PARTICIPATING FUND COMMENTARY

Regular Premium Policies - Annual bonus update for financial year ended in 31 December 2018.

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 minimize 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

2018 was a challenging year for investors as the "Goldilocks" economic environment (characterized by synchronized global growth, low inflation and low rates) gave way to a more difficult situation. A series of volatility waves stemming from inflation fears to trade tensions, geopolitics, Brexit, and political uncertainty in Europe damaged asset class returns. Major asset classes delivered either flat or negative returns. Meanwhile, the strength in US economic growth (alongside growth weakness in the rest of the world) and policy tightening from the US Federal Reserve ("Fed") has resulted in the US dollar appreciation.

The lackluster performance from fixed income reflects a shift from the perfect monetary and economic conditions at the beginning of the year, to a market environment marked by plateauing economic growth, escalating trade tensions between the US and China, and a move towards neutral monetary policy across the US and Europe.

Equities started the year strong. But the tide turned towards the end of the first quarter, with equities markets particularly in the emerging economies, falling victim to geopolitical and macroeconomic concerns, side-lining fundamentals which have actually held up. Company fundamentals remained largely unaffected, with corporate profits still on an improving trend in most major markets.

Economic Outlook

The global "policy pivot" has been the key moment in investment markets during 2019 so far. After a large sell-off in December of last year, the Fed "pivoted" at the start of the year towards a more accommodative stance. This shift in policy has had a big impact in investment markets. Interest expectations have moved lower, bond yields have fallen, and equity markets have rallied. The other notable risk is linked to escalating trade tensions between US and China, which may lead to a sustained cyclical slowdown in China and other Asian economies caught in the cross-fire. The comforting news is that this risk is well-known to market participants by now, and at least partly reflected in pricing. Overall, investors remain anxious about global growth, recession risk and the possibility of a bear market. Yet, fundamentals suggest that these concerns are mis-placed – global recession looks more like a 2021 or beyond risk.

Performance of the participating fund (Regular Premium Par Fund)

HSBC Insurance's Par Fund suffered negative return over the year, given challenging economic conditions in 2018. The return includes effects of both realized and unrealized gains and losses on all investments, which are based on market values.

HSBC Life

Total assets

On 31st December 2018, the total assets in the Regular Premium Par Fund amounted to approximately S$616 million (31st December 2017: S$576 million). This Fund is primarily invested in fixed income (corporate/ government bonds) and alternative credit strategies, representing approximately 71% of the Fund's assets. Approximately 29% of the Fund is invested in equities and hedge funds. The rest of the Fund was held in cash and deposits.

Historical Performance

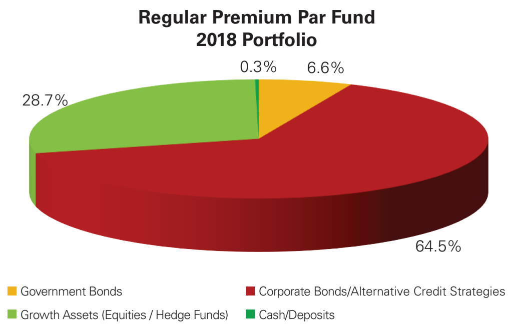
Year	2018	2017	2016	2015	2014
Gross investment return	-3.29%	9.19%	4.85%	0.36%	7.23%
Investment fees	0.17%	0.16%	0.15%	0.17%	0.17%

Fixed income and Alternative Credit Strategies

Over the year, asset allocation to fixed income (corporate/ government bonds) and alternative credit strategies increased by 5%. On a total return basis, coupons received was negated by valuation losses as SGD government bond curve flattened, with short end of the curve moving up and long-end of the curve moving down, while credit spread widens. Hence, gross investment return was flat.

Growth Assets (Equities/ Hedge Funds)

On the other hand, allocation to growth assets reduced by 5%. Returns from growth assets was severely impacted, due to negative market sentiments from trade tension and "faster than expected" policy tightening by Fed. As a result, growth assets (largely contributed by equities) returned negative 10% over the period.



Other factors affecting performance

Besides investment returns, other factors affecting the fund performance include mortality, voluntary surrenders and management expenses. For the year 2018, mortality and voluntary surrender claims were lower than expected; and the level of expenses was broadly 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.

Investment performance during 2018 was volatile and equity returns in particular were poor. However, HSBC Insurance is able to maintain bonus rates for all policies under the Fund for the performance up to the financial year end of 2018. However, given the volatile market environment, if there is no pick up to the current condition in the medium term, future non-guaranteed benefits may be adjusted. We will continue to manage our investment strategy with the aim to maintain stability of our participating fund returns for all policyholders, wherever possible, in line with our bonus philosophy.

A policy illustration of your policy based on the current vested bonus and projected future 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.