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Life protection and savings
Wealth Genius Income 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 the Wealth Genius Income 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 guaranteed cash value, guarantee cash coupons and guaranteed death benefit; and

b) non-guaranteed benefits, in the form of regular bonus 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 bonuses. Your policy has certain benefits that are guaranteed, such as the death benefit, cash coupons or the cash value (if applicable). Then in each year, the value of your policy may gradually increase with regular bonus. Finally, upon termination, you may also receive a final bonus. The amounts we pay you as regular bonus and final bonus 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 bonuses which are not guaranteed. There are two types of bonuses:

Regular bonus

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

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 regular bonus 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 fund has earned. We will then determine the appropriate bonuses, 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 to your policy.

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. 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 regular and final bonuses. 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*
	Participating fund
Government bonds, corporate bonds and other similar instruments	60% - 100%#
Growth assets	0% - 40%#

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

* 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.

The target asset allocation varies across policy years: the target allocation to bond 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.

How do we decide your bonuses?

When deciding the bonuses, 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 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 at all, but we may also adjust the bonuses 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 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 regular bonus 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? (cont'd)

Regular bonus

When we review the regular bonus, 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 regular bonus.

The addition of the regular bonus 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 regular bonus 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 regular bonus every year.

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

Rest assured that you can still get your fair share from the participating fund because we will adjust the payout to you through the final bonus.

Final bonus

When we decide the amount of final bonus 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 regular bonus to determine the final bonus. If the sum of the guarantees and the regular bonus is greater than the fair payout you should receive, we may not pay any final bonus.

Compared to the regular bonus, the final bonus 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 bonuses.

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 arising from investment, claims, expenses and policy persistency of the participating fund and the remaining 20% goes to us.

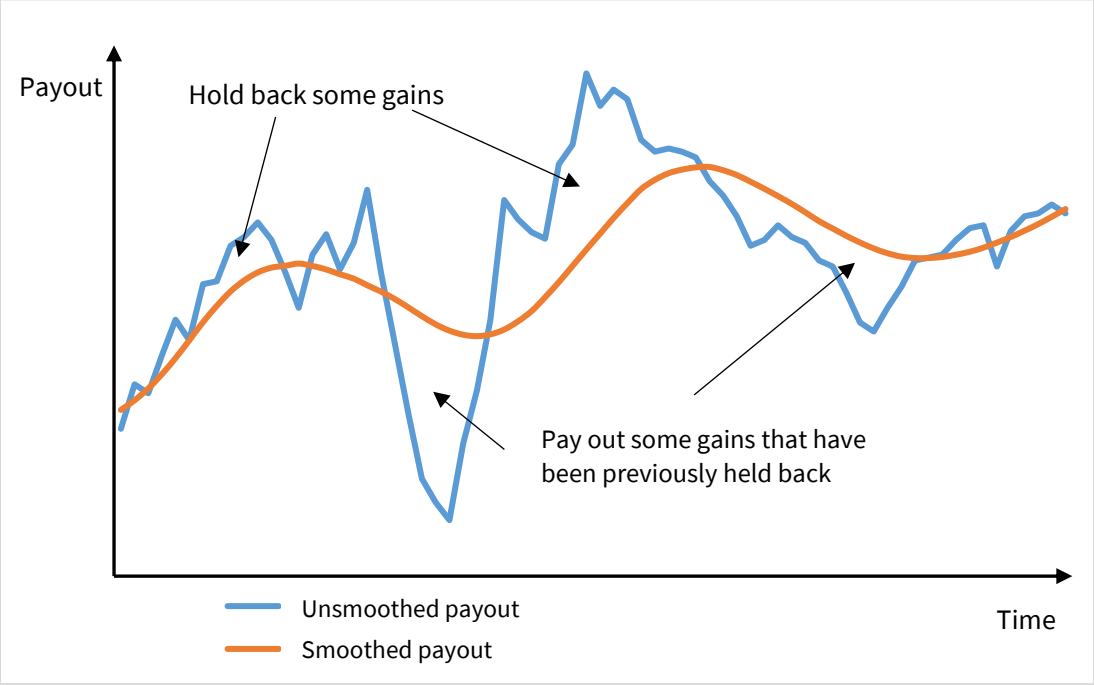
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the bonuses to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise the recommendation. 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 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 upon the asset share changes, we may choose to keep the bonuses unchanged or make a milder adjustment to the bonuses 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 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?

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

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? (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 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 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.

What will affect your bonuses? (cont'd)

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

Smoothing

The bonuses 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, 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 may change if the characteristics of policies in your group change.

How do we determine the interest on accumulated dividends and cash coupons?

If your plan pays annual dividends and / or cash coupons, you can choose to leave them with us to earn interest. The amount accumulated with interest will form a separate fund. This fund does not form part of the asset share and is separately managed. We will make deductions for the management of the fund.

The interest rate is not guaranteed. We determine the interest rate from time to time based on the past investment performance, as well as future investment outlook of the assets in this fund. We may also make reference to the interest rates in the market.

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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