

PARTICIPATING FUND COMMENTARY

Regular Premium Policies - Annual bonus update for financial year ended in 31 December 2017.

Participating fund commentary

This is an annual commentary on Participating Funds (commonly referred to as Par Funds) managed by HSBC Insurance (Singapore) Pte. Limited. This report aims to inform policyholders on the performance of Par Funds over the previous accounting period and the bonuses allocated to them for the year. It also provides the future outlook for Par Fund performance based on the latest actuarial investigation of policy liabilities carried out pursuant to Section 37(1) of the Insurance Act Cap. 142 and updates on any changes in future non-guaranteed bonuses.

It is important to note that this bonus update report contains general commentary on HSBC Insurance (Singapore) Pte. Limited's Par Funds and is not specific to any particular policy. Rest assured, once bonuses have been declared for the year, they are guaranteed.

Your participating policy

The main feature of your participating policy is its ability to provide stable returns for your savings, allowing you to participate in the performance of Par Funds in the form of bonuses. Your policy's benefits will ultimately depend on the investment

performance as well as the claims experience and expenses of the relevant Par Fund.

Bonus declarations depend largely on the investment returns we will achieve in the future. Future investment returns cannot be guaranteed and for that reason, neither can future bonuses.

HSBC Insurance (Singapore) Pte. Limited aims to provide stable returns over the life of your participating policy by adopting a concept known as "smoothing". When considering suitable bonus rates, we usually consider average performance over a period longer than one year so as to minimise the effect of short-term fluctuations of asset values. For example, if the Par Fund performance is particularly good in one year, we may hold back a portion of the earnings so that we can maintain bonuses in years when the Par Fund does not perform so well. If the future outlook of Par Fund performance is unfavourable, it may be necessary to reduce the estimates of future bonuses accordingly. However, if the future outlook of Par Fund performance is favourable, future bonuses could be increased.

All bonuses allocated are approved by the Board of Directors of HSBC Insurance (Singapore) Pte. Limited and based on the recommendation by the appointed actuary.

Performance of the participating fund (Regular Premiums Par Fund)

Economic Review and Outlook

2017 had been another good year for investors, with strong returns delivered across a broad range of asset classes. The world economy had experienced strong and synchronized growth across the developed and emerging world. As cyclical inflation pressures remains remarkably subdued, economic policies have remained very accommodative.

Even as the US Federal Reserve and the European Central Bank communicated a more explicit path for normalization, central banks are generally still slow in normalizing monetary policy. Benefitting from the supportive liquidity conditions and a visible improvement in credit quality across fixed income assets, credit spreads have compressed to historical lows.

Global equity markets have performed very strongly in 2017. Developed market equities generated around 15% (in US dollar terms), while the emerging market equities returned more than double that. The combination of an improved economic environment and stronger corporate fundamentals has allowed investors to shrug off disruptive market events and geopolitical risks to a large extent.

As we head into 2018, growth trends are still synchronized across the advanced economies and emerging markets. The typical factors that drive

recessions (i.e. significant monetary tightening, economic imbalances, and external shocks) are currently not observed, and there are little evidence of an imminent downturn from leading global economic indicators. However, faster-than-expected inflation or economic growth that remains strongly above sustainable long-term rates may force central banks around the world to tighten policies more aggressively. This could lead to market volatility and weigh on valuations.

Performance of the participating fund (Regular Premium Par Fund)

HSBC Insurance's Par Fund delivered an investment return of 9.03% net of fees over the year. The return includes effects of both realized and unrealized gains and losses on all investments, which are based on market values.

Total assets

On 31st December 2017, the total assets in the Regular Premium Par Fund amounted to approximately S\$576 million (31st December 2016: S\$530 million). This Fund was primarily invested in corporate and government bonds, representing approximately 64% of the Fund's assets. Approximately 36% of the Fund was invested in equities and hedge funds. The rest of the Fund was held in cash and deposits.

Historical Performance

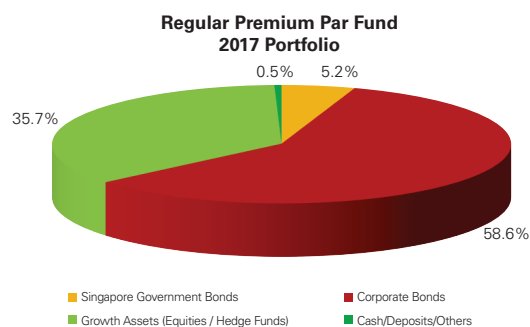
Year	2017	2016	2015	2014	2013
Gross investment return	9.19%	4.85%	0.36%	7.23%	0.08%
Investment fees	0.16%	0.15%	0.17%	0.17%	0.17%

Fixed income

Over the year, fixed income allocations to Singapore government bonds and corporates are similar to previous year. Gross investment returns registered 7.2%.

Growth Assets (Equities/ Hedge Funds)

Growth assets performance was mixed over capital market volatility during the course of the year though the fund's position in this asset class increased over the period. In 2017, equities gained 21%, while hedge funds returned 4.9%.



Other factors affecting performance

Besides investment returns, other factors affecting the fund performance include mortality, voluntary surrenders and management expenses. For the year of 2017, mortality claims were lower than expected; surrender claims were higher than expected; and the level of expenses was in line with expectations. On an overall basis, these factors have not significantly impacted the current bonus levels.

Conclusion

The guaranteed benefits on HSBC Insurance products, in relation to the basic sum assured and the bonuses earned to date, are and will continue to be effective regardless of the situation.

As the outlook for the 2018 investment condition remains uncertain, future investment returns and hence future bonuses cannot be guaranteed. That said, our investment strategy aims to deliver the current expected level of investment returns and we also aim to maintain stability in our bonus rates for all policyholders wherever possible, in line with our bonus philosophy.

A benefit illustration of your policy based on the current projected bonus will be available upon request. You may register your request via e-mail to us at e-surance@hsbc.com.sg.

Note: This is only a commentary of HSBC Insurance (Singapore) Pte. Limited's Par Fund and is not specific to any particular policy.

About HSBC

The HSBC Group is one of the largest banking and financial services organizations in the world, with well established businesses in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. The HSBC Group evolved from The Hongkong and Shanghai Banking Corporation Limited, which was founded in 1865 in Hong Kong with offices in Shanghai and London and an agency in San Francisco.

HSBC Insurance Singapore

HSBC Insurance (Singapore) Pte. Limited is a wholly owned subsidiary of HSBC Insurance (Asia Pacific) Holdings Limited, which is ultimately owned by HSBC Holdings plc, the London-based holding company of the HSBC Group. HSBC Insurance Singapore provides a wide range of solutions to cater to retirement, protection, legacy planning, education and growing your wealth needs.

Safety net for your assets

This policy is protected under the Policy Owners' Protection Scheme which is administered by the Singapore Deposit Insurance Corporation (SDIC). Coverage for your policy is automatic and no further action is required from you. For more information on the types of benefits that are covered under the scheme as well as the limits of coverage, where applicable, please contact us or visit the LIA or SDIC web-sites (www.lia.org.sg or www.sdic.org.sg).

For more information, please contact your financial planner or call our Customer Service Hotline on 6225 6111, Monday to Friday from 9 am to 5 pm or visit our website at www.insurance.hsbc.com.sg.

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Information is correct as at 31 May 2018.