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Life protection and savings
Flexi Power Saver

General information of participating policy

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This fact sheet aims to give you general information about how the participating life insurance policies (“participating policy / policies”) of Flexi Power Saver work and the approach we take to manage it.

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 special bonus, interest and / or final bonus.

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 cash value. Upon specified time point or termination, you may also receive special bonus and / or final bonus. If you choose to leave your policy value with us in the Flexi Account, the value of the Flexi Account may gradually increase with any interest credited. The amounts we pay you as special and final bonuses and interest 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 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. The non-guaranteed benefits include:

Special bonus

Special bonus means the “special cash payment” in your policy. At the end of the accumulation period, the special cash payment will be determined and form part of the policy value, in the form of terminal dividend in the Growth Account and / or in the form of value in the Flexi Account depending on your allocation of the Dual Accounts after the accumulation period. For more details, you can refer to the product brochure and your policy contract.

Interest on Flexi Account

Starting from the flexi saving period, you may choose to allocate part of your policy value into the Flexi Account. We may pay interest on the Flexi Account, but the interest rate is non-guaranteed and may change anytime. Once we pay the interest to your Flexi Account, the interest amounts will be guaranteed.

What are the guarantees and what are not? (cont'd)

Final bonus

Final bonus means the “terminal dividend” in your policy. When your policy terminates, we expect to pay you an additional bonus, such that you can receive your fair share of the participating fund. However, if the sum of your guarantees and the value of Flexi Account exceeds your fair share, we may not pay the final bonus.

How does a participating policy work?

The premiums from you and the owners of other policies pooled together will form a participating fund and will be invested. 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, actual investment returns made net of investment expenses, deductions for the management of the participating policies, amounts for profit sharing with us and the profits or losses resulting from claims, surrenders and expenses of the plan.

The asset share tells us how much your share of the participating fund has earned. We will then determine the appropriate bonuses 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 and loss of the participating fund. Profit and loss can arise from different aspects, for example investment, claims, expenses and policy persistency, and will impact your asset share. We will receive our share of the profit and loss when we pay bonuses and interest to your policy, and when you exercise the Growth Account Lock-in Option.

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 may complement our investment strategies with the use of derivatives and other financial agreements to manage liquidity, achieve an effective and efficient risk management or pre-invest partially or fully expected future premiums to reduce the uncertainty of future investment earnings.

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 slightly higher allocation to other assets such as equities.

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

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 total return potential for the special and final bonuses. We also aim to generate stable income to fund the non-guaranteed interest rate of the Flexi Account. In this context, we assess factors such as risk tolerance, changes in market conditions and economic outlook in order to maintain an optimal portfolio for the plans. In particular, when the plan approaches the end of the accumulation period, we may make use of derivatives to reduce the fluctuation in investment performance. In that case, we can achieve a relatively stable investment earnings during the period that derivatives are in place, but at the same time, the upside potential on the special and final bonus will be limited.

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 the 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. Nonetheless, specific strategies may embed a currency mismatch that 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:

(a) asset share (excluding the Flexi Account)

Asset	Allocation*	
	Within Accumulation Period	Within Flexi Saving Period
Government bonds, corporate bonds and other similar instruments	45% - 75% #	35% - 75% #
Growth assets	25% - 55% #	25% - 65% #

The target asset allocation varies across policy years: Within the accumulation period, the target allocation to fixed income assets (i.e. government bonds, corporate bonds and other similar instruments) will generally be on the lower end of this range in the early policy years and towards the higher end of this range thereafter; conversely, the target allocation to growth assets will generally be on the higher end of this range in the early policy years and towards the lower end of this range thereafter. On the contrary, during the flexi saving period, the target allocation to fixed income assets will generally be on the higher end of this range in the early policy years of the flexi saving period and towards the lower end of this range thereafter; conversely, the target allocation to growth assets will generally be on the lower end of this range in the early policy years of the flexi saving period and towards the higher end of this range thereafter.

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

(b) asset share of the Flexi Account

Asset[^]	Allocation[*]
Government bonds, corporate bonds and other similar instruments	100%

[^] The bond assets allocation includes sub-asset classes like (i) developed market investment-grade corporate bonds and (ii) developed market government bonds.

^{*} The total actual allocation 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.

How do we decide your bonuses and interest?

When deciding the bonuses and interest, we 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 bonuses and interest at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust the bonuses. We may consider not adjusting the bonuses and interest at all, but we may also adjust the bonuses and interest 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 bonuses 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 special bonus, interest and final bonus differently because of their different nature.

Your participating policy is designed to be held for long term. When we determine the fair share, and thus your bonuses, 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 bonuses and interest? (cont'd)

Special bonus and Final bonus

When we decide the amount of bonuses 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 amount of the guarantees and the value of Flexi Account to determine the final bonus and/ or special bonus. If the amount of the guarantees and the value of Flexi Account is greater than the fair payout you should receive, we may not pay any final bonus and/ or special bonus.

Special and final bonuses are both sensitive to the past performance of the participating fund.

While your entitlement to the special bonus and the payment of final bonus are subject to the terms and conditions in your policy contract, you can always contact us for the amounts currently projected or declared. However, the actual amounts of special bonus/ final bonus will only be determined upon entitlement/ payment respectively, and can be different from what you were informed before that.

Interest rate on the Flexi Account

When we determine the interest rate, we will look at:

- (i) total level of guarantees that we have offered as compared to the asset share;
- (ii) the past investment performance on asset share of the Flexi Account; and
- (iii) the future investment outlook on the asset share of the Flexi Account

Besides looking at these, we may also apply smoothing and make reference to the interest rates in the market.

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

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 bonuses 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.

To align our interest with yours, we aim to share with you 80% of the profit and loss of the participating fund and the remaining 20% goes to us.

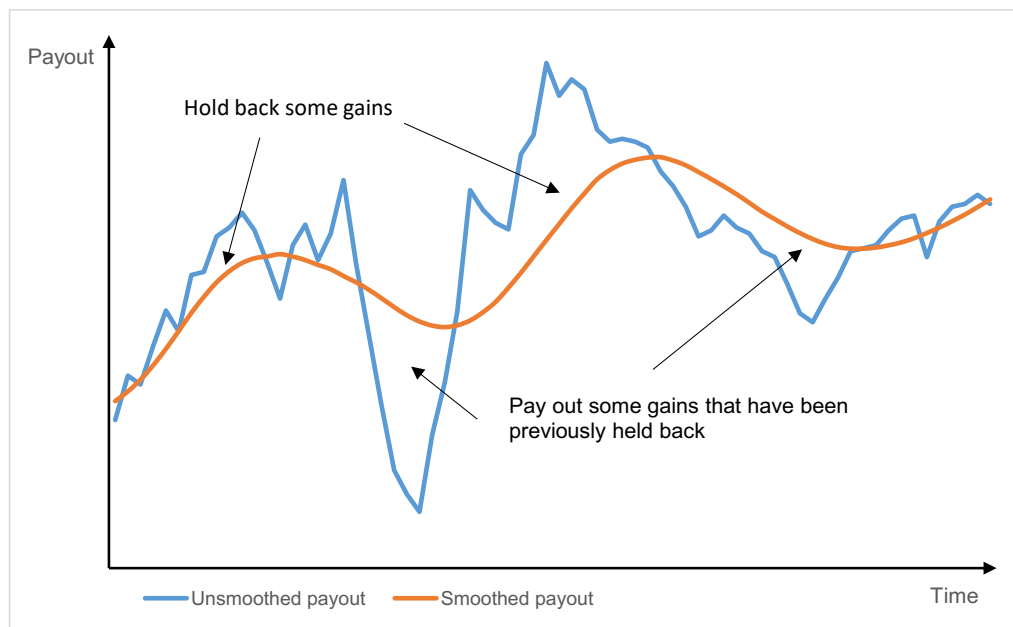
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the bonuses and interest to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise the recommendation. Our board of directors will then make the decision taking into account the appointed actuary's recommendation, with written declaration by the chairman of the board, at least one independent non-executive director and the appointed actuary that appropriate measures have been taken to manage potential conflicts of interest between its duty to policyholders and its duty to shareholders, particularly in relation to the declaration of bonuses and interest for policyholders.

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 bonuses 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 bonuses and interest?

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

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 bonuses 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 bonuses and interest may be reduced.

Claims

These include the cost of providing death benefit and other insurance benefits under the participating life insurance plans. If the amount of benefit claims turns out to be higher, your bonuses and interest will be lower.

Policy persistency

If policies lapse, or are surrendered (whether in full or partially), profits or losses arise when the benefits paid out differ from the asset share of the terminated policies. Such profits or losses will be added to the asset share of the remaining policies.

Expenses

These include both expenses directly related to the policy (e.g. distribution costs and taxes) and indirect expenses allocated to the product group (e.g. office rent). If the actual expenses become higher, there will be less money available to pay you as bonuses and interest.

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

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

Smoothing

The bonuses 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 bonuses 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 bonuses 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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