further leverage the distribution channels within the Kringsri Group including Bank of Ayudhya Public Company Limited (“BAY”), Ngerm Tid Lor Company Limited (“NTL”), and Ayudhya Capital Auto Lease Public Company Limited (“AYCAL”) to increase business sales for motor, personal accident, as well as motorcycle loan protection and motorcycle total loss insurance. SAGI focus strongly on motor business as SAGI believes the motor business of its portfolio is lower than that of the industry. In addition, SAGI will launch new product under personal accident line of business in second half of year 2018. The significant drop of growth rate in 2020 and 2021 is caused by expected withdrawal from the bancassurance channel of CIMB. In the long run, the IAC refer to the average industry growth rate of approximately 6% p.a., except the fire line of business which the growth rate is lower than the industry growth due to economic conditions and SMEs moving their policies to industrial all risk, and the aforementioned withdrawal of CIMB bancassurance.

**2. Ceded Ratio**

The IAC projected the ceded ratio for each line of business of SAGI by referring to the average ceded premium to GWP ratio during 2015 – 2017 of 41.4%, except motor line of business. SAGI currently has significant amount of reinsurance on motor insurance and the IAC assumed that the ceded ratio will gradually reduce and cease from 2020 onwards. The ratio can be summarized as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Ceded ratio (%GWP)	39.5%	41.7%	42.9%	40.5%	37.5%	30.3%	31.9%	32.0%	32.1%	32.0%	32.0%	32.0%	32.0%

### 3. Loss Ratio

The IAC projected the loss ratio for each line of business of SAGI by referencing to the historical loss ratio from the financial accounts as well as IAC's actuarial analysis of the past claim experience, and the projected loss ratio in SAGI's business plan. In the past three years, the average loss ratio was at 44.1%. For voluntary motor, SAGI is projected to grow in business from financial institutions of which its loss ratio is generally low compared to other channels such as agents and brokers; therefore, the loss ratio is projected to improved in the first few years and will be stable in the long term. For compulsory motor, the loss ratio is expected to increase due to the increase in statutory benefit limits. For fire, even though the fire tariffs are reduced about 20% in 2017, SAGI increased the catastrophe limits in order to maintain overall premium level, which will slightly increase the overall fire loss ratio. For other line of business, the projected losses are slightly higher because of the inclusion of government project. The IAC has projected the loss to Net Earned Premium (NEP) ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Loss ratio (%NEP)	42.6%	45.4%	44.2%	44.3%	44.8%	45.6%	45.6%	45.1%	45.1%	45.2%	45.4%	45.6%	45.7%

### 4. Direct Commission

The IAC projected the direct commission for each line of business by referencing to the historical commission ratio, which has been stable for the past 3 years and is about 26.4% on average in the past three years. The IAC projected the direct commission ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Direct Commission ratio (%GWP)	25.4%	27.0%	26.7%	26.1%	26.0%	25.9%	25.9%	25.9%	25.8%	25.8%	25.8%	25.8%	25.8%

### 5. Reinsurance Commission

The IAC projected the reinsurance commission for each line of business based on the past experience, which is about 28.5% on average in the past three years. For year 2016, there were 2 large claims that lower the reinsurance commission ratio in 2016. If we ignored the reinsurance commission ratio in 2016, the average is about 30.2%. For year 2020 onwards, the reinsurance commission decreased because SAGI assume that the ceded ratio for motor will gradually reduce and cease as aforementioned. The IAC projected the reinsurance commission to ceded premium ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Reinsurance commission ratio (%Ceded Premium)	31.3%	25.1%	29.1%	30.1%	29.3%	26.7%	26.7%	26.7%	26.7%	26.6%	26.5%	26.5%	26.4%

## 6. Operating Expense

The IAC projected the operating expense during the first few years by referencing to SAGI's business plan, which the management expects GWP growth will be quite high from the financial institutions as described above, which has lower operating expense than other channel. Consequently, ratio of operating expenses to commission will be reduced. For the past three years, the average ratio was 14.8%. For the projection of long term operating expenses, the IAC has assumed that the operating expenses will increase at 4.5% p.a., i.e. 1.5% points lower than the long term GWP growth rate resulting from improving economies of scale over time for most line of business. The IAC projected the operating expense ratio as follows:

	2015A	2016A	2017A	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Operating expense ratio (%GWP)	14.3%	14.9%	15.2%	14.1%	13.4%	13.3%	13.5%	13.3%	13.1%	12.9%	12.8%	12.6%	12.5%

## 7. Investment Return

The IAC projected the investment return assumption of 2.0% p.a. by taking into consideration SAGI's historical investment performance and expected investment yields on different asset classes going forward. The investment return of 2015 - 2017 were 1.9%, 1.3% and 1.3% respectively, of which the average is 1.5%.

## 8. Other Assumptions

- The IAC has assumed the capital required for SAGI to achieve a 175% target capital adequacy ratio (CAR), which is higher than the minimum solvency CAR of 140%. The average CAR of 2015 - 2017 was 845%. Based on the interview, the IAC explained that such CAR complies with the current Thai RBC Framework, and in line with the target of AZTH; therefore, the IAC deems such CAR is reasonable. Additionally, if the CAR is set too high, the appraisal value will not reflect the market value.
- The IAC has assumed SAGI's terminal value growth rate of 2.0% p.a., which, based on the interview with IAC, the IAC explained that such growth rate is equivalent to P/E ratio

of 10.7 – 13.6 times, which the IAC deemed appropriate. In addition, the IFA considered that the growth rate is in line with the average 10-year inflation rate

- Bancassurance Contract Renewal Probability

SAGI has 2 major bancassurance contracts with BAY and CIMB and both of them will expire during the projection period. There is an uncertainty in renewing the bancassurance contracts, which may affect the appraisal value; therefore, the IAC has applied a renewal probability as follows:

- The contract between SAGI and BAY

The contract was renewed in March 2018 with period of 3 years with an automatic renewal for a period of 3 years subject to there being no changes to the terms and conditions. The IAC have modelled the result with different contract period and contract renewal probability. The contract period is modelled into 2 cases, which are 3 years and 6 years. The contract renewal probability is modelled into 3 cases, which are 30%, 50%, and 80%.

The IFA has interviewed the management and consider the contract and is of an opinion that the appropriate contract period should be 6 years as the contract was signed for 3 years with automatic renewal of another 3 years, and the key terms and conditions were considered and agreed between SAGI and BAY, of which the management deemed appropriate. For the contract renewal probability, the IFA takes into account the long business relationship between SAGI and BAY and believes that the contract renewal probability will be relatively high and the agreement between SAGI and BAY has been continually renewed. The IFA is of an opinion that the appropriate contract renewal probability should be at 80%.

- The contract between SAGI and CIMB

The contract will terminate in November 2020 and the likelihood of renewal is low because CIMB Group has a regional agreement with Sompoo Insurance (Thailand) Public Company Limited. Therefore, the IAC select 0% as contract renewal probability resulting in the expected significant lower growth in such year as aforementioned.

- The IAC used the risk discount rate (RDR) at 9.5% 10.5% and 11.5% p.a.. Based on the interview with IAC, the IAC explained that the RDR is in line with market benchmarks for life insurance company in Thailand by taking into account the size of the business and risk profile resulting in the central RDR of 9.5% and the IAC show the illustrative results at an RDR of increase/decrease 1% of the central rate, which is the typical market practice. Therefore, the appropriate RDR for life insurance business are at 8.5% 9.5%



and 10.5% p.a. For non-life insurance, the IAC deemed the RDR should be higher; therefore, the IAC set the RDR to be 1% higher.

However, the IFA has calculated the discount rate based on the Capital Asset Pricing Model (CAPM) as follows:

$$K_e = R_f + \beta * \text{Market Premium}$$

whereas		Assumption
Rf <sup>1</sup>	Risk-free rate	3.23%
Market Premium <sup>2</sup>	Excess return over the risk-free rate for investing in the market	8.66%
$\beta^3$	The sensitivity of stock price to market returns	0.76

- Remark: 1. 15-year government bond yield as of 24 September 2018 (Source: www.thaibma.or.th)  
 2. 15-year market return of the SET (Source: SETSMART)  
 3. The average  $\beta$  of non-life insurance business group (Source: Bloomberg as of 24 September 2018)

Based on the assumptions above, the discount rate (Ke) was calculated to be approximately 9.8%; therefore, the IFA is of the opinion that the discount rate of SAGI should be at 9.5% and 10.5%.

The future profit and loss of SAGI can be summarized as follows:

THB million	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>Premium Income</b>										
Gross written premium	3,392	3,825	3,974	3,956	4,185	4,424	4,653	4,868	5,121	5,399
Reinsurance Premium	1,375	1,434	1,205	1,262	1,339	1,418	1,490	1,558	1,638	1,725
Unearned premium reserves @ BOY	876	974	1,158	1,345	1,311	1,385	1,462	1,538	1,608	1,692
Unearned premium reserves @ EOY	974	1,158	1,345	1,311	1,385	1,462	1,538	1,608	1,692	1,784
<b>Net earned premium</b>	<b>1,920</b>	<b>2,208</b>	<b>2,581</b>	<b>2,728</b>	<b>2,773</b>	<b>2,928</b>	<b>3,087</b>	<b>3,239</b>	<b>3,400</b>	<b>3,582</b>

THB million	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Net claim incurred	851	1,018	1,196	1,253	1,256	1,330	1,404	1,479	1,558	1,646
<b>Net commissions</b>										
Estimated total acquisition costs	887	994	1,029	1,024	1,082	1,142	1,201	1,256	1,320	1,391
Net reinsurance commission	(414)	(420)	(322)	(337)	(357)	(378)	(397)	(413)	(434)	(456)
Change in deferred acquisition costs	(12)	(30)	(24)	4	(10)	(10)	(10)	(9)	(11)	(12)
<b>Total net commissions</b>	<b>461</b>	<b>543</b>	<b>683</b>	<b>691</b>	<b>715</b>	<b>754</b>	<b>794</b>	<b>833</b>	<b>876</b>	<b>922</b>
Operating expenses	479	514	527	533	556	580	602	623	647	673
<b>Underwriting profit (loss)</b>	<b>129</b>	<b>132</b>	<b>176</b>	<b>251</b>	<b>245</b>	<b>264</b>	<b>286</b>	<b>304</b>	<b>319</b>	<b>341</b>
Tax	26	26	35	50	49	53	57	61	64	68
Investment income*	9	10	12	14	14	15	15	16	17	18
<b>Net profit</b>	<b>112</b>	<b>116</b>	<b>153</b>	<b>214</b>	<b>210</b>	<b>226</b>	<b>244</b>	<b>260</b>	<b>272</b>	<b>290</b>

**Remark** \* The investment income above is only from from insurance cash flow, and exclude income from the target level capital of 175% CAR.

The summary value of SAGI at the different RDR at 6-year BAY contract with 80% BAY contract renewal probability according to the IAC's report can be summarized as follows:

Unit : THB million

Items	RDR		
	9.5%	10.5%	11.5%
1. Net asset value	1,901	1,901	1,901
2. Value of existing business <sup>1</sup>	342	338	335
3. Value of future business (net of cost of capital) including terminal value <sup>2</sup>	1,893	1,544	1,271
<b>Appraisal value of SAGI from IAC's report</b>	<b>4,135</b>	<b>3,783</b>	<b>3,507</b>

**Remark** 1. Such value is calculated from the sum of the present value of after-tax unearned premium reserves net of estimated claim payments, loss adjustment expenses, and investment income earned on reserves held and cash flows; and the present value of after-tax outstanding claims reserves net of estimated claim payments, loss adjustment expenses, and investment income earned on reserves held and cash flows.

2. Such value is calculated from the present value of projected future net-of tax distributable profits, including the terminal value, and net of cost of capital, of which the cost of capital is calculated from the difference between the present value impact of the risk discount rate and the net investment return earned on shareholders' assets covering the solvency capital.

Nonetheless, the IFA deemed the discount rate of SAGI should be at 9.5% and 10.5% as aforementioned. Therefore, the value of SAGI from the IFA can be summarized as follows:

Unit : THB million

Items	RDR	
	9.5%	10.5%
1. Net asset value	1,901	1,901
2. Value of existing business	342	338
3. Value of future business (net of cost of capital) including terminal value	1,893	1,544
<b>Appraisal value of SAGI</b>	<b>4,135</b>	<b>3,783</b>

As a result, the IFA is of the opinion that the value of SAGI should be **THB 3,783 – 4,135 million**.

#### **Summary of Valuation of SAGI**

The IFA considers the suitable valuation approach and regards that market comparable approach by P/E methodology unsuitable since the historical earnings of SAGI does not reflect the profit-generating capacities in the future. The IFA also regards P/BV methodology and book value approach unsuitable since it does not reflect the profit-generating capacities and cash-generating capacities of SAGI. The IFA is of an opinion that actuarial valuation approach is the appropriate valuation approach since it reflect the fundamental value and it is also the generally accepted approach

Therefore, the appraised value of SAGI is **THB 3,783 – 4,135 million**.

#### **The Valuation of net present value of on-going operational income and expenses of AYUD**

To find the net present value of on-going operational income and expense of AYUD as an investment company, the IFA assumed that the Company would operate on a going concern basis. The IFA prepared a 10-year financial forecast, and then estimated terminal values, assuming annual growth from 2027 at approximately 1.9%, which is the average headline inflation rate for the past 10 years.

Key assumptions in the financial model were set based on the historical financial statements and the business plan of the management of the Company, and then were adjusted as the IFA deemed appropriate and reasonable taking into account historical data. Other assumptions were set based on historical and current data, and also from interviews with the management.

Details of crucial assumptions for AYUD are as follows:

1. The growth rate of gain on investment in securities referred to the company's only financials statement of the Company was set at 1.4% based on the average level of historical return on investment portfolio. The historical returns of the past three years are 0.9%, 2.7% and 0.3% respectively or about 1.4% on average.
2. The growth rate of personnel expense was set at 5.0% p.a.. Such personnel expense was the net of charges to SAGI and also adjusted to reflect the change of management. The growth rate was based on the interview with the management of AYUD. The growth rate of personnel expenses of 2015 and 2016 were (12%), (58%) respectively.
3. The growth rate of audit expense was set at 1.4% p.a. with referencing to the historical average growth rate, of which the growth rate for year 2016 and 2017 were 2.0% and 0.8% respectively with average at 1.4%.
4. The growth rate of director remuneration expenses and premises and equipment expenses are set to be stable during the projected period based on the interview with the management of AYUD. Such expenses are quite stable and do not change much in the past.
5. The growth rate of other expenses was set at 1.9% with referencing to the average headline inflation rate for the past 10 years. In 2017, there are an extraordinary item, which is the fee for the appraiser and advisor engaged for this Transaction.

In order to calculate present value, the IFA utilized the Capital Asset Pricing Model (CAPM) as a discount rate through the following formula:

$$K_e = R_f + \beta * \text{Market Premium}$$

whereas		Assumption
Rf <sup>1</sup>	Risk-free rate	3.23%
Market Premium <sup>2</sup>	Excess return over the risk-free rate for investing in the market	8.66%
β <sup>3</sup>	The sensitivity of stock price to market returns	0.50

- Remark:
1. 15-year government bond yield as of 24 September 2018 (Source: www.thaibma.or.th)
  2. 15-year market return of the SET (Source: SETSMART)
  3. The β of the Company (Source: Bloomberg as of 24 September 2018)

Based on the assumptions above, the discount rate (Ke) was calculated to be approximately 7.5%; therefore, the net present value of on-going operational income and expense of AYUD is as follows:

THB million	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Gain on investment in securities	30.35	30.78	31.22	31.67	32.12	32.58	33.04	33.51	33.99	34.48
Personnel expense	(6.32)	(6.64)	(6.97)	(7.32)	(7.68)	(8.07)	(8.47)	(8.89)	(9.34)	(9.80)
Audit expense	(2.67)	(2.70)	(2.74)	(2.78)	(2.82)	(2.86)	(2.90)	(2.93)	(2.97)	(3.02)
Other expenses*	(40.99)	(22.77)	(22.84)	(22.91)	(22.98)	(23.05)	(23.12)	(23.20)	(23.27)	(23.35)
<b>Net profit</b>	<b>(19.62)</b>	<b>(1.33)</b>	<b>(1.33)</b>	<b>(1.34)</b>	<b>(1.36)</b>	<b>(1.39)</b>	<b>(1.44)</b>	<b>(1.51)</b>	<b>(1.59)</b>	<b>(1.69)</b>

Remark \* Other expenses include director remuneration, premises and equipment expenses, and other expenses

#### Table summarizing the NPV of on-going operational income and expense of AYUD

Unit : THB million

Items	Amount
Present value	(27.7)
<u>Plus</u> Terminal Value*	(15.3)
<b>NPV of on-going operational income and expense of AYUD</b>	<b>(43.0)</b>

Remark : \* Terminal value was calculated from net profit in year 2027 (NI<sub>2027</sub>), which is the last year of the projection period, through the following formula:

$$\text{Terminal Value} = \text{NI}_{2027} * (1+g) / (\text{Ke}-g)$$

whereas NI<sub>2027</sub> is the net profit in year 2027 of THB (1.69) million as projected above

g is a long term annual growth after 2027. The rate was set at 1.9%, which is the average headline inflation rate for the past 10 years.

Ke is the discount rate of 7.5% as aforementioned

#### Summary of Valuation of AYUD by SOTP approach

Unit : THB million

Items	Amount
Net asset value of AYUD (excluding the investment in SAGI and AZAY)*	4,189.3
Value of investment in SAGI	3,783 – 4,135
Value of investment in AZAY (20.17% investment proportion)	7,249 – 8,551
Net present value of on-going operational income and expense of AYUD as an investment company	(43)
<b>Estimated value of AYUD</b>	<b>15,179 – 16,833</b>

Items	Amount
Total issued and paid-up shares (million share)	293.91
<b>Value per share of AYUD (THB per share)</b>	<b>51.64 – 57.27</b>

Remark \* The value was based on the company's only financial statement of AYUD as of 30 June 2018 less the dividend payment made according to the resolution of the Board of Directors Meeting No. 4/2018 of AYUD held on 10 August 2018 which resolved to distribute the interim dividend for the first half of year 2018 to 293,905,225 shares at the rate of THB 0.75 per share, of which the payment was made on 7 September 2018.

### Summary of Valuation of AYUD

The IFA considers the suitable valuation approach and regards that market comparable approach by P/E methodology unsuitable since the historical earnings of AYUD does not reflect the profit-generating capacities in the future. The IFA also regards P/BV methodology and book value approach unsuitable since it does not reflect the profit-generating capacities and cash-generating capacities of AYUD. In addition, the IFA regards historical traded price approach unsuitable since AYUD has a relatively low turnover ratio during the period of the valuation. It, therefore, would not reflect the appropriate value of AYUD

The IFA is of an opinion that the sum of the parts approach is the appropriate valuation approach for AYUD because the core business of AYUD is to invest in other companies, of which its crucial investments are investment in SAGI, AZAY, and other securities. Such approach, therefore, would reflect the appropriate value of its investment. Furthermore, as at 30 June 2018, AYUD has remained outstanding AYUD-W1 of 81,094,582 units with the exercise price of THB 39 per share with the exercise date on 15 June and 15 December every year. The exercise price is lower than the value of AYUD estimated by the IFA above; therefore, the IFA assume that all warrant holders are rational investors and will exercise all remaining warrants in one time at the next exercise date. Therefore, to reflect the fully-diluted value of AYUD, it is as follows:

Unit : THB million

Items	Amount
Estimated Value of AYUD (as above)	15,179 – 16,833
<u>Add</u> Cash received from fully exercise of remained outstanding AYUD-W1	3,163
<b>Estimated value of AYUD</b>	<b>18,341 – 19,995</b>
Total fully diluted shares (million share)	375.0
<b>Value per share of AYUD (THB per share)</b>	<b>48.91 – 53.32</b>

As a result, the estimated value of AYUD is **THB 18,341 – 19,995 million or THB 48.91 – 53.32 per share.**

### 1.5.3. Conclusion of the IFA's opinion on the price of the Transaction

From the aforementioned valuation of SAGI, AZTH, AZAY, AYUD, the IFA concludes the value of the Transaction as follows:

1. Acceptance of the EBT from AZTH

The IFA is of an opinion that the appropriate value range of the transaction, by Actuarial Valuation Approach, is the estimated value of AZTH above of **THB 755 – 936 million**.

2. Purchase of AZAY Shares

The IFA is of an opinion that the appropriate value of the transaction is as follows:

<b>Amount (THB million)</b>	
<b>AZAY (11.80% investment proportion)</b>	
Estimated Total Value of AZAY	35,942 – 42,398
Estimated Value of AZAY (11.80%)	4,241 – 5,003
<u>Less Discount for Lack of Marketability*</u>	1,060 – 1,251
<b>Net Estimated Value of AZAY</b>	<b>3,181 – 3,752</b>

Remark \* Since AZAY is not listed company in the SET, the IFA applied Discount for Lack of Marketability at the rate of 25%, according to the IFA's guideline, based on the average of generally applied Discount for Lack of Marketability at 20 - 30% in the 2<sup>nd</sup> edition of Investment Valuation by Aswath Damodaran

From the table above, the IFA is of the opinion that the appropriate value range of the 11.8% of the total paid-up shares of AZAY is **THB 3,181 – 3,752 million**.

The total value of assets to be acquired estimated the IFA is **THB 3,936 – 4,689 million**.

3. Share Allocations

The IFA is of an opinion that the appropriate value range of the transaction is the estimated value of AYUD, by SOTP method, which includes the proceeds from fully exercise of remained outstanding AYUD-W1 above of **THB 18,341 – 19,995 million or THB 48.91 – 53.32 per share**.

Due to the acquisition of assets agenda, connected transaction agenda, and the capital increase share allocation are related to, and conditional upon, one another. Therefore, if any of these items is not approved the EGM, the other related items will not be proposed to the EGM for its consideration, and the items that have already been approved shall be deemed to be cancelled. For that reason, IFA considers the aggregate value of the related Transactions, totaling THB 3,936 – 4,689

million, and the reasonable value of the Company, THB 18,341 - 19,995 million. The swap ratio is considered as follows:

Swap Ratio		Aggregate Value of the Assets to be Acquired estimated by the IFA (AZTH + 11.8% AZAY) (THB million)	
		3,936	4,689
Estimated Value of AYUD (THB million)	18,341	0.2146	<u>0.2556</u>
	19,995	<u>0.1969</u>	0.2345

From the table above, the appropriate swap ratio is **0.1969 - 0.2556 times** of the value of the Company. Comparing to the Transactions value of THB 4,717.4 million, consisting of value of Acceptance of the EBT from AZTH of THB 748.8 million, and value of Purchase of AZAY Shares of THB 3,968.6 million; and the value of the Company's shares determined by the Board of Directors of the Company at the price of THB 53.32 per share, totaling of THB 19,995 million, the swap ratio for the Transactions is 0.2359 times of the Company's equity value, which falls in the reasonable range that the IFA estimated. Ergo, the IFA holds the opinion that the aggregate transaction values are reasonable. The details of each transaction are as follows:

1. The Acceptance of the EBT from AZTH: The price of this transaction is THB 748.8 million, which is THB 6.2-187.2 million lower than the estimated value range. The IFA deems the transaction price as reasonable.
2. The Purchase of AZAY Shares: The price of this transaction is THB 3,968.6 million, which is THB 216.6 - 787.6 million higher than the estimated value range. However, the estimated values suffer the discount for lack of marketability of AZAY's shares because AZAY is not a listed company. After the purchase of AZAY shares, the values of AZAY shares that are reflected in the Company's share value will not suffer from the discount for lack of marketability because AYUD is a listed company. Considering the value of AZAY before applying the liquidity discount was THB 4,241 - 5,003 million, the transaction price is THB 272.6 - 1,034.3 million lower than the values before the discount. Even though the transaction price is higher than the estimated values, the values of AZAY stock reflected in the Company's share value will be higher than the transaction price. Thus, the IFA opines the transaction price as reasonable.



3. The Share Allocations: The share price of this transaction is THB 53.32 per share, which is in the range of appropriate value and equals to the highest value of the range. The IFA deems the share price for the share allocation as reasonable.

## **1.6. Reasonableness of the Conditions of the Transactions**

### **1.6.1. Conditions of the Transactions**

Key conditions of the Transactions according to the SPA, EBT Agreement, and IMs are summarized as follows:

- The resignation of the 3 Company's directors and 4 SAGI's directors.

The names of such resigned directors are not yet agreed. Currently, the Company has 11 directors and SAGI has 8 directors. For the nominated directors to replace the resigned directors, the Company and Allianz Group are negotiating the appointment which has not been finalized;

- The approval from shareholders' meeting of the Company for the following agenda:
  - 2.1 An acquisition by SAGI of the entire business of AZTH and an acquisition of AZAY shares from Allianz SE and CPRNT;
  - 2.2 An amendment of the Company's articles of association concerning the payment for the shares with other assets;
  - 2.3 An increase of the Company's registered capital from THB 375,000,000 to THB 463,473,361 by issuing 88,473,361 new ordinary shares, and an amendment of the Company's memorandum of association to reflect the capital increase;
  - 2.4 An allocation of newly issued ordinary shares of the Company to Allianz SE and CPRNT by way of private placement; and
  - 2.5 Allianz SE and/or its designated person making the partial tender offer;
- 3. The approval from the shareholders' meeting of SAGI for the following agenda:
  - 3.1 An acquisition of the entire business of AZTH;
  - 3.2 A reduction of SAGI's registered capital from THB 2,400,000,000 to THB 1,800,000,000, by canceling 60,000,000 authorized but unissued ordinary shares, and an amendment of SAGI's memorandum of association to reflect the capital reduction;
  - 3.3 An increase of SAGI's registered capital from THB 1,800,000,000 to THB 2,548,800,000 by issuing 74,880,000 new ordinary shares, and an amendment to SAGI's memorandum of association to reflect the capital increase;

- 3.4 An allocation of newly issued ordinary shares to the existing shareholders of SAGI;  
and
- 3.5 A change of SAGI's name to "Allianz Ayudhya General Insurance Public Company Limited", and an amendment of SAGI's memorandum of association and articles of association as well as corporate seal to reflect the change of name, with effect on the date on which the subscription of the newly issued ordinary shares of the Company and the payment therefor, and the sale and purchase of the ordinary shares in AZAY and the payment therefor, have been completed (the "Closing Date");
4. The receipt of the approval from the OIC with regard to the acceptance of the transfer of the entire business of AZTH by SAGI, and relevant matters;
5. The receipt of the approval from the SEC with respect to the following matters:
  - 5.1 The offering for sale of the newly issued ordinary shares of the Company by way of private placement and the extension of the offering period (if required); and
  - 5.2 Allianz SE and/or its designated person making the partial tender;
6. The change of the Company's name to "Allianz Ayudhya Capital Public Company Limited", and an amendment of the Company's memorandum of association and articles of association as well as corporate seal to reflect the change of name, with effect on the Closing Date;
7. The increase of the total number of the Company's directors from 11 to 15 directors and the appointment of persons nominated by the Allianz SE and CPRNT as the Company's directors, with effect on the Closing Date.

From the 4 additional directors, current 1 director and 3 substitute directors of resigned directors who may be nominated by Allianz Group there will be directors representing Allianz Group of 8 directors of total 15 directors. Such number of directors is more than half of Board of Directors members, therefore Allianz SE and CPRNT may take control on voting by majority in Board of Directors meeting. However, there is no agreement on appointing directors to replace the resigned directors, it is on negotiating currently.
8. Allianz SE and/or its designated person having acquired a total of 56,930,000 shares in the Company in the partial tender offer;
9. Conditions no. 2.1 to 2.5 as stipulated above have to be approved by the Company's shareholders meeting within 30 November 2018 or the date all parties agreed in written;
10. All conditions as stipulated above have to be fulfilled within 30 June 2019 or the date all parties agreed in written, and

11. AZAY, AZTH, the Company, and SAGI carry out their businesses in a manner consistent and in accordance with past practices and with the ordinary course of their business and shall not declare or make payment of any dividends or other capital distributions.

#### **1.6.2. Opinion of the Independent Financial Advisor on the Reasonableness of the Conditions of the Transactions**

After reviewing the aforementioned conditions, the IFA is of the opinion that they are regular conditions for proceeding and completing the Transactions, and that they are reasonable. In case that number of directors representing Allianz SE and CPRNT are more than half of total number of directors, Allianz SE and CPRNT may take control on voting by majority in Board of Directors meeting. However, there is no agreement on appointment of directors to replace the resigned directors, it is on negotiating currently. Nonetheless, the appointment of persons nominated by Allianz SE and CPRNT as the Company's directors is appropriate because both of them will be major shareholders of the Company after the Transactions. The change of the Company's name and SAGI's name reflect the signification shares acquisition of Allianz Group after the Transactions. All conditions as stated above have to be fulfilled as initially agreed within 30 June 2019.

Consequently, as at the Closing Date, Allianz Group will have its shareholding in the non-life insurance business held only through AYUD since its existing non-life insurance business (AZTH) will have been entirely transferred to SAGI which is AYUD's subsidiary. Additionally, as at the Closing Date, AYUD will have additional shareholding in life-insurance business (AZAY) of 11.80% which makes its shareholding in AZAY increase from 20.17% to 31.97%.

#### **1.7. Other Information**

After the Purchase of AZAY Shares transaction, the Company's shareholding in AZAY will increase from 59,500,280 shares to 94,310,280 shares or from approximately 20.17% to approximately 31.97% of the total shares sold in AZAY. However, both Allianz Group (i.e. Allianz SE and CPRNT) and the Ratanarak Group will continue to be major shareholders in both AYUD and AZAY. Their shareholding in AZAY after the Purchase of AZAY Shares transaction will be approximately 50.85% and approximately 16.93% respectively. With this shareholding structure of AZAY after the completion of Transactions, it will not be in accordance with the Notification of the Capital Market Supervisory Board No. TorJor. 39/2559 re: Application for and Approval of the Offering for Sale of Newly Issued Shares, dated 30 September 2016 (as amended) per detail provided in IM. This may affect the Company when filing an application to the SEC in order to issue newly issued shares for public offering in the future.

Allianz Group and the Ratanarak Group have been AZAY's existing major shareholders before the Company purchased AZAY shares from Bank of Ayudhya Public Company Limited in 2012. At present, these shareholders invest in only one life insurance company in Thailand, which is AZAY.

In addition, the Company has established explicit guidelines for resolving problems concerning conflict of interest and ensuring the best interest of the Company and its shareholders, to which the Company will strictly adhere in operating its business. If the entry into any transaction may cause a conflict of interest with the Company, the details of the transaction, including the parties to that transaction, the transaction value, and the reasons and necessities for the entry into that transaction must be disclosed according to the rules of the SEC and the SET. Any directors who have interest in any agenda items may not participate in the consideration and voting on such agenda items, in order to ensure the independence in decision making and the transparency of information. The Company has also prescribed guidelines relating to the entry into connected transactions according to the good corporate governance principles, as well as the relevant laws, rules, and regulation. The entry into all material connected transactions requires consideration and approval by a board meeting or a shareholders meeting.

Therefore, the compliance with the foregoing laws and guidelines by the Company will help prevent a conflict of interest in the event that Allianz Group and the Ratanarak Group hold shares in excess of 10% of the total number of shares with voting rights of AZAY.

## 2. Conclusion of the Independent Financial Advisor's Opinion

After reviewing the relevant information, the IFA was able to obtain and analyze the conditions of the Transactions, advantages and disadvantages from entering into the Transactions, and potential risks from the Transactions, the IFA opinion can be summarized as follows:

Entering into the Transactions is reasonable since the advantages are the increase sales channels and expansion of customer base, synergies to the main business of the Company, increase non-life insurance market share including revenues and financial strength, Increase return on investment by increase shareholding in AZAY. Even though entering into the Transactions has some disadvantages such as the net loss of AZTH, dilution effect on the existing shareholders, and potential risk of lower checks & balances and control over the Company by minority shareholders. The IFA is of an opinion that the advantages from the Transactions outweigh the disadvantages when considering the co-operation and synergy obtained from Allianz Group. Therefore, the IFA deems the Transaction as reasonable. Regarding the key conditions of the Transactions, the IFA is of an opinion that the conditions are reasonable as they were set in relevant to the related rules and regulations and to meet the objectives of entering into the Transactions.

For the fairness of transaction price, the IFA estimated the appropriate price for the Transaction as follows:

1. Acceptance of the EBT from AZTH: The estimated value range of AZTH based on the actuarial valuation approach is **THB 755 – 936 million**.
2. Purchase of AZAY Shares: The estimated value range of the Transaction based on the actuarial valuation approach is **THB 3,181 – 3,752 million**.

The total value of assets to be acquired estimated the IFA is **THB 3,936 – 4,689 million**.

3. Share Allocations: The estimated value range of AYUD's share based on the sum of the parts approach, which includes the proceeds from fully exercise of remained outstanding AYUD-W1 is **THB 18,341 – 19,995 million or THB 48.91 – 53.32 per share**.

Due to the acquisition of assets agenda, connected transaction agenda, and the capital increase share allocation are related to, and conditional upon, one another. Therefore, if any of these items is not approved the EGM, the other related items will not be proposed to the EGM for its consideration, and the items that have already been approved shall be deemed to be cancelled. For that reason, IFA considers the aggregate value of the related Transactions, totaling THB 3,936 – 4,689 million, and the reasonable value of the Company, THB 18,341 - 19,995 million. The swap ratio is considered as follows:

Swap Ratio		Aggregate Value of the Assets to be Acquired estimated by the IFA (AZTH + 11.8% AZAY) (THB million)	
		3,936	4,689
Estimated Value of AYUD (THB million)	18,341	0.2146	<u>0.2556</u>
	19,995	<u>0.1969</u>	0.2345

From the table above, the appropriate swap ratio is **0.1969 - 0.2556 times** of the value of the Company. Comparing to the Transactions value of THB 4,717.4 million, consisting of value of Acceptance of the EBT from AZTH of THB 748.8 million, and value of Purchase of AZAY Shares of THB 3,968.6 million; and the value of the Company's shares determined by the Board of Directors of the Company at the price of THB 53.32 per share, totaling of THB 19,995 million, the swap ratio for the Transactions is 0.2359 times of the Company equity value, which falls in the reasonable range that the IFA estimated. Ergo, the IFA holds the opinion that the aggregate transaction values are reasonable. The details of each transaction are as follows:

1. The Acceptance of the EBT from AZTH: The price of this transaction is THB 748.8 million, which is THB 6.2-187.2 million lower than the estimated value range. The IFA deems the transaction price as reasonable.
2. The Purchase of AZAY Shares: The price of this transaction is THB 3,968.6 million, which is THB 216.6 - 787.6 million higher than the estimated value range. However, the estimated values suffer the discount for lack of marketability of AZAY's shares because AZAY is not a listed company. After the purchase of AZAY shares, the values of AZAY shares that are reflected in the Company's share value will not suffer from the discount for lack of marketability because AYUD is a listed company. Considering the value of AZAY before applying the liquidity discount was THB 4,241 - 5,003 million, the transaction price is THB 272.6 - 1,034.3 million lower than the values before the discount. Even though the transaction price is higher than the estimated values, the values of AZAY stock reflected in the Company's share value will be higher than the transaction price. Thus, the IFA opines the transaction price as reasonable.
3. The Share Allocations: The share price of this transaction is THB 53.32 per share, which is in the range of appropriate value and equals to the highest value of the range. The IFA deems the share price for the share allocation as reasonable.

**The IFA is of an opinion that the shareholders should vote in favor of approving the Transactions. Nevertheless, the final decision rests primarily with the individual shareholders. The shareholders should study the information contained in this report along with other related information provided and use his/her own judgment in making the final decision.**

We hereby certify that we have given our opinions regarding the Transactions prudently and in line with professional practice and with due regard to the interest of the shareholders

Yours sincerely,

-Wit Suthipongchaweekul-

(Wit Suthipongchaweekul)

Supervisor

Asia Plus Advisory Company Limited

-Kongkiat Opaswongkarn-

(Kongkiat Opaswongkarn)

Director

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