

# AIA's Participating Fund Commentary for 2008

For policy anniversaries  
from 1 July 2009 to 30 June 2010



AIA.COM.SG

This annual commentary of AIA's Participating Fund ("Par Fund") provides all our participating policyholders with information on the Par Fund's performance in 2008. It also provides information on the future outlook of the Par Fund based on the latest actuarial investigation of the Fund. To provide greater clarity, this year's commentary has been streamlined and is more focused in its contents. The English and Chinese versions of AIA's Par Fund Commentaries are available on the AIA website at AIA.COM.SG.

A participating policy is a life insurance policy that provides both guaranteed and non-guaranteed benefits over the entire period of the contract. Premiums, after deducting expenses and distribution costs, are invested in a variety of instruments to support the guarantees spelt out in each contract as well as to provide non-guaranteed benefits in the form of dividends or bonuses. The Par Fund's objective is therefore to invest prudently for the long term, primarily to ensure the security and solvency of the Par Fund and secondarily to maximise returns for the benefit of policyholders and shareholders.

## Review of 2008

### Total Assets

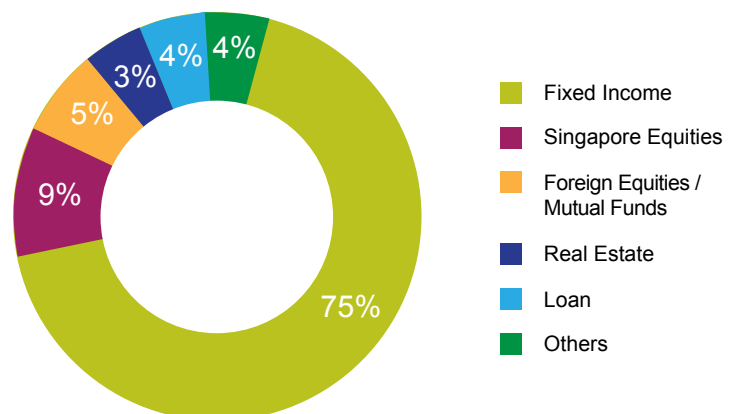
As at 31 December 2008, the Par Fund held total assets at market value amounting to S\$12.4 billion comprising S\$ plans, US\$ plans and Australian Dollars (AUS\$) plans.

S\$ plans are grouped into 3 major product groups:

- (i) Group 1 comprises plans launched since June 2007 with 25%-35% asset allocation to equities and real estate (AIA Life Plus, AIA Smart Growth, AIA Guaranteed 10 for Life, AIA Guaranteed 15 for Life and AIA Growth Special);
- (ii) Group 2 comprises plans with high terminal bonus scales and 20%-30% asset allocation to equities and real estate (AIA Prime Life offered in 1991-1999 and AIA EAS 2-year and 3-year limited pay Savings at age 60 offered in 1997-1999) and;
- (iii) Group 3 comprises all other S\$ plans with 10%-20% asset allocation to equities and real estate.

The distribution of the Par Fund's assets remained largely unchanged in 2008, with the proportion invested in fixed income securities increasing marginally from 74% to 75%. The proportion in real estate reduced from 4% to 3% due to lower valuations on commercial properties held by the Par Fund.

## Total Par Fund Asset Mix as at 31 December 2008



Overall, our S\$ plans are 74% invested in fixed income securities and 17% in equities/mutual funds and real estate. The assets of our US\$ plans are 94% invested in corporate bonds and 6% in equities/mutual funds. The assets of AUS\$ plans are all invested in corporate bonds.

The investment returns achieved over the past 3 years are as shown in the Investment Return Table below.

**Investment Return Table:**

	Product Group					
	S\$ Group 1	S\$ Group 2	S\$ Group 3	S\$ Overall	US\$	AUS\$
<b>Historical Investment Returns</b>						
2006	-	7.9%	5.9%	6.4%	4.3%	3.8%
2007	9.3%*	8.0%	5.6%	6.2%	5.6%	2.1%
2008	(16.7%)	(14.5%)	(9.9%)	(11.2%)	(12.6%)	8.7%
<b>Long-term Projected Investment Rate of Return</b>						
	5.25%	5.00%	4.75%	-	5.75%	6.25%

*Note: The figures are derived from investment income (including rental income from land and buildings), net of expenses, divided by the average market value of total assets. The positive AUS\$ return in 2008 is because of the reduction in AUS\$ interest rates. Past performance is not necessarily indicative of future performance.*

\*Annualised investment return is shown.

**Others**

In other areas of performance in 2008: expenses allocated to the Par Fund were similar to 2007, policy terminations due to voluntary surrenders were higher than in 2007, and mortality experience remained stable.

Under the Risk Based Capital framework, all Par Funds in Singapore are required to satisfy a minimum solvency requirement (called the Fund Solvency Ratio). AIA's Par Fund is able to satisfy this requirement comfortably.

**Benefits**

The total amount of benefits paid to policyholders from the Par Fund was S\$1,051 million in 2008, representing an increase from S\$775 million in the previous year.

The value of bonuses and dividends declared as at 31 December 2008 reached S\$416 million. This was an increase from S\$391 million that was declared in 2007.

Bonuses or dividends allocated to your policy for the previous accounting period were as approved by the Board of Directors, taking into account the written recommendation by the Appointed Actuary.

For the majority of policies, the annual bonus and dividend scales have been maintained for this year. However, because of the global financial crisis the projected maturity values and surrender values have been reduced at this point in time.

**Future Outlook**

For all policyholders, our aim is to try to maintain some stability in bonus and dividend rates wherever possible. Bonus and dividend declarations in the future depend largely on the investment returns we achieve in the future. Future investment returns cannot be guaranteed and for that reason, neither can future bonuses and dividends.

AIA is committed to manage your investments prudently to maximise the returns on your insurance policy. We will continue to maintain a robust investment portfolio that will keep you in good financial health.

**Key Benefit Values At A Glance in 2008**

**S\$1,467 million**

Benefits Paid and Value of Bonuses and Dividends Declared

**S\$416 million**

Value of Bonuses and Dividends Declared

**S\$617 million**

Maturity Benefits and Coupons Paid

**S\$44 million**

Death / Total & Permanent Disability / Critical Illnesses Claims Paid

**S\$4.905 billion**

Total Accrued Reversionary Bonuses for all in-force Participating Policies as at 31 December 2008

Key statistics of the Par Fund at a glance	S\$ Million
Premium Income in 2008	1,109
Benefits paid in 2008	1,051
Market Value of Total Assets as at 31 December 2008	12,380
Total Sums Assured as at 31 December 2008	35,947

**Note:** This is only a commentary of AIA's Participating Fund and cannot be generalised to each individual policy. All figures quoted are rounded. The information is accurate as at 31 December 2008.