Critical illness protection
HealthElite series
HealthVital series
HealthSelect series

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.

- HealthElite Critical Illness Insurance
- HealthSelect Major Illness Insurance ("HealthSelect")
- HealthSelect II Major Illness Plan ("HealthSelect II")
- HealthVital Major Illness Insurance ("HealthVital")
- HealthVital II Major Illness Plan ("HealthVital II")

What does it mean by “participating” for these plans?

These plans are designed to provide all-round critical illness insurance protection, and at the same time an additional return through the non-guaranteed terminal dividend.

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 a terminal dividend. Your policy has certain benefits that are guaranteed, such as the insurance benefit and the cash value. Then upon termination, you may also receive a terminal dividend. The amount of the 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 various critical illness benefits, 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 a terminal dividend which is not guaranteed. When your policy terminates, we expect to pay you this terminal dividend, such that you can receive your fair share of the participating fund. However, if the amount of your guarantees exceeds your fair share, we may not pay the terminal dividend.

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, and amounts for profit sharing with us. Your asset share will also include the profits or losses resulting from expenses (applicable to HealthElite Critical Illness Insurance only), claims and surrenders of the plan.

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 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. 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 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. 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. For specific plans, the strategic asset allocation will be determined dynamically over a wider range, and with reference to factors including but not limited to the prevailing market condition and surplus of the fund. 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 terminal dividend. We also assess factors such as risk tolerance, changes in market conditions and economic outlook in order to maintain an optimal portfolio.

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 Mainland 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.

Asset allocations

The target asset allocation will fall under the following range:

Asset Class^	Allocation*
Government bonds, corporate bonds and other similar instruments	70% - 90%
Growth assets	10% - 30%

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

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

HealthElite Critical Illness Insurance, HealthVital Major Illness Insurance, HealthSelect Major Illness Insurance: The bond allocation is mainly invested in (i), and the growth assets is mainly invested in (b) and (c), with flexibility allowed in allocating to the sub-asset classes both within the bond allocation and within the growth asset allocation.

HealthVital II Major Illness Insurance, HealthSelect II Major Illness Insurance: The bond allocation is mainly invested in (i), and the growth assets is mainly invested in (b) and (c), 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.

How do we decide your terminal dividend?

When deciding the terminal dividend, 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 terminal dividend 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 it at all, but we may also adjust it 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 amount 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.

When we decide the amount 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 to determine the terminal dividend. If the amount of the guarantees is greater than the fair payout you should receive, we may not pay any terminal dividend.

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, and they are adjusted downward in the early policy years to reflect this.

While the terminal dividend is only payable when your policy terminates subject to the terms and conditions in your policy contract, you can always contact us for its amount currently declared. However, the actual amount payable of the terminal dividend will only be determined when it is paid, and can be different from what you were informed before receiving it.

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.

It is also part of our aim to make the value of your policy stable. 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 certain portion of the profit and loss of the participating fund, but the way we share it depends on the plan you choose.

i) HealthElite Critical Illness Insurance
We aim to share with you equally the profit and loss of the participating fund. We will receive our share when we pay the terminal dividend to you.

ii) HealthSelect, HealthSelect II, HealthVital and HealthVital II
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, claims and policy persistency. If the actual amount we can distribute as terminal dividend 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.

What are our philosophy and governance when managing the participating business and setting payouts? (cont'd)

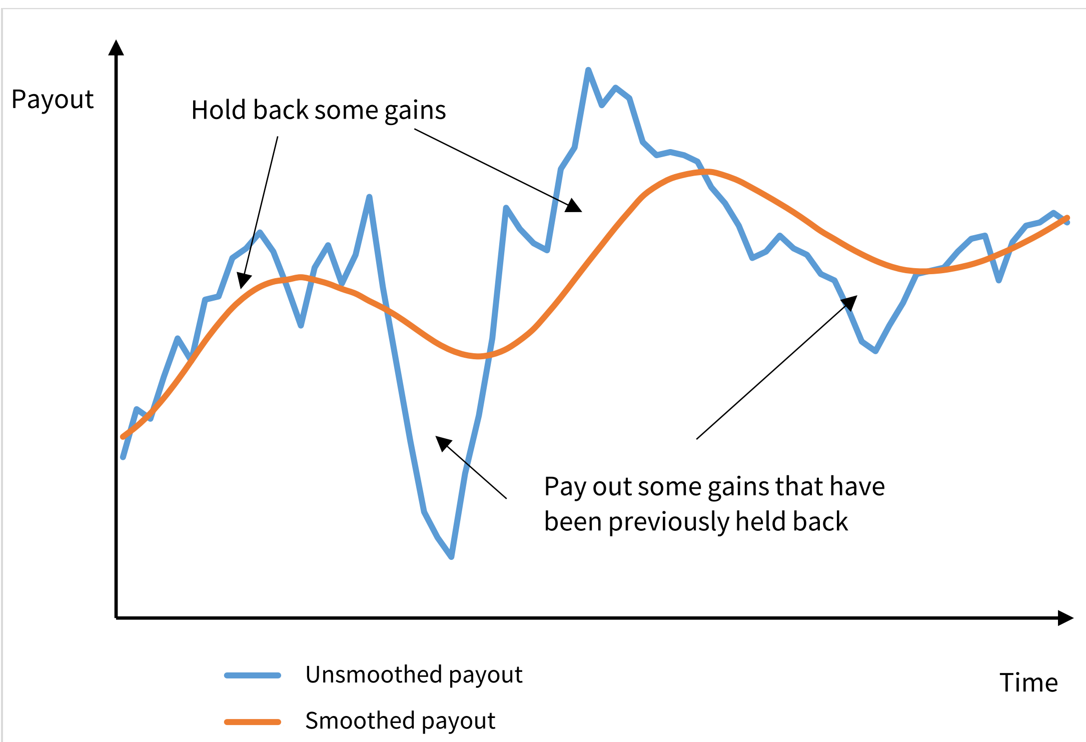
With all these in mind, our appointed actuary conducts a detailed analysis of the participating business and makes recommendation of the terminal dividend to be declared at least annually. To further safeguard your interest, we have designated committees to independently review and scrutinise the recommendation. 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 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 terminal dividend can remain stable against some short-term fluctuations in the returns on the participating fund. If there is no smoothing, your terminal dividend 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 terminal dividend. Instead of immediately adjusting the terminal dividend upon the asset share changes, we may choose to keep it 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 terminal dividend?

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

<u>Investment return</u>

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.

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

- 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.
- 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 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, 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.

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

Expenses (applicable to HealthElite Critical Illness Insurance only*)

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.

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

Smoothing

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

* For other plans to which the above factor is not applicable, at the time of the policy issuance, we determine how much we will deduct from the asset share for funding the various expenses. If in the future we find out that such amount is not sufficient to cover all the expenses, we will absorb the difference and this will not reduce the amount of the terminal dividend.

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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