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Life protection and savings
National life series
AXA (HK) life series
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.

- National Life Series
- AXA (Hong Kong) Life Series
- Smart Ease Supplementary Plan
- Smart Kid
- Smart Lady

For the list of plans, you can refer to the section at the end of this document.

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 guaranteed benefits and non-guaranteed benefits.

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, or reversionary bonus depending on the features of your plan. If your plan features special investment bonus or maturity dividend, you may also receive it upon termination of the policy, depending on the terms and conditions of your policy. The amounts we pay you as these non-guaranteed benefits 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 your policy contract for more details.

Non-guarantees

In contrast with the guarantees, some benefits are not guaranteed. For the plans covered in this fact sheet, the non-guaranteed benefits may include:

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 endowments

You may choose to leave the declared annual dividends and cash endowments (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.

Reversionary bonus

Some plans may feature reversionary bonus instead of annual dividend and its interest. Similar to the annual dividend, it may be declared on an annual basis. It has a face amount that will be payable upon death, and a cash value that will be payable upon surrender and maturity.

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

Special investment bonus / Maturity dividend

If your plan features this, this may be payable when your policy terminates, depending on the terms and conditions of your policy. The amount will only be determined when it is paid.

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 endowments (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 the non-guaranteed benefits.

What is an asset share?

The asset share depends on factors including the premiums received, annual dividends and cash endowments 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.

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 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 philosophy of determining the non-guaranteed benefits 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 may complement our investment strategies with the use of derivatives and other financial agreements to manage liquidity and achieve an efficient and effective risk management.

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 bonds, and plans with lower guarantees may generally include a slightly 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 non-guaranteed benefits. 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 the 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. Overall, we target to limit the extent of currency mismatch, except for some specific strategies where 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.

Asset allocations

You can find the current target asset allocations below:

Asset	Allocation*
Government bonds, corporate bonds and other similar instruments	93%
Growth assets	7%

* There may be some holdings in cash. In addition, we may accept certain degree of deviation from the above targets in order to manage the portfolio efficiently.

How do we decide your non-guaranteed benefits?

When deciding the non-guaranteed benefits, we may group your policy with other policies 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 non-guaranteed benefits 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 non-guaranteed benefits 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 non-guaranteed benefits 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.

If your plan pays more than one kind of non-guaranteed benefits (for example, a combination of annual dividend, interest and special investment bonus), we may adjust each of them 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 your non-guaranteed benefits, 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 non-guaranteed benefits? (cont'd)

The addition of the annual dividend, interest or reversionary 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 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 non-guaranteed benefits every year.

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

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 non-guaranteed benefits.

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.

We determine our share of profit first, 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 non-guaranteed benefits 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.

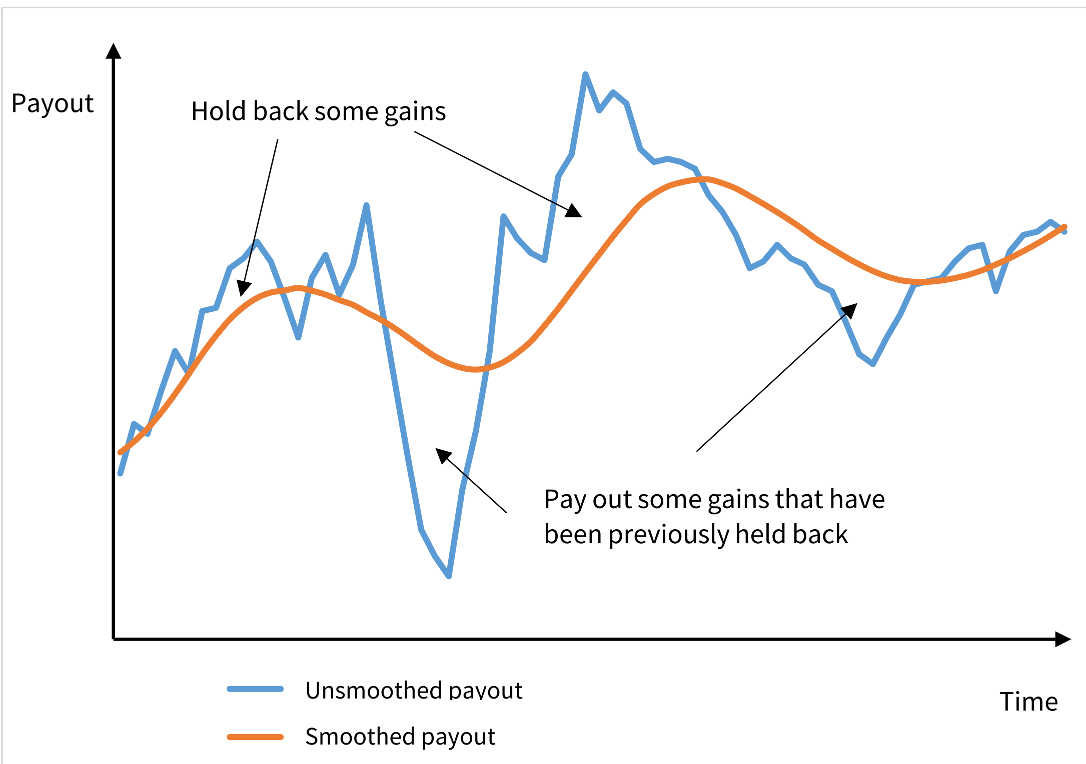
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the non-guaranteed benefits to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise the 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 non-guaranteed benefits 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 non-guaranteed benefits 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 may reduce or even stop smoothing. We may decide to do so to protect the interest of the policy owners.

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 non-guaranteed benefits?

We consider the past performance and future outlook of these factors when determining your non-guaranteed benefits 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 non-guaranteed benefits? (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 non-guaranteed benefits may be reduced.

The non-guaranteed benefits you are going to receive will also depend on:

Smoothing

The amount 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. There may be circumstances we do not apply any smoothing as well.

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.

List of plans covered by this fact sheet

National Life Series

- Mission Chong Yuen
- 20 Pay National Life
- National Life 303
- National Life Annual Dividend
- National Life Endowment Special
- National Mutual Senior Life
- National Endowment (10 Pay)
- National Endowment (15 Pay)
- National Endowment (20 Pay)
- National Endowment (25 Pay)
- National Endowment (30 Pay)
- National Endowment (to Age 55)
- National Endowment (to Age 60)
- National Endowment (to Age 65)
- 10 Year Endowment – Reversionary Bonus
- 15 Year Endowment – Reversionary Bonus
- 20 Year Endowment – Reversionary Bonus
- 25 Year Endowment – Reversionary Bonus
- 30 Year Endowment – Reversionary Bonus
- 20 Payment Life – Level Premium Participating*
- Endowment @ 18 – Reversionary Bonus
- Endowment @ 21 – Reversionary Bonus
- Endowment @ 55 – Reversionary Bonus
- Endowment @ 60 – Reversionary Bonus

* Not applicable to Macau

List of plans covered by this fact sheet (cont’d)

- Endowment @ 65 – Reversionary Bonus
- Executive Whole Life – Reversionary Bonus*
- Whole Life – Level Premium Participating*
- Whole Life – Reversionary Bonus

AXA (Hong Kong) Life Series

- CELA 18*
- CELA 20*
- CELA Builder*
- CELA Junior 18*
- CELA Junior 21*
- CELA Life*
- CELA Life Special*
- CELA Senior*
- CELA Senior – Diamond*
- CELA Senior – Gold*
- CELA Senior – Jade*
- CELA Senior – Pearl*
- CELA Lady*
- CELA Lady Plus*
- CELA Golden Age Planner*
- Goal Achiever 15*
- Glorious Retirement 60*
- Glorious Retirement 65*
- Super 18*

* Not applicable to Macau

List of plans covered by this fact sheet (cont'd)

- Super Builder*
- Super Elegance*
- Super Junior 18*
- Super Junior 21*
- Super Life*
- Super Privilege*
- Super Retirement*
- Super Senior*
- Super Saver 12*
- Super Saver 9*
- Superior Life Plan*
- Superior 15 Plan*
- Superior Retirement Plan*
- Superior Senior Plan*
- Super Lady*
- Target Life Achiever*
- Target Wealth Achiever*
- CELA Gold*
- CELA Plus*
- CELA Whole Life*
- CELA Whole Life 88*
- Super Endowment 10*
- Super Endowment 15*
- Super Gold*
- Super Plus*

* Not applicable to Macau

List of plans covered by this fact sheet (cont'd)

Smart Ease Supplementary Plan*

Smart Kid

Smart Lady

* Not applicable to Macau

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National life series, AXA (HK) life series and other selected participating plans
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