Retirement annuity
JoyAhead Immediate Annuity Plan

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 JoyAhead Immediate Annuity Plan 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, such as monthly guaranteed annuity payment and Dementia Companion Benefit (collectively referred to as "monthly guaranteed payment"), guaranteed cash value and guaranteed death benefit; and

b) non-guaranteed benefits, in the form of terminal dividend and interest on accumulation account ("terminal dividend and interest").

Please refer to the product brochure and the policy contract for the details of product features offered under this product.

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 reinsurance assets and investment assets. 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 monthly guaranteed payment, death benefit or the cash value. If the monthly guaranteed payment has been left with us for accumulation or the terminal dividend lock-in option has been exercised, the value of the accumulation account may gradually increase with any interest credited. Finally, upon termination, you may also receive a terminal dividend. The amount we pay you as terminal dividend 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 profits or losses immediately, we may even out some short-term fluctuations. This is called smoothing and we will explain it 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, the monthly payment 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:

Terminal Dividend

When your policy terminates, we expect to pay you terminal dividend, such that you can receive your fair share of the participating fund. However, if the amount of your guarantees and the value of accumulation account exceed your fair share, we may not pay the terminal dividend.

Interest on Accumulation Account

You may choose to leave your monthly guaranteed payment with us in the accumulation account starting from the first policy monthiversary. Moreover, starting from the 10th policy anniversary, you may choose to exercise terminal dividend lock-in option to transfer a portion of your policy's terminal dividend into the accumulation account. Interest may be paid on the accumulation account, but the interest rate is non-guaranteed and may change anytime. Once we pay the interest to your accumulation account, the interest amounts will be guaranteed.

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 is an accumulation of the premiums received and actual investment returns, net of investment expenses, deductions for the management of the participating policies and amounts for profit sharing with us.

The asset share tells us how much your share of the fund has earned. We will then determine the appropriate terminal dividend, 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 policy benefits (including but not limited to surrender benefits, insurance benefits and guarantees), expenses (for example, distribution costs, policy administration expenses, servicing costs, relevant taxes and office rent), as well as charges that cover profits and other costs for operating this participating fund.

How does a participating policy work? (cont'd)

How does profit sharing work?

We have an interest in the participating fund and share the surplus of the participating fund. The surplus of the participating fund after the deductions will be shared between you (and owners of other policies) and us through profit sharing. We aim to allocate 90% of the surplus to you, while 10% will become another part of our profits. We will receive our share when we pay terminal dividend and interest to your policy, and when you exercise the terminal dividend 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 efficient portfolio management and effective 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. Generally, plans with higher guarantees would have a larger portion of investments invested in more stable assets, such as fixed income, 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 total return potential for the non-guaranteed terminal dividend. We also aim to generate stable income to fund the non-guaranteed interest rates of the accumulation 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.

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 assets, primarily with exposure to the U.S. and Asia (including Hong Kong and Mainland China). We primarily invest in USD denominated fixed income assets and may also invest in non-USD denominated fixed income assets from time to time. We aim to match the currency of fixed income investments and the policy by making use of derivatives to hedge the currency risk (if any). For growth assets in the asset share (excluding the accumulation account), we primarily invest in U.S. & Asia Pacific ex-Japan regions but may retain some global market exposure. The geographic region of growth asset investments is independent of the policy currency. Growth asset 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. For the asset share of accumulation account, we primarily invest in USD denominated fixed income assets and may also invest in non-USD denominated fixed income assets from time to time. We aim to match the currency of fixed income investments and the policy by making use of derivatives to hedge the currency risk (if any).

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

Asset allocations

You can find the current target asset allocations below applied on different parts of the asset share:

(a) asset share (excluding the accumulation account)

Asset Class^	Initial Allocation*
Government bonds, corporate bonds, reinsurance assets and other similar instruments	60% - 80%
Growth assets	20% - 40% (mainly U.S. & Asia Pacific ex-Japan with some global market exposure)

Once your premium is invested and allocated based on the initial target asset allocations above, the initial allocation on bonds or reinsurance assets may not be rebalanced with the other assets. In other words, the asset allocation may drift over time depending on the investment performance in each asset class.

(b) asset share of accumulation account

Asset Class#	Allocation*
Government bonds, corporate bonds and other similar instruments	100%

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

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. For instance, reinsurance assets and some alternative assets may present reduced liquidity and hence may be rebalanced less frequently.

How do we decide your terminal dividend and interest?

When deciding the terminal dividend 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 or losses with the owners of other policies.

We closely monitor the participating fund and review the terminal dividend and interest at least annually. The more assets allocated in the growth assets (e.g. equity), the more frequent we may adjust the terminal dividend. We may consider not adjusting the terminal dividend and interest at all, but we may also adjust the terminal dividend 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 terminal dividend and interest to be paid:

a) the asset share;

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

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

We may adjust the terminal dividend and interest 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 terminal dividend, we also take into account the policy duration. Generally, if your policy is terminated in early policy years, the terminal dividend you receive will be lower.

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

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 payouts that we should pay. We then compare this against the sum of the guarantees and the value of the accumulation account to determine the terminal dividend. If the sum of the guarantees and the value of the accumulation account is greater than the fair payouts you should receive, we may not pay any terminal dividend.

Interest Rate on Accumulation 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 the asset share of the accumulation account; and

(iii) the future investment outlook on the asset share of the accumulation 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 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 terminal dividend 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.

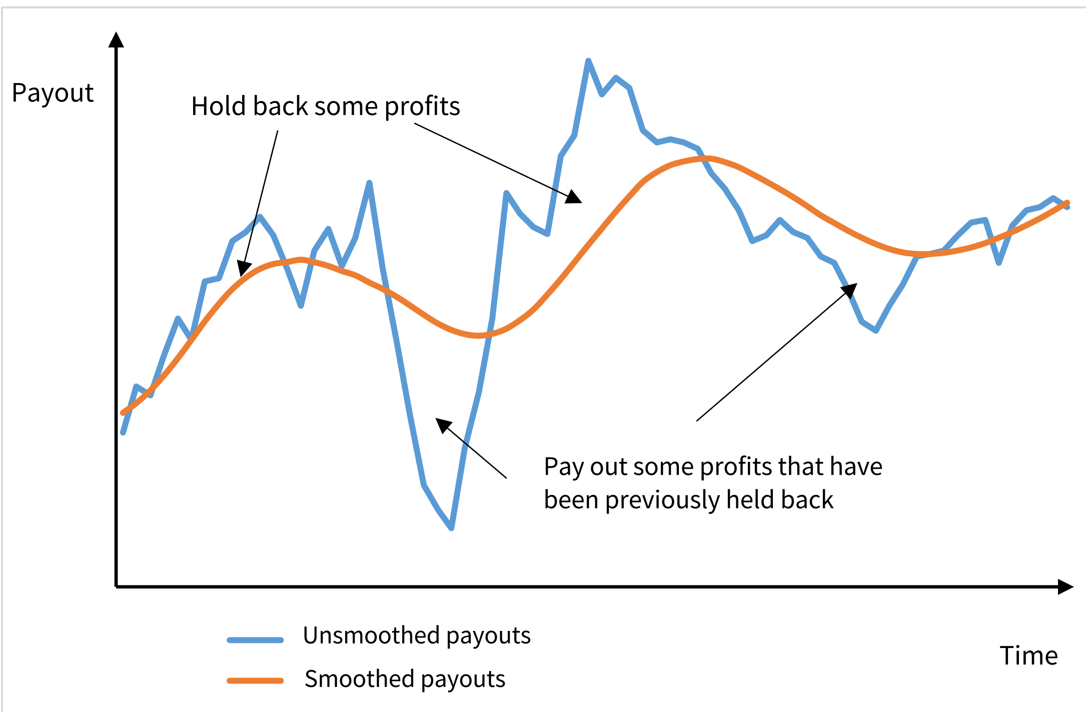
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the terminal dividend and interest to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise 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 terminal dividend 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 terminal dividend 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 either. 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 profit or loss from smoothing over time. Therefore, the accumulated profit 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 profits from smoothing, we will be able to protect you against a deeper drop in the investment in the future.

As another example, if the asset value changes sharply, or there is large outflow from the participating fund, the net profit 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. exercise of terminal dividend lock-in option, the death of the insured and policy surrender.

What will affect your terminal dividend and interest?

We consider the past performance and future outlook of the following factors when determining your terminal dividend and interest, and they may significantly affect your terminal dividend 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 of some assets, e.g. bonds, 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 change. 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 policy currency and are not fully hedged against currency risk, any change in the currency exchange rates will change the value of the assets measured in these currencies 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, relative to the current market price, in a short period of time.

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

- Credit / Default risk

  Credit / default risk is a risk where companies (including reinsurance companies) or individuals may be unable to make payments on their debt obligations, leading to losses in principal and/or interest / coupons for investors.
- 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 terminal dividend 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 terminal dividend will be lower.

Policy persistency

If policies lapse / are surrendered (whether in full or partially) and the benefits paid out differ from the asset share of the terminated policies after deduction of the corresponding profit sharing, your terminal dividend may be affected.

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

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 terminal dividend.

Exercising the Terminal Dividend Lock-in Option

Your terminal dividend and interest may be affected if any policyholder exercises the terminal dividend lock-in option and the lock-in amount differs from the corresponding portion of the asset share after deduction of the profit sharing.

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

Smoothing

The terminal dividend 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 profits or losses 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 terminal dividend 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 terminal dividend 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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