

Your Participating Fund Update for 2014



In this commentary you will find key information on the performance of the AIA Participating Fund ('Par Fund') plus the bonuses and dividends allocated to participating policies for the accounting period ending 31 December 2014; our asset allocation strategy and achieved investment returns; and our view on the future outlook for bonuses and dividends. We hope that this update will give you a better understanding of the factors that impact bonuses and dividends for your participating policies.

As The Real Life Company, AIA Singapore will continuously help ensure the security and solvency of the Par Fund and seek to maximise returns on the Par Fund's investments to provide stable benefits to policyholders and shareholders. We are committed to managing our policyholders' investments prudently over the long term.

Review of 2014

As at 31 December 2014 the Par Fund held total assets at market value amounting to approximately S\$17.55 billion. The assets are represented by our Singapore Dollar (S\$), US Dollar (US\$) and Australian Dollar (A\$) plans.

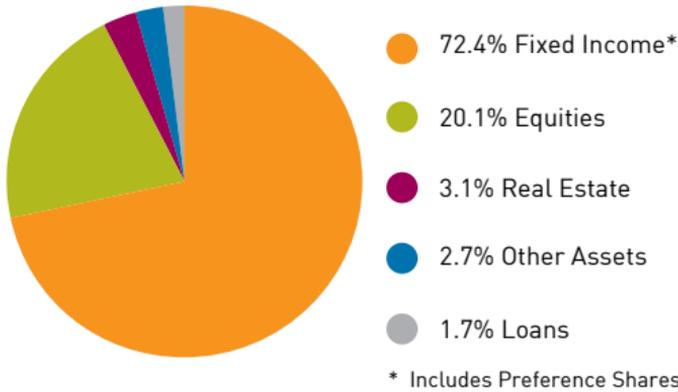
Key Statistics of the Par Fund at a glance (as at 31 December 2014)

Total amount of benefits paid in 2014	S\$1,166 million
Market Value of Total Assets as at 31 December 2014	S\$17,550 million
Value of Bonuses and Dividends declared	S\$455 million
Fixed Income Holdings as % of Total Assets	72.4%
Equities Holdings as % of Total Assets	20.1%
Net Investment Return S\$ Plans	6.5%
Net Investment Return US\$ Plans	13.1%
Net Investment Return A\$ Plans	10.0%

Asset Allocation as at 31 December 2014

How the AIA Par Fund assets are invested:

Fixed income securities represent the largest component at 72.4% while equities represent 20.1% and real estate 3.1%. Loans and other assets represent approximately 4.4%.



Existing participating plans are denominated in one of three currencies: S\$, US\$ or A\$. AIA adopts a different asset allocation strategy for different policy types. The overall asset allocation by currency type is shown below.

How Par Fund assets are allocated by currency type:

S\$ participating plans: 71.1% fixed income, 5.1% loans and others and 23.8% equities, mutual funds, direct investments and real estate.

US\$ participating plans: 81.6% fixed income, 18.4% in equities and mutual funds.

A\$ participating plans: 100% fixed income.

Performance

After a relatively calm start, the second half of 2014 saw greater volatility in global financial markets. The plunge in oil price and actions taken by major central banks led to large swings in the commodity and currency markets, spilling into bond and equity markets. Performance between asset classes diverged, and within the different asset classes, there was significant disparity in performance between geographical markets.

Amongst the major equity markets, the US was again the best performer. Markets in Europe and Japan advanced in local currency terms, supported by aggressive monetary easing by the European Central Bank and Bank of Japan, but sharp declines in the Euro and Yen resulted in both markets suffering negative returns in USD terms. Asia ex-Japan market registered mid-single digit gain, with India, Indonesia and Philippines as the top performing markets.

In the bond markets, US Treasuries curve flattened over the course of the year. While the short-term yields rose in anticipation that the continued improvement of the US economy will lead to the higher interest rates, longer-term treasury yields declined on muted inflation data, weak growth outside the US and aggressive monetary easing policies by other central banks. The bond rally was also helped along by risk aversion arising from events such as the Ukraine crisis, the war against the ISIS militants and the Ebola virus outbreak. Against this backdrop, the US 10-year Treasury benchmark fell to 2.2% from 3.0%. The Singapore Government Securities yield followed suit with the 10-year benchmark ending the year at 2.3% vs. 2.6% a year ago.

Against this backdrop, overall the Par Fund achieved an investment return of 7.4% in 2014. The investment returns achieved over the past 3 years are as shown in the following table:

Product Group								
S\$ Group 1	S\$ Group 2	S\$ Group 3	S\$ Group 4	S\$ Group 5	S\$ Group 6	S\$ Group 7	S\$ Overall	

Historical Investment Returns

2012	11.7%	10.9%	9.2%	9.2%	3.7%	-	-	9.8%
2013	1.3%	1.3%	1.0%	0.8%	0.5%	1.5%	1.3%	1.0%
2014	6.9%	6.9%	6.5%	6.2%	5.8%	7.2%	6.9%	6.5%

US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Overall	A\$
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Historical Investment Returns

2012	16.1%	-	-	16.1%	12.2%
2013	-5.0%	-11.1%	-3.4%	-5.2%	3.6%
2014	13.2%	12.2%	12.5%	13.1%	10.0%

Note:

- These figures are derived from net investment income, divided by the average market value of the total assets. Net investment income includes amongst others, rental income from land and buildings, less expenses. Past performance is not necessarily indicative of future performance.

Singapore Dollar participating plans by plan type:

Group 1	
<ul style="list-style-type: none"> • AIA Life Plus series • AIA Smart Growth series • AIA Guaranteed 10 / 15 for Life series • AIA Growth Special • AIA Gen3 series • AIA Smart Rewards Saver 21 / 25 series 	<ul style="list-style-type: none"> • AIA Guaranteed Protect 15 / 20 series • AIA Retirement Saver (II) • AIA Smart Pro Saver • AIA Smart Pro Rewards
Group 2	Group 3
<ul style="list-style-type: none"> • AIA Prime Life offered in 1991-1999 • AIA EAS 2-year and 3-year limited pay savings at age 60 offered in 1997-1999 	<ul style="list-style-type: none"> • All other S\$ Whole Life plans
Group 4	Group 5
<ul style="list-style-type: none"> • All other S\$ Endowment plans ^ 	<ul style="list-style-type: none"> • AIA Endowment Select
Group 6	Group 7
<ul style="list-style-type: none"> • AIA Retirement Saver (I) 	<ul style="list-style-type: none"> • AIA Retirement Saver (II) (SP) • AIA Platinum Gift for Life

^ Excluding AIA Endowment Select, AIA Retirement Saver (I), AIA Retirement Saver (II) (SP) and AIA Platinum Gift for Life.

US Dollar participating plans by plan type:

Group 1	Group 2	Group 3
<ul style="list-style-type: none"> US\$ Other plans incepted prior to 1 November 2013 [^] 	<ul style="list-style-type: none"> US\$ Platinum Heritage plans 	<ul style="list-style-type: none"> US\$ Smart Pro Saver US\$ Other plans incepted post 1 November 2013 [#]

[^] Excluding US\$ Platinum Heritage and US\$ Smart Pro Saver.

[#] Excluding US\$ Platinum Heritage.

The top 5 fixed income and equity holdings of the AIA Par Fund as at 31 December 2014 are as follows:

Top 5 Fixed Income Exposures	Issuer Rating (Moody's/S&P)
Singapore Government Securities	Aaa/AAA
Temasek Holdings	Aaa/AAA
DBS Group Holdings Ltd	Aa2/NR
Singapore Power Group	Aa2/AA
Capitaland Limited ^{##}	NR/NR

^{##} includes all the entities within the Capitaland group, both rated and unrated.

Top 5 Equity Holdings	% of Total Equities
DBS Group Holdings Limited	4.94%
Starhill Global REIT	3.66%
Oversea-Chinese Banking Corp Limited	2.83%
Mapletree Commercial Trust	2.78%
Singapore Telecommunications Limited	2.29%

Other areas of performance

Mortality experience remained stable. Policy terminations due to voluntary surrenders and expenses were lower comparing to last year's experience. Short term fluctuations are not expected to significantly affect future bonus.

Benefits paid

The total amount of benefits paid to policyholders from the Par Fund amounted to S\$1,166 million in 2014, which was broadly in line with the S\$1,130 million paid in 2013.

	S\$ Million
Maturity Benefits and Coupons paid	785
Value of Death and Total & Permanent Disability claims paid	42
Surrenders	136
Cash Bonuses	199
Annuities	4
Total amount of benefits paid in 2014	1,166

Bonuses and dividends

The total value of Par Fund bonuses and dividends declared as at 31 December 2014 was S\$455 million. The annual bonus and dividend rates for participating policies will be maintained this year. More information on the bonus and dividend rates for the previous 3 years will be included in your anniversary statement.

Bonuses or dividends allocated to your policy for the accounting period ending 31 December 2014 were recommended, in writing, by the Appointed Actuary and approved by AIA Singapore's Board of Directors. Once declared, annual bonuses and dividends will be credited to your plan at the policy anniversary.

Outlook

The US economy which softened in the first quarter of 2015 is expected to accelerate into 2015. This will enable the US central bank to start increasing interest rates in the latter part of the year. In contrast, the European and Japan central banks will continue with their quantitative easing programs through bond purchases. Many other central banks have also been loosening their monetary policies. Bond markets in the US and Singapore will be pressured by rising US interest rates while strong global liquidity and continued growth in the US and improved outlook in Euro zone will lend support to equities.

Stability for our Policyholders

Bonus and dividend declarations in the future 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 and dividends.

AIA tries to provide stable returns over the life of your participating policy, and so we adopt a concept known as 'smoothing'. Simply put, we try to spread profits and losses over the life of your plan. 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 continues to be unfavourable, it may be necessary to reduce the estimates of future bonuses accordingly. Overall, our aim is for the long-term cost of smoothing to be broadly neutral across generations of policyholders.

Note: This commentary is intended for your general information only and does not have regard to your specific investment objectives, financial situation and particular needs of any persons. Any opinions, predictions, forecasts or forward-looking statements made are not necessarily indicative of future or likely performance. All figures quoted are rounded off in millions. The above information is accurate as at 31 December 2014.

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