

AIA's PARTICIPATING FUND COMMENTARY

FOR YEAR 2007 (for Policy Anniversaries from 1 July 2008 to 30 June 2009)

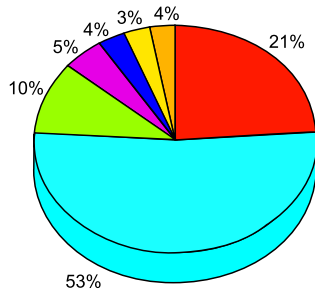
This annual commentary of AIA's Participating Fund ("Par Fund"), provides all our participating policyholders with detailed information on the Par Fund's performance over the previous accounting period and the bonuses allocated to them for the year. This commentary also provides information on the future outlook of the Par Fund based on our latest actuarial investigation of policy liabilities and any changes in future non-guaranteed bonuses. The English and Chinese versions of AIA's Par Fund Commentaries are available on the AIA website at www.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 2007

Total Par Fund Asset Mix

As at 31 December 2007



- Singapore Government Securities & Bonds issued by 100% Singapore Government-Owned Entities
- Corporate Bonds
- Singapore Equities
- Foreign Equities / Mutual Funds (including Direct Investments and Hedge Funds)
- Real Estate
- Loans
- Others

Total Assets

As at 31 December 2007, the Par Fund held total assets at market value amounting to S\$14.8 billion.

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 & real estate (AIA Life Plus, AIA Smart Growth, AIA Guaranteed 10 for Life and AIA Guaranteed 15 for Life), (ii) Group 2 comprises plans with high terminal bonus scales and 20% – 30% asset allocation to equities & 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 & real estate.

Overall, our S\$ plans are 74% invested in fixed income securities and 20% in equities & real estate. The assets of our US\$ plans are 93% invested in corporate bonds and 7% in mutual funds. The assets of AUS\$ plans are all invested in corporate bonds.

The distribution of the Par Fund's assets changed slightly in 2007, with the proportion invested in bonds decreasing from 77% to 74%. This is due to increased allocation to the public and private equities portfolios. Additionally, favourable equity market conditions led to price appreciation of these portfolios. The proportion in real estate also increased from 2% to 4% due to higher valuations on commercial properties held by the Par Fund.

The investment returns (including changes in market values of assets) achieved over the past 3 years are as shown in the Investment Return Table. The figures are derived from investment income (including rental income from land & buildings), net

of expenses, divided by the average market value of total assets. The investment returns excluding the reduction in value of fixed income securities are also shown for overall Par Fund.

Fixed Income

Breakdown of Fixed Income Holdings as at 31 December 2007

Category of Bonds	Amount (S\$ Million)	%
Singapore Government Securities & Bonds issued by Statutory Boards	3,179	28.7%
Investment-Grade Bonds (min BBB-/Baa3 by Standard & Poor's and Moody's respectively)	6,674	60.4%
Non Investment-Grade Bonds (below BBB-/Baa3 ratings)	257	2.3%
Unrated Bonds	947	8.6%
Total	11,057	100%

The fixed income securities held are mainly S\$-denominated including foreign-currency assets that are hedged into S\$ that range between 5 and 15 years in duration.

Our strategy for fixed income securities is generally to invest and hold over the long term often to, or close to maturity of the bonds.

Equities & Real Estate

Equity markets generally performed strongly in 2007.

In addition to Singapore equities, the Par Fund has invested in global equity funds that include investments in US, Europe, Japan and emerging Asia. The Par Fund has also invested in hedge "fund of funds" and private equities. We may look to increase the Par Fund's exposure to equities over time, as and when suitable opportunities arise. Real estate assets consist mainly of buildings

Investment Return Table

Year	Product Group						Overall Par Fund (in S\$)	
	S\$ Group 1	S\$ Group 2	S\$ Group 3	S\$ Overall	US\$	AUS\$		
Historical Investment Returns								
2005	–	1.7%	1.7%	1.7%	8.3%	6.2%	2.1%	Excluding the reduction in value of fixed income securities# 5.0%
2006	–	7.9%	5.9%	6.4%	4.3%	3.8%	6.3%	7.0%
2007	9.3%*	8.0%	5.6%	6.2%	5.6%	2.1%	5.9%	7.7%
Long-term Projected Investment Rate of Return								
	5.25%	5.00%	4.75%	–	5.75%	6.25%	–	
Number of Policies as at 31 December 2007								
	7,163	243,680	655,972	906,815	60,208	286		967,309

* Annualised investment return is shown.

#This is consistent with our investment strategy of holding fixed income securities often to, or close to, maturity.

Key Benefit Values at a Glance in 2007

S\$1,166 million

Benefits Paid and
Value of Bonuses and
Dividends Declared

S\$391 million

Value of Bonuses and
Dividends Declared

S\$506 million

Maturity Benefits and
Coupons Paid

S\$41 million

Death / Total & Permanent
Disability / Critical Illnesses
Claims Paid

S\$4.785 billion

Total Accrued
Reversionary Bonuses for
all in-force Participating Policies
as at 31 December 2007

% of Top Five Singapore Equities Holdings as at 31 December 2007

1) Singapore Telecom	9.2%
2) Cosco Corp (Singapore) Ltd	5.8%
3) Macquarie Meag Prime REIT	5.3%
4) DBS Group Holdings Ltd	5.0%
5) United Overseas Bank Ltd	4.2%

occupied by the company's staff and sales force, on which the Par Fund receives rental income at market levels.

Collateralized Debt Obligation (CDO)

The Par Fund does not hold any sub-prime securities. It has invested in CDO's for yield enhancement over the past several years as these instruments provided credit spreads that were significantly higher than bonds of the same rating at the time of investment. The portfolio held US\$ 372 million in CDO's as at 31 December 2007, representing 2.9% of the portfolio. A breakdown of the portfolio by credit rating is as follows:

AA- to AAA	49%
A to A1 (A+)	42%
BBB	3%
Unrated	6%
Total	100%

Since the inception of the portfolio to end May 2008, all the CDO's held in the portfolio have performed as contracted as we continue to receive coupon proceeds on time. To date, there has been only 1 downgrade of credit ratings within the portfolio with the downgraded security still maintaining a high rating of A1 by Moody's. Given the high quality of the portfolio, we fully expect to receive interest as contracted and a full return of principal on maturity of these instruments.

Others

In other main areas of performance in 2007: management expenses incurred by the Par Fund were in line with expectations; mortality experience remained stable; and for policy terminations due to voluntary surrenders, the experience showed a slight improvement over 2006.

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\$775 million in 2007, representing an increase from S\$701 million the previous year.

The value of bonuses and dividends declared as at 31 December 2007 reached S\$391 million. This was an increase from S\$351 million declared in 2006.

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 scales for bonus and dividend rates were maintained at the same levels as the previous year. The terminal bonus scales for around 13,000 S\$ endowment policies were partially restored from the previous reduction in 1999.

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, however, depend largely on the investment returns we actually achieve in the future. Future investment returns cannot be guaranteed and for that reason, neither can future bonuses and dividends.

Based on the current investment policy and current interest rates, the long-term investment return we assume are as shown in the Investment Return Table. The current bonus and dividend declarations that were recently approved by the Board of Directors are based on these assumed future investment returns. If we can achieve higher returns than these assumed rates in future, it should have a positive impact on future bonuses.

Conclusion

While future bonuses and dividends cannot be guaranteed, AIA is committed to manage your investments prudently to maximise the returns on your insurance policy. Backed by our strong financial strength and our team of proficient fund managers, we will continue to maintain a robust investment portfolio that will keep you in good financial health.

Key Statistics

Key Statistics of the Par Fund at a Glance

	S\$ Million
Premium Income in 2007	1,139
Benefits paid in 2007	775
Market Value of Total Assets as at 31 December 2007	14,818
Total Sum Assured as at 31 December 2007	35,991

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

