

YOUR
PARTICIPATING
FUND UPDATE
FOR 2018

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BETTER LIVES

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\$527 million in participating fund bonuses for 2019. We will be maintaining the bonus and dividend rates for all policies at the same scale as the previous year.

Bonuses or dividends allocated to your policy for the accounting period ending 31 December 2018 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 within two months of 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 2018

As at 31 December 2018 the total market value of the Par Fund is approximately S\$23 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 2018)

Market Value of Total Assets	S\$22,534 million
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Investment returns

Net Investment Return S\$ Plans	-0.6%
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Net Investment Return US\$ Plans	-5.9%
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Net Investment Return A\$ Plans	3.3%
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Total benefits

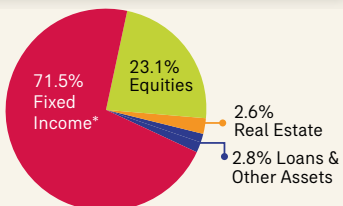
Total amount of benefits paid in 2018	S\$1,024 million
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Value of Bonuses and Dividends declared	S\$527 million
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ASSET ALLOCATION AS AT 31 DECEMBER 2018

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 2018	As at 31 December 2017
Fixed Income	65.8%	62.7%
Equities	27.8%	29.1%
Real Estate	3.1%	3.1%
Loans and Others	3.3%	5.1%
US\$ participating plans		
Fixed Income	78.6%	78.0%
Equities	21.4%	22.0%
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-
DBS Group Holdings	Aa2/AA-

Top 5 Equity Holdings	% of Equity Holdings
Oversea-Chinese Banking Corp Ltd	3.7%
DBS Group Holdings Ltd	3.7%
United Overseas Bank Ltd	2.8%
Singapore Telecommunications Ltd	2.5%
Starhill Global REIT	2.1%

includes all the entities within the Capitaland group.

INVESTMENT PERFORMANCE

2018 was a year of turbulence and volatility, with mixed signals for the year ahead to watch out for. While 2017 was a year of suppressed volatility and synchronized global growth, 2018 was the complete opposite; marked by volatility and slowdown of global growth. The buoyant expectation of financial markets at the start of 2018 was short-lived, as equity markets corrected and the US Treasuries yield curve flattened. Two significant factors contributed to risk aversion; namely the US-China trade dispute and US monetary tightening. Investors were justifiably concerned about the impact on global growth arising from the series of new tariffs that the US and China had imposed on each other and from higher borrowing costs.

Our investments were inevitably impacted by the fall in stocks across the globe. Global equities, as measured by MSCI World Index, plunged 11% (in USD terms) by the end of 2018. This marked the worst decline in a calendar year since the Global Financial Crisis (exactly a decade ago). US equities, which was the leading performer for the year, succumbed to the risk aversion sentiment by the end of third quarter, ending 2018 in negative returns. Within the Asia region, excluding Japan, North Asian markets bore the brunt of the selloff as they were deemed to be more vulnerable to the slowdown in global trade. Singapore equities outperformed the regional equity index.

Bonds fared better than equities. Global bond yields started 2018 bullish as they climbed higher on the back of stronger US economic data, rising inflation outlook and faster pace of interest rate normalization. However, as geo-political risk heighten from the US-China trade dispute, bond yields entered a period of high volatility. 10-year US Treasury ("UST") yield peaked at 3.24% in mid-November, post hawkish tone from the Federal Open Market Committee and an uneventful outcome of the US mid-term election. Global growth concerns and dovish Federal Reserve rhetoric eventually drove bond yields sharply lower, with the 10-year UST ending the year at 2.69%. Domestically, 10-year Singapore Government bond yield moved in tandem with US Treasury for most periods, peaking much earlier at 2.68% in mid-May, before ending the year a mere 4bps higher (2.04%) than the start of 2018.

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
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%
2018	-1.0%	-1.0%	-0.5%	-0.3%	1.1%	-1.0%	-0.9%	-0.8%	-0.3%	-0.6%

	US\$ Group 1	US\$ Group 2	US\$ Group 3	US\$ Group 4	US\$ Overall	A\$
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%
2018	-4.3%	-5.0%	-7.8%	-6.7%	-5.9%	3.3%

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
<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

Singapore Dollar Participating Plans By Product Groups:

Group 2	Group 6
<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"> AIA Retirement Saver (I) SP
Group 3	Group 7
<ul style="list-style-type: none"> All other S\$ Whole Life plans[#] 	<ul style="list-style-type: none"> AIA Retirement Saver (II) (SP) AIA Retirement Saver (III) (SP) AIA Platinum Gift for Life
Group 4	Group 8
<ul style="list-style-type: none"> All other S\$ Endowment plans [^] AIA Dollars for Life AIA Participating Annuity plans (12 Yr Gtd Ben) 	<ul style="list-style-type: none"> S\$ Platinum Heritage II S\$ Platinum Heritage Premier
Group 5	Group 9
<ul style="list-style-type: none"> AIA Endowment Select 	<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 inception prior to 1 November 2013 [^] 	<ul style="list-style-type: none"> US\$ Smart Pro Saver US\$ Other plans inception post 1 November 2013[#] 	<ul style="list-style-type: none"> US\$ Platinum Heritage US\$ Platinum Heritage II US\$ Platinum Heritage Premier 	<ul style="list-style-type: none"> US\$ Platinum Heritage Treasure US\$ Platinum Heritage Wealth

[^] 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 2018. Short term fluctuations of non-investment performance 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\$1,024 million in 2018.

	S\$ Million
Maturity and Coupons Benefits	469
Death, Total Permanent Disability and Critical Illness Claims	48
Surrender Claims	217
Cash Bonuses	286
Annuity Benefits	3
Total amount of benefits paid in 2018	1,024

TOTAL EXPENSE RATIO

The Total Expense Ratio is the proportion of total expenses incurred by the Participating Fund to the assets of the Participating Fund. The expenses incurred by the Participating Fund include investment, management, distribution, tax and other expenses.

The total expense ratio over the past three years are as follows:

Total Expense Ratio	
2016	1.7%
2017	1.6%
2018	1.7%

Note: Historical expense ratios may not be indicative of future expense ratios.

FUTURE OUTLOOK

After a strong rebound in January, equity markets climbed the wall of worry for the rest of the first quarter of 2019. Risk appetite improved on expectations of a US-China trade resolution and more dovish signals from the US Federal Reserve, which pushed global bond yields lower. In the first quarter of 2019, corporate credit spreads have tightened significantly as bond investors are finding it increasingly challenging in seeking yields in the low interest rate environment. The significant equity rebound has brought valuations well above historical mean levels, even though corporate fundamentals have yet to show signs of turning around with the extended negative earnings revision trend. In the absence of a sustained improvement in earnings revisions, equities are likely to be trapped in a tug of war between slowing growth and policy stimulus. While in bonds, with global growth faltering, most central banks have reverted to a dovish stance this year, as a result bond yields are likely to remain subdued in the first half of this year. However, a positive outcome in the US-China trade deal could provide a stimulus to the global growth environment in the second half of the year, which in turn could see yields moving 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 2018.

Policy Owners' Protection Scheme: The policies mentioned in this commentary are protected under the Policy Owners' Protection Scheme which is administered by the Singapore Deposit Insurance Corporation (SDIC). Coverage for your policy is automatic and no further action is required from you. For more information on the types of benefits that are covered under the scheme as well as the limits of coverage, where applicable, please contact us or visit the GIA/LIA or SDIC web-sites (www.gia.org.sg or www.lia.org.sg or www.sdic.org.sg).

AIA Singapore Private Limited (Reg. No. 201106386R)

1 Robinson Road, AIA Tower, Singapore 048542

Monday – Friday 8.45am – 5.30pm AIA Customer Care Hotline: 1800 248 8000

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