Policy dividend for participating products

(applicable to HSBC Jubilee Wealth Insurance Plan only)

What is a participating policy?

HSBC Life (International) Limited ("We", "us" or "ourselves") issue participating life insurance policies providing both guaranteed and non-guaranteed benefits.

- **Guaranteed benefits** may include the death benefit, guaranteed cash value and other benefits that vary depending on your chosen plan. Please refer to your product brochure and benefit illustration of your plan for details.
- **Non-guaranteed benefits** comprise the policy dividends, which allow policyholders to share in the financial performance of the life insurance operation.

  For HSBC Jubilee Wealth Insurance Plan, the policy dividends, if any, are in form of:

  Terminal Bonus, which shall be paid when you fully or partially surrender or terminate your Policy, when it matures or lapses or when the life insured passes away.

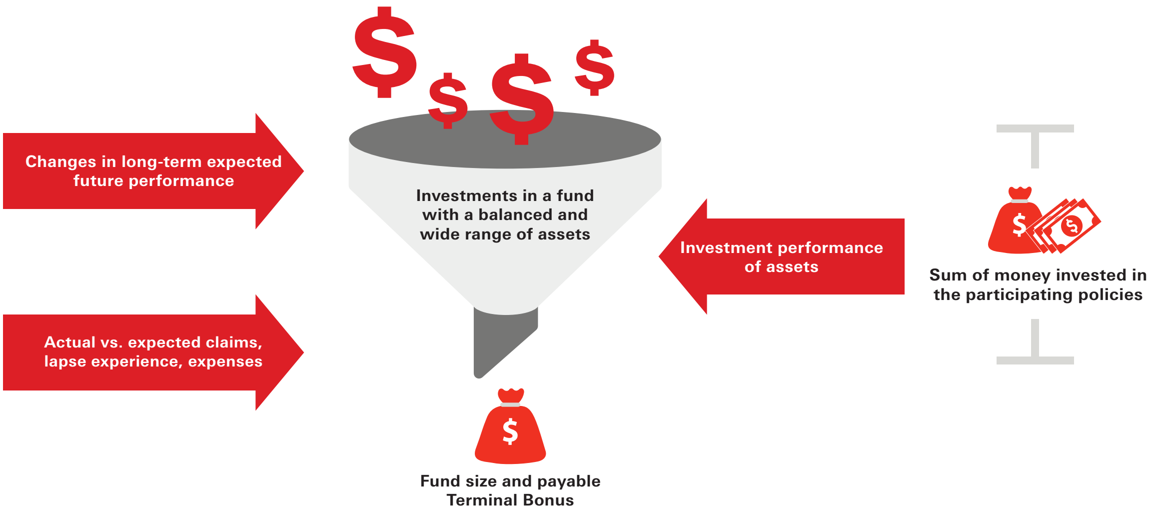
  The Terminal Bonus amount may change from time to time based on the performance over the life of the policy before the time of declaration and prevailing investment market conditions. The actual amount will not be determined until it is payable.

What factors will affect your Terminal Bonus?

Terminal Bonus (if any) is not guaranteed; the size of the Terminal Bonus and whether it is payable depends on factors including but not limited to:

- The investment performance of the assets supporting the policies;
- Claims, lapses, and expenses experiences; and
- The long-term expected future performance of the investment and other experiences mentioned above.

If the performance over the long term is better than expected, the Terminal Bonus paid would increase. If performance is below expectations, the Terminal Bonus paid would decrease.



What are the key benefits of participating policies?

The key feature of participating policies over other forms of insurance policies is that in addition to the guaranteed benefits, you will also benefit from an additional Terminal Bonus payment if the investment performance is better than that required to support the guaranteed benefits. The better the performance, the greater the Terminal Bonus, and, conversely, the worse the performance, the lower the Terminal Bonus.

Dividend philosophy

We have three key principles in determining the level of the participating policy dividend. They are:

1 Establishing a risk-sharing mechanism

2 Fairness across policyholder groups

3 Stable long-term returns

1) Establishing a risk-sharing mechanism

We have a clear interest in the performance of your participating policy as our participating business operates on the principle of sharing risks between you and ourselves to achieve a reasonable balance. We regularly review the Terminal Bonus levels payable to you. Both the past actual performance and management's expectation of the long-term future performance will be assessed against the assumed level. If variances arise, considerations will be undertaken regarding sharing these with you through Terminal Bonus adjustments.

Variances arising from the following are shared between you and ourselves, including, but not limited to:

Investment return and expected future investment performance

Insurance risks (e.g. lapses, surrenders and claims of different groups of policies)

Operating expense (e.g. our underwriting and general overhead costs)

Variances may arise from these factors, which could affect your policy return

2) Fairness across policyholder groups

To ensure fairness between policyholders of participating products, we will carefully consider the experience (including investment performance) of various policy groups such as products, product generations, currencies and issue years so that each policy group will receive a fair return based mainly on its own performance. To balance the interest between you and us, a dedicated committee formed from a group of professionals will provide independent advice on managing the participating policies and determining the Terminal Bonus.

3) Stable long-term returns

When considering adjusting the Terminal Bonus scales, we strive to maintain a more stable payout to you by smoothing. This means the Terminal Bonus levels will only be changed if the actual performance is significantly different from the assumed level over a period of time, or if management's long-term future performance expectations change substantially.

We may also reduce the extent of smoothing or even stop smoothing out the effects of the change in asset values for a time in the determination of the Terminal Bonus. We would do this to protect the interests of the remaining policyholders. For example, we may reduce smoothing when payouts with smoothing are higher than payouts without smoothing.

Investment policy and strategy

We follow an asset strategy that:

i) helps to ensure that we can meet the guaranteed benefits that we have committed to you;

ii) delivers competitive long-term returns to you through Terminal Bonus; and

iii) maintains an acceptable level of risk.

The assets supporting the participating policies consist of fixed income and growth assets. The **fixed income assets** include corporate bonds (average A-rated or above) and private credit (non-rated). **Growth assets,** mainly private equity funds as well as structured products including derivatives, are utilised to deliver returns that are more reflective of economic performance over the long term.

Our investment portfolios are well diversified across various types of assets, and are invested in varied geographical markets (mainly Asia, the United States and Europe), currencies (mainly US dollars) and industries. The assets are carefully managed and monitored according to our own acceptable level of risk.

Target asset allocation

Asset type	Long-term target allocation percentage
Fixed Income Assets (including corporate bonds and private credit)	40%-60%
Growth assets (including private equity)	40%-60%

Note: There could be slight deviation from the above range due to market fluctuation.

We consider other factors when deciding the actual asset allocations, including, but not limited to:

- Current and expected future market conditions;
- Guaranteed and non-guaranteed benefits of the policies;
- The acceptable risk level of the policies;
- Expected economic growth after adjustment for inflation over a period of time; and
- Investment performance of the assets supporting the policies.

Subject to our investment policy and due to the illiquid nature of private equity/private credit, new money will be used to deploy towards Strategic Asset Allocation.

There may be divergence in actual asset allocation and actions may be taken to rebalance from time to time.