

# Regular Premium Policies

Annual Bonus Update for financial year ended 31 December 2007

## PARTICIPATING FUND COMMENTARY

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HSBC Insurance Singapore, a subsidiary of HSBC Insurance Asia Pacific, owned by the HSBC Group headquartered in London, has established itself as one of the most reliable and reputable insurers worldwide.

With an international network spanning across 10,000 offices in 83 countries in Europe, Asia Pacific, the Americas, the Middle East and Africa, we are able to harness global expertise with local insights to help consumers make the best financial decisions.

At HSBC Insurance, we understand the importance you place in protecting your family and yourself from the uncertainties in life. Whether you are considering life insurance, planning for retirement or providing the best for your children, our comprehensive range of personal insurance products can help you plan for your needs at every stage in life.

This is the first published annual commentary on Participating Funds (commonly referred to as Par Fund) managed by HSBC Insurance Singapore, to inform policyholders on the performance of the Par Fund over the previous accounting period and the bonuses allocated to them for the year. This commentary also provides the future outlook for the Par Fund performance based on the latest actuarial investigation of policy liabilities carried out under section 37(1) of the Insurance Act and updates on any changes in future non-guaranteed bonuses.

## YOUR PARTICIPATING POLICY

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A participating policy is a life insurance policy that provides both guaranteed and non-guaranteed benefits over the entire period of the policy contract. Premiums, nett of expenses and distribution costs are pooled together in the Par Fund and invested to provide non-guaranteed additional benefits in the form of bonuses.

The investment philosophy chosen for each Par Fund is based on the nature of participating policies contained in each Par Fund. The philosophy takes into account the mix between guaranteed and non-guaranteed benefits and the nature and timing of expected payouts from the Par Fund. Generally, if the policies are longer term, more benefits can be non-guaranteed, HSBC Insurance can adopt a more aggressive investment philosophy and aim for higher returns for policyholders.

# REGULAR PREMIUM PAR FUND

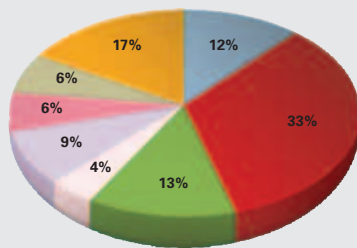
Includes CashBuilder III Policies









## TOTAL ASSETS

At 31 December 2007, the total assets in the Regular Premium Par Fund amounted to S\$272 million. This Par Fund was primarily invested in Singapore/global bonds, which represented about 58% of the Par Fund's assets (2006: 51%). Exposure in equity funds was approximately 13% (2006: 20%). The rest of the Par Fund was invested in fund of hedge funds, global property securities and cash/deposits.

The Regular Premium Par Fund delivered an investment return of 4.74%, net of fees in the year 2007. The return includes effects of unrealised gains and losses on all investments including bonds, which are based on market values.

### Regular Premium Par Fund – 2007 Portfolio



 Singapore Government Bonds	 Foreign Equity Funds
 Other Government Bonds	 Global Property Funds
 Corporate Bonds	 Fund of Hedge Funds
 Singapore Equity Funds	 Cash/Deposits/Others

## FIXED INCOME

Compared with the return expectation of longer term bonds, Singapore bonds had underperformed. The global credit meltdown had resulted in the devaluation of all bonds within the portfolio, especially the corporate and short-term bonds. Foreign currency bonds are hedged to Singapore dollars. The yield for fixed income including changes in market value was 3.8% (2006: 1.8%).

## EQUITY AND GLOBAL PROPERTY FUNDS

Global and Singapore equities performed well in 2007, due to the boom in Asia and emerging markets. Stock picking in the portfolio was the main driver of returns and we have outperformed our long term return assumptions and industry benchmarks. The performance was enhanced by a partial currency hedge we adopted in the global equities portfolio, which helped to cushion the fall in the US dollar. Investment in global real estate securities produced a negative return for 2007 as the sub-prime fallout had an adverse impact on the property sector. The return for global equities was 13.4% whilst global property was -21.2%.

## OTHER FACTORS AFFECTING PERFORMANCE

In 2007, the management expenses incurred by the Regular Premium Par Fund were higher than expectation. Mortality and morbidity experience were in line with expectation. For policy terminations due to voluntary surrenders, the experience were slightly less favourable than expected for policies incepted in the last three years.

## FUTURE OUTLOOK

Future bonuses are largely dependent on future investment returns. Based on current investment policy and future outlook, we expect to earn a long-term investment return of 5.25% on assets in the Regular Premium Par Fund. The recent bonus declaration for the financial year ending 31 December 2007, based on this assumed future investment return, has been approved by the Board of Directors, taking into account the written recommendation by the Appointed Actuary.

Whilst we aim to maintain stability in our bonus rates for all policyholders wherever possible, future bonus cannot be guaranteed in a volatile investment market.

## YOUR BONUS ALLOCATION

The bonus declared on your policy with effect from 1 April 2008 will vest on your next policy anniversary and become attached to your policy. The bonus rates allocated to your policy over recent years are indicated in the covering note.

## CONCLUSION

With our strong financial standing and dedicated fund managers, HSBC Insurance will continue to manage your investments in a prudent manner to maximise the returns on your policy.

Note: This is only a commentary of HSBC Insurance's Participating Fund and cannot be generalised to each individual policy.

**For more information, please contact your financial consultant, call our Customer Service Hotline on 6225 6111 or visit our web site at [www.insurance.hsbc.com.sg](http://www.insurance.hsbc.com.sg)**

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