

HSBC Par Fund II (SGD) Update 2022

For the financial year ended 31 December 2022

HSBC Life Singapore

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Dear valued client,

Thank you for being a participating policyholder of HSBC Life Singapore. It is our pleasure to provide you with the annual update of the HSBC Par Fund II (SGD)¹ since the last review. This fund was formerly known as the AXA Participating Fund and was renamed as part of the integration and rebranding of our insurance businesses to HSBC Life (Singapore) Pte. Ltd. on 1 February 2023.

These updates include the performance for 2022 and our investment outlook for this year, based on the latest actuarial investigation of policy liabilities carried out pursuant to Section 37(1) of the Insurance Act Cap. 142.

Please note that this bonus update contains only general commentary of the Par Fund and cannot be applied specifically to any participating policy.

A review of the investment markets 2022

The global financial markets in 2022 were marked by volatility and uncertainty due to various global events. The Covid-19 pandemic and the heightened geopolitical risks from the Ukraine-Russian war created a challenging economic environment and impacted the financial markets.

These events resulted in energy price increases and supply chain disruptions. They led to significant inflationary pressures worldwide, with the US Federal Reserve and other central banks tightening their monetary policy to curb inflation.

The equity market for both developed and emerging markets performed poorly due to the challenges posed by high inflation and rising interest rates. At the same time, the fixed income portfolio also suffered losses due to increases in bond yields, with the 10-year Singapore Government Securities (SGS) yield rising from 1.64% at the end of 2021 to 3.08% at the end of 2022. The 10-year US Treasury yield experienced a bigger increase from 1.51% at the end of 2021 to 3.87% at the end of 2022.

Overall, 2022 was a challenging year for investors, with ongoing pandemic-related risks, geopolitical uncertainties, and inflationary pressures driving market direction. The year highlighted the need for a diversified portfolio that can navigate various risks and challenges in the financial markets.

Performance of the Par Fund

The Par Fund produced negative investment return (net of investment expenses) of -14.07% in 2022.

Year	2022	2021	2020	2019	2018
Investment Return	-14.07%	-7.24%	10.18%	10.72%	-0.10%

Investment return has been restated and computed based on the Life Insurance Association Guidelines

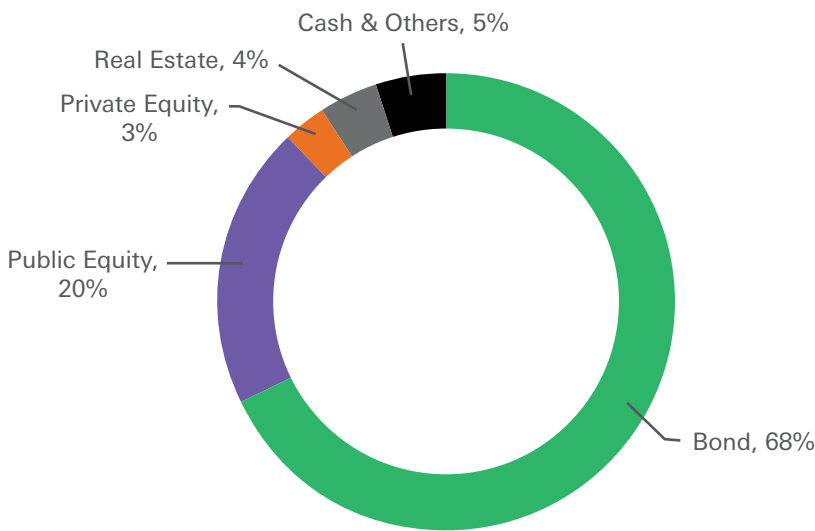
¹ Previously known as AXA Participating Fund SGD

SGD1,318m

HSBC Par Fund II (SGD)

Asset mix of the Par Fund investments

We plan to diversify the portfolio via alternative assets such as real estate, private equity, alternative credit and infrastructure debt to improve the portfolio's risk-adjusted return. The allocation of alternative assets was 7% at the end of 2022.



Figures may not be additive due to rounding.

Other factors affecting performance

Besides investment returns, other factors affect the fund performance, including mortality and morbidity claims, voluntary surrenders and expenses incurred and allocated to the Par Fund.

Maturity Benefits	Surrenders
S\$ 42.5 million	S\$ 13.0 million
Death Benefits	Cash Advances
S\$ 12.6 million	S\$ 13.1 million

For the year 2022, surrender and expense were slightly lower than expected while insurance claims experience was slightly higher than expected. Short-term fluctuations of non-investment performance are not expected to significantly affect future bonuses.

The Total Expense Ratios² are shown below:

Year	2020	2021	2022	Averaged over the last 3 years	Averaged over the last 5 years	Averaged over the last 10 years
Total Expense Ratio	3.27%	2.20%	1.88%	2.43%	3.31%	5.63%

² Please note that past expense ratios may not be indicative of actual expenses that may be incurred in the future.

The investment outlook for 2023

2023 is going to be a year about the macroeconomic cycle, after facing multiple crises globally in 2022. We expect a moderate global growth slowdown as fiscal stimulus fades and monetary policy tightens. Additionally, we anticipate a gradual easing of inflationary pressures as supply bottlenecks ease and demand moderates. Nonetheless, investors may face a rise in market volatility and uncertainty due to a range of factors, including geopolitical tensions between the US and China, climate change, financial instability, and the ongoing risk of multiple crises.

Despite the challenges and uncertainties that may arise in the short term, the long-term outlook for investment opportunities remains strong. Ongoing innovation and productivity gains are expected to drive corporate earnings over the long term. These trends are likely to be supported by technological advancements and ongoing efforts to address key global challenges, such as climate change and sustainable development.

In the current investment environment, effective risk management is more important than ever. Inflation is high and central banks around the world are tightening monetary policy in response. This policy shift could potentially lead to recession or financial instability, resulting in the drag of the overall portfolio return.

Keeping in line with our bonus philosophy, our investment strategy aims to maintain stability in our bonus rates and deliver the current expectations of investment returns for all our policyholders. The guaranteed bonuses on the Par Fund's 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.

Bonus allocation

Premiums of participating policies are pooled together to form the Par Fund, which is invested in a range of assets and used to pay bonuses to policyholders like you. The main feature of your participating policy is its ability to provide stable long-term returns on your policy, allowing you to participate in the performance of the Par Fund in the form of bonuses which are non-guaranteed.

Future policy bonuses are dependent on the Par Fund's performance, which includes investment returns, surrenders, claims and expenses of the fund. Bonuses allocations are smoothed over a period of time to reduce fluctuations arising from market conditions.

All bonuses are approved by the Board of Directors of HSBC Life (Singapore) Pte. Ltd. and based on the recommendation by the Appointed Actuary.

For an illustration of your policy based on the current projected bonus, register your request via e-mail to us at cc.life@mail.life.hsbc.com.sg.

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group. HSBC serves customers worldwide from offices in 62 countries and territories. With assets of US\$2,990bn at 31 March 2023, HSBC is one of the world's largest banking and financial services organisations.

About HSBC Life Singapore

HSBC Life (Singapore) Pte. Ltd. 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 Life (Singapore) Pte. Ltd. has received an A+ rating by Standard & Poor's in February 2023. It provides a wide range of solutions that cater to life, health, retirement, protection, education, legacy planning, and wealth accumulation needs of retail and corporate clients.