

With-Profits Plan Booklet

Sharing in the profits of Prudential's With-Profits Fund through bonuses



Listening. Understanding. Delivering.



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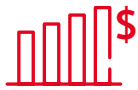
This document provides a simplified description of your With-Profits Plan (“Plan”) and how we operate the With-Profits Fund (“Fund”). The document must be read together with specific terms and conditions, the sales illustration and product brochure of your Plan.

What is a With-Profits Plan?

Your With-Profits Plan is a medium to long-term insurance policy investing in our With-Profits Fund:



we will provide you the guaranteed benefits of your Plan subject to the terms and conditions set out in the contract;



your Plan can share in the profits of the Fund from bonuses that may be added from time to time;



we aim to give returns which reflect the performance of the balanced portfolio of underlying investments backing your Plan;



over the longer term, we aim to produce a more stable investment return through smoothing; and



we will act to ensure all policyholders’ respective rights and reasonable expectations are protected.

How do our With-Profits Plans work?

Premiums from your With-Profits policies are invested in our With-Profits Fund. In return, policyholders will share the profits and losses from the Fund in the form of bonuses. The Fund consists of a wide range of assets to diversify investment risk, while relevant expenses, charges and claims are deducted from the same Fund. The With-Profits Fund is segregated from that of other products in Prudential.

Our bonus philosophy

Policyholders of the With-Profits Plans shall enjoy a fair share of the relevant experience of the Fund through the addition of non-guaranteed bonus. We aim to protect all policyholders' respective rights and reasonable expectations by providing payments that are fair between different groups of policyholders. While the value of the Plan is mostly affected by the overall performance of the Fund, smoothing may be applied to produce a more stable return over the long-term.

How do we determine bonuses?

The bonuses are determined such that payment under your Plan (including guaranteed benefits) is in line with the Fund's performance over the lifetime of your Plan.

Types of bonus

Different With-Profits Plans receive different types of bonuses. Depending on the feature of the Plan you choose, the non-guaranteed bonus can be in the form of:

- **Regular bonus:** A regular bonus may be paid during the term of the Plan. Depending on the type of plan, a regular bonus may be referred to as reversionary bonus, cash dividend or income bonus. Once declared and added to the Plan, the face value of regular bonus will be guaranteed upon policy termination on death or maturity while non-guaranteed cash value of regular bonus is payable upon termination on surrender.
- **Final bonus:** This is a one-off bonus we may pay under certain conditions as specified in the benefit provisions, such as when the plan terminates on death, surrender or maturity. Depending on the type of Plan, a final bonus may be referred to as a special bonus, terminal dividend or growth bonus. The amount of final bonus is not guaranteed and may increase or decrease at subsequent declarations.

How are bonuses determined?

To retain flexibility in our investment strategy and to preserve the long-term financial sustainability of the fund, we aim to release some of the earned return through the determination of regular bonus, but we may hold back some of the return and distribute it later as a final bonus for most types of With-Profits Plans.

Regular bonuses

A reversionary bonus/income bonus is determined by applying a forward-looking approach and the main consideration is the future expected bond return. Cash dividend adopts a backward-looking approach by referencing to actual weighted yield of the bond portfolio.

Final bonuses

The purpose of the final bonus is to bring your plan's total payment (including guaranteed benefits and regular bonuses) in line with the With-Profits Fund's performance over the lifetime of your plan.

Factors that affect your bonuses

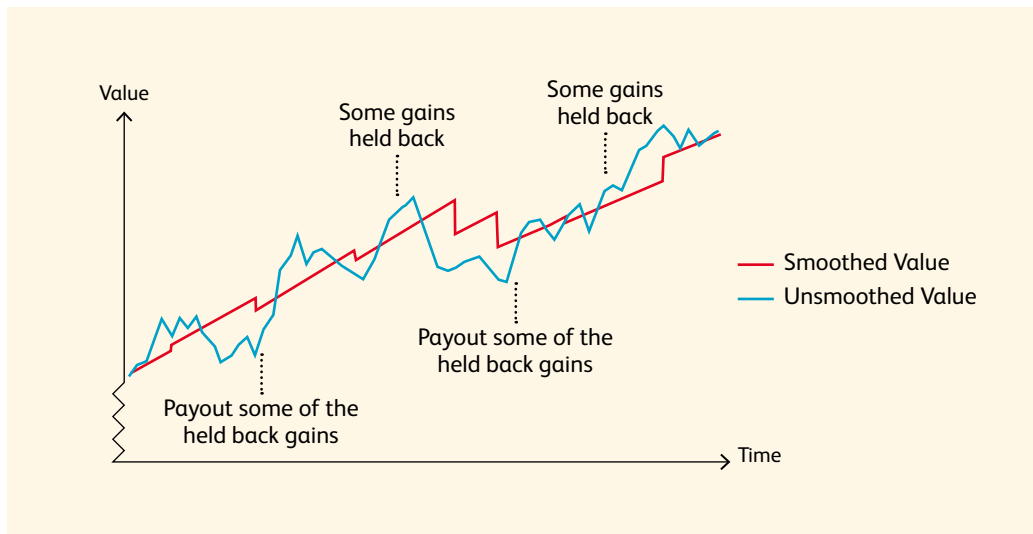
In determining bonuses to With-Profits policyholders, our considerations include (but are not limited to):

- investment performance and outlook: this is a key factor affecting the Plan's performance. Different products may have different features or risk profiles, and hence the underlying investment strategy may vary giving rise to different investment returns;
- operating expenses and charges: arise from the costs to operate the Fund;
- insurance risks: actual experience on claims and surrenders as well as the projected cost of providing such benefits; and
- smoothing: see explanation in the following section.

Smoothing

We aim to smooth some of the peaks and troughs of the investment performance of the Fund to provide a more stable return to policyholders. We aim not to change bonus rates by as much as the value of the Fund changes. To achieve this, we hold back some of the investment returns in good years to allow buffer for potentially lower return in later years; or we boost bonus rates temporarily in years having adverse return to avoid big drops in your policy value (guaranteed plus non-guaranteed value).

The graph below is a hypothetical illustration on how smoothing works.



Smoothing is an activity that aims to produce a more stable return year on year to policyholders as a whole. Some policyholders may benefit differently to others from the effect of smoothing depending on when the Plan started and when it ends.

What is an Inherited Estate?

As a long-established life insurance company, our With-Profits Fund contains an amount of money in excess of the amount we expect to pay out to existing policyholders. This is known as the Inherited Estate. It has been built up over many years from a number of sources and it provides working capital to support current and future business. The Inherited Estate is legally and beneficially owned by the company.

There are several key benefits of having the Inherited Estate:



The Inherited Estate help to support the guarantee benefits of policyholders under unfavourable situations (when the backing asset is not enough to cover the guarantee amount for terminated policies). This ensures the existing policyholders is not adversely impacted by such event.



With the substantial amount of capital held in the Inherited Estate, we demonstrate that our Fund is solvent and able to meet its obligations to all policyholders in a range of significant adverse economic circumstances. This allows us to:

- have greater flexibility to invest in a wider range of assets
- be able to adopt a balanced investment strategy even under adverse economic circumstances

Note that currently there are no plans to distribute our With-Profits Fund's Inherited Estate to policyholders or Prudential shareholders, other than as required to meet guarantees.

How is fairness between different parties achieved?

In managing a With-Profits Fund, conflicts of interest may arise between the various groups and generations of policyholders or between policyholders and shareholders. We aim to resolve any conflicts of interest fairly.

Equity among different groups of With-Profits policyholders

Policyholders will receive a fair policy value based on the value of the premiums paid (less allowance for expenses and charges to support guarantees) accumulated at the rates of investment return earned regardless of when they invest, surrender or reach maturity – the aim is to treat everyone fairly. When considering fairness between different groups of policyholders, the company will consider factors such as differences between products, start or termination date of Plan, issue age of life assured, nature of claim, etc. As the Plans are designed to be medium to long term in nature, the surrender value for early termination is generally set at a lower level to protect continuing policyholders. Full details are shown in your personalised illustration.

Equity between With-Profits policyholders and shareholders

By participating in our With-Profits Fund through the With-Profits Plans, policyholders can receive their share of distributable profits, if any, from the Fund in the form of non-guaranteed bonuses. No less than 90% of the distributable profit from the Fund will be allocated to With-Profits policyholders. The calculation of the distributable profits of With-Profits Fund is performed separately from and is not the same as that of the total profits of Prudential Hong Kong Limited.

How can policyholders be assured that Prudential is fair and acts in their interest?

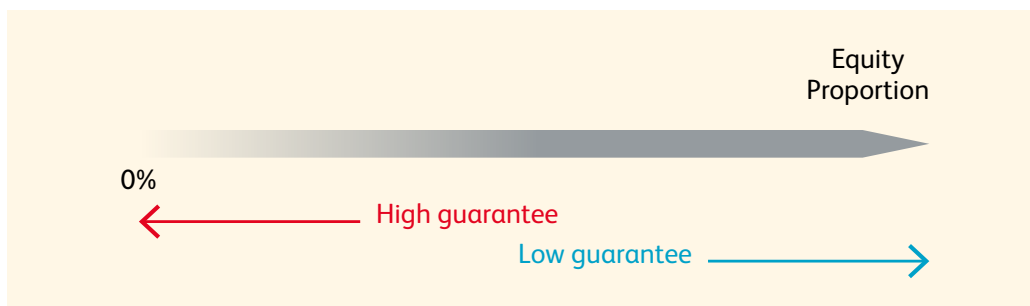
Prudential has a robust process and governance in managing With-Profits Plans. Prudential reviews and declares the bonus rate at least annually, with written declaration by the Chairman of the Board, an Independent Non-Executive Director and the Appointed Actuary that appropriate measures have been taken to manage potential conflict between its duty to policyholders and its duty to shareholders, particularly in relation to the declaration of bonuses for policyholders.

In addition, we have a dedicated committee to oversee investment strategy and performance as well as monitor relevant experience of the Fund.

What is our investment philosophy?

Our investment objective is to maximise policyholders' returns with an acceptable level of risk. We do this through holding a broad mix of investments. The With-Profits Fund invests in various types of assets, such as equity-type securities and fixed income securities to diversify investment risks. The equity-type securities aim to provide policyholders with the potential for a higher long-term return.

We adopt an actively managed investment strategy, which we adjust in response to changing market conditions. Under normal circumstances, our experts allocate a smaller proportion of higher-risk assets, such as equities, to insurance plans with a higher guarantee and a larger proportion of higher-risk assets to insurance plans with lower guarantees. In doing so, we aim to match the level of risk to the risk profiles of our products. We may utilise derivatives to manage risks or improve returns. We may also make use of securities-lending to enhance returns.



In normal circumstances the lower the guarantee, the higher the allocation to equity.

Where appropriate, the proportion of equity-type securities is also adjusted with reference to the market environment. For example, the proportion of equities is generally lower when the interest rate level is low, and higher when interest rates rise (subject to the target long-term equity allocation).

What types of With-Profits Plans are offered by Prudential?

Prudential provides policyholders a wide range of products to choose from. The complete list of With-Profits Plans offered by Prudential is available at www.prudential.com.hk/wpproductlist. Product offering varies across different distribution channels. Please check with your distributor for the list of Plans they carry.

For details of associated risks and benefits, please contact our financial consultants.

Notes

These details are for reference only. They do not represent a contract between Prudential Hong Kong Limited ("Prudential") and anyone else. If you would like more details about any of the plans mentioned, please ask Prudential for a sample of the policy document.

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