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Life protection and savings

Smart Series and Other Selected Participating Plans

General information of participating policy

Participating policy fact sheet

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This fact sheet aims to give you general information about how the participating life insurance policies ("participating policy / policies") of the below plans work and the approach we take to manage it.

Smart Series

- Smart Jumbo Saver Savings Series
- Smart Jumbo Saver II Savings Series
- Smart Jumbo Saver III Savings Series
- Smart Jumbo Saver III Savings Series (Simplified Version)*
- Smart Saver Savings Series
- Smart Saver II Savings Series
- Smart Saver III Savings Series
- Smart Saver III Savings Series (Simplified Version)*
- Smart Protector Life Insurance Series
- Smart Protector II Life Insurance Series
- MAXX Savings Series
- MAXX II Savings Series
- AXA MaxiPlus Savings Series*
- AXA FlexiWealth Protection Series*
- Easy Wealth Savings Series*

* Not applicable to Macau

What is a participating policy?

A participating policy is designed to provide both life insurance protection and growth potential for savings through a combination of:

a) guaranteed benefits; and

b) non-guaranteed benefits, in the form of annual dividend, interest and / or terminal dividend for the plans covered in this fact sheet.

Premiums of your participating policy will be pooled together with the premiums from owners of other policies in one of our participating funds. We will invest and manage the participating fund in a wide range of assets, including bonds, equities, etc. Your policy will then entitle you to a share of this participating fund.

We pay your share in the form of guaranteed benefits and non-guaranteed benefits. Your policy has certain benefits that are guaranteed, such as the death benefit or the cash value (if applicable). Then in each year, the value of your policy may gradually increase with annual dividends and interest. Finally, upon termination, you may also receive a terminal dividend. The amounts we pay you as annual dividends, interest and terminal dividend will depend on the performance of the participating fund.

The value of the participating fund may go up and down sharply within days. Instead of sharing with you the gains or losses immediately, we may even out some short-term fluctuations. This is called smoothing and we will explain it further in a later section.

What are the guarantees and what are not?

Guarantees

The guarantees of your policy are those benefits we promise to pay regardless of how the participating fund performs. It can be in the form of the death benefit, the cash value and / or other benefits. You can refer to the product brochure and your policy contract for more details.

Non-guarantees

In contrast with the guarantees, we may also pay benefits which are not guaranteed. For the plans covered in this fact sheet, the non-guaranteed benefits are:

Annual dividend

Annual dividend may be declared to a policy on an annual basis. Once declared, the amount will be guaranteed and we will not withdraw it. While it is our aim to add annual dividend to your policy every year, there may be circumstances under which we decide not to declare any in some particular years.

Interest on accumulated annual dividends and cash coupons

You may choose to leave the declared annual dividends and cash coupons (if your plan has this feature) with us, and we will pay interest on them. The interest rate is non-guaranteed and may change anytime, but once we pay the interest to your policy, the amount will be guaranteed, similar to the annual dividends.

Terminal dividend

When your policy terminates, we expect to pay you an additional benefit, such that you can receive your fair share of the participating fund, and it is called the terminal dividend. However, if the sum of your guarantees and accumulated annual dividends exceeds your fair share, we may not pay the terminal dividend.

We will refer to them collectively as “dividends and interest”.

How does a participating policy work?

The premiums from you and the owners of other policies pooled together will form a participating fund. Besides the premium, if you leave the declared annual dividends and cash coupons (if any) with us, the amount will also be invested in the same fund. The value of your policy will then depend on the value of the assets invested. We call it the “asset share”, and it is an important reference to help us determine your fair share.

What is an asset share?

The asset share depends on factors including the premiums received, annual dividends and cash coupons left with us, actual investment returns made net of investment expenses, deductions for the management of the participating policies, and amounts for profit sharing with us. It tells us how much your share of the fund has earned. We will then determine the appropriate dividends and interest, so that you can get your fair share from the participating fund.

What are the deductions?

We make some deductions from the participating fund to pay for costs and expenses. These include costs of providing you with surrender benefits, insurance benefits and guarantees, as well as management fee and other costs of running the business, for example, distribution costs, policy administration expenses, servicing costs, relevant taxes and office rent.

How does profit sharing work?

We have an interest in the participating fund and share part of the profit of the participating fund. This will be described in more detail when we talk about our dividend philosophy afterwards.

What are our investment objective and strategy?

Investment objective

The overall objective of investing the participating fund is to ensure that the guarantees we committed to the policies are met, while seeking competitive and stable returns over a medium to long term.

Investment strategy

We employ a rigorous and disciplined approach in determining strategic asset allocations which defines the nature of assets and how much we invest in. We monitor market positions carefully and frequently, and update our allocations when appropriate. In addition, we will complement our investment strategies with the use of derivatives and other financial agreements to manage liquidity, achieve an efficient portfolio management and effective risk management or pre-invest partially or fully expected future premiums to reduce the uncertainty of future investment earnings. In particular, the amount of derivatives used to manage interest rate and exchange rate risk may be material.

Investment strategies may vary across plans depending on their features, as well as their levels of guarantees and required stability of returns. Furthermore, for specific plans, a dynamic approach is taken to manage investments within some wider asset allocation ranges. Generally, plans with higher guarantees would have a larger portion of investments invested in more stable assets, such as bonds, and plans with lower guarantees may generally include a relatively higher allocation to other assets such as equities.

From time to time we will review the investment strategies and asset allocations, and will modify them if necessary. We aim to ensure all guarantees are met while maintaining non-guaranteed return potential for the dividends and interest. We also assess factors such as risk tolerance, changes in market conditions and economic outlook in order to maintain an optimal portfolio for the plans.

What are our investment objective and strategy? (cont'd)

Selection of assets

We maintain a robust asset portfolio for the participating funds by investing in a wide range of investments, primarily with exposure to the U.S. and Asia (including Hong Kong and China). Generally, we aim to match the currency of fixed income investments and the underlying policy currency denomination to the extent appropriate investments are available and acceptable. However, taking into consideration the aforementioned market constraints, we also invest in assets that are not denominated in the same currency as the underlying policies ("currency mismatch"). In such case, we may consider using derivatives to hedge the currency risk, and more broadly to ensure a proper matching between the assets and the policies. Some specific strategies may embed a currency mismatch as it may bring additional returns or be a source of diversification. We also aim at maintaining adequate liquidity with respect to the policies and an appropriate level of risk diversification.

What are our investment objective and strategy? (cont'd)

Asset allocations

You can find the current target asset allocations below:

Asset Class^	Allocation*			
	<u>Policy Group 1</u> MAXX II Savings Series policies with policy effective date on or after 29 May, 2017		<u>Policy Group 2</u> Smart Jumbo Saver III and Smart Saver III Savings Series (including Simplified Version) policies / MAXX II Savings Series policies with policy effective date before 29 May, 2017	<u>Policy Group 3</u> Other policies
	HKD[%]	Non-HKD[%]		
Government bonds, corporate bonds and other similar instruments	75% - 85%	65% - 80%	70%	70%
Growth assets	15% - 25%	20% - 35%	30%	30%

^ The bond assets allocation includes sub-asset classes like (i) developed market investment-grade corporate bonds, (ii) emerging market investment-grade bonds, (iii) high yield bonds, and may include (iv) developed market government bonds. The growth assets allocation includes sub-asset classes like (a) listed equities, (b) private equities, (c) real estate and (d) hedge funds.

For Policy Group 1: The bond allocation is mainly invested in (i) and (ii), and the growth assets is mainly invested in (a) and (b), with flexibility allowed in allocating to the sub-asset classes both within the bond allocation and within the growth asset allocation.

For Policy Group 2: The bond allocation is mainly invested in (i) and (ii), and the growth assets is mainly invested in (a), with flexibility allowed in allocating to the sub-asset classes both within the bond allocation and within the growth asset allocation.

For Policy Group 3: The bond allocation is mainly invested in (i), and the growth assets is mainly invested in (a), with flexibility allowed in allocating to the sub-asset classes both within the bond allocation and within the growth asset allocation.

* The target asset allocation shown above excludes derivatives. The total actual allocation (excluding derivatives) will be equal to 100%, and there may be some holdings in cash. In addition, we may accept certain degree of deviation from the above targets across asset classes in order to manage the portfolio efficiently or to optimise the portfolio based on the prevailing market condition and views.

% AXA offers policies in different currencies. This refers to the currency in which the policy was issued.

How do we decide your dividends and interest?

When deciding the dividends and the interest, we may group your policy with other similar policies, based on various characteristics which may include the plan structure, currency and issue date, and consider them as a whole. This allows us to have a larger sum of money and invest with more flexibility. At the same time, you can share the profits and losses with the owners of other policies.

We closely monitor the participating fund and review the dividends and interest at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust them. We may consider not adjusting the dividends and interest at all, but we may also adjust them once, twice or even more in a particular year if we consider this necessary to be fair to all policy owners.

During each review, we look at the following to decide the dividends and interest to be paid:

a) the asset share;

b) both the current and the expected future amount of guarantees; and

c) the returns we expect the participating fund to earn in the future.

We may adjust the annual dividend, the terminal dividend and the interest rate differently because of their different nature. They are paid from the same participating fund, so increasing the payout of one of them may mean a reduction on another.

Your participating policy is designed to be held for long term. When we determine the fair share, and thus your dividends, we also take into account the policy duration, and they are adjusted downward in the early policy years to reflect this.

How do we decide your dividends and interest? (cont'd)

Annual dividend

When we review the annual dividend, we mainly look at the return we expect the participating fund to earn in the future, as well as the ability to provide you with stable annual dividend.

The addition of the annual dividend to your policy will increase the guarantees we promise to pay you, but may at the same time reduce the flexibility given to us in capturing attractive investment opportunities. If too much annual dividend is added, we may need to invest in relatively stable assets like bonds, and give up the opportunity to invest in more aggressive assets like equities that may potentially give you higher return.

In addition, it is also our aim to provide you with stable annual dividend every year.

Therefore, we may hold back some of the returns and carefully control the level of the annual dividend to be declared each year. Normally we will not distribute all the gains or losses through annual dividend in a single year. There may also be times that we decide not to declare any annual dividend.

Interest rate on the accumulated annual dividends and cash coupons

When we determine the interest rate, besides looking at the past investment performance and the future investment outlook, we may also make reference to the interest rates in the market.

How do we decide your dividends and interest? (cont'd)

While the stability of the payouts is one of our main concerns in deciding the amount of annual dividends and interest to pay, rest assured that you can still get your fair share from the participating fund because we will adjust the payout to you through the terminal dividend.

Terminal dividend

When we decide the amount of terminal dividend to pay, we make reference to mainly the asset share and apply smoothing to work out the fair payout that we should pay. We then compare this against the sum of the guarantees and the accumulated annual dividends to determine the terminal dividend. If the sum of the guarantees and the accumulated annual dividends is greater than the fair payout you should receive, we may not pay any terminal dividend.

Compared to the annual dividend, the terminal dividend will be more sensitive to the past performance of the participating fund.

What are our philosophy and governance when managing the participating business and setting payouts?

When managing your participating policy, we handle with care and discipline. We bear in mind the following key considerations:

a) fairness to policy owners;

b) policy owners' reasonable expectation; and

c) long-term sustainability of dividends and interest.

It is also part of our aim to provide you with stable payouts. While the asset prices may go up and down every day, we will try to even out some of the short-term fluctuations in the value of your investment.

At the policy issuance, we determine our share of profit, and will receive it from the participating fund regularly. After we determine our share of profit, we aim to share with you the gain and loss from investment. If the actual amount we can distribute as dividends and interest is more than the amount illustrated at the time of policy issuance, you may receive 80% of the excess and the remaining 20% will be ours.

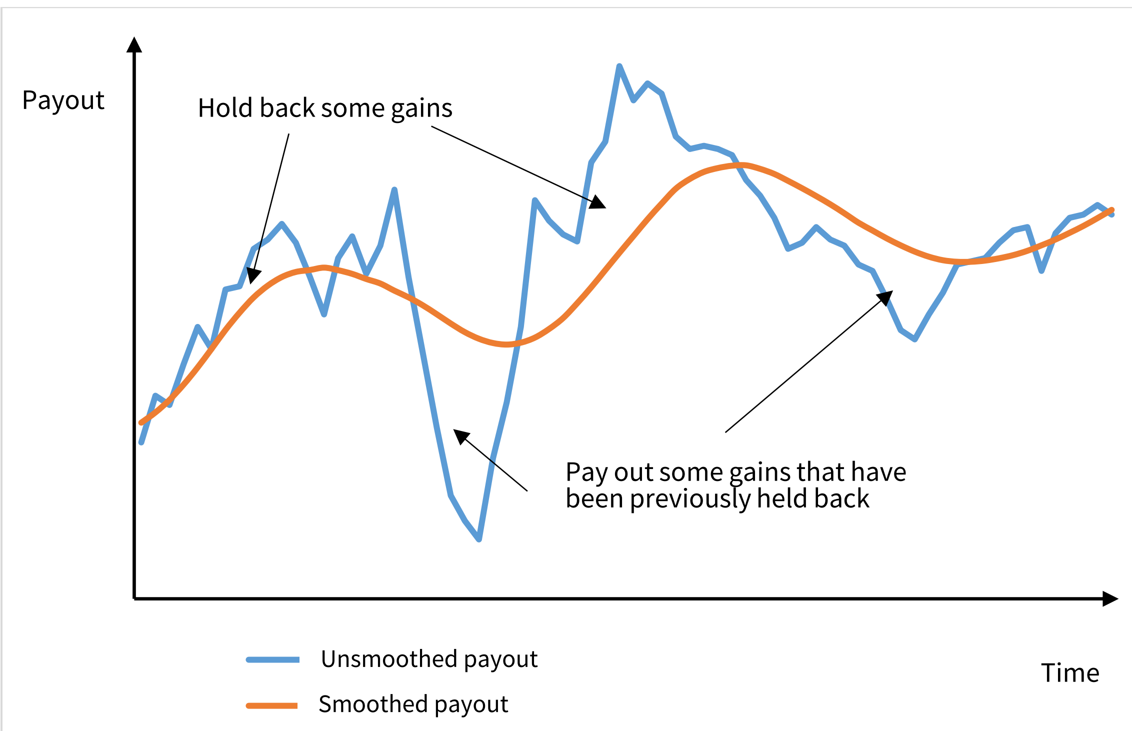
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the dividends and interest to be declared at least annually. To further safeguard your interest, we have designated committees to review and scrutinise the recommendation. Our board of directors will then make the decision taking into account the appointed actuary's recommendation. Through this robust framework of governance, we ensure a fair balance of interests of the policy owners and shareholders in every decision we make.

The board of directors may delegate the authority to designated committees to ensure efficient management of the business.

What is smoothing?

Smoothing is a process by which your payouts can remain stable against some short-term fluctuations in the returns on the participating fund. If there is no smoothing, your payouts may go up and down every day, because the asset prices keep changing and the asset share will fluctuate.

We can hold back some short-term fluctuations and provide you with stable payouts. Instead of immediately adjusting the dividends and interest upon the asset share changes, we may choose to keep them unchanged or make a milder adjustment in order to reduce any significant fluctuation in the value of your policy.



Note: This graph is not representative of any particular plan or time period. It is not drawn to scale neither. Its sole aim is only to explain how smoothing works. If the actual performance happens to be the same as in the graph, we may not perform smoothing in the same way as presented in the graph.

What is smoothing? (cont'd)

We aim to apply smoothing to the extent that there is no net gain or loss from smoothing over time. Therefore, the accumulated gain or loss from smoothing in the past may also change our ability to smooth the payouts in the future. For example, if we have already held up some gains from smoothing, we will be able to protect you against a deeper drop in the investment.

As another example, if the asset value changes sharply, or there is large outflow from the participating fund, the net gain or loss from the smoothing in the past may not be sufficient to offset the change. In this case, we may also reduce or even stop smoothing. We may decide to do so to protect the interest of the owners of other policies who are still participating in the fund.

We may also apply different levels of smoothing for different causes of payouts, e.g. the death of the insured, policy surrender and maturity.

What will affect your dividends and interest?

We consider the past performance and future outlook of these factors when determining your dividends and interest and they may significantly affect them.

Investment return

A number of factors may change the return of your investment. In particular, you should pay attention to the following:

Interest income factors: If interest rates change, future interest earnings will be affected.

Market risk factors: The investment performance will also be affected by changes in financial markets and economic conditions. These may result from risks or changes in factors such as:

- interest rates
  If interest rates change, the value of some assets, e.g. bonds, will also be changed. In general, this will have a greater effect on assets with longer term to maturity.
- currency risk
  If the assets are not denominated in the same currency as the policies, any change in the foreign exchange rates will change the value of the assets measured in this currency and affect the investment performance.
- liquidity risk
  Liquidity risk is the risk that securities or assets cannot be traded rapidly or have to be traded at a loss in a short period of time.
- credit / default risk
  Credit / default risk is a risk where companies or individuals may be unable to make payments on their debt obligations, leading to losses in principal and interest / coupons for investors.

What will affect your dividends and interest? (cont'd)

- volatility risk

  The values of assets are subject to price fluctuations. There is no assurance of value appreciation, and prices of assets may increase or decrease over time, sometimes quite significantly.
- and also general investment conditions.

If the past investment performance or future investment outlook is less favourable, your dividends and interest may be reduced.

The dividends and interest you are going to receive will also depend on:

Smoothing

The dividends and interest you receive may not immediately reflect the ups and downs in the asset share because of smoothing. We will try to even out some of the short-term fluctuations so that your payouts can remain stable. However, the extent of smoothing depends on the size of the fluctuations and also the profit and loss from smoothing in the past. There may be circumstances we do not apply any smoothing as well.

Pooling of policies

As said earlier, your policy will be grouped together with other similar policies. When we review the dividends and interest, we will consider all policies participating in the same participating fund as a whole. As the deductions may vary among policies depending on policy characteristics including insureds' age, gender, etc., the value of the participating fund and hence your dividends and interest may change if the characteristics of policies in your group change.

Glossary

Asset allocation(s)

Asset allocation is the activity of defining the investment strategy of a portfolio by selecting the amount of investment into different asset types so as to strike a balance between diversification of risks, investment return goals and investment time frame.

Bonds

Bonds are securities under which the issuer owes the holders a debt and is generally obliged to pay interest and / or to repay the principal at a specified date.

Derivatives

Derivatives are instruments of which the prices are dependent on or derived from the value of underlying assets. Examples of some common derivatives are forwards, futures, options, swaps, etc.

Equity(ies)

Equity is a type of security that indicates ownership in a corporation and represents a claim, generally residual after discharge of all senior claims, on the corporation's assets and earnings.

Growth assets

This includes a variety of securities that are of similar nature as equity. Some examples are public equities, private equities, hedge funds and investment in real estates.

Hedging

Hedging is an investment strategy intended to manage and mitigate financial risks.

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