Policy dividend for participating products
(not applicable to HSBC Wealth Goal Insurance Plan and HSBC Family Goal Insurance Plan)

What is a participating policy?

HSBC Life (International) Limited ("We", "us" or "ourselves") issues 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 the 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. The policy dividends, if any, are in forms of:
    1. **Annual dividends,** which are declared by us on an annual basis. Once declared, the amount of annual dividends for the year is guaranteed.
    2. **Special Bonus** (Applicable to HSBC Income Goal Deferred Annuity Plan and Income Goal Insurance Plan only), which is a one-off bonus. It is declared at a pre-determined policy year as set out in your plan, or upon early termination of the policy due to, for example, death or surrender before the pre-determined policy year.

       The Special 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.

How do participating policies work?

The money you contribute to your participating policy is invested in a fund with a balanced and wide range of assets. The value of the fund, and hence your plan, is most affected by the investment performance of the assets.

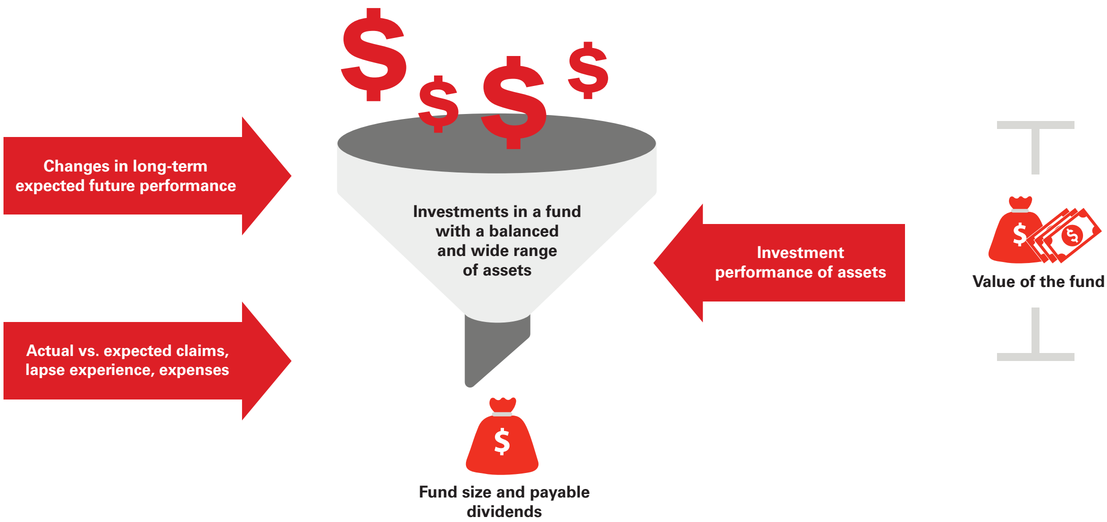
The investment performance, along with other business risks, is shared between policyholders and us in order to balance the level of risk and return of the fund. We also aim to provide more stable policy dividends through periods of market fluctuations.

What factors will affect your dividends?

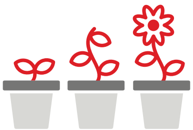
Policy dividends (including annual dividends and Special Bonus, if any) are not guaranteed; the size of the dividends and whether they are payable depend on factors including, but not limited to:

- 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 dividends paid would increase. If performance is below expectations, the dividends paid would decrease.



What are the key benefits of participating policies?

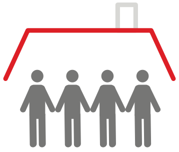


Potential growth through non-guaranteed dividends

In addition to the guaranteed benefits, you will also receive additional dividend payments if the fund performance is better than that required to support the guaranteed benefits.

Smoothing of short-term market fluctuations

You can also benefit from more stable returns as we try to minimise changes in dividend payouts in response to short-term market fluctuations. Please refer to "Stable long-term returns" in the Dividend philosophy section below.

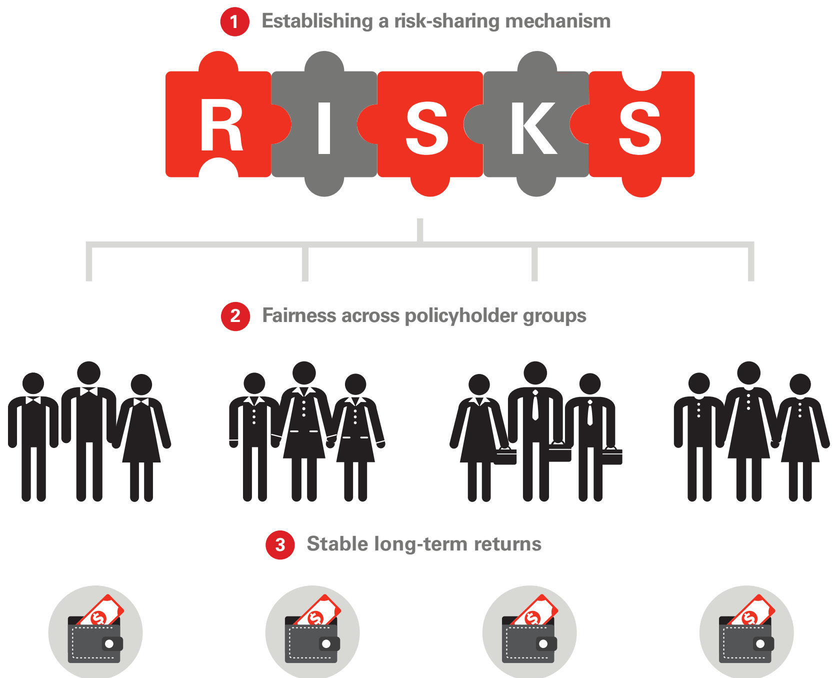


Long-term competitive return

Your policy is supported by our well-diversified investment portfolio. Through risk sharing between you and us, our interest is aligned with yours.

Dividend philosophy

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



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. Risks may arise from different sources, creating variances that may affect your policy's return and our profit.

Variances arising from the following factors 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

We regularly review dividend 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 dividend adjustments.

2) **Fairness across policyholder groups**

We group your policy with other similar policies to pool the risks amongst a larger number of policyholders. "Pooling" means that the risks are spread and shared across your group, and that a larger sum of money can be invested with more flexibility.

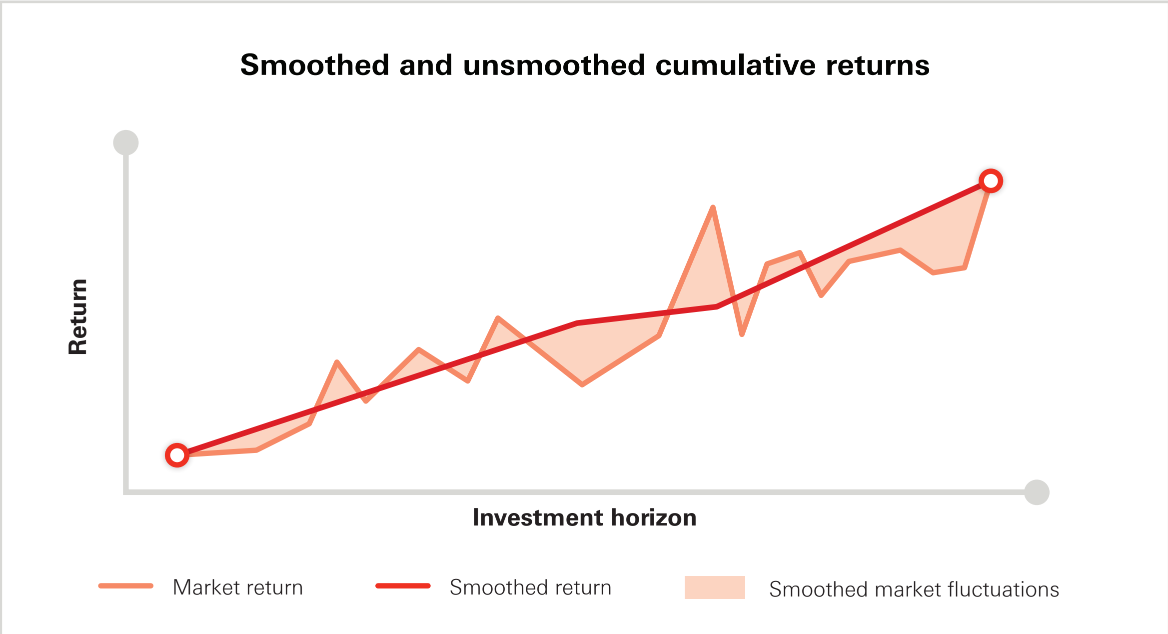
To ensure fairness between policyholders, we will carefully consider the experience (including investment performance) of various policy groups such as products, product generations and currencies so that each policy group will receive a fair return based mainly on its own performance. To balance the 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 dividends.

3) **Stable long-term returns**

When considering adjusting the dividend scales, we strive to maintain a more stable payout to you by smoothing. This means the dividend 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.

Rather than changing dividends in response to short-term fluctuations, smoothing allows us to keep dividends unchanged or make less severe adjustments than would otherwise have been the case. As such, it is important not to necessarily view any short-term investment (over and under) performance as an indication of an upcoming change in dividends. This will be considered together with longer-term historical investment performance and future expectations, as well as the other non-investment variances described in part (1) above.

The following chart shows how smoothing affects your returns compared to the market performance:



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 non-guaranteed dividends and bonuses; and

iii) maintains an acceptable level of risk.

The assets supporting the participating policies predominantly consist of **fixed income assets** issued by corporate entities with good credit ratings (average A-rated or above) and long-term prospects. **Growth assets**, including equity-type investments and alternative investments such as property, private equity or hedge 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 HKD and USD) and industries. The assets are carefully managed and monitored according to our own acceptable level of risk.

Target asset allocations

Asset type	Allocation percentage	
	HSBC Income Goal Deferred Annuity Plan and Income Goal Insurance Plan	Other plans
Fixed income assets (government bonds, corporate bonds and alternative credit such as infrastructure debt)	60%-100%	80%-100%
Growth assets	0%-40%	0%-20%
• Equities	0%-30%	0%-15%
• Alternative investments	0%-30%	0%-15%

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

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

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

Subject to our investment policy, actual asset allocation could deviate from the above long-term target allocation from time to time.

For the HSBC Income Goal Deferred Annuity Plan and Income Goal Insurance Plan, the allocation percentage of growth assets is:

- **During the accumulation period,** normally within the range of 0% to 40%.
- **During the annuity period,** which will be reviewed by us to achieve a relatively stable investment return.

Accumulation interest rate

You can choose to accept your dividends, guaranteed cash coupons and annuity payments in cash or you may leave them with us to accumulate with interest, subject to relevant terms and conditions as specified in the Policy Provisions.

Interest rates are not guaranteed and will be reviewed by us regularly with reference to the following factors:

- Portfolio bond yields;
- Prevailing market conditions;
- Expectation of bond yields; and
- The likelihood and duration of policyholders leaving their payment for accumulation

The policy of determining the dividends (if any) and accumulation of interest rates may be reviewed and adjusted by us from time to time.

For more information

Please refer to:

- The Policy Provisions of the respective plans for detailed terms and conditions
- The "Important Information" section [https://www.hsbc.com.hk/insurance/info/] on our website for
  - Fulfillment Ratio - in respect of non-guaranteed benefits
  - Total Payout Ratio - in respect of total benefits including guaranteed and non-guaranteed benefits