

YOUR
PARTICIPATING
FUND UPDATE
FOR 2017



INTRODUCTION

Thank you for choosing AIA to serve your financial needs and aspirations. We are pleased to inform you that AIA Singapore is projecting to pay out S\$494 million in participating fund bonuses for 2018. We will be increasing bonus and dividend rates for some policies and maintaining the bonus and dividend rates for remaining policies at the same scale as the previous year.

Bonuses or dividends allocated to your policy for the accounting period ending 31 December 2017 were recommended 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 next policy anniversary. More information on the current year bonus and dividend rates and the previous three years will be included in your Participating Policy Annual Statement (PPAS). Your PPAS will be sent on your next policy anniversary.

In this Par Fund update, you will find key information on the performance of the Par Fund. We will also inform you about our asset allocation strategy, Par Fund performance and our views on the future outlook for bonuses and dividends. Through this update, we hope to provide you with a better understanding of the factors that impact bonuses and dividends for your participating policies.

AIA Singapore is committed to managing the long-term performance of our Par Fund for our policyholders. We are also focused on ensuring the security and solvency of the Par Fund and seek to maximise returns on the Par Fund's investments to provide stable benefits to our policyholders.

REVIEW OF 2017

As at 31 December 2017 the total market value of the Par Fund is approximately S\$22 billion. The Par Fund assets supports AIA Participating plans denominated in Singapore Dollar (S\$), US Dollar (US\$) and Australian Dollar (A\$).

Key Statistics of the Par Fund at a glance (as at 31 December 2017)

Market Value of Total Assets	S\$22,024 million
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Investment returns

Net Investment Return S\$ Plans	10.5%
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Net Investment Return US\$ Plans	12.3%
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Net Investment Return A\$ Plans	3.9%
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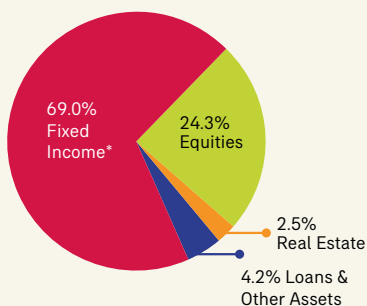
Total benefits

Total amount of benefits paid in 2017	S\$1,058 million
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Value of Bonuses and Dividends declared	S\$494 million
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ASSET ALLOCATION AS AT 31 DECEMBER 2017

Asset Mix Of The Par Fund



* Includes Preference Shares

Existing AIA Participating plans are denominated in one of three currencies: S\$, US\$ or A\$. AIA adopts a different asset allocation strategy for different currency and product groups. The overall asset allocation by currency type is as follows.

Asset Mix Of The Par Fund By Currency

S\$ participating plans	As at 31 December 2017	As at 31 December 2016
Fixed Income	62.7%	66.2%
Equities	29.1%	28.3%
Real Estate	3.1%	3.4%
Loans and Others	5.1%	2.1%
US\$ participating plans		
Fixed Income	78.0%	78.7%
Equities	22.0%	21.3%
A\$ participating plans		
Fixed Income	100.0%	100.0%

Top Five Fixed Income And Equity Holdings Of The Par Fund

Top 5 Fixed Income Exposures	Issuer Rating (Moody's/S&P)
Singapore Government Securities	Aaa/AAA
Temasek Holdings	Aaa/AAA
Capitaland Limited ##	NR/NR
United Overseas Bank	Aa1/AA-
Singapore Power Ltd	Aa2/AA

includes all the entities within the Capitaland group.

Top 5 Equity Holdings	% of Equity Holdings
DBS Group Holdings Ltd	4.1%
Oversea-Chinese Banking Corp Ltd	3.0%
Singapore Telecommunications Ltd	2.8%
United Overseas Bank Ltd	2.4%
Starhill Global REIT	2.3%

INVESTMENT PERFORMANCE

2017 was a stellar year for global equities, with the near-uninterrupted rise in stocks observed during the first half of the year continuing until the year end. Investors were quick to brush off concerns emanating from the Trump presidency and geopolitical tensions. Equities rallied on a combination of earnings upgrades and multiple re-ratings, on the back of accommodative monetary conditions, global economic expansion and improving corporate earnings outlook.

Overall, the Par Fund asset allocation remained well-diversified across asset classes. Asia ex-Japan markets were the clear standout, outpacing developed market equities. With the exception of its smallest constituent Pakistan, all other markets delivered total returns of over 20% each. The larger North Asian markets outperformed their South-east Asian counterparts. China (represented by the HK listed H-shares and US listed ADRs) and South Korea were the top performers, led by strong gains in their Information Technology and Real Estate sectors.

While the returns in the bond markets were less remarkable as compared to equities, they were positive even as long-term yields trended lower and credit spreads tightened. The low market volatility seen in the first half also continued for the remainder of the year. The S&P 500 VIX Index or 'fear gauge' fell lower in the second half of 2017, which was about half the average level over the past 20 years.

Historical Investment Returns By Product Groups

The investment returns achieved over the past three years are as follows:

PRODUCT GROUPS										
S\$ Group	1	2	3	4	5	6	7	8	9	S\$ Overall
2015	1.2%	1.2%	1.4%	1.5%	1.7%	1.0%	1.2%	1.2%	-	1.4%
2016	5.0%	5.0%	4.9%	4.8%	4.5%	5.0%	5.0%	4.9%	4.8%	4.9%
2017	11.1%	11.1%	10.5%	9.8%	7.7%	11.1%	11.0%	11.1%	10.4%	10.5%

	US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Group 4	US\$ Overall	A\$
2015	-1.4%	-2.4%	-2.9%	-	-1.9%	3.3%
2016	7.8%	7.7%	7.2%	7.0%	7.5%	4.1%
2017	11.2%	13.1%	13.6%	12.8%	12.3%	3.9%

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 Product Groups:

Group 1	Group 2
<ul style="list-style-type: none"> AIA Gen3 series AIA Growth Special AIA Guaranteed 10 / 15 for Life series AIA Guaranteed Protect 15 / 20 series AIA Guaranteed Protect Plus Series AIA Life Plus series AIA Platinum Heritage II Limited Pay AIA Prime Secure Accumulator AIA Retirement Saver RP series AIA Smart Growth series AIA Smart Lifetime Rewards AIA Smart Pro Rewards AIA Smart Pro Saver AIA Smart Rewards Saver 21 / 25 series AIA Wealth Pro Advantage Growth Direct – AIA Whole Life Cover 	<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
	Group 3
	<ul style="list-style-type: none"> All other S\$ Whole Life plans[#]
	Group 4
	<ul style="list-style-type: none"> All other S\$ Endowment plans [^] AIA Dollars for Life AIA Participating Annuity plans (12 Yr Gtd Ben)
	Group 5
	<ul style="list-style-type: none"> AIA Endowment Select
	Group 6
	<ul style="list-style-type: none"> AIA Retirement Saver (I) SP
	Group 7
	<ul style="list-style-type: none"> AIA Retirement Saver (II) SP AIA Platinum Gift for Life
	Group 8
	<ul style="list-style-type: none"> S\$ Platinum Heritage II S\$ Platinum Heritage Premier
	Group 9
	<ul style="list-style-type: none"> S\$ Platinum Heritage Treasure

[#] Excluding S\$ Platinum Heritage plans.

[^] Excluding AIA Endowment Select, AIA Retirement Saver plans and AIA Platinum Gift for Life.

US Dollar Participating Plans By Product Groups:

Group 1	Group 2	Group 3	Group 4
<ul style="list-style-type: none"> US\$ Other plans incepted prior to 1 November 2013 [^] 	<ul style="list-style-type: none"> US\$ Smart Pro Saver US\$ Other plans incepted post 1 November 2013[#] 	<ul style="list-style-type: none"> US\$ Platinum Heritage plans (except Platinum Heritage Treasure) 	<ul style="list-style-type: none"> US\$ Platinum Heritage Treasure

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

[#] Excluding US\$ Platinum Heritage plans.

NON - INVESTMENT PERFORMANCE

Insurance claims and expenses were in line with our expectation in 2017. 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\$1,058 million in 2017.

	S\$ Million
Maturity and Coupons Benefits	561
Death, Total Permanent Disability and Critical Illness Claims	47
Surrender Claims	193
Cash Bonuses	254
Annuity Benefits	4
Total amount of benefits paid in 2017	1,058

FUTURE OUTLOOK

In the first quarter of 2018, equity markets had a bumpy ride, as investors were rattled by the escalation of US-China trade disputes and the threat of US inflation, which may compel the Federal Reserve to quicken the pace of monetary tightening. Consequently, volatility returned after an extended period of exceptionally benign trading conditions in 2017. With valuations elevated relative to historical levels, other risks which investors have to contend with include the potential deceleration in the maturing global business cycle that might begin to deflate earnings expectations and the ongoing geopolitical uncertainties. Government bonds may benefit if a meaningful correction in the equity markets take place. The headwinds stemming from more rate hikes and monetary policy normalisation are likely to get stronger this year, and hence, pressure rates will move higher.

STABILITY FOR OUR POLICYHOLDERS

Bonus or dividend declared for a policy will depend on the performance of the plan it belongs to, based on past and projected future investment returns, and past and projected future experiences such as claims, surrender and expenses of the plan. Any changes to the bonus or dividend rates for a plan will apply to all policies of that plan.

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.

FINDING OUT MORE ABOUT YOUR PARTICIPATING POLICY

If you would like to know how a participating fund operates in general, a copy of "Your Guide to Participating Policies" is available on AIA's website at AIA.COM.SG or you may request a copy from your AIA Financial Services Consultant/Insurance Representative.

You can also visit our website at www.aia.com.sg/parfundupdate for a list of "Frequently Asked Questions" on bonus and dividend rates.

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 2017.

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